

The Financial Woes of News Publishers in Australia

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1. Introduction

News publishers in Australia have experienced financial pressure for decades. In recent years, much of this financial pressure has been caused by consumers and advertisers switching from traditional news publications to online resources. A number of news publishers claim that a major source of this latest financial pressure is the use of their content by digital platforms (notably Google and Facebook) without adequate compensation.¹ They argue this conduct is abusive and contributes to declining subscriptions and revenues, threatening the future of journalism.²

Google has asked us to investigate these issues. We find that the dramatic growth of online commerce over the past twenty years sharply reduced advertising expenditures that had long sustained news publications, especially expenditures on classified ads. These changes were largely unrelated to the terms of trade between publishers and Google and were instead driven by increased competition from other web sites that attracted advertisers, including websites that specialize in classified ads.

2. The Financial Woes of News Publishers in Australia

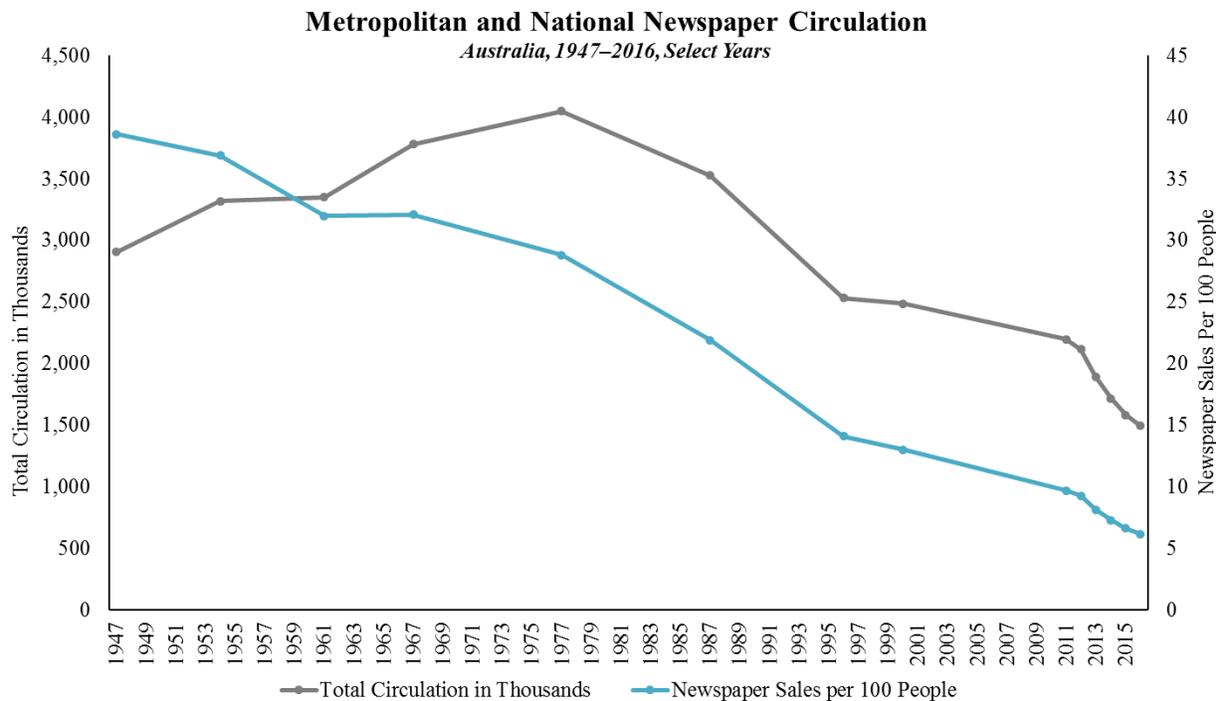
The financial woes of news publishers in Australia have unfolded over a long period of time. Newspaper circulation in Australia, measured on a per capita basis, has been declining since the

¹ Australia Competition and Consumer Commission, “Digital Platforms Inquiry: Final Report,” June 2019 (“*Final Report*”), p. 232; News Corp Australia, “Submission to the Australian Competition and Consumer Commission Digital Platforms Inquiry, Issues Paper,” April 20, 2018, pp. 2-3, 66-67, and 106-107; Australian Financial Review, “Nine: ACCC Must Ensure Facebook, Google Share the Revenue,” Jemima White and Eloise Fowler, September 26, 2019, available at <https://www.afr.com/companies/media-and-marketing/nine-acc-must-ensure-facebook-google-share-the-revenue-20190925-p52uvi>.

² The public interest in robust gathering and reporting of news involves all entities that engage in those activities, including television broadcast and cable networks as well as radio. We focus here on “news publishers,” but any analysis of effects on broader public-interest issues should also consider other sources of news.

1950s.³ The circulation decline in the middle of the last century is generally attributed to the development of television, along with changing commuting patterns and reading habits.⁴

Figure 1



Notes: [1] Analysis relies on circulation and population data published by Finkelstein (2012) for select years between 1947 to 2011, circulation data published by the Audit Bureau of Circulation from 2012 to 2016, and population data published by the Australian Bureau of Statistics from 2012 to 2016. [2] Population statistics from 2012 to 2016 refer to the average population of residents estimated at the end of each quarter in that year. [3] Circulation statistics from 2012 to 2016 refer to the total Australian print sales of metropolitan and national newspapers divided by the number of days in that year. [4] Following Finkelstein (2012), Northern Territory News is excluded from this analysis. Northern Territory News accounts for less than 1% of the Australian metropolitan and national newspaper circulation from 2012 through 2016.

Sources: [a] "Report of the Independent Inquiry into the Media and Media Regulation," The Honorable R Finkelstein QC, February 28, 2012, Table 3.2, pp. 57 and 69. [b] Audit Bureau of Circulation Data. [c] Australian Bureau of Statistics Population Data.

As shown in Figure 1, circulation per capita has been steadily declining for many decades. Despite this downward trend, total newspaper circulation in Australia increased through the late 1970s, as population grew. Since that time, total newspaper circulation also has steadily declined.

Newspapers earn revenue from subscriptions and advertising. The two are linked because advertisers are willing to pay more for a larger audience. Advertising historically has accounted for the great majority of the total revenue earned by news publishers in Australia, in the 70% to 75% range from 2001 to 2012.⁵

³ Australia is not unusual in this regard. Circulation per capita has been declining in the US, Canada and Great Britain for decades, too. See "Sixty Years of Daily Newspaper Trends," Communic@tions Management, Inc., pp. 6, 14, 17, available at http://media-cmi.com/downloads/Sixty_Years_Daily_Newspaper_Circulation_Trends_050611.pdf.

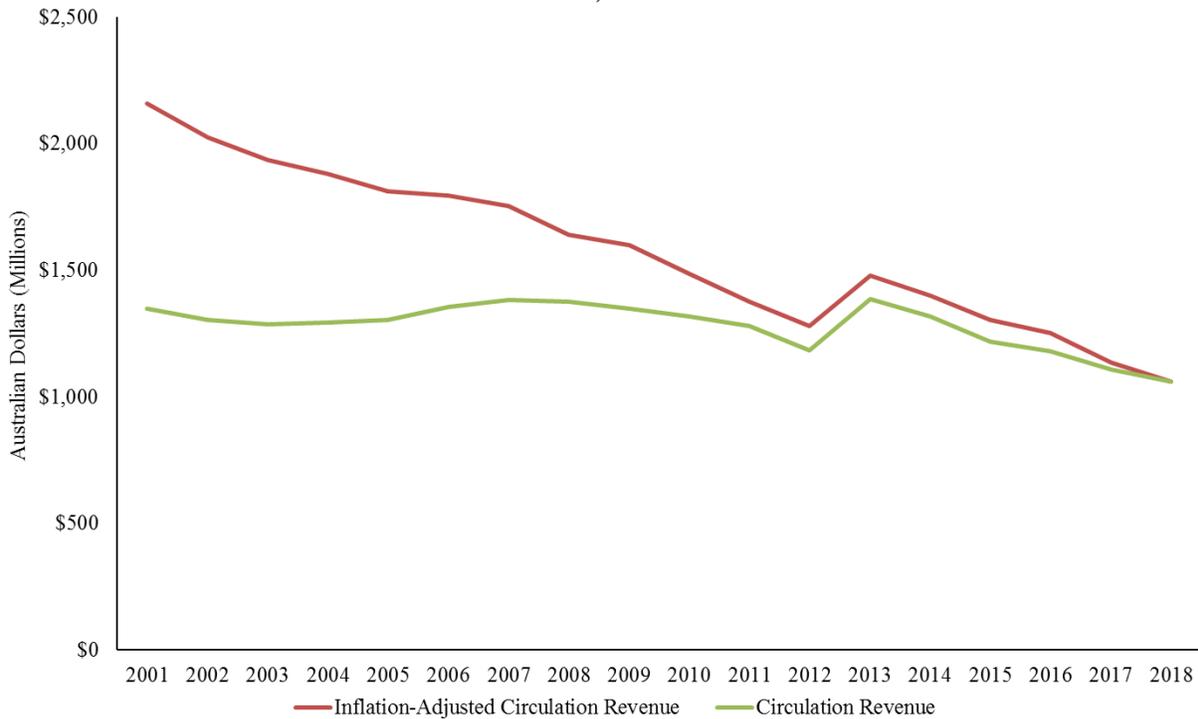
⁴ Hon R. Finkelstein QC, "Report of the Independent Inquiry into the Media and Media Regulation," February 28, 2012, pp. 68-69.

⁵ Franco Papandrea, "State of the Newspaper Industry in Australia," 2013, p. 7, available at <https://www.canberra.edu.au/about-uc/faculties/arts-design/attachments2/pdf/n-and-mrc/State-of-the-Newspaper->

Subscription revenue in Australia has been declining since at least 2000, after adjusting for inflation. Inflation-adjusted subscription revenue, measured in 2018 Australian dollars, declined from AU\$2.16 billion in 2001 to AU\$1.06 billion in 2018.

Figure 2

Newspaper Circulation Revenue
Australia, 2001–2018



Notes: [1] The annual price deflator is the average quarterly price deflator. [2] Inflation-Adjusted Circulation Revenue is measured using 2018 Australian Dollars. Sources: [a] Report of the Independent Inquiry into the Media and Media Regulation, p. 72. [b] State of the Newspaper Industry in Australia, p. 6. [c] Statista, Total newspaper circulation spending Australia 2013-2022. [d] PwC, Global Entertainment & Media Outlook 2019–2023. [e] Federal Reserve Economic Data (FRED), GDP Implicit Price Deflator in Australia.

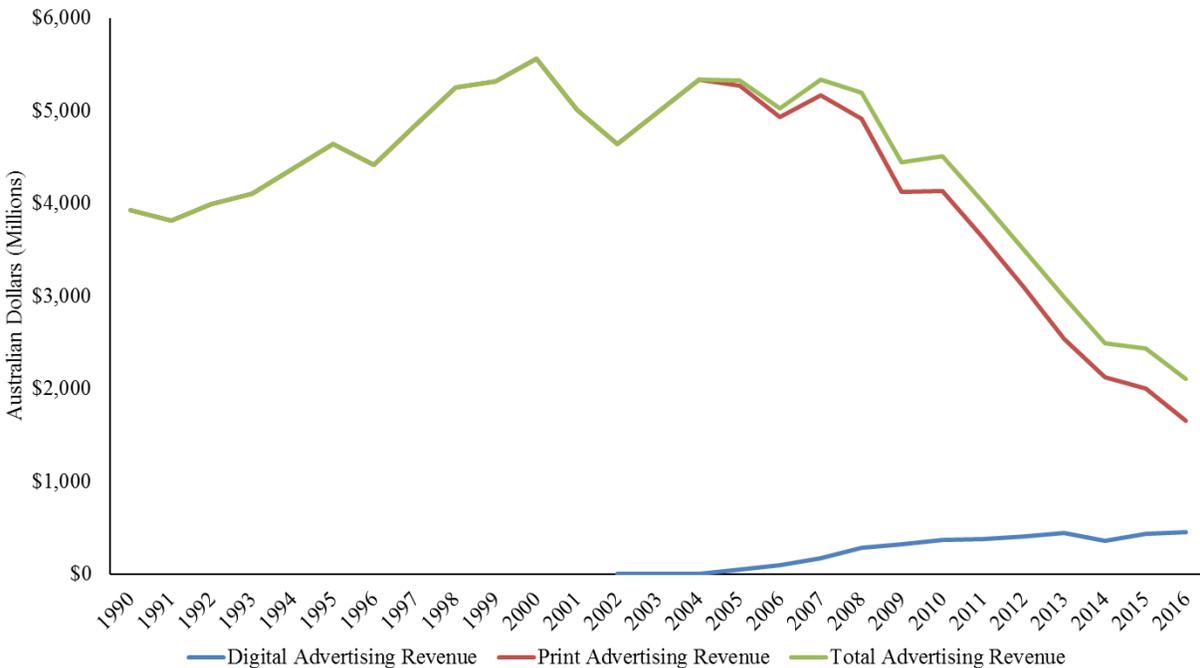
Advertising revenue earned by Australian newspapers grew steadily from 1990 to 2000, after adjusting for inflation. It went up and down during the 2000s, and then declined sharply starting in 2009. Inflation-adjusted advertising revenue in 2016 (AU\$2.1 billion) was 41% of its 2008 value (AU\$5.2 billion).⁶ This decline in the advertising revenue was driven by the loss of print advertising. Inflation-adjusted print advertising revenue in 2016 (AU\$1.7 billion) was less than 35% of its 2008 value (AU\$4.9 billion). Digital advertising revenue earned by Australian newspapers has been steadily increasing since 2005. However, the increase in digital advertising revenue was not enough to offset the significant declines in print advertising revenue.

[Industry-web-publication.pdf](#) and Hon R. Finkelstein QC, “Report of the Independent Inquiry into the Media and Media Regulation,” February 28, 2012, p. 73.

⁶ Measured in 2018 Australian dollars.

Figure 3

Newspaper Advertising Revenue
Adjusted for Inflation, Australia, 1990–2016



Notes: [1] Plot does not include data from 1994. [2] The annual price deflator is the average quarterly price deflator. [3] Inflation-adjusted advertising revenue is measured using 2018 Australian Dollars. [4] Following guidance from the 1993 CEASA Report, print advertising revenue of suburban newspapers in 1993 was estimated to be 7% higher than the revenue in 1992. Sources: [a] CEASA, Advertising Expenditure in Main Media, 1990–2017. [b] State of the Newspaper Industry in Australia, p. 6. [c] PwC, Global Entertainment & Media Outlook 2018–2022. [d] PwC, Global Entertainment & Media Outlook 2019–2023. [e] Federal Reserve Economic Data (FRED), GDP Implicit Price Deflator in Australia.

The number of journalists employed in Australia has also been declining. The ACCC reports that between 2006 and 2016, the number of people employed in journalism-related occupations declined by 9%, while journalists employed by traditional print media – including publications with online operations – declined by 26%.⁷ Data provided by the main media companies in the ACCC’s recent investigation showed that journalism jobs declined by 20% from 2014 to 2018.⁸

3. What Caused These Financial Woes?

Publishing news on its own has never been profitable. News has traditionally been sold bundled with travel reviews, real estate guidance, home and gardening tips, crossword puzzles and other games, car reviews, and so forth. Historically, most of the advertising revenue earned by news publications was derived from these complementary sections, which effectively cross-subsidized the production and distribution of news content. The rise of the internet undermined this cross-subsidization model by attracting audiences – and therefore advertisers – to specialized websites like carsales.com.au and realestate.com.au. This is the fundamental reason why news publishers have struggled financially. The ACCC concurs: “Print publishers thrived throughout the

⁷ Final Report, p. 18.

⁸ Final Report, p. 18. See also, Final Report, pp. 310-314.

twentieth century. However, this changed because of competition for audiences and advertising from online services.”⁹

Increasing competition from online services over the past 20 years has caused people to shift how they obtain all types of content, including news, music, video content, and much more. As a result, readers and thus advertisers were drawn away from traditional newspapers. Simply put, “there are now more options for consumers’ attention.”¹⁰

Newspapers are online too, of course, but moving online does not neutralize the added competition that a newspaper faces on both the reader side and the advertiser side from emerging forms of online content. Put differently, advances in information technology are useful for news publishers, but they have created so much new competition that the net impact on news publishers has been negative. This is very common: new technologies often erode the profits of incumbents using older technology, even if these incumbents also can adopt the new technology.

A. Online Audiences Spend Much Less Time on News

Data collected by the ACCC shows that only 2.3% of the time spent online by Australians goes to news outlets.¹¹ Far more time is spent on social media websites like Facebook and video websites like YouTube.

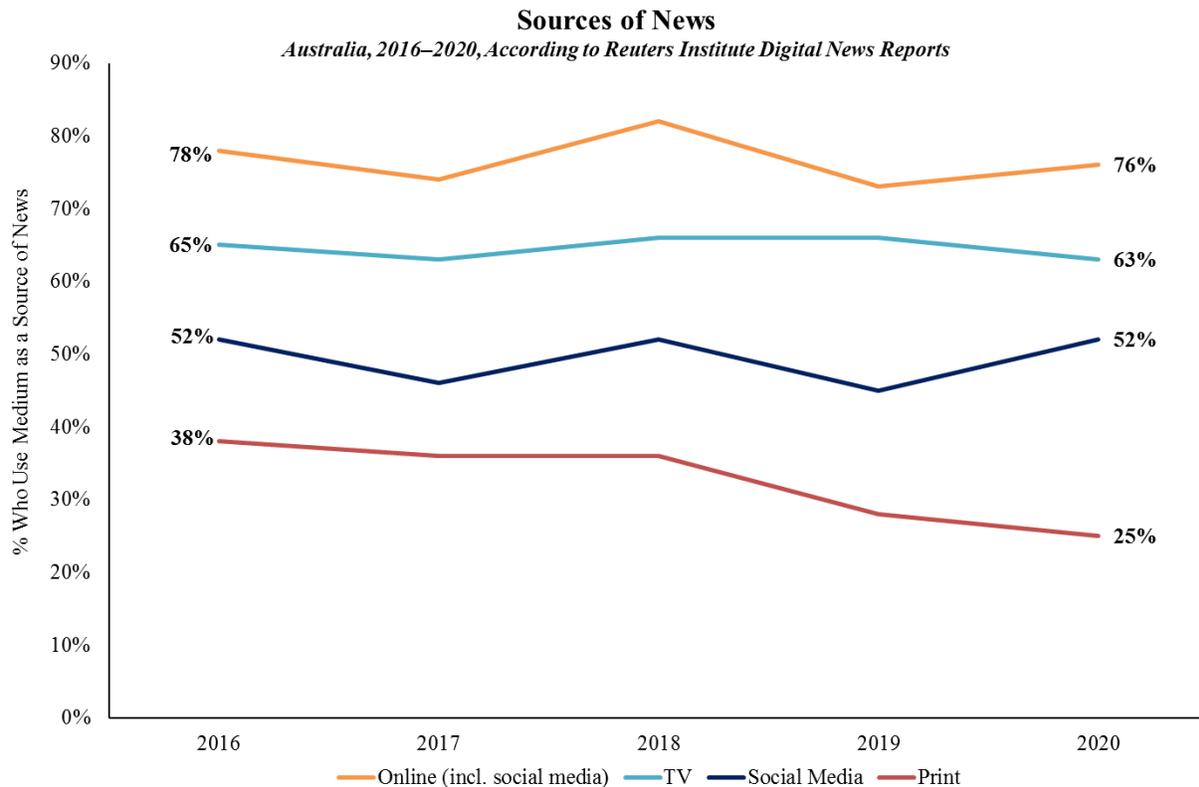
Indeed, a large share of Australians get their news from social media sites. Data from Reuters indicate that around one-half of survey respondents access news through social media, and more than three-quarters access news through online resources of all types. These shares have remained stable for several years. In contrast, the share of survey respondents getting news from print resources declined from 38% in 2016 to 25% in 2020.

⁹ *Final Report*, p. 56.

¹⁰ *Final Report*, p. 295.

¹¹ *Final Report*, p. 6 (Figure 2, data for February 2019). Notably, a small fraction of online time is devoted to news outlets even though reading online news is Australians’ most frequent daily online activity. See *Final Report*, p. 53 (Figure 1.5).

Figure 4



Note: Results reported by Reuters exclude survey participants that did not consume any news during the month prior to the survey.

Sources: [a] Reuters Institute, "Digital News Report 2020," p. 96. [b] Reuters Institute, "Digital News Report 2019," p. 133. [c] Reuters Institute, "Digital News Report 2018," p. 127. [d] Reuters Institute, "Digital News Report 2017," p. 117.

The steadily declining share of print news matters greatly to news publications because consumers spend far less time reading news online than in print,¹² and as consumers spend less time reading news, the supply of advertising opportunities in news publications shrinks. This naturally leads to a decline in advertising revenue earned by news publications.

B. Increased Competition from Online Resources

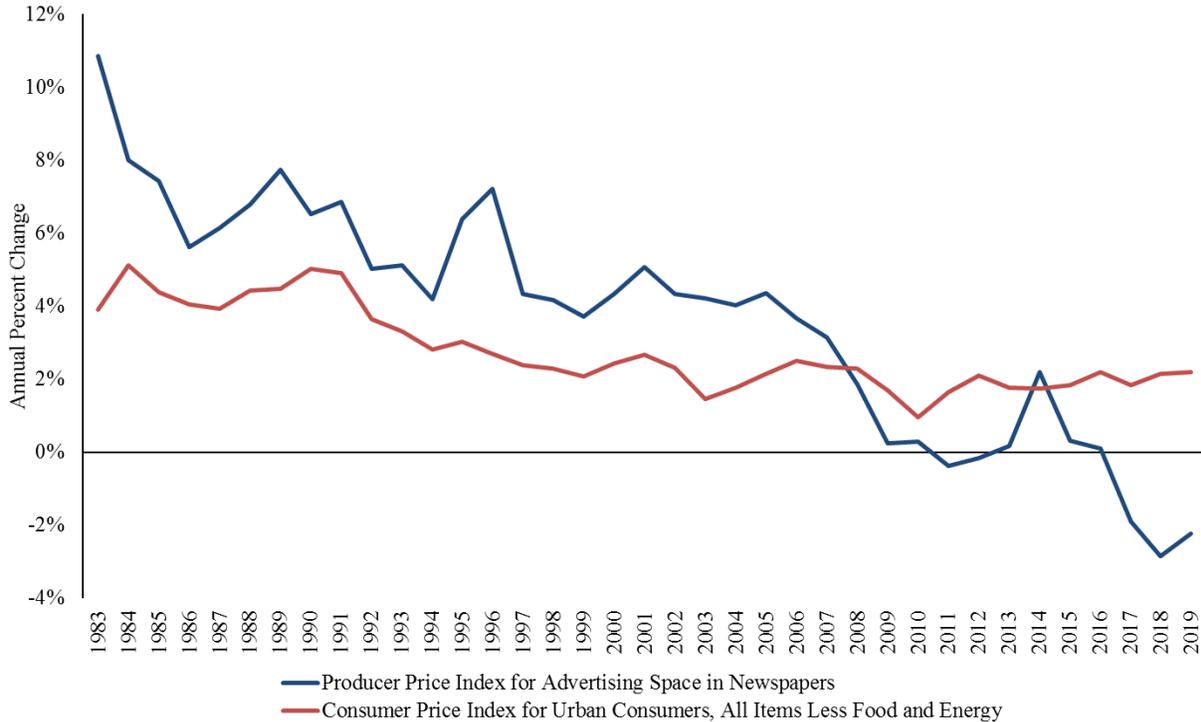
There is also evidence that prices for print ads in newspapers declined due to increasing competition from online resources.

¹² Aggregate data for the United States in 2008 and 2012 show that consumers spent about fifteen times as much time, per-person per-day, reading print news publications as they did reading online news publications. Matthew Gentzkow, "Trading Dollars for Dollars: The Price of Attention Online and Offline," *American Economic Review: Papers and Proceedings*, 104(5), 2014, Table 1, p. 485. The decline in time spent on news online versus offline may reflect both changing consumption patterns in online news as compared to print news and demographic shifts. According to Papandrea (2013), "Broad age profiles of newspaper readership indicate that reading of newspapers is skewed towards older generations.... a significant part of the decline in circulation is likely to be associated with a lower tendency to read newspapers among younger age groups as well as their greater tendency to migrate to online consumption of news." Franco Papandrea, "State of the Newspaper Industry in Australia," 2013, p. 5, available at <https://www.canberra.edu.au/about-uc/faculties/arts-design/attachments2/pdf/n-and-mrc/State-of-the-Newspaper-Industry-web-publication.pdf>.

Data published by the U.S. Bureau of Labor Statistics show that after increasing at a faster pace than the consumer price index (CPI) for more than two decades, newspaper ad prices began *decreasing* relative to the CPI around 2008.¹³

Figure 5

Percentage Change in Newspaper Advertising Space PPI & Core CPI
United States, 1983–2019



Note: Annualized indices are the simple average of monthly indices.

Sources: [a] Federal Reserve Economic Data (FRED), Producer Price Index by Commodity for Advertising Space and Time Sales: Advertising Space Sales in Newspapers. [b] Federal Reserve Economic Data (FRED), Consumer Price Index for All Urban Consumers: All Items Less Food and Energy in U.S. City Average Data.

Prior to the rise of the internet, Australian newspapers faced far less competition for their print ads. A 1992 report by the Australian Parliament concluded that “newspapers dominate non-national advertising.”¹⁴ During the 1980s, newspapers accounted for about 65% of non-national advertising.¹⁵ The ACCC states: “The print news sector, now the print/online news sector, is particularly concentrated.”¹⁶ It adds: “Many regional areas are serviced by a single local

¹³ The newspaper ad price index includes prices for both print and digital ads for print newspapers. Thus, changes in the mix of print and online ads over time might also affect the trend.

¹⁴ The Parliament of the Commonwealth of Australia, House of Representatives Select Committee on the Print Media, “News & Fair Facts, The Australian Print Media Industry,” March 1992, p. 66. Non-national advertising generally includes retail, classified, semi-display, local and other non-display advertisements.

¹⁵ The Parliament of the Commonwealth of Australia, House of Representatives Select Committee on the Print Media, “News & Fair Facts, The Australian Print Media Industry,” March 1992, Appendix 8. Originally from Commercial Economic Advisory Service of Australia (1991).

¹⁶ *Final Report*, p. 290.

newspaper while suburban areas are often serviced by a local publication and a metropolitan publication.”¹⁷

Carson (2019) goes so far as to describe the pre-internet news publication business in Australia as one characterized by “premium prices” charged from a “monopoly position.”

“Until [the 1990s], and for much of the 20th century, Australian newspapers had prospered financially by utilising their market power to sell display and classified advertising at premium prices, with journalism used as the lure to attract what the advertisers wanted: readers. The rise of digital media from the mid-1990s quickly eroded the monopoly position of newspapers in their advertising segments, particularly for classified ads.”¹⁸

C. Increased Competition for Classified Ads

News publishers have faced greatly increased competition for classified ads.

Classified ads were the largest single source of advertising revenue for Australian news publications prior to the internet, accounting for about 42% of advertising revenue in 1990.¹⁹ Classified ads likely accounted for an even larger share of news publication profits, as they were highly profitable, sometimes being colorfully described as “rivers of gold.”²⁰

Classified advertising in Australia began moving massively to online resources more than 10 years ago. Nominal classified ad revenue earned by newspapers peaked in 2007 at AU\$1.7 billion.²¹ 2007 is the year that the top three classified websites in Australia launched.²² All of these websites allow users to post classified ads for no charge. Inflation-adjusted print classified advertising revenue earned by newspapers in 2016 (AU\$202 million) was less than 10% of its 2000 value (AU\$2.5 billion).²³ This stunning decline in revenue has put news publishers under substantial financial pressure.

¹⁷ *Final Report*, p. 291.

¹⁸ Andrea Carson, “Investigative Journalism, Democracy and the Digital Age,” June 20, 2019, pp. 33–35.

¹⁹ Commercial Economic Advisory Service of Australia (CEASA), “Advertising Expenditure in Main Media 1990, Year ended December 31 1990.”

²⁰ *Final Report*, p. 56.

²¹ Commercial Economic Advisory Service of Australia (CEASA), Advertising Expenditure in Main Media 1990-2017.

²² Data from SimilarWeb show that Gumtree.com.au, locanto.com.au, and rent.com.au collectively account for 94.5% of the total browser traffic in May 2020 associated with websites in the “Classifieds” category. Note that the SimilarWeb data do not include traffic from apps. Gumtree.com.au is the most popular website in this category with a web traffic share of 77.9%.

See Campaign Brief, “Gumtree Australia launches new Buy. Sell. Win. Brand Positioning via DDB Group Sydney,” available at <https://campaignbrief.com/gumtree-australia-launches-new-1/>, Locanto Facebook page, available at [facebook.com/pg/locanto/about](https://www.facebook.com/pg/locanto/about), Rent.com.au, “About Us,” available at <https://investors.rent.com.au/irm/content/about-us1.aspx?RID=324&RedirectCount=1>.

²³ Measured in 2018 Australian dollars.

Figure 6

Newspaper Print Classified Advertising Revenue
Adjusted for Inflation, Australia, 1990–2016



Notes: [1] Plot does not include data from 1994. [2] The annual price deflator is the average quarterly price deflator. [3] Inflation-adjusted advertising revenue is measured using 2018 Australian Dollars. [4] The 1993 CEASA report does not include reliable statistics on print advertising revenue earned by suburban newspapers. According to CEASA, total print advertising revenue of suburban newspapers in 1993 was 7% higher than the revenue in 1992. Analysis assumes that print classified advertising revenue of suburban newspapers in 1993 was also 7% higher than the revenue in 1992. Sources: [a] CEASA, Advertising Expenditure in Main Media, 1990–2017. [b] Federal Reserve Economic Data (FRED), GDP Implicit Price Deflator in Australia.

Tiffin (2010) documents the decline in the number of pages in Australian newspapers devoted to classified ads between 1986 and 2006.²⁴ He finds that while the total space in newspapers that was devoted to feature ads increased by 35% between 1986 and 2006, the space devoted to classified ads decreased by 32% during this same period.

²⁴ Rodney Tiffin, “Changes in Australian Newspapers, 1956–2006,” *Journalism Practice*, 4(3) 2010, pp. 351–352 (Table 5).

Figure 7

Areas of Feature and Classified Advertising
Mean Thousand Square Centimetres Per Day, According to Tiffin(2010)

Year	Total	<i>Sydney Morning Herald</i>	<i>Daily Telegraph</i>	<i>The Age</i>	<i>Herald-Sun</i>	<i>West Australian</i>	<i>Australian</i>
Feature							
1956	11.5	9.5	8.2	9.4	14.4	15.9	–
1966	18.6	18.8	17.8	20.7	25.4	22.5	6.0
1976	22.6	12.9	11.7	30.4	32.2	40.9	7.7
1986	36.9	41.9	15.9	52.7	35.1	61.2	14.3
1996	38.5	53.8	28.9	51.8	21.9	55.1	19.6
2006	49.8	74.3	31.5	58.8	38.0	76.3	20.0
Classified							
1956	15.4	29.7	5.6	31.9	2.6	10.5	–
1966	17.8	42.2	4.3	33.5	8.3	16.9	1.7
1976	26.2	44.8	6.5	54.8	16.3	27.1	7.7
1986	34.4	55.5	17.4	66.2	15.7	34.3	17.4
1996	26.8	48.9	12.0	35.3	12.7	43.7	8.4
2006	23.4	35.3	10.9	31.7	9.1	43.0	10.9

Note:

[1] Total column corresponds to the average of the statistics reported for the six newspapers listed in the table.

Source:

[a] Rodney Tiffin, “Changes in Australian Newspapers, 1956–2006,” *Journalism Practice*, 4(3) 2010, p. 352 (Table 5).

Although news publications are also on-line, they have captured only a small portion of online classified ad revenue. Total inflation-adjusted spending in 2016 on classifieds in Australia was roughly AU\$1.5 billion.²⁵ Of this amount, only AU\$225 million was earned by traditional print media.²⁶ The roughly AU\$1.25 billion remainder presumably was earned by classified ad websites like ebay.com.au, gumtree.com.au, carsguide.com.au, carsales.com.au, seek.com.au, domain.com.au, locanto.com.au, rent.com.au, and realestate.com.au.

However, some of the parent companies that own news publications have prospered by investing in online websites that sell classified ads. For example, News Corp and Fairfax Media have significant investments in the three most popular real estate websites in Australia.²⁷ News Corp

²⁵ *Final Report*, p. 295 (Figure 6.2).

²⁶ *Final Report*, p. 17.

²⁷ Data from SimilarWeb show that realestate.com.au, flatmates.com.au and domain.com.au are the top three real estate websites in Australia. News Corp has a 61.6% stake in REA Group, which owns realestate.com.au and flatmates.com.au. Fairfax Media has a roughly 60% stake in Domain Group, which owns domain.com.au. See The Guardian, “Fairfax Media shareholders vote to spin off Domain,” November 2, 2017, available at <https://www.theguardian.com/media/2017/nov/02/fairfax-media-shareholders-vote-to-spin-off-domain>; The Sydney Morning Herald, “Property website REA Group lays off 60 staff,” Jennifer Duke, September 3, 2019, available at

was also one of the founders of carsguide.com.au, a popular automobile classified website in Australia.²⁸

Between 2000 and 2016, the majority of the decline in the total advertising revenue earned by newspapers was driven by the decline in print classified advertising revenue. Specifically, after adjusting for inflation, 68% of the decline in the total advertising revenue was driven by print classified advertising.²⁹ Without adjusting for inflation, 98% of the decline in the total advertising revenue was driven by print classified advertising.³⁰

Consumers have benefited enormously from the lower prices available at online classified ad websites. Seamans and Zhu (2014) estimated that Craigslist's entry caused classified ad prices in U.S. newspapers that employed a classified ad manager to decline by approximately 14%, saving classified ad buyers US\$5 billion during 2000–2007.³¹ Gumtree.com is to Australia what Craigslist is to the United States, and is also widely believed to have benefited ad buyers by reducing prices for classified ads.³²

4. Policy Implications

The causal factors that explain the financial woes of news publishers – increased competition from online resources for audiences and the advertising dollars directed toward them – generally represent competition in action to the benefit of both users and advertisers. Furthermore, it seems clear these causal factors are not directly related to Google's position as the leading search engine in Australia. Nor are they substantively linked to the terms of trade between Google and Australian news publishers, or any exercise of market power by Google vis-à-vis those news publishers. Inasmuch as the underlying causes of the financial woes facing Australian news publishers are largely unrelated to Google's conduct, rules requiring Google to make payments to news publishers cannot be justified on that basis.

<https://www.smh.com.au/business/companies/property-website-rea-group-lays-off-60-staff-20190903-p52nbn.html>; and REA Group, "Our brands," available at <https://www.rea-group.com/company/about-us/business-and-brands/>.

²⁸ "CarsGuide proposes to merge with newly formed Cox Automotive Australia; News Corp Australia to exit on merger," 2016, available at <http://resources.carsguide.com.au/cox-announcement.pdf>.

²⁹ Between 2000 and 2016, newspaper advertising revenue decreased by 62% and print classified advertising revenue decreased by 92%, after adjusting for inflation. Since print classified advertising accounted for 46% of the newspaper advertising revenue in 2000, 68% of the decline in the newspaper advertising revenue can be attributed to print classified advertising. To see this, note that $\frac{46\% \times 92\%}{62\%} = 68\%$.

³⁰ Between 2000 and 2016, newspaper advertising revenue decreased by 41% and print classified advertising revenue decreased by 88%. Since print classified advertising accounted for 46% of the newspaper advertising revenue in 2000, 98% of the decline in the newspaper advertising revenue can be attributed to print classified advertising. To see this, note that $\frac{46\% \times 88\%}{41\%} = 98\%$.

³¹ Robert Seamans and Feng Zhu, "Responses to Entry in Multi-Sided Markets: The Impact of Craigslist on Local Newspapers," *Management Science*, 60(2) 2014.

³² See, for example, The Guardian, "eBay buys London ads website Gumtree," May 19, 2005, available at <https://www.theguardian.com/media/2005/may/19/business.newmedia>; Tamebay, "Gumtree winning the classified ads wars," February 19, 2008, available at <https://tamebay.com/2008/02/gumtree-winning-the-classified-ads-wars.html>; and IAB, "Call for evidence on sustainable high-quality journalism in the UK," September 2018, available at https://www.iabuk.com/sites/default/files/public_files/IAB_submission_to_Cairncross_review_call_for_evidence_final.pdf.