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By email: platforminquiry@accc.gov.au

Australian Competition and Consumer Commission
Level 20, 175 Pitt Street
Sydney NSW 2000

Digital platforms inquiry – submission on behalf of Southern Cross Austereo

Southern Cross Austereo (**SCA**) thanks the Australian Competition and Consumer Commission (**ACCC**) for the opportunity to provide this submission to its digital platforms inquiry (**Inquiry**).

SCA is a leading Australian media and entertainment company, with the ability to reach more than 95% of the Australian population through its audio (radio, radio-related websites and podcasts) and television businesses.

1. OVERVIEW

This submission focuses on the following two themes.

First, this submission describes developments in the supply of audio content to Australian consumers, including the new roles played by digital platform operators (such as Google, Amazon, Apple and Facebook) and audio aggregators (such as Spotify and TuneIn) – particularly as a result of the advent of “smart speakers” and in-car software platforms. SCA considers that these developments are likely to displace the traditional role of radio, disrupt existing broadcasting business models, and reduce the extent to which Australian consumers are exposed to local news, particularly in regional areas. SCA considers that this issue is squarely within the Inquiry’s terms of reference, and SCA is concerned that it may receive less attention in the Inquiry than issues relating to the impact of digital platforms on print media.

Second, this submission outlines SCA’s experiences and observations in its dealings with Facebook, and the importance and impact of Facebook’s activities on SCA’s business.

SCA may make further submissions to the ACCC on these and other issues later in the Inquiry.

As a member of FreeTV Australia and Commercial Radio Australia, SCA fully endorses the submissions made to the Inquiry by those industry groups. There are a number of important issues which will be addressed in detail by their submissions, including the ways in which the digital platform operators, particularly Google and Facebook, supply advertising in competition with other media operators such as radio and television licensees (for instance, the lack of transparency in measurements of the reach and effectiveness of online advertising). SCA has not sought to duplicate commentary on those issues in this submission.

2. SCA'S BUSINESSES

2.1 Audio (radio, related websites and podcasts)

SCA's audio business is comprised of radio stations, radio-related websites, and a podcasting network.

(a) Radio and related websites

SCA owns and operates 78 FM- and AM-band radio stations across metropolitan and regional Australia. The majority of these stations is part of either the "Triple M" or "Hit" branded networks. SCA's Triple M-branded radio stations focus on music, sport, comedy and entertainment to predominantly male audiences, with 3.5 million weekly listeners. SCA's Hit-branded stations focus on hit music and old-school favourites for listeners under 40 years of age, with 4.5 million weekly listeners.

As part of its radio business, SCA operates 68 local radio news services across regional areas. SCA devotes significant resources to producing news for these regional services: SCA broadcasts over 21,000 hours of local radio news each year and employs 57 journalists for its production. In addition to their scheduled news bulletins, all regional stations and metropolitan stations broadcast considerable amounts of local content which can be categorised as news and current affairs. By their nature, radio services are local to their market and a considerable portion of on-air conversations among the local radio hosts and guests revolve around local events, sport, emergencies, or visiting celebrities.

SCA's commitment to local radio news partly reflects the need to comply with applicable regulations. These regulations will be discussed in detail in the submission from Commercial Radio Australia. In particular, regional radio operators in Australia are required under their broadcasting licences (issued by the Australian Communications and Media Authority under the *Broadcasting Services Act 1992*) to broadcast minimum levels of locally-related content during peak listening times (generally, at least three hours of locally-related content during the hours of 5am to 8pm). Additional Australian-media content requirements are set out in the Commercial Radio Code of Practice. These include requirements for news programs to present news accurately and impartially, for current affairs programs to ensure that factual material is supportable and distinguishable from commentary and analysis, and that advertising is identifiable as advertising material. These regulatory arrangements do not apply to other providers of audio content that are active in Australia, such as the major online music streaming services and audio aggregators (e.g., Apple Music, Google Play Music, Amazon Music, TuneIn and iHeartRadio).

In addition to its FM- and AM-band radio stations, SCA owns and operates seven digital (DAB+) radio stations: Triple M Classic Rock, Triple M Modern Rock, Triple M Greatest Hits, Triple M Country, Old Skool Hits, Buddha Hits and Easy Hits. These digital stations are available via digital terrestrial transmission in metropolitan markets and via online streaming.

Each of SCA's FM, AM and digital radio stations is supported by:

- a social media presence on the Facebook, Twitter and/or Instagram platforms;

- live online streaming and catch-up services via SCA’s mobile apps, as well as the “RadioApp” (a commercial radio industry initiative supporting Australian commercial and public radio stations); and
- dedicated radio-related websites that offer live audio streaming, catch-up services, on-air schedules and videos. These websites also provide consumers with national, state and, importantly, local news. For example, the website for Triple M Limestone Coast 963AM provides consumers with local news relating to localities in and around Mt Gambier in South Australia (see <https://www.triplem.com.au/limestonecoast/news>), and the website for Hit95.1 Maranoa provides consumers with local news in relation to localities in the Maranoa area of the Darling Downs in Queensland (see <https://www.hit.com.au/maranoa/news>). SCA monetises traffic to these radio-related websites by offering display advertising (e.g., banners that are displayed alongside editorial content).

(b) **Podcasts**

In 2017, SCA launched its PodcastOne podcasting network, which offers listeners original advertiser-supported audio content on demand (produced or exclusively licensed by SCA) through the PodcastOne website (<https://www.podcastone.com.au/>) and mobile app. PodcastOne’s constantly evolving offering currently includes audio content on news and current affairs (such as Global Truths with Dr Keith Suter, and The Energy Truth with Michael West), politics, society and culture, arts, sport and entertainment.

2.2 **Television**

SCA also holds television licences in regional markets in Queensland, NSW, ACT, Victoria, Tasmania, South Australia and Northern Territory. In total, SCA broadcasts 86 free-to-air television signals, predominantly in affiliation with the Nine network (although SCA also has affiliation arrangements in some television licence areas with the Seven and Ten networks). In partnership with the Federal Government and Imparja Television, SCA also offers Viewer Access Satellite Television (VAST) services to Australians living and travelling in remote Australia, and to consumers living in “black-spot” areas without access to a terrestrial television signal.

In accordance with relevant regulatory obligations and affiliation arrangements with the Nine network, Nine produces local television news content for broadcast in the licence areas carrying the Nine channels (to assist in the production of this news, Nine network employees are physically co-located with SCA staff in SCA’s regional offices). SCA broadcasts 60-minute local Nine Network news bulletins each weekday in the following areas: Cairns, Mackay, Townsville, Rockhampton, Bundaberg, Toowoomba, Sunshine Coast, Canberra, Wollongong, Wagga Wagga, Albury, Bendigo, Ballarat, Shepparton, and Gippsland.

SCA produces and broadcasts a 60-minute weekday news bulletin for Tasmania (where SCA is affiliated with the Seven network) and a 30-minute weekday news bulletin for Broken Hill and the Spencer Gulf (sourced from reporters in Port Pirie, Port Augusta, Port Lincoln, Whyalla and Broken Hill).

3. DEVELOPMENTS IN THE SUPPLY OF AUDIO CONTENT AND RELATED IMPACTS ON THE SUPPLY OF NEWS TO CONSUMERS

Digital platforms are increasingly taking control of the audio content delivered to consumers, globally (particularly in the United States) and in Australia, through new “smart speaker” technologies that provide functionality that overlaps with traditional radio in the home. Smart speakers are small audio speakers connected to the internet that use artificial intelligence-based “virtual assistants” to respond to a user’s voice commands (for example, a user may ask a smart speaker’s virtual assistant for a weather report, or tell it to begin playing a particular album available on a music streaming service).

Examples of smart speakers include:

- Amazon’s “Echo”, “Echo Dot” and “Echo Plus” smart speakers. These use Amazon’s “Alexa” virtual assistant and are integrated with the Amazon, Pandora and Spotify music streaming services, and the TuneIn audio aggregation service.
- Google’s “Home” and “Home Mini” smart speakers, which use Google Assistant. Google’s smart speakers are integrated with the YouTube, Spotify and Google Play music streaming services, and TuneIn.
- Apple’s “HomePod” smart speaker, which uses Apple’s “Siri” virtual assistant and is integrated with the Apple Music streaming service.
- Facebook’s upcoming “Aloha” and “Fiona” smart speakers, which are apparently planned for release (at least in the United States) by mid-2018. These smart speakers are intended to integrate with the Facebook platform, including its recently launched video streaming service “Watch”, and are reported to include touchscreens and feature similar virtual assistant technology to Apple’s “Siri”.

It is estimated that approximately 51 million people over 12 years of age already own a smart speaker in the United States (representing 18% of that population). SCA expects that the penetration of smart speakers in the Australian market is likely to reach similar levels in the medium term.

New in-car services are also increasingly displacing traditional radio. Apple’s “CarPlay” and Google’s “Android Auto” in-car software platforms are becoming increasingly common in cars on the Australian market. The majority of manufacturers either already offer the technology, or are planning to in the near future. Apple’s CarPlay is pre-installed on many new cars available in Australia and provides access to Apple Music, Spotify, TuneIn and Google Play. Google’s “Android Auto” operates via an app that connects to the infotainment system in many new cars available in Australia, and that software provides ready access to audio streaming and aggregation services such as YouTube Music, Spotify, TuneIn, iHeartRadio and Amazon Music.

SCA considers that these developments have the potential to significantly disrupt the markets in which audio (including news) content is supplied to Australian consumers, for reasons including the following.

- The digital platform operators exercise complete control over their smart speaker and in-car software platform offerings, and integrations with third party audio content suppliers (which may be competitive with digital platforms’ in-house audio

offerings) are at their discretion. There is no guarantee (and SCA considers it unlikely) that existing radio operators such as SCA will be granted access to smart speaker and in-car software platforms that is sufficient to maintain their current share of audience reach over time. Even if existing radio operators were granted significant exposure, SCA's past experiences with digital platforms, and their observed patterns of behaviour, suggest that digital platforms will seek to extract, and be successful in extracting, all available economic value.

- Digital platforms are an increasingly important source of audience and radio operators such as SCA have strong incentives to participate in them. However, by doing so, a relationship of dependence is created and SCA becomes exposed to the risk that the digital platforms will either foreclose SCA in favour of their in-house audio offerings, or seek higher fees for access to digital platform audiences.
- Audio aggregators such as TuneIn and Spotify, which are generally accessible from internet-enabled mobile devices, smart speakers and in-car software platforms, have no commercial relationship with SCA, but are able to access and monetise audio content produced or exclusively licensed by SCA. For example, TuneIn makes SCA's online audio streams (e.g., relating to the Triple M and Hit broadcast radio networks) available through its mobile apps, website and smart speaker integrations. While SCA has in the recent past consented to TuneIn having access to SCA's online audio streams, these and other online audio streams are easily identified and able to be accessed by TuneIn and others without consent. However, the benefits to SCA of the increased distribution of SCA's online audio streams provided by TuneIn and others are now outweighed by the lost opportunities for SCA to collect and monetise data about listeners to the online audio streams. TuneIn and other aggregators have not been willing to provide this data or to pay SCA for access to SCA's online audio streams. TuneIn and other aggregators monetise this SCA-produced audio content by subscriptions or by playing "pre-rolled" advertisements before playing SCA audio streams and publishing display advertising on their websites and apps. Similarly, TuneIn, Spotify and other online aggregators make SCA-produced or exclusively licensed podcasts available through their mobile apps and websites without SCA's consent. SCA's exclusive PodcastOne podcasts like Hamish and Andy are part of the overall content package that TuneIn, Spotify and other aggregators use to attract subscribers and advertisers to their platforms. Importantly, aggregators currently do not pay for SCA's content, despite the role of that content in attracting subscribers and advertisers to their platforms. This is in stark contrast to the significant fees now paid by Spotify and other online music streamers to music publishers. These behaviours have the potential to divert radio advertising revenue (which underwrites the production of local news) from SCA and others.
- The digital platform operators (including the audio aggregators) are not required to comply with Australian regulations that require SCA to deliver local news content via its 68 regional radio stations. Accordingly, to the extent that Australian consumers substitute traditional radio for internet-enabled mobile devices, smart speakers and audio functions available on in-car software platforms, that is likely to reduce the extent to which they are exposed to local news.

4. EXPERIENCES AND OBSERVATIONS REGARDING FACEBOOK

SCA considers that Facebook wields considerable market power in the supply of media and advertising in Australia, including as a result of the following.

- First, Facebook has an unparalleled depth and breadth of audience, particularly in the demographics that have traditionally been most important to advertisers and traditional media operators.
- Second, Facebook harvests (and maintains tight control over) highly granular data about its users and their media consumption habits.
- Third, Facebook has successfully set itself up as an intermediary between consumers and content producers.
- Fourth, Facebook has been able to exploit its user data and intermediary position to heavily optimise for the time spent by users on its platform, to the exclusion of other media types. For example, Facebook is able to implement dynamic user interfaces that encourage continuous use and prioritise the display of content (such as a particular news story, or news stories from a particular source) that does *not* result in users clicking on links to other websites. According to a 2017 Sensis Social Media Report, Australian Facebook users averaged almost 10 hours per week on the platform.¹
- Fifth, optimisations for time spent on the Facebook platform further increase the user data available to Facebook and reinforce Facebook’s intermediary position, creating a vicious cycle in which content producers become increasingly dependent upon Facebook for their audience.

In this context, to improve its engagement with a large audience it has been necessary for SCA to seek to engage its audio audiences through Facebook’s platform, including by producing attractive news, sport and entertainment posts specifically for its Facebook fans and promoting its Facebook pages on-air. As a result, SCA now has approximately 11.4 million Facebook fans for the various Facebook pages that relate to SCA’s radio stations, radio shows and related category pages (such as Triple M Footy pages relating to AFL or NRL and Hit Network’s Scoopla entertainment pages). In a typical month, SCA’s Facebook posts are automatically displayed to approximately 2-3 million of SCA’s Facebook fans (this is often referred to as “organic reach”, for which SCA does not pay Facebook). To supplement this organic reach, SCA has historically paid Facebook for so-called “inorganic reach” so that SCA’s posts are displayed to a greater proportion of its Facebook fans.

SCA’s Facebook posts and pages include links to SCA’s radio-related websites, and the Facebook platform has historically been the dominant source of traffic to those websites. For example, in July 2017, over 66% of traffic to SCA’s Hit network websites, and over 58% of traffic to SCA’s Triple M network websites, originated from Facebook (i.e., it originated from Facebook users clicking on links displayed to them in SCA’s Facebook posts or on SCA’s Facebook pages). Although less significant than its investments in the production of local radio news, SCA has made substantial investments in the production of unique news

¹ See https://www.sensis.com.au/asset/PDFdirectory/Sensis_Social_Media_Report_2017-Chapter-1.pdf, page 4 (accessed 19 April 2018).

content for these radio-related websites because that assists SCA to better engage and monetise its radio audience.

In view of the above, the extent to which consumers are exposed to SCA's radio-related websites, and the news content delivered through those websites, is dependent on the way in which Facebook chooses to operate its platform. That dependence is well illustrated by recent events: since early to mid-2017, SCA has seen drastic declines in the proportion of its Facebook fans that are exposed to SCA's posts (i.e., declines in organic reach), which SCA understands result from changes that Facebook made to the algorithms that determine organic reach. As a result, from July 2017 to March 2018, Hit network website traffic originating from Facebook declined by 65%, and Triple M network website traffic originating from Facebook declined by 56%. In turn, SCA's revenue from the sale of display advertising on its radio-related websites collapsed.

SCA is unlikely to seek to replicate the organic reach that SCA's Facebook posts and pages previously enjoyed by making further payments to Facebook for inorganic reach because that would be uneconomic: Facebook's inorganic reach fees would be significantly greater than the revenues SCA would expect to achieve through the sale of display advertising likely to be generated on its radio-related websites. This will present challenges to ensure that SCA's websites continue to serve their core function of building engagement with radio listener communities.

In other words, SCA's relationship with Facebook involves a dynamic of dependency but also exposes SCA to the risk that its radio audience will be more fully captured by Facebook (rather than directed to SCA's radio-related websites, where it can be engaged and monetised by SCA), and/or the risk that SCA will be required to pay more to access its radio audience through Facebook over time.

Notwithstanding SCA's dependence on Facebook described above, SCA's large Facebook fan base and SCA's status as an existing customer for inorganic reach, Facebook's operations (including the algorithms used to expose SCA's Facebook posts and pages to its Facebook fans) are opaque to SCA. SCA also has very limited scope to engage meaningfully with Facebook. SCA does not have ready access to any sophisticated account management function within Facebook, which is offered only to very large advertising partners. SCA does have access to a local Facebook contact based in Sydney, however that contact is shared with many other media organisations.

SCA notes that this relatively high-cost, low-service model that Facebook offers to SCA and other Australian content producers is another indicator of Facebook's market power. Accordingly, SCA's ongoing ability to reach its audience through the Facebook platform is highly uncertain, and SCA has limited scope to forecast the value that it will derive from further investments in either its Facebook audience or in the production of news and other content for the radio-related websites that have historically relied to a significant extent on Facebook for their traffic.

5. NEXT STEPS

SCA hopes that this submission is helpful. SCA would be pleased to provide additional information, or meet with the ACCC, if that would further assist the ACCC as the Inquiry progresses.

Yours sincerely



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