Dragoman

Media Reforms? **Michael Gill**

Visiting foreign executives have been known to observe that Australia's media industry was the world's most cutthroat. It is, therefore, a landmark event in which all the key players agree on an issue as contentious as new media regulation. Every major media company has publicly endorsed legislation that would allow further consolidation of the industry. This reform is pitched as a response to the new media environment. In reality, it is more palliative in nature; it allows a little shuffling of deck chairs.

The legislation was opposed by the ALP and the Greens. The Government's ability to carry the reform in Parliament was therefore reliant on the diverse viewpoints of the Senate crossbench, where there appears to be no great enthusiasm for further concentration. However, it is indicative of the current state of affairs that One Nation's concern was primarily with the potential for Seven West Media to dominate most West Australian media. Essentially, core issues for these constituencies have already been decided. The diversity of media ownership in non-urban areas (being close to the interests of One Nation and a variety of independents) was effectively extinguished by a combination of economics and the policies of the Hawke and Keating governments.

The legislation seeks to acknowledge this by establishing requirements for minimum levels of competition in small markets, but in many cases, that issue was decided long ago. The Xenophon grouping, conversely, has flagged a desire for the reforms to deal with Facebook and Google's disruption of domestic advertising, inviting allusions to King Canute. Given that the legislation appears to achieve little and excite little interest, its prospects may rely on whose interests are served. If the Government's bill becomes legislation, free-to-air TV networks will be able to operate in all markets in Australia and media companies will be able to function across all media in all markets. Presently, the "reach" of network audiences is capped at 75% of the Australian population and companies may own two of three regulated media (TV, radio and print newspapers) in any market.

There was a time when these changes might have triggered a few large deals and some reshaping of the media industry. This time, investors are not excited. TEN Network, the most likely target, was already in trouble when the reform deal firmed up in early May. Its shares spiked briefly but soon fell back to a trend which has seen its price decrease by 70% since April. In June, it was finally put in the hands of receivers – who sold the network to CBS, a large creditor. Nine Network stock had a boost, which it has held, while Fairfax and Seven did not shift much on the reform deal. Lately, Fairfax had the attention of two private equity bidders, which gave its valuation a boost that fell away when both bidders declined to bid after a due diligence examination.

Given that TEN is an ostensibly failed business, the creditor status of which the Murdoch family had the opportunity to leverage, News Corporation was clearly keen to promote the law change. News Corporation had the potential to integrate TEN with its subscription TV interests and to potentially become the primary bidder for sports rights, as well as allowing TEN to be a local free-to-air platform for the content of 20th Century Fox, its sibling company. However, unless legal action against the receiver can upset its decision, it appears CBS will take TEN and make it a platform for its content and a launch pad for its streaming service.

Even if News Corporation were to achieve a greater dominance of the Australian traditional media market, it is not clear that the reforms would have a significant effect. A News Corporation-TEN nexus would have a substantial advantage over free-to-air TV rivals that have no parallel subscription TV platform when bidding for content – and especially sports – rights. Yet that outcome is averted. These changes will most likely allow shuffling of media assets in what is a gradual retreat by previously dominant players. Twenty years ago, advertising in Australia was dominated by TV and newspapers. However, in recent years, digital advertising revenues have surpassed the sum of both television and print. Most of the digital dollars go to global aggregators, notably Facebook and Google.

Digital competition has typically reduced advertising prices and shifted volumes away from established media. Classified listings in newspapers were quick to shift, followed by some categories of display advertising. Maturing digital consumer behaviour and the advent of smartphones have shifted the consumption of content dramatically so that the channel dominance enjoyed by newspapers' manufacturing scale and TV's regulation has been lost.

In short, media used to have market power through high barriers to entry and regulation. The power that channels once held now rests with consumers equipped with powerful devices and access to robust data. The effect of that change is to alter the scale of advertising audiences and to change the commercial status of media content. When TV and newspapers had dominant channels, their content was used to fill the cracks between ads. While there was some contestability, the profitable formula was in keeping down the cost of content and maximising audience and revenue. When digital media came along, many saw the opportunity to expand their audience reach and chase more advertising dollars. The light at the end of the tunnel was evidently a locomotive coming the other way.

Google was originally an algorithm that improved the ease of searching the web. It became a business when the company acquired the capability to manage distributed advertising and metered payments and married those attributes to its global data streams. Google has enormous audience reach, the constant activity to feed data and the ability to both serve targeted ads to any website and to attribute revenues to specific web site traffic. To incumbent media, Google is a perfect enemy, perfectly formed. As digital platforms like Google have meagre costs, the effect of their massive scale and data is accentuated by low prices. The established media went into this virtual sea in a small boat and were hit by a tsunami. Then came a second wave.

Facebook was created to socialise content. People swapped family pictures, opinions, news, shared interests and eventually video content. Its primary challenge – and most significant break – came when smartphones forced it to rethink profits. The small screen required careful use of space and appeared potentially to kill Facebook's revenues. Instead, the company managed to intrude commerce into what was a personal media channel in ways that have seen the massive take-up of smartphones drive a massive increase in revenue. Facebook, in effect, monetised content. However, others have made a business of it.

From the outset, some newspaper publishers could not see a future as aggregators of advertising audiences. Niche players, such as The Wall Street Journal and The Australian Financial Review, developed digital strategies based on the value of their content. More recently, other publications including The New York Times, The Financial Times, Nikkei and The Economist have demonstrated to different degrees that news media might well have a business in digital media based largely on content. Bound up in printed traditions, these companies have some way to go in fully utilising the digital opportunity. Meanwhile, others have cut a swathe.

Television and radio incumbents have experienced a profound assault from pure content players that have gone "over the top" of traditional channels to deliver (often paid) entertainment, news and educational content directly on demand to consumers. It is a testament to the power of digital consumers that there is the unprecedented production of high-quality content catering to almost every conceivable taste and interest. From Game of Thrones on TV to NPR's This American Life, what were niche programs are now the most frequently viewed and heard content in the world.

This is not good for free-to-air TV. It is certain that in addition to subscription TV, models more like traditional ones will continue to emerge in which sponsors pay for consumers to see content. Once again, the beneficiaries are those who own content that is valued. Today, Google and Facebook account for about 60 percent of US advertising and 75 percent of new advertising spend. This is now a global pattern. According to recent evidence, at least one free-to-air TV network and large segments of newspaper publishing are near failure, and the balance has a limited outlook at best. What we generally see in the domestic industry so far is a persistence with tradition. Moreover, retreat.

Reduced regulation will allow retreating players to coalesce. The strongest, News Corporation, had the advantage in its global subscription TV business and its links to 20th Century Fox as well as potential synergy in any merger with TEN or another TV broadcaster but did not grasp the chance. Fairfax Media has placed all its chips on Domain Real Estate but is otherwise in a reactive cost reduction program. The third player, Seven West Media, might see value in acquisitions. However, it is hard to see which additions would change its outlook.

So far, no market has produced a counterweight to the Google-Facebook ascendancy in advertising. The only sign is in peer players, notably Amazon, who are finding channels in their e-commerce business that can sustain contemporary advertising models. There is certainly no Australian competitor.

The business opportunity might lie in content. Arguably, the growth of companies like Netflix, HBO, Hulu, iflix and Amazon Prime is to one degree or another based on pure content plays. Australian media has not had a commercial reputation in film and TV content, despite its world-class technical strengths. Scandinavian producers have demonstrated how quickly a global strategy can transform a once-moribund film and TV industry. However, the ABC and other Australian film and TV producers have made little headway in lifting ambitions to meet global markets. Alternatively, as these markets develop, we might be surprised by an empowered new player.

In television, HBO's status went from a backroom office to the penthouse when digital markets expanded the value of its product dramatically. Australia does not have a prominent, well-funded production company save for the ABC. However, it does have two potential kingmakers... the one Australian entity that clearly might (perhaps intends) be a kingmaker is the AFL. Australia's national sport has rich income already from TV rights and is central to any debate over "anti-syphoning".

It also has been active and vigilant over some years in husbanding its property interests to include virtually anything valuable associated with the game. Unlike any other content player in Australia, AFL has the ability to make or break a new network. The other, less visible, potential player is Telstra. Telecoms were previously seen as potentially big players in content and media. A few spectacularly costly ventures later, Telstra and its global peers are mostly looking very much like conservative utilities. However, that might change as the underlying business becomes more and more contestable.

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