

ACCC Digital Platforms Inquiry – Fairfax Media response to issues paper

20 April 2018

1. Introduction

Fairfax Media welcomes the opportunity to respond to this inquiry. As Australia’s oldest news organisation and the publisher of the country’s leading mastheads, it is uniquely positioned to do so.

Fairfax’s Australian publications include:

- *The Sydney Morning Herald*, which has been in operation for 187 years and has a larger readership across print and digital platforms than any other Australian news masthead;
- *The Age*, which has been serving Victoria for more than 160 years;
- *The Australian Financial Review*, Australia’s premier business publication;
- *The Canberra Times* serving the national capital and home of Federal Parliament;
- Digital-only news sites *Brisbane Times* and *WAtoday*;
- Along with 13 major regional dailies including key mastheads the *Newcastle Herald* and *Illawarra Mercury*, more than 130 non-daily regional titles, 9 community titles and 10 national specialist agricultural titles including *The Land*.

Fairfax Media’s Charter of Editorial Independence establishes unique conditions for producing news and journalistic content that generates societal benefits broader than the benefits to readers and advertisers, as referenced in the issues paper. This document was adopted by staff at *The Age* in 1988 and *The Herald* in 1991 and governs day-to-day operations in a manner that is not replicated in any other media business in Australia. Specifically, it commits:

- ‘That the proprietor(s) publicly declare a commitment to the fundamental and longstanding principle of editorial independence’
- ‘That the proprietor(s) acknowledge that journalists, artists and photographers must record the affairs of the city, state, nation and the world fairly, fully and regardless of any commercial, political or personal interests, including those of any proprietors, shareholders or board members’¹
- ‘That full editorial control of the newspapers, within a negotiated, fixed budget, be vested with the editors of the papers and that the editors alone shall determine the daily editorial content of the newspapers’
- ‘That the editors must at all times carry out their duties in a way that preserves the independence and integrity of the mastheads’

¹ Full version of The Charter is available at: <https://www.smh.com.au/national/fairfax-media-charter-of-editorial-independence-20120619-2014t.html>

This commitment to quality, independent journalism is reflected in our newsrooms regularly being the most awarded in the country. At the 2017 Walkley Awards, Fairfax journalists took out 11 awards including the Gold Walkley and awards for Business Journalism, Investigative Journalism, Public Service Journalism and for Commentary, analysis opinion and critique. At this year's Quill Awards for excellence in journalism, *The Age* took out 12 awards, significantly more than any other news organisation. These included the Graham Perkin Australian Journalist of the Year award, the Gold Quill (in partnership with the ABC) and Quills for Business News and Investigative Journalism. These awards are testament to our commitment to investigative journalism that 'is expensive to do, takes a long time, sparks legal action and upsets powerful interests', as referenced by the Senate Select Committee on the Future of Public Interest Journalism.

In submitting this response, Fairfax notes that the current media environment is evolving very rapidly. The trends and relationships outlined in this document hold true today but may evolve to be dramatically different within a very short period of time.

2. Long-term trends in the operating environment of news publishers

The traditional newspaper business model was built around 'control' of the physical infrastructure required to disseminate information at scale.

For much of Fairfax's history, a 'publisher' was an entity that controlled the printing plants and logistics network required to distribute newspapers.

The business model was fairly simple. Newspapers attracted consumers' attention by producing content that was of greater interest to a group of readers than the content of their local competitors. In a world of limited mass-media, this concentration of attention was commercially valuable and supported multiple large-scale advertising revenue streams:

- Display advertising from major brands
- Small business advertising
- Most significantly, classifieds across categories including jobs, cars and real estate

Advertising comprised the vast majority of revenue for publishers such as Fairfax, with consumer revenue (effectively, circulation and subscriptions sold via newsagents) providing most of the remainder. For example, in 1999 Fairfax reported publishing revenue of \$1.1b, of which roughly \$800m was advertising (including classifieds) and \$200m was circulation.

This revenue, in large part, funded newsrooms of more than 1000 staff across Sydney and Melbourne.

Technological change and evolving consumer behaviours have been affecting the newspaper business for a number of decades.

Over time media channels other than print emerged, such as television, which created competition for consumer attention. As a result, newspaper circulation declined gradually in developed markets. For example, data from the Newspaper Association of America shows that Daily Newspaper

Circulation in the US declined from more than 120 per cent of households in 1950 to less than 40 per cent by 2010.²

For much of this period, this trend did not have a significant impact on the newspaper business model due to print's effectiveness as an advertising medium.

The emergence of the web in the early 21st century accelerated this trend and, for the first time, meant that changes in the external environment had a real impact on the business model for journalism.

At its most basic level the internet removed barriers to producing and disseminating information. As a result attention became fragmented, as audiences were suddenly able to access many more publications than in the past. This included digital-native publications that quickly amassed large audiences, such as Business Insider, Gawker and HuffPost. In addition, the best journalism from other cities or countries was suddenly available instantly, alongside blogs and other user-generated content. At the same time, the ABC now publishes online, often competing head-to-head with our metropolitan and regional mastheads for audience without the need to sustain a commercial operation.

In practice this meant:

- An AFL fan in Sydney no longer needed to rely on *The Sydney Morning Herald's* editors devoting scarce column inches to their favourite team. The breadth of coverage from *The Age* was just as easily accessible, alongside coverage from the League, individual teams and fans.
- Australians could access the best coverage of US politics from US media, rather than relying on correspondents employed by Australian publications. As a result, Australian publications needed to become clearer on the value they could add to each and every story.

Importantly, there is no reason to see the internet as inherently detrimental to the quality of journalism on offer. Arguably, it intensifies competition, which creates natural pressure to raise quality. This was explained in an address by former News Corp Head of Strategy, Raju Narisetti, in 2015 when he stated: 'If you produce a 'B-plus' newspaper, I think you'll be OK with your readership. But if you produce anything less than an A-minus or an A-plus web or digital product, you have a problem.'³

For Fairfax, the web has allowed us to continually grow our audience reach. In June 2013, Fairfax Media reached an audience of 9.6 million across print and digital platforms, whereas by February 2018 this had grown to 13 million.⁴

This reach has not translated into digital advertising revenue for multiple reasons, including:

² http://media-cmi.com/downloads/Sixty_Years_Daily_Newspaper_Circulation_Trends_050611.pdf

³ Address at the 2015 Newspaper Works Future Forum in Sydney. Accessed via <https://www.radionz.co.nz/national/programmes/mediawatch/audio/201772898/media-companies-in-the-shadow-of-internet-giants>

⁴ EMMA data

- Lack of scarcity of display advertising, in a market that has not always appropriately valued context. This has meant the potential revenue for professional publishers is well below what it was in print. We note that in the extreme, inappropriate market valuation of context has resulted in numerous instances of advertisers' brands running against unsavoury content.
- Certain forms of advertising that traditionally sat within newspapers and helped fund journalism at scale were 'unbundled' entirely. The rise of local pure-play digital classifieds businesses such as Seek and Carsales had a severe impact on the business model for journalism. In 2017 the three largest digital classifieds companies generated well over \$1b in revenue in Australia⁵ - of which a large component would have historically funded print journalism.
- Fairfax's regional titles have also faced competition from the roll-out of digital TV, which has provided lower-cost broadcast options to advertisers.

The result for Fairfax is that \$800m in advertising revenue in 1999 became \$225m for the Metro business in 2017, a comparison which does not take into account the effects of inflation.

More recently, digital platforms have emerged and offered compelling product experiences to both consumers and advertisers.

The web is an inherently messy environment. Consumers face billions of pages that are not readily discoverable. In addition, with fragmented attention, certain advertisers would potentially need to deal with a myriad of publishers to reach their desired audience in its entirety.

In this environment, search engines (notably Google) and social networks (notably Facebook) emerged with products that captivate both consumers and advertisers.

For consumers:

- Google surfaces content people need in an instant based on a range of signals, including relevance and authority.
- Facebook predicts what people are most interested in and surfaces that content, without the user needing to consciously decide what they want.

For advertisers:

- Google search enables businesses to reach consumers searching for a particular product or service, right before the point of purchase.
- Social networks amass information about people's demographics, life stage and interests and enable advertisers to micro-target the segments they are most keen to reach. This delivers real or perceived efficiencies in advertising spend.
- Both Google and Facebook have established self-service platforms that enable them to very efficiently service the advertising needs of the long-tail of small businesses. This has created particular challenges for our regional and communities mastheads, which have typically serviced local advertisers.

⁵ REA Australian revenue (\$634m), Carsales domestic online advertising revenue (\$241m), Seek ANZ Employment revenue (\$356m)

The rapid growth of these platforms has had significant flow-on impacts on other businesses, particularly news publishers.

The compelling nature of the advertising products the platforms have developed has meant that as advertising expenditure has shifted online, this has predominately benefited platforms rather than publishers.

As noted in the Issues Paper, estimates suggest that digital platforms (particularly Google and Facebook) captured three quarters of total Australian online advertising expenditure in 2016. Globally, media buying agency GroupM estimated that Google and Facebook were set to capture 84% of global digital ad spend in 2017, excluding China.⁶ Moreover, their assessment was that the most likely source of competition was not news publishers but Amazon.

In addition, various parties have estimated the share of advertising revenue growth accruing to Google and Facebook, particularly in the US. These typically suggest that the two companies account for 70-90% of all growth.⁷ After accounting for growth of other digital platforms and new entrants, this suggests that digital ad revenue for traditional content creators as a whole may be flat-to-declining.

A contributing factor is that ad products developed by the platforms benefit from global scale in both technical capability and data, making it increasingly difficult for existing market participants (such as publishers) or new entrants to compete directly. High-margin revenue creates capacity to re-invest in improving products and ‘marketing’ these products to media buyers. Simultaneously, platforms have continually expanded the data they have access to and their capability to deliver value using this data.

In summary, recent market developments have further broken apart the historic link between advertising expenditure and content investment that was weakened by the internet.

The weakening of this link is further clarified by considering which parties accrue the value of professionally-produced content. In the past, all revenue associated with journalistic content accrued to the content creator (e.g. the newspaper owner). Now, publishers’ content features within platforms (e.g. Facebook’s newsfeed) and helps platforms retain users’ attention and generate ad revenue, alongside user-generated and other professional content. The result is that a significant portion of the value of publishers’ content now accrues to platforms.

Alongside these advertising market challenges, additional editorial resourcing is now required to distribute content to audiences across media types (e.g. print and digital) and platforms (e.g. search, Facebook, Twitter etc). This imposes a further constraint on the ability of publishers to fund investment in original journalism.

As referenced earlier in this submission, digital journalism is a more competitive industry than print, meaning quality is imperative. The challenge facing all publishers globally is to deliver the level of quality required within the funding envelope available in the current environment.

⁶ <https://www.ft.com/content/cf362186-d840-11e7-a039-c64b1c09b482>

⁷ <http://fortune.com/2017/04/26/google-facebook-digital-ads/>

The growth of digital platforms has had broader social impacts, including in relation to news media consumption.

Much has been written publicly about the emergence of fake news and filter bubbles, and the impacts of these phenomena on democratic outcomes and social cohesion. Fairfax recognises these as real problems to be considered through the inquiry.

It is our assessment that the role played by digital platforms today is not entirely dissimilar to the traditional role of publishers as controllers of physical distribution networks. Just as publishers are required to take responsibility for the content accessible through their products, platforms should be responsible for the content they amplify and distribute.

We note that these issues are complex, and any regulation would need to be carefully crafted to avoid unintended consequences.

3. The path forward for news publishers

Firstly, there remains a critical social role for producers of quality journalism in Australia.

Consumer demand for quality, independent journalism is strong. In February 2018 Fairfax Media reached 13 million Australians across print and digital platforms. Moreover, direct traffic (i.e. users seeking out our websites directly, not arriving via platforms such as Google and Facebook) continues to account for a large share of our overall audience. Millions of Australians continue to see mastheads such as *The Sydney Morning Herald*, *The Age* and *The Australian Financial Review* as their daily 'go to' sources of news and analysis.

Recent research has highlighted the value consumers place on trusted sources of news. Deloitte's Australian Media Consumer Survey in 2017 found that 76% of respondents agree or strongly agree with the statement: 'When reading news material online, I take time to consider the source and author of the news, and assess the validity of the material I am being presented.' Furthermore, the 2018 Edelman Trust Barometer Global Report found that since 2015, trust in journalism has increased from 51 to 59 per cent whereas trust in search engines and social media platforms has declined from 54 to 51 per cent.

We see a critical role for publishers such as Fairfax, with active human editors, in addressing the real shortcomings of algorithms in surfacing content that is thoroughly researched and of importance to our audiences. More than any other type of media or platform, trusted publishers continue to set the national agenda.

Finally, numerous recent examples highlight that our journalism continues to have a profoundly positive impact across the Australian political, business and broader social landscape.

In addition, we are confident that there is a commercial opportunity associated with quality journalism in Australia. We are adapting our business to deliver this, while recognising the environment in which we operate.

We face greater competition for our audience's attention than at any time in our history. It is incumbent on publishers to create news experiences worth seeking out if they are to maintain and build a direct relationship with our audiences. Our approach to this involves:

- Continuing to invest over \$100m annually in journalism across our metropolitan mastheads and AFR.
- Focusing our editorial investment on stories that are important, of interest to our readers, and where our mastheads provide a point of difference.
- Investing in digital product experiences (e.g. websites and apps) that are worthy of our readers' time and attention.

The business model we are pursuing is digitally-led and a hybrid of subscriptions and advertising. We have strong momentum in our digital subscriptions business, with 20 per cent growth in paid digital subscriptions across *The Sydney Morning Herald*, *The Age* and *The Australian Financial Review* between August 2017 and our half-year results announcement in February 2018. We are encouraged by positive trends in consumers' willingness to pay for trusted journalism in Australia.

Digital advertising remains an equally important component of our business model. While we seek to learn from overseas publishers who are rapidly building scale in digital subscriptions, including *The New York Times*, *The Washington Post* and the *Financial Times*, two of these are national brands in a country with a population in excess of 320 million and the third is a global niche. Based on all available data, we believe the Australian market size dictates that scale in both subscriptions and advertising will be required to sustain our journalistic ambition.

Despite structural challenges in the advertising markets, we see opportunity for publishers to carve out a meaningful and sustainable position. This will require us to continue innovating to deliver print and digital products that help our commercial partners grow their businesses. To this end, in recent months Fairfax has rolled-out new websites designed to maximise audience engagement across both editorial content and advertising. Initial results for key advertising products are showing time in-view significantly higher than market benchmarks, which has a demonstrable relationship to brand awareness and purchase intent. Simultaneously, we are working with our valued print partners to help them effectively reach the loyal and highly valuable audience that continues engaging deeply with Fairfax print products.

Fairfax is also actively ensuring all back-office functions are as efficient as they can possibly be. This is critical if we are to maximise our investment in public-interest journalism and enable the business to move quickly and adapt to rapidly changing consumer and advertiser needs.

Recent encouraging progress in industry collaboration initiatives is expected to further contribute to the sustainability of the publishing business model. Examples of material opportunities include consolidation of non-competitive 'back-office' functions, including printing and distribution, and jointly articulating the value of premium publisher environments for advertisers.

Finally, we see the digital platforms as important and enduring participants in our operating environment and are seeking to proactively partner in recognition of this reality.

As mentioned previously, digital platforms such as Google and Facebook provide valuable services to both consumers and advertisers. While at times challenging for publishers, we do not anticipate that their central role in the ecosystem will change markedly. In this environment, publishers have multiple options.

In assessing which path to take, Fairfax acknowledges that there are marked differences in the business models and commercial objectives of the digital platforms and the manner in which they approach news publishers.

For example, two of Google's core businesses – search and programmatic display – are heavily reliant on having quality content on the open web. This potentially creates a meaningful area of overlapping interest with the news industry. In recent months, we have noted a series of examples of Google working increasingly proactively with the industry to help address challenges or create conditions for publishers to capitalise on market opportunities.

- Fairfax's advertising partnership with Google, which aims to create opportunities for advertisers that neither party could deliver alone.
 - Advertisers increasingly value premium advertising inventory that can be traded programmatically.
 - Fairfax's premium brands, audiences and 187 years building trust mean its inventory is distinctly valuable.
 - Google's programmatic products and digital commercialisation approach create opportunities to use this premium inventory to create distinctive value for advertisers.
 - In addition, the arrangements free up Fairfax staff to focus on our most valuable commercial relationships and bespoke creative solutions across digital display, commercial content and print.
- Recently announced subscriptions initiatives, which aim to address common challenges publishers face in growing digital subscriptions, including:
 - Replacing the 'first click free' policy with 'Flexible Sampling'.
 - 'Subscribe with Google', which aims to smooth the path to payment, and emerged from a global subscriptions working group convened by Google, of which Fairfax was a member alongside other publishers such as *The New York Times* and the *Financial Times*.
- Other announcements as part of the Google News Initiative:
 - Changes to search to prioritise 'authoritative' sources during breaking news events in order to combat disinformation.
 - Release of tools to support publishers to collect and analyse their own data and use it to inform decisions.
 - Support for training and innovation in digital storytelling via the Google News Lab.

In contrast, we see substantially less progress in commercial partnership opportunities with Facebook. It is our view that Facebook's commercial interests are largely served by keeping users within Facebook's environment. The difference between user-uploaded content (e.g. baby photos, viral videos) and professional journalism is less clear in Facebook's business model. As a result, fewer

opportunities have emerged to date to work with Facebook to support the viability of our journalism or appropriately recognise the value professionally-created content brings to Facebook's business model.

In fact, Facebook commonly suggest to publishers that they invest resourcing in Facebook-related products (e.g. Instant Articles, Facebook-native video, Live video) with an unclear path to commercialisation. Moreover, publishers who choose not to participate often see a subsequent loss of traffic. For example, following the release of Instant Articles newsfeed began to prioritise articles in that format over links to publishers' owned and operated channels.

While this has been manageable for Fairfax due to the large segment of our audience who seek out our content directly, other publishers have had their business models severely damaged by changes to the Facebook algorithm, often at little notice.

Other platforms such as Instagram and Snapchat potentially offer considerable reach to publishers such as Fairfax but, like Facebook, offer limited commercial opportunity at this point. To date, our participation in these platforms has been limited. There is a real risk that if the prominence of these platforms continues to grow, without a clear commercial opportunity for publishers, this may further undermine business models for journalism and further strain editorial resources.

In summary, a clear preferred pathway is for publishers and platforms to explore and implement commercial, market-based solutions to the challenges presented by the current operating environment. We see encouraging signs from some platforms that these efforts may be constructive. Alternatives suggested include platforms paying for journalistic content or targeted taxes with proceeds to subsidise public-interest journalism. A reasonable view is that the former is likely impractical, poses potential risks to editorial independence, and potentially leads to worse outcomes for consumers. Other regulatory interventions should be considered as a last resort. As with any regulation, both carry risks of unintended consequences that must be seriously considered.

4. Conclusion

Technological change and evolving consumer behaviour have been impacting publishers like Fairfax for a number of decades. The internet, and the subsequent emergence and growth of digital platforms, have provided consumers with access to more content than ever before, while simultaneously creating an exceptionally challenging operating environment for producers of quality journalism.

Fairfax is actively reshaping its business model to adapt to this market reality. In doing so, we welcome opportunities to work with all industry participants – other publishers, digital platforms and regulators – to support our objective of sustaining independent Australian journalism at scale. We see Fairfax's success as imperative if Australia is to maintain a diversity of quality published news reporting, opinion and analysis.