



Statement of Issues

19 December 2013

iSentia Pty Limited - proposed acquisition of Australian Associated Press Pty Limited's media monitoring business

Introduction

1. Outlined below is the Statement of Issues released by the Australian Competition and Consumer Commission (**ACCC**) on the proposed acquisition of Australian Associated Press Pty Limited's media monitoring business by iSentia Pty Limited (**proposed acquisition**).
2. A Statement of Issues published by the ACCC is not a final decision about a proposed acquisition, but provides the ACCC's preliminary views, drawing attention to particular issues of varying degrees of competition concern, as well as identifying the lines of further inquiry that the ACCC wishes to undertake.
3. In line with the ACCC's Informal Merger Review Process Guidelines (at www.accc.gov.au/processguidelines) the ACCC has established a secondary timeline for further consideration of the issues. The ACCC anticipates completing further market inquiries by 31 January 2014 and anticipates making a final decision on 20 February 2014. However, the anticipated timeline can change in line with the Merger Review Process Guidelines. To keep abreast of possible changes in relation to timing and to find relevant documents, market participants should visit the Mergers Register on the ACCC's website at www.accc.gov.au/mergersregister.
4. A Statement of Issues provides an opportunity for all interested parties (including customers, competitors, shareholders and other stakeholders) to ascertain and consider the primary issues identified by the ACCC. It is also intended to provide the merger parties and other interested parties with the basis for making further submissions should they consider it necessary.

Background

5. The proposed acquisition was publicly announced by the parties on 29 October 2013 and the ACCC commenced a public review on the same day.
6. iSentia proposes to acquire the assets of AAP's media monitoring division, Newscentre. The assets principally comprise AAP's media monitoring contracts with its existing monitoring clients. The transaction is conditional on ACCC approval. If the transaction is approved, AAP's media monitoring business will be integrated with iSentia.

The parties

iSentia Pty Limited

7. iSentia (formerly Media Monitors) is a privately owned media intelligence company with operations in Australia, New Zealand and Asia. It provides media intelligence services to over 6,000 clients in the Asia Pacific region by collecting and analysing information from publicly available print, online news, social media and broadcast sources. iSentia has more than 1,400 employees across 15 countries.

Australian Associated Press Pty Limited

8. Founded in 1935, AAP is Australia's national news agency distributing independent news and information to the Australian media and the private and public sectors. AAP is owned by Fairfax Group, News Group, Seven West Media Limited and Associated Newspapers Ltd. AAP has over 800 employees worldwide. AAP currently provides media monitoring services to clients through its Newscentre division.

Other market participants

9. The following providers supply online media monitoring services, or can be used to search online media outlets:
 - Meltwater – Meltwater offers a range of services that help companies monitor, analyse and manage their brand online. Meltwater provides online media monitoring through its Meltwater News service that searches all freely available web content in Australia and globally for client's keywords. Meltwater also provides social media monitoring and analysis through its
 - Google News – Google News is a free online news aggregator that searches thousands of online publications to present the most relevant and up-to-date information on its homepage. Google News includes news articles that have been published within the previous 30 days and users can search by using keywords. An additional service called Google News Alerts allows users to set-up keyword 'alerts', where articles containing these keywords will be emailed to the user.

Market inquiries

10. On 29 October the ACCC commenced market inquiries regarding the proposed acquisition. A range of interested parties provided responses, including customers, suppliers of online media monitoring or media intelligence services and other interested parties.

Future with and without the acquisition

11. Section 50 of the Act prohibits mergers or acquisitions that would have the effect or be likely to have the effect of substantially lessening competition in a market. In assessing a proposed acquisition pursuant to section 50 of the Act, the ACCC considers the effects of the acquisition by comparing the likely future competitive environment post-acquisition if the acquisition proceeds (the "with" position) to the likely future competitive environment if the acquisition does not proceed (the "without" position) to determine whether the proposed acquisition is likely to substantially lessen competition in any relevant market.

12. AAP has publicly stated that it made a decision to divest itself of its media monitoring business to enable it to develop its key editorial services and identify investment opportunities that will complement and support its core business activities. AAP has not made any statement regarding the future of its Newscentre division in the absence of the proposed acquisition. The ACCC is continuing to assess the information available to it regarding the likely future competitive environment without the proposed acquisition.

Areas of overlap and market definition

13. The ACCC considers that AAP and iSentia overlap in the provision of media monitoring services. The ACCC notes that the parties both offer media monitoring services in relation to print, broadcast and online media.
14. The ACCC also considers that the provision of media intelligence services may be relevant to the ACCC's assessment of the competitive impact of the proposed acquisition, although AAP's media intelligence business is not subject to the proposed acquisition and AAP will continue to supply such services independently to iSentia following the proposed acquisition.

Product dimension

15. Media monitoring is the activity of monitoring the output of media outlets. The activity is typically done by, or on behalf of, corporations and government entities who are interested in being informed of news media coverage of their organisations or issues of interest to them. Providers of media monitoring services, such as iSentia and AAP, analyse a broad range of media and provide copies of relevant text articles from print or online sources, or clips or summaries of broadcast media to customers based on the customer's monitoring requirements, such as reports including certain keywords or referencing specified people or organisations.
16. There are three main forms of media which are the subject of media monitoring activities:
 - **print** - physical newspapers and magazines,
 - **broadcast** - television and radio stations
 - **online** - content available on the internet, including from news outlets, blogs, social media and other outlets.
17. In 2006, the ACCC reviewed the acquisition of Rehome Australia Monitoring Services by iSentia (then known as Media Monitors). At the time, the ACCC concluded that there were separate markets for the supply of print and broadcast monitoring. The ACCC's preliminary view is that due to the growth of online media content and the apparent convergence of news media being delivered through multiple channels (print, broadcast and online) it may no longer be appropriate to define the product market according to the separate forms of media (print, broadcast and online).
18. While the ACCC does not consider that monitoring of print, broadcast and online media are necessarily substitutable from a demand or supply side perspective, the ACCC considers that the complementary nature of print, broadcast and online media monitoring services means that a substantial segment of customers will prefer to monitor two or more channels of media. Further, information obtained by the ACCC suggests that some suppliers of media monitoring

services may only compete for customers who have limited media monitoring requirements, such as only online media content.

19. The ACCC's preliminary view is that for the purpose of this review, it is appropriate to consider the proposed acquisition in the context of a single product market for the supply of media monitoring services. However, the ACCC considers that customers of media monitoring services have a range of preferences in relation to the breadth of media that they require a monitoring service provider to monitor and further considers that suppliers of media monitoring services vary considerably in the level of customisation and breadth of monitoring that they are capable of providing.
20. Information obtained by the ACCC suggests that there are a significant number of corporate and government organisations who require a broad spectrum of print, broadcast and online media to be monitored in order for them to be adequately informed about how their organisation is publicly perceived or issues which are of interest to them (**Major Customers**). Other organisations, particularly smaller businesses, have more specific or more limited requirements in relation to the breadth of media which they seek to monitor (**Smaller Customers**). The ACCC considers that these different customer preferences have important implications for the ACCC's analysis of the competitive effects of the proposed acquisition, as outlined below.
21. Media intelligence services are services which analyse selections of disseminated media (often provided by a media monitoring service provider) in order to provide customers with information about how their organisation is being reported in the media, or which summarises information about that organisation's coverage in the media. Media intelligence services are often considered to be a complementary, or value-added, service to media monitoring services.

Geographic dimension

22. Both iSentia and AAP offer media monitoring services on a national basis. While the ACCC is aware of a number of media monitoring or media analysis companies which provide services on a more limited state-wide or regional basis, market inquiries indicate that such services are not substitutable for a significant proportion of media monitoring clients, including companies that operate nationally and federal government departments or agencies. The ACCC has not found evidence that such customers would be willing to acquire media monitoring services from multiple providers servicing different geographic regions.
23. Given this, the ACCC's preliminary view is that it is appropriate to consider the impact of the proposed acquisition in the national markets for the supply of the relevant services.

Conclusion

24. The ACCC's preliminary view is that the following markets are likely to be relevant in assessing the proposed acquisition:
 - the national market for the supply of media monitoring services, and
 - the national market for the supply of media intelligence services.

The ACCC invites comments from market participants on its proposed definition of the relevant markets.

Industry Dynamics

25. The ACCC notes that the channels through which media is delivered and the channels through which consumers prefer to access media have changed significantly over the past 10 years. Specifically, the ACCC notes:
- **Growth in online media** – the volume and breadth of online print media has continued to grow significantly in recent years with the two major publishers in Australia, Fairfax Media Limited and News Corp Australia, publishing the majority of their traditional print media online through their numerous news websites and also publishing a substantial amount of online-only news content. Additionally, there are a growing number of online-only news websites.
 - **Decline in print media** – growth in the availability of online media has coincided with a decline in the number of traditional print media news articles published in hardcopy newspapers and magazines and subsequent decline in sales of newspaper and magazines in the publishing industry more generally.
 - **Preferences of consumers** – consumers have demonstrated a growing preference for online media over traditional print media, in part driven by the timeliness of news published online, the convenience of access to news content through mobile devices or computers and the increasingly multi-media nature of news content.
26. Despite the above factors, the ACCC notes that many industry participants expressed a strong preference for monitoring of traditional print media and did not expect their preferences to change in the next two to three years. Major Customers indicated to the ACCC that even where print news stories were duplicated in online formats, inclusion and placement in print news editions provided an indication of how important those stories were likely to be viewed by the public. In addition, market participants submitted to the ACCC that there was a material amount of content in print editions which was not included in online editions.
27. For these reasons, many customers of media monitoring services considered that online-only media monitoring services, especially those limited to free online media content, were not substitutable for media monitoring services that monitored traditional print media.
28. Many industry participants also noted that broadcast media, delivered through radio or television, remains highly relevant. Thus, they did not consider that a media monitoring service which only monitored online text sources to be substitutable for a media monitoring service that monitored broadcast media.
29. The ACCC's preliminary view is that there are a significant number of Major Customers of media monitoring services which have strong preferences for a media monitoring service which includes the monitoring of traditional print and broadcast media.
30. The ACCC's preliminary view is that while it is difficult to predict with certainty, a significant segment of consumers of media monitoring services are likely to maintain a preference for monitoring traditional print media from the major

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Australian publishers in the foreseeable future. In addition, it seems likely that customers will retain a strong preference to monitor broadcast media for the foreseeable future.

The ACCC invites comments from market participants on the dynamic nature of customer preferences in relation to media monitoring. In particular, market participants may wish to comment on:

- Whether traditional print media is likely to remain relevant to customers in the foreseeable future (i.e. two to three years).
- The extent to which the monitoring of online media content is currently considered to be substitutable for monitoring of traditional print media and whether this is likely to change in the next two to three years.
- The extent to which the monitoring of online media content is currently considered to be substitutable for monitoring of broadcast media and whether this is likely to change in the next two to three years.
- Whether technological innovation and increasing preference for online media content is likely to make in-house monitoring of media a financially viable and plausible alternative to obtaining the services of a media monitoring provider.

Statement of issues

31. For the purposes of this Statement of Issues, the issues in this matter are divided into two categories, 'issues of concern' and 'issues that may raise concerns'.

Issues of concern

Market for the supply of media monitoring services

32. The ACCC is concerned that the proposed acquisition would result in a substantial lessening of competition in the national market for the supply of media monitoring services. The proposed acquisition would result in the removal of iSentia's closest competitor in the supply of these services and would result in there being no other supplier of media monitoring services in Australia which monitors all forms of media on a national basis, including print and broadcast media.
33. The ACCC's concerns are in relation to the supply of media monitoring services to Major Customers. Information available to the ACCC suggests that Smaller Customers have a number of options to meet their needs, however that is not the case for Major Customers who have more extensive media monitoring requirements.

Competitive constraints

34. In relation to Smaller Customers, the ACCC's preliminary view is that the merged entity would face constraints from a number of sources, including:
- Providers of online-only media monitoring services. A number of organisations, such as Meltwater, provide media monitoring services based on text-based media that is freely accessible on the Internet. These services

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do not monitor internet content which is protected by paywalls and do not capture audio-visual media.

- User-controlled services. Tools such as Google News or automated alert services offered by particular media outlets enable organisations to have a degree of visibility over media coverage of their organisation or issues of interest to them.

35. The ACCC's preliminary view is that the existence of these options is likely to constrain the ability of the merged entity to increase the price that it offers for its services to these Smaller Customers, with modest media monitoring requirements.
36. However, the ACCC's market inquiries have indicated that online-only media monitoring services or user-controlled services are not sufficient to meet the media monitoring requirements of Major Customers. These market participants have indicated that AAP is iSentia's only material competitor in the supply of media monitoring services due to the breadth of media that is monitored by their services. In particular, Major Customers commonly indicated that AAP and iSentia were currently the only media monitoring providers which were able to provide a satisfactory level of print and broadcast monitoring, and that this was an important service for their organisations.
37. The ACCC's market inquiries indicated that Major Customers do not regard online-only media monitoring services as substitutable for monitoring services that include print and broadcast media monitoring. This is due to the significant amount of relevant media that is not currently captured by online-only monitoring services as well as a strong preference for, and emphasis placed on, relevant print media. Market participants noted that the increasing prevalence of paywalls for online content were further limiting the utility of online-only monitoring services, which generally access media that is freely available.
38. Major Customers indicated to the ACCC that self-supplying extensive media monitoring services that include the monitoring of print and broadcast media, by providing them in-house, was commercially impractical. Major Customers noted the breadth of their monitoring requirements, including access to regional content, resource requirements (particularly relating to the active monitoring of broadcast media), difficulties in obtaining the necessary copyright licences and cost as reasons why it would not be practical to attempt to conduct extensive media monitoring services in-house.
39. Given the lack of any other national suppliers of media monitoring services that include print and broadcast media, the weak substitution option presented by online-only or user-controlled media monitoring services for Major Customers and the inability of most Major Customers to exercise countervailing power, the ACCC's preliminary view is that the proposed acquisition would represent a significant reduction in the level of competitive constraint faced by iSentia in relation to this customer segment.
40. The ACCC notes that prices in the media monitoring market, particularly in relation to Major Customers, are individually negotiated. Thus, the fact the merged entity may face constraints in relation to its pricing to the Minor Customer segment would not prevent it from exercising pricing power in relation to Major Customers.

The ACCC invites comments from market participants on the competitive constraints that the merged entity will face following the proposed acquisition, including:

- The extent to which Major Customers, which have extensive media monitoring preferences, are an important segment of the overall media monitoring market.
- The extent to which the merged entity will face constraints in relation to the supply of media monitoring services to Smaller Customers.
- The extent to which the merged entity will face constraints in relation to the supply of media monitoring services to Major Customers.
- The extent to which it is practical for Major Customers to supply their media monitoring services in-house.
- Whether there are any other companies which should be considered as close competitors to iSentia and AAP in the supply of media monitoring services in the supply of media monitoring services to Major Customers.

Barriers to Entry

41. The ACCC's preliminary view is that there are barriers to entry in supplying a media monitoring service which monitors a broad range of media, including print and broadcast media.
42. In 2006, the ACCC reviewed the acquisition of Rehome Australia Monitoring Services by iSentia (then known as Media Monitors). At the time, the ACCC concluded that there were separate markets for the supply of print and broadcast monitoring and concluded that barriers to entry these were not high and were expected to further fall over time due to technological developments.
43. Market inquiries in relation to the proposed acquisition have not supported the view that there are low barriers in the supply of print and broadcast monitoring. The ACCC has information from market participants which indicate that there have been a number of attempts by parties to establish print or broadcast media monitoring businesses in Australia which have been unsuccessful due to the presence of significant barriers to entry. Market participants have indicated that barriers to establishing a national media monitoring service that monitors a broad range of media are significant for the following main reasons:
 - **Scale** – To provide an effective media monitoring service to Major Customers, it is necessary to monitor all, or nearly all, media outlets in Australia. This is a labour-intensive process, particularly in relation to broadcast media which needs to be monitored by active listeners in order to be properly categorised. Staff may also be required to manually collect and categorise print media. Accordingly, establishing a competitive media monitoring service involves significant, up front, fixed costs. Once a monitoring operation has been established across all of the relevant media, the service provider faces low and decreasing marginal costs as the number of customers served increases. These economies of scale have the potential to create a barrier to new entrants which have a smaller customer base and so face a higher cost in providing a service to customers.
 - **Copyright** – As it is necessary to monitor all, or nearly all, media outlets to provide an effective monitoring service to Major Customers, it is necessary to reach commercial agreements individually with a large number of different print and broadcast media outlets before offering a service. Some market

participants have been unable to do so, possibly due to the transaction costs that potential licensees face in dealing with multiple potential providers of print and broadcast media services. The ACCC also notes that following the dissolution of the Australian Association of Information Monitors in 2013, there is no organisation which collectively manages broadcast rights licences. The ACCC also considers that the above comments in relation to difficulties in obtaining commercial copyright posing as a barrier to entry may remain relevant to the monitoring of online content from the major Australian publishers as paywalls become more common in relation to such content.

- **Broadcast monitoring equipment** – The ACCC understands that monitoring of broadcast media requires listening devices to be installed in the relevant broadcast areas, including regional areas for non-metropolitan television and radio stations. This equipment also needs to be connected to a data network that has significant uploading capacity. The costs associated with this equipment may constitute a barrier to entry and/or further enhance the importance of scale.

44. The ACCC's preliminary view is that there are high barriers to entry in supplying a media monitoring service which monitors a broad range of media, including print and broadcast media. However, the ACCC is continuing to explore the magnitude of barriers to entry in this market and invites comments from market participants on this issue.

The ACCC invites comments from market participants on the nature and extent of barriers to entry in the supply media monitoring services to Major Customers, including:

- The magnitude of the barriers to entry identified above, or any other barriers to entry or expansion and the extent to which these barriers would prevent timely entry or expansion in relation to the supply of the relevant services following the proposed acquisition.
- The extent to which it is important for a supplier of print and broadcast media monitoring services to monitor all, or nearly all, major media outlets in Australia to provide an attractive service to Major Customers.
- The extent to which technological innovation and increasing preference for online media content is likely to impact on barriers to entry for the provision of print media monitoring services and broadcast media monitoring services in the foreseeable future (i.e. two to three years).

Issues that may raise concerns

Market for the supply of media intelligence services

45. There are a number of companies which provide media intelligence services to customers in Australia, including iSentia. The reports generated by these companies are based on an analysis of relevant print, broadcast and online media. Information received by the ACCC suggests that media intelligence services cannot be effectively provided to customers on the basis of online media monitoring alone.
46. As outlined above, following the proposed acquisition, iSentia will be the only national supplier of media monitoring services that includes print and broadcast

media, which could provide it with the ability and incentive to influence competition in the supply of such services in a number of ways, including:

- Engaging in anti-competitive bundling in relation to the supply of intelligence services. This would involve iSentia offering such services to customers at a bundled price that harms the ability of efficient suppliers of individual components of the bundle to compete.
- Restricting customers of their print and broadcast media monitoring services from supplying relevant news clips to third parties, which would prevent competing suppliers of media intelligence services from being able to provide an effective service to those customers.

47. A number of market participants have suggested to the ACCC that many organisations are able to provide their own media intelligence services, through their in-house media units. The ACCC notes that if this is a viable option for a significant proportion of customers, this has the potential to defeat any attempt by iSentia to leverage its market position into the supply of media intelligence services following the proposed acquisition.

The ACCC invites comments from market participants on the likely competitive effects of the proposed acquisition in the supply of media intelligence services. In particular, market participants may wish to comment on:

- Whether it is likely that iSentia would have the ability and incentive to engage in the bundling activity outlined above following the proposed acquisition in relation to the supply of media intelligence services.
- The extent of any economies of scope in supplying a bundle of print and broadcast media monitoring services and media intelligence services.
- The extent of economies of scale in supplying media intelligence services.
- Whether it is likely that iSentia would have the ability and incentive to restrict third parties from accessing relevant print and broadcast media clips in the manner outlined above following the proposed acquisition.
- The extent to which customers are able to self-supply media intelligence services.

ACCC's future steps

48. The ACCC will finalise its view on this matter after it considers market responses invited by this Statement of Issues.
49. The ACCC now seeks submissions from market participants on each of the issues identified in this Statement of Issues and on any other issue that may be relevant to the ACCC's assessment of this matter.
50. Submissions are to be received by the ACCC no later than 31 January 2014. The ACCC will consider the submissions received from the market and the merger parties in light of the issues identified above and will, in conjunction with information and submissions already provided by the parties, come to a final view in light of the issues raised above.
51. The ACCC intends to publicly announce its final view by 20 February 2014. However the anticipated timeline may change in line with the Merger Review

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Process Guidelines. A Public Competition Assessment for the purpose of explaining the ACCC's final view may be published following the ACCC's public announcement.