

facebook

ACCC Digital Platforms Inquiry

Submission by Facebook Australia Pty Limited

18 April 2018

Response to ACCC Issues Paper

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Facebook welcomes this opportunity to provide our initial comments in relation to the ACCC's review of the impact of digital search engines, social media platforms, and other digital content aggregation platforms on the state of competition in media and advertising services markets in Australia (the Inquiry).

I. Summary

Robust, intense, and dynamic competition for consumer attention is driving rapid innovation and technological change.

The rapid pace of innovation and technological change over the past two decades continues to contribute to shifts in how people access and consume news and entertainment, how businesses connect with their customers, and how advertisers promote their brands and products. These changes have created significant opportunities and benefits for consumers and businesses—in the news media and elsewhere—but they also have created uncertainties and challenges for established business models.

These changes are not unique to Australia, nor are they a result of any particular market structures or issues in Australia. Rather, they reflect a global shift that has been driven by—and has also resulted in—robust, intense, and dynamic competition for consumer attention and advertising dollars.

This competition has delivered substantial benefits for consumers and businesses. These benefits will continue as many and more diverse players across the digital landscape respond to changing consumer demands by innovating and improving the products and services that they offer.

Facebook competes vigorously for people's attention.

We offer a broad range of products and services that enable Australians and people around the world to connect with each other by sharing ideas and experiences with their friends, families, and other communities. Facebook also helps people discover content that is meaningful to them.

Facebook is popular, but it is just one small part of how Australians connect with friends, family, and the world around them. Hundreds of other popular messaging services and photo and video sharing apps are available, free to use, and just a click or tap away. The average person now uses eight different services to connect and communicate (twice as many as five years ago). The ever-decreasing cost of high-speed Internet connectivity, processing power, and storage space on devices means that people do not need to be selective—they can easily

switch between services, add new ones, or stack them together. For example, the average person might use the iPhone camera app to take photos, Dropbox to store and organize them, Instagram to post some photos to wide groups of friends, and Snapchat to message other photos directly to friends.

The ease with which people can pick among different apps creates strong competitive pressure on every product and service we offer—as well as pressure to develop new functions to address competitors’ offerings and retain user attention. This competition is not based on price—like many of our competitors, we provide our consumer services for free. Rather, the key drivers of the competition for user attention are service, quality and innovation.

Since Facebook was founded in 2004, we have invested billions of dollars in improving the user experience and delivering greater value to people who use our services. Between 2014 and 2016, for example, we more than doubled our research and development investments, from USD \$2.67 billion in 2014 to USD \$5.92 billion in 2016; this 2016 spending represents over 20 percent of our revenue.¹

When we launched Facebook, the first version was pretty basic. The site mainly consisted of text details about each person. There were no photos, no videos, no News Feed, no Messenger, no Events, and no Groups. Since then, we have launched News Feed (2006), the Like button (2009), video calling (2011), Messenger (2011), Safety Check (2014), Instant Articles (2015), Facebook Live (2015), peer-to-peer payments (2017), and personal fundraisers (2017), to name just a few.

We know that if we cease to be useful, people will leave. If we do not adapt continuously to people’s demands and expectations—both with regard to the user experience and in terms of security, privacy, and social responsibility—people will migrate to other services. If we stop innovating, someone else will innovate around us—making us obsolete.

¹See Facebook, Inc., 2016 Annual Report (Form 10-K), at 6, 31, available at https://s21.q4cdn.com/399680738/files/doc_financials/annual_reports/Facebook_AR_2016_FINAL.pdf. Between 2015 and 2016, Facebook increased its research and development expenses by over 22%. See *id.*

Facebook competes vigorously for advertising dollars.

Just like newspapers have for over a century, we rely on advertising to support our services. As our Chief Executive Officer Mark Zuckerberg has explained, the reason we have chosen the ad-supported model is because it is the only one that will work to connect the entire world.

All advertising is based on attention. For an ad to be effective, people have to see or hear it. This is true across all forms of advertising—from print and mail advertising, to television, radio, billboards, and online ads.

Companies, big and small, have more options than ever when it comes to advertising—from billboards, print and broadcast, to newer digital platforms like Facebook, Google, YouTube, Amazon, or Snapchat. Unlike 40 years ago, when companies were largely limited to print, TV, radio or billboards, today there are numerous different advertising channels and platforms, and hundreds of companies offering each of them, all competing for people's attention. Facebook represents a small part of this diverse and expanding global media ecosystem.

Our relative success has been built, in part, on the fact that we have developed an advertising service that has enabled a whole new generation of entrepreneurs and small and medium-sized local businesses, many of which could never have previously afforded newspaper or TV ads, to reach a national or even global audience affordably through Facebook. Worldwide, over seven million businesses, the vast majority of which are small businesses, now advertise with us regularly, and this figure is growing. In Australia, more than 350,000 businesses placing advertisements on Facebook spent less than USD \$100 in 2017. Fewer than 150 Australian businesses spent more than USD \$1M placing advertisements on Facebook in 2017. More than one million small businesses in Australia have a Facebook Page, and more than 80 percent of Facebook's Australian users are connected to at least one small business in Australia. In total, about 200 million people around the world are connected to a business in Australia through Facebook.

Our goal is to be the best dollar and the best minute our advertisers spend. We are constantly innovating to make sure we deliver the best return on investments (ROI) to our advertisers. Over the past year alone, we have introduced several new mobile ad formats, including full-screen, 360-degree video, and interactive ads that let users swipe, tilt, and zoom through carousels of images. We partner with our advertisers to help them create “thumb stopping creative”—ads that are optimised for mobile platforms like Facebook and Instagram.

Many of our advertisers only spend a small portion of their overall advertising budget with us, and the vast majority of advertisers do not have long-term commitments to spend on Facebook. If we fail to deliver the best ROI to our advertisers, they will simply shift their spend to other channels and platforms.

Facebook partners with journalists and publishers to build an informed community.

Discovering and sharing news with friends and families is only one of the many ways that people can connect with each other on Facebook. Although news is a very small part—less than five percent—of the content that is shared in News Feed, we take very seriously our role in the news ecosystem in helping people gather information about what is going on in the world around them. We believe we have a responsibility to help build—together with journalists, media organisations, and others—a more informed community.

Accordingly, we support the efforts of publishers of all sizes to build their businesses on Facebook through advertising, branded content, and subscriptions. We also provide publishers with a free platform for global content distribution and promotion.

We support the efforts of publishers to monetise their content off Facebook through advertising, subscriptions and, most notably, referral traffic, which a publisher can monetise in a number of ways, including serving advertising, implementing a payment wall, or further developing its user base.

We also offer publishers advertising options on Facebook, including branded content, video ad breaks, and, in connection with the Instant Articles feature, the ability to sell their own ads, develop a subscription offering, and drive traffic.

To keep pace with the increasing consumer preference for digital news media content, we work with journalists and publishers of all sizes (referred to together generally in this submission as “media content creators”) to find ways for journalism and news to flourish on Facebook. These efforts include:

- providing advice and training to journalists on best practices on our services through the Facebook for Journalism project;
- developing new tools to assist publishers to monetise and distribute their content more effectively, such as through video monetisation and Instant Articles; and
- initiatives to build a more informed community such as the APAC News Literacy Working Group, the News Integrity Initiative and First Draft Coalition, among others.

We are working to establish stronger ties between Facebook and the news media industry, and to ensure that we are a collaborative and transparent partner to media content creators.

These initiatives have provided significant value not only for large, incumbent publishers, but also for smaller and newer publishers, local news, digital-first publications, and bloggers. Digital platforms like Facebook have reduced barriers to entry for media content creators and have given them the ability to grow a wider audience. This increased—and increasingly diverse—competition has enriched the media ecosystem, delivering greater choice and easier access, for everyone’s benefit.

Facebook’s ability to provide value to people, journalists, and publishers depends on continuous investments in innovation, which rely on funding from advertising.

Advertising is Facebook’s primary source of revenue. In 2017, it accounted for 98 percent of our revenue. Advertising funds our investments in improving the services we have to offer to attract, retain, and provide value to people. As a result, we have strong incentives to develop new and better ways for people to connect, share, communicate, and discover—and to continue offering our ever-improving suite of core services to people at no charge.

The interconnected relationship among people, journalists and publishers, and the advertisers that are the source of most of our revenue, is critical to understanding the competitive environment in which we and others operate.² This paper focuses on those relationships. Part II discusses the value that we provide to users, media content creators, and advertisers (including an overview of the tools, products, and services available to each group). Part III focuses on the multi-sided ecosystem in which we operate, including the competition for user attention, media content distribution, and for advertisers, as well as the dynamics that drive vigorous competition within that ecosystem.

²Consistent with the focus of the Inquiry, this submission focuses on news media content and the value Facebook provides to (1) consumers discovering and engaging with that content, (2) publishers and journalists in distributing and monetizing that content, and (3) advertisers looking to connect with Australian consumers. In addition to the media content creators that we focus on in this submission, there are many and diverse entities that share public content on Facebook including, for example, politicians, governments, community organisations, NGOs and other non-profit organisations, athletes and sports teams, artists and entertainers, public figures, and other businesses. We generally do not discuss these in this submission, other than to the extent that they may also be advertisers, because they are not a focus of this Inquiry.

We hope that this submission is helpful in explaining the significant value that the Facebook platform provides to all stakeholders—both in Australia and globally—and the significant competition that we face in these rapidly evolving and multi-sided markets.

II. Facebook Provides Value to People, Journalists and Publishers, and Advertisers

This section explains how Facebook works and, consistent with the focus of the Inquiry, on the value that our platform creates for people, for journalists and publishers, and for advertisers.

A. Value for People

People are at the centre of our mission. We strive to give people the power to build community and bring the world closer together—for example, connecting meaningfully with friends and family over a shared photo or with a larger community over a shared experience or interest.³ We develop all of our consumer products and services with this paramount objective in mind and provide Facebook, Instagram, Messenger and WhatsApp to people without charge.

1. Personalised Experience

Our fundamental value to consumers comes from the highly personalised and relevant content that they can access and share on Facebook. This includes shared content derived from their relationships with people and organisations, photo and video content based on their expressed tastes and interests, and advertising content tailored to those preferences. People also provide information and feedback on content in real-time, which further enables us to provide a relevant and personalised experience to each individual.

We provide this same tailored and meaningful user experience with respect to news media content. We make it possible for people to easily discover news content from a diverse array of publishers and journalists—including local news sources, established publishers with national or international followings, new or start-up

³For example, in 2017, several men in Australia started the Virtual Pub Facebook group to provide a space for Australian men to discuss a variety of issues, such as mental health. The group now has over fifty thousand members. See Robert Virtue, *Facebook Group Gives Regional Australian Men Safe Space to Seek Support via Social Media*, ABC News, 9 Nov. 2017, <http://www.abc.net.au/news/2017-11-10/facebook-group-gives-regional-australian-men-safe-place/9133126>.

publishers, and digital-only publishers—to build and strengthen their engagement with content creators that they value, and to share and discuss these news stories with friends and family. To illustrate, a person’s friend may post a link to a news story by *The Australian* to her Facebook Page. If that person clicks through to *The Australian*’s site⁴ and finds the story particularly relevant or interesting, she may engage with the post directly or decide to “like” or “follow” *The Australian*’s Facebook Page.⁵ If she does that, she may see more news stories posted by *The Australian* in her own News Feed, or links to stories published by *The Australian* that she could then click through to access or share and discuss with her network of friends and family. If the reader would like news stories from *The Australian* always to appear at the top of her News Feed, she also can manage her News Feed preferences to make *The Australian* a Page that she wants to “see first.”⁶

2. News Feed

One of the ways that people use Facebook is by spending time engaging with content via News Feed. News Feed is a personalised stream of content from the people (including friends and other groups or communities), news sources (e.g., journalists and publishers), artists, and businesses that a person chooses to follow on Facebook. It also includes recommended content based on the information people share with us (e.g., “Popular in Melbourne”) and advertisements.

People build their own News Feeds by connecting to the people, communities, and organisations they find most meaningful to them. Most of the posts that people find in their News Feed are updates, photos, and videos from friends and family. A smaller amount of posts come from organisations and public figures that people choose to connect with on Facebook. Notwithstanding its name, news media content generally represents less than five percent of items on a person’s News Feed.

Our goal is to ensure that people see posts that matter to them, so we order posts within a person’s News Feed based on how relevant we believe they are likely to be to that specific person. On average, there are 3,500

⁴Facebook’s support of publishers’ monetization of their content is discussed below in Section II.B.2.

⁵See The Australian Facebook Page, <https://www.facebook.com/theaustralian/>.

⁶See Facebook, *What does it mean to see first?*, <https://www.facebook.com/help/1188278037864643>

potential posts for each person to see every time she visits Facebook. News Feed prioritises the content we believe will be most relevant to each person. This does not mean that people see *only* the content that Facebook ranks as most relevant for them. Rather, every photo, status update, video, and link a person's friends share is viewable in that person's News Feed; she just needs to scroll down to see it. We order the content in the way we think most relevant to each person.

As part of that process, we often make improvements to News Feed. When we do, we rely on a set of core values, which are public and which we have been using for years.⁷ These values guide our thinking and provide insight in to what we optimise for when ranking content in News Feed:

- Friends and family come first.
- After that, a person's feed should inform and should entertain.
- News Feed is for all ideas.
- The strength of our community depends on authentic communication.
- People control their experience.
- Constant iteration.

We do not always rank the posts in News Feed perfectly, and ultimately each individual is the only one who truly knows what is meaningful to them. We are therefore always trying to improve, and we survey approximately 10,000 people about News Feed every week to learn where we can make specific improvements. Facebook also provides tools for people to actively shape their own experience. For example, people can prioritise content from specific friends or Pages that they follow, ensuring that they always see that content first in their News Feed.⁸

People also can use our “snooze” product to temporarily unfollow people or Pages in their News Feed.⁹ People can

⁷Facebook, *News Feeds Values*, <https://newsfeed.fb.com/values/>.

⁸See Facebook, *What does it mean to see first?*, <https://www.facebook.com/help/1188278037864643>.

⁹See Facebook, *Introducing Snooze to Give You More Control of Your News Feed* (Dec. 15, 2017), <https://newsroom.fb.com/news/2017/12/news-feed-fyi-snooze/>.

also unfollow people or Pages, or reconnect with people or Pages they have unfollowed in the past.¹⁰ We are continuing to work on more powerful ways for people to control what they see in News Feed.

In our continued efforts to be transparent about how News Feed works, we publish regular updates to our News Feed FYI blog.¹¹ In January blog posts, for example, we explained that we are in the process of updating News Feed to prioritise posts that are more likely to spark conversations and meaningful interactions between people.¹² We also prioritise content from family and friends over public content, consistent with our News Feed values (discussed above).¹³ We made these changes in response to feedback from our community that public content—posts from businesses, brands and media—was crowding out the personal moments people came to Facebook to share with friends and family. As a result of these changes, we expect that the time people spend on Facebook and some measures of engagement will go down. But we believe that this change will make the time that people do spend on Facebook more valuable and that, in the long run, this is better for both our community and our business.¹⁴

We also have updated News Feed to make sure that when people see news media content on Facebook that content is high quality, by prioritising content that is trusted, informative, and local. For example, people have told us local news is often more relevant and meaningful to them, so we are prioritising this in News Feed for people in all countries and in all languages.¹⁵ We also expanded the scope of what may be considered “local” to include

¹⁰ Facebook, *How can I view and adjust my news feed preferences?*, <https://www.facebook.com/help/371675846332829>.

¹¹ Facebook, *News Feed FYI*, <https://newsroom.fb.com/news/category/news-feed-fyi/>.

¹² *Id.*

¹³ As noted above, people can ensure they always see posts from their favourite businesses or organisations by selecting “See First” in their News Feed preferences.

¹⁴ See *id.*

¹⁵ Adam Mosseri, Head of News Feed, & Campbell Brown, Head of News Partnerships, Facebook, *News Feed FYI: More Local News on Facebook* (Jan. 29, 2018), <https://newsroom.fb.com/news/2018/01/news-feed-fyi-local-news/>; Adam Mosseri, Head of News Feed, & Campbell Brown, Head of News Partnerships, Facebook, *News Feed FYI: More Local News on Facebook, Globally* (Mar. 26, 2018), <https://newsroom.fb.com/news/2018/03/news-feed-fyi-more-local-news-on-facebook-globally/>.

other nearby cities that people also may consider to be of local interest. Now, people around the world will see more news media content on Facebook from local sources covering their current city and other cities they may care about, helping local publishers and journalists who cover multiple, nearby cities to reach audiences in those cities.¹⁶ As these recent examples show, News Feed is continually evolving as we strive to improve the user experience on Facebook.

3. People-Driven Innovation

At its core, Facebook is about personal connections. We offer a broad range of innovative services that enable people to connect, communicate, discover, and share with their friends, families, and communities. Facebook is therefore only as successful as the value of the user experiences we provide. For this reason, we invest heavily in innovation to improve the user experience. Between 2014 and 2016 alone, for example, we more than doubled our research and development investments, from USD \$2.67 billion in 2014 to USD \$5.92 billion in 2016; this 2016 spending represents over 20 percent of our revenue.¹⁷ Our commitment to people-driven innovation is the reason why Facebook has appeared in the ‘Most Innovative’ Companies list almost every year since it was launched in 2008.¹⁸

News Feed is a clear example of this consumer-driven innovation. When Facebook first launched, it consisted of a set of profiles through which people had to manually click in order to see new or changed content that their friends had posted—like their profile picture or their statuses. In response to this, we developed News Feed to provide an easier way for people to see their friends’ updates. News Feed dramatically improved the user experience by delivering a personalised stream of content directly to each person. It reduced the amount of time people had to spend searching manually for relevant content on the Facebook profiles of their friends and enabled them to engage more quickly and effortlessly with relevant and meaningful content.

¹⁶ *Id.*

¹⁷ See Facebook, Inc., 2016 Annual Report (Form 10-K), at 6, 31, available at https://s21.q4cdn.com/399680738/files/doc_financials/annual_reports/Facebook_AR_2016_FINAL.pdf. Between 2015 and 2016, Facebook increased its research and development expenses by over 22%. See *id.*

¹⁸ Fast Company, Most Innovative Companies 2017, available at <https://www.fastcompany.com/most-innovative-companies/2017>.

As a result, today people have come to expect social media content to be personalised—so much so that other platforms, such as Twitter, LinkedIn, Apple, and YouTube, also have adopted a live-updating hub of central content similar to News Feed.

Another clear example of consumer-driven innovation is the Facebook mobile app. Over the last decade, people have increasingly sought to engage with content (from a wide array of providers, including Facebook) on mobile devices—in addition to, or in many cases instead of, personal computers. Facebook, which launched as a website optimised for display on a desktop computer, had to adapt to this change, but our success was far from certain. We were initially slow to recognise this change in consumer preferences and therefore had to invest heavily and immediately in our mobile products and features. We quickly trained hundreds of programmers to develop products and features for iOS and Android, assigned mobile engineers to every product development team, and built all new features with a ‘mobile-first’ mindset.¹⁹ We began updating our mobile apps much more frequently—from every three to six months to every month.²⁰ Today, over 95 percent of our active users access Facebook from their mobile devices, and the substantial majority of our revenue is generated from advertising on mobile devices.²¹

We are constantly working to improve the services we provide to people. Over the last decade, we have added the Like button (2009), video calling (2011), Messenger (2011), payments via Messenger (2014), Instant Articles (2015), Facebook Live (2015), and Peer-to-peer payments (2017), to name just a few. We know that if we cease to be useful, people will leave. If we stop innovating, someone else will innovate around us—making us obsolete. We are already looking at the next big technologies that will change how people connect and

¹⁹ See David S. Evans, *Why the Dynamics of Competition for Online Platforms Leads to Sleepless Nights, but Not Sleepy Monopolies* (last revised Aug. 25, 2017), available at https://papers.ssrn.com/sol3/papers.cfm?abstract_id=3009438.

²⁰ See *id.*; see also Kurt Wagner, *Inside Facebook's Mobile Strategy*, Mashable.com, Sept. 30, 2013, <https://mashable.com/2013/09/20/facebook-mobile-strategy/#4Y4D7dtvkgqF>.

²¹ See Statista, *Device usage of Facebook users worldwide as of January 2018*, <https://www.statista.com/statistics/377808/distribution-of-facebook-users-by-device/>; Facebook, *10-K for Year Ending December 31, 2017*, at 11, <http://d18rnop25nwr6d.cloudfront.net/CIK-0001326801/c826def3-c1dc-47b9-99d9-76c89d6f8e6d.pdf>.

communicate, like virtual and augmented reality, and working hard to ensure that we can provide these services for people.

4. News Media Content on Facebook

Though news media content is a small part of the content on Facebook, news will always be a critical way for people to start conversations on important topics. We provide a distribution platform on which both people and publishers choose to share news. As explained further below, publishers decide what news content to make available on Facebook. When a person shares a link to an article from a news website on Facebook, the ability of her friends and family to read that article will depend on whether and how the publisher has decided to make that article available:

- If the article is available without a paywall on the publisher’s website, then friends and family can click on the link post and will be directed to the publisher’s website.
- If the publisher has chosen to put the article behind a paywall, then the friends and family will need to pay the necessary fee to access and read the article on the publisher’s site.
- If, instead, the publisher has chosen to make the article available as an Instant Article on Facebook, it will render immediately in the Instant Article format when it is shared.²²

People benefit in a variety of ways from accessing news content through Facebook. They can discover new and diverse media content creators, including leading publications from around the world like *The Daily Telegraph* and *The New York Times*, “born digital” publications based in Australia like *The New Daily* and *The Conversation*, or new and local sources of news. People can access news content through Facebook from anywhere in the world on a variety of devices—mobile, tablets, or desktop computers. They can post links to news media content that they find meaningful and engage in a variety of ways—such as likes, comments, or shares—on important topics with others. Through Facebook, people can also “follow” publishers and media content creators that are valuable to them, creating a curated stream of relevant news content.

²²Instant Articles is discussed below in Section II.B.1.b).

We also enable people to take action quickly in response to news media content. For example, after reading news about a natural disaster, people can click on a “donate” button to give money to communities affected by that disaster or, if they are part of an affected community, use our “Safety Check” tool to communicate with friends and family after the disaster²³ and our “Community Help” feature to offer assistance.²⁴

5. Data and Transparency

Our core value to consumers comes from the highly personalised and relevant experience we provide. Information that people share about themselves enables us to provide this experience, and is therefore integral to the Facebook experience. It is not ancillary to the services that we provide or a separate benefit that we derive from providing those services, but rather what makes those services possible in the first place.

We take the responsibility that comes with collecting people’s data very seriously, and work hard to ensure that people understand what information we collect and the controls they have over how it is used. We are continually working to provide clear, simple tools for people to manage their privacy. Our “privacy basics” portal guides people through the process of understanding and managing their experience.²⁵

²³ See Facebook Crisis Response, <https://www.facebook.com/crisisresponse>; see also, e.g., Megan Rose Dickey, *Facebook Makes It Easier to Donate in Times of Crisis*, TechCrunch, Nov. 10, 2017, <https://techcrunch.com/2017/11/10/facebook-makes-it-easier-to-donate-in-times-of-crisis/>. Australian communities have activated Safety Check eight times since 2016, including after the bushfires in Kurri Kurri, New South Wales in January 2017 and in Wungong, Western Australia in February 2017. See <https://www.facebook.com/crisisresponse/kurri-kurri-new-south-wales-wildfire-jan18-2017/about/>; <https://www.facebook.com/crisisresponse/wungong-western-australia-australia-wildfire-febo8-2017/about/>.

²⁴ Facebook’s Social Good Forum Introducing Community Help and Donations In Live (Nov. 17, 2016), <https://newsroom.fb.com/news/2016/11/facebooks-social-good-forum/>.

²⁵ Facebook, *Privacy Basics*, <https://www.facebook.com/about/basics>.

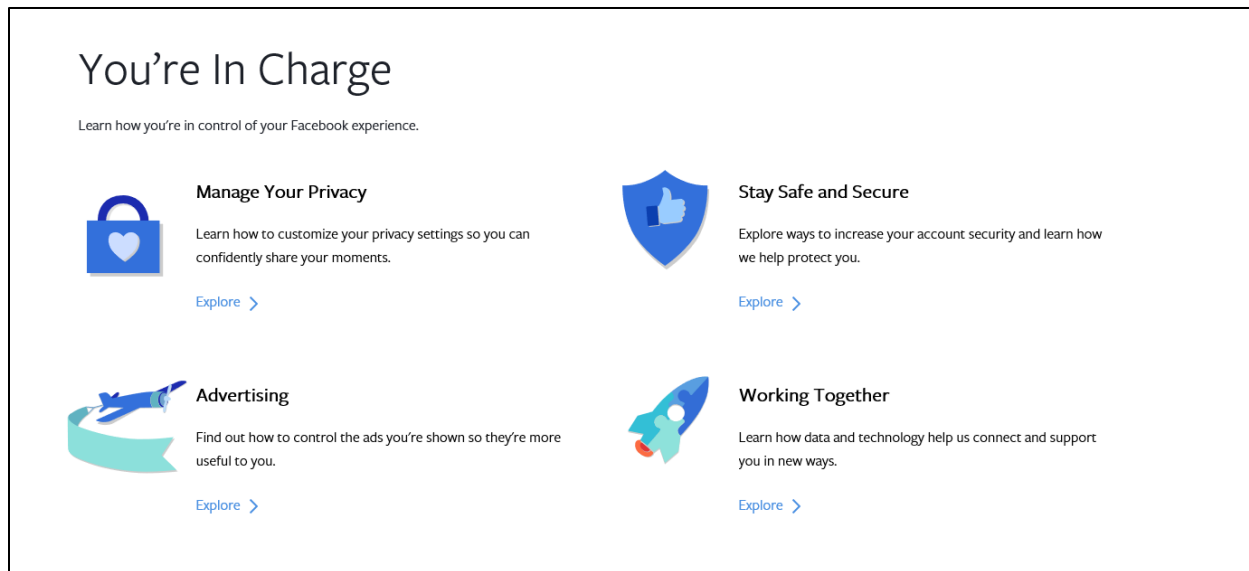


Figure 1: “Privacy Basics” Portal

Our approach to privacy is guided by our privacy principles:

- **We give people control of their privacy.** We work to make sure people know where their privacy controls are located on Facebook and how to adjust them so that they can make the privacy choices that are right for them. For example, our “audience selector” tool lets people decide with whom they want to share a post—with the public, only their friends, only specific friends, or only themselves.²⁶ We also invite people to take the “Privacy Checkup” to review and adjust their privacy settings.²⁷
- **We help people understand how their data is used.** Beyond our Data Policy,²⁸ which describes our practices in detail, we also include education and tools in people’s day-to-day use of Facebook, like the “ad controls” in the top right corner of every ad and the “Ads Preferences” tool—both of which allow people to understand and influence the ads that they see on Facebook.²⁹
- **We design privacy into our products from the outset.** Our privacy team—with guidance from various privacy experts—works to ensure that privacy-minded features and safeguards are incorporated at every stage of product development.

²⁶See Facebook, *When I post something, how do I choose who can see it?*, https://www.facebook.com/help/120939471321735?helpref=faq_content.

²⁷Facebook, *What’s the Privacy Checkup and how can I find it?*, <https://www.facebook.com/help/443357099140264/>.

²⁸Facebook, *Data Policy*, <https://www.facebook.com/policy>.

²⁹Advertising controls are discussed in greater detail in Section II.C.3 below.

- **We work hard to keep people’s information secure.** We work continuously to help protect people’s accounts and build security into every Facebook product. Our security systems run millions of times per second to help catch threats automatically and remove them before they ever reach people. People can also use our security tools like two-factor authentication to help keep their account even more secure.³⁰
- **People own and can delete their information.** We give people tools for deleting anything they have posted. People can also delete their accounts at any time.
- **Improvement is constant.** We invest in research and work with experts beyond Facebook—including designers, developers, privacy professionals and regulators—to develop new controls and design them in ways that people can understand and manage.
- **We are accountable.** We conduct comprehensive privacy reviews and put products through rigorous data security testing. We also meet with regulators, legislators and privacy experts around the world to get input on our data practices and policies.

Recent events have shown that we have more work to do to help people understand how Facebook works and the choices they have over their data. We have heard quite clearly that privacy settings and other important tools can be too hard to find and that we must do more to keep people informed.

Accordingly, we have made some changes to make data settings and tools even easier for people to find.³¹ We have redesigned our entire settings menu on mobile devices from top to bottom to make things easier to find. Instead of having settings spread across nearly 20 different screens, they are now accessible from a single place, making it easier for people to manage their settings and understand what information can and cannot be shared with apps.³² We have also introduced a new Privacy Shortcuts menu where people can control their data in just a few taps—and with clearer explanations of how our controls work, as well as announced an Access Your Information tool, which will provide a secure way for people to access and manage their information, such as posts,

³⁰ Facebook, *What is two-factor authentication and how does it work?*, <https://www.facebook.com/help/148233965247823?helpref=search&sr=1&query=two%20factor>.

³¹ Erin Egan, VP and Chief Privacy Officer, and Ashlie Beringer, VP and Deputy General Counsel, Facebook, Inc., *It’s Time to Make Our Privacy Tools Easier to Find* (Mar. 28, 2018), <https://newsroom.fb.com/news/2018/03/privacy-shortcuts/>.

³² *Id.*

reactions, comments, and things they have searched for. People can go here to delete *anything* from their timeline or profile that they no longer want on Facebook.³³

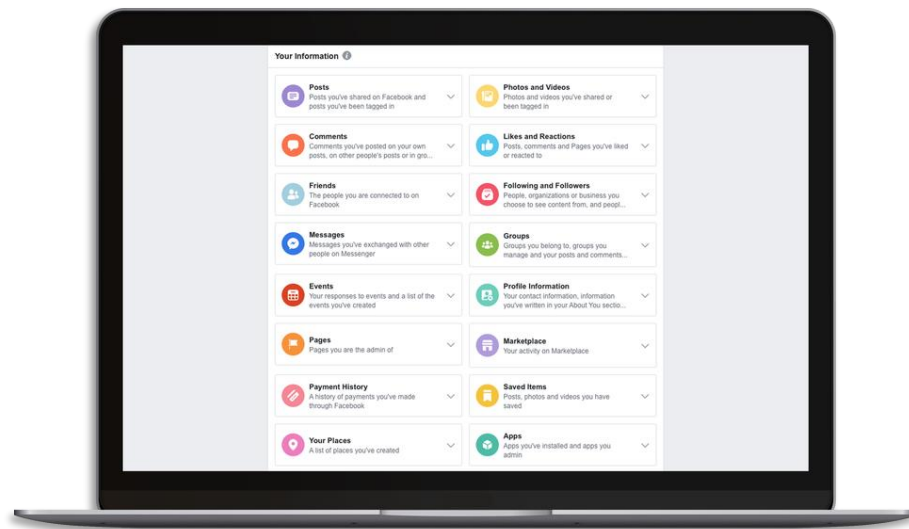


Figure 2: Image of Access Your Information Tool

It is also our responsibility to tell people that we collect and use their data in language that is detailed, but also easy to understand. That is why we are in the process of updating our terms of service that include our commitments to those who use our platform, as well as our data policy to better spell out what data we collect and how we use it.³⁴

We have worked with regulators, legislators and privacy experts on these tools and updates, and will continue to do so.

³³ *Id.*

³⁴ See Erin Egan, VP and Chief Privacy Officer of Facebook, Inc., *We're Making Our Terms and Data Policy Clearer, Without New Rights to Use Your Data on Facebook* (Apr. 4, 2018), <https://newsroom.fb.com/news/2018/04/terms-and-data-policy/>.

B. Value for Journalists and Publishers

Our discussion to this point has focussed on the value that we provide for people. We now turn to the value that we provide for media content creators. We are committed to supporting a healthy news media ecosystem in which journalism thrives and media publishers are successful. As Mark Zuckerberg recently outlined:³⁵

A strong news industry is also critical to building an informed community. Giving people a voice is not enough without having people dedicated to uncovering new information and analyzing it. There is more we must do to support the news industry to make sure this vital social function is sustainable--from growing local news, to developing formats best suited to mobile devices, to improving the range of business models news organizations rely on.

We provide value to journalists and publishers in a variety of ways. We help them build and engage their audiences, we provide tools to help them monetise their content, and we provide services to help them manage the transition to digital content distribution. As a platform that links people and communities worldwide, we can also be a useful newsgathering tool for publishers and journalists.

1. Facebook Helps Publishers Build and Engage Their Audience

We enable publishers of all sizes to find new audiences and to engage with their current audience by providing them with a free platform for global content distribution and a variety of tools (many of which are also free) to promote and monetise their content. Distribution of news content via Facebook and other digital platforms has enabled new publishers to become established and to flourish around the world, including in Australia.

a) *How News Content Gets on Facebook*

News content is shared through Facebook by publishers and by users. Publishers may choose to establish a free Facebook Page for their publication—a public profile that can be established by a public figure, business, organisation, or other entity to create an authentic and public presence on Facebook. Then, publishers choose

³⁵See Mark Zuckerberg, Facebook Post, Building Global Community, Feb. 16, 2017, <https://www.facebook.com/notes/mark-zuckerberg/building-global-community/10154544292806634>.

what content they would like to make available on Facebook. Publishers may distribute their articles on Facebook for free by posting them to their Page, or by making them available as Instant Articles.³⁶ When a publisher establishes a Facebook Page, it can also post other types of written content, photos, or videos, schedule events, and provide information about itself—all for free. We publish regular updates to our News Feed FYI blog as part of our continued efforts to be transparent about how News Feed works and so that media content creators will understand how content is ranked and displayed in News Feed.³⁷

People can also “like” or “follow” the publisher’s Page, which will make posts by the publisher more likely to appear in a person’s News Feed. *The Australian*, for example, has a Facebook Page that is both liked and followed by over 800,000 people; those people are more likely to see content posted by *The Australian* in their News Feed.³⁸ Hundreds of national and local Australian media outlets have established Facebook Pages. Many publishers have added buttons on their own websites (like the one below from *The Canberra Times*) to make it easier for readers to follow them on Facebook and other social media sites.

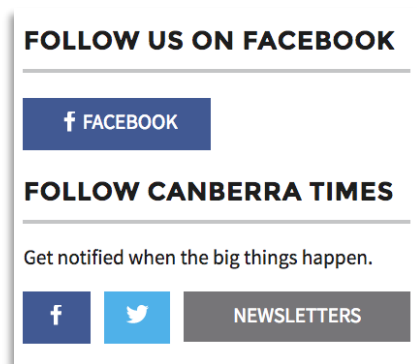


Figure 3: Sample Follow Button

News media content can also be shared by a person using Facebook. A person may post a link to news media content offered by a publisher anywhere on the Internet. If someone clicks on the link, they will either be

³⁶ See Section II.B.1.b) below for a discussion of Instant Articles.

³⁷ Facebook, *News Feed FYI*, <https://newsroom.fb.com/news/category/news-feed-fyi/>.

³⁸ The Australian Facebook Page, <https://www.facebook.com/theaustralian>.

taken to the publisher's website or, if the publisher has chosen to make that content available through Instant Articles, the shared article will automatically render as an Instant Article. As explained in Section II.A.4 above, even when news content is shared by people through Facebook, the publisher retains control over access to the content. If the publisher has chosen to put the shared article behind a paywall, then the friends and family will need to pay the necessary fee to access and read the shared article on the publisher's site. Many publishers encourage article sharing by placing share buttons on their websites, like the one from *The Canberra Times* below.



Figure 4: Sample Article from *The Canberra Times*

b) *How News Content is Displayed on Facebook*

One of the primary ways that publishers use Facebook to connect with their audiences is by distributing and promoting their content through or on Facebook. We do not place any exclusivity requirements on publishers—*i.e.*, we do not restrict a publisher's ability to distribute the same article elsewhere. As a result, the same article from *The Australian* may be available on Facebook through one or more of the methods outlined below, on *The Australian's* own website, on other platforms, or in print.

Publishers may make news content available on Facebook—free of charge to the publisher—in one of three ways:

1. Link Preview

A publisher may post a link to an article that is located on a publisher’s website. If people click the link, they are taken to the publisher’s website to read the article, where the publisher can monetise the traffic as it sees fit—e.g., serve its own advertising, promote its offerings or email lists, and implement paywalls to drive subscriptions. Notably, we do not, and have never, required media content creators to give people any amount of free access to content if they click on a publisher’s link (often referred to as “one click free”).

We do not receive any direct revenue when a person clicks a link.³⁹



Figure 5: Sample Link Preview

2. Photo or Video Post

A publisher may post photo or video content on Facebook to build or engage their audience. When a person clicks on the content, it is available on the Facebook platform, enabling the visitor to view the photo or video without leaving Facebook. We are also testing an “ad breaks” product, which allows the publisher to monetise a video post through a short video advertisement inserted during the video post. The publisher earns the majority of the resulting ad revenue.



Figure 6: Sample Publisher Post

³⁹If the publisher is a Facebook Audience Network partner, Facebook may receive some advertising revenue from the publisher. The Facebook Audience Network is discussed below in Section II.C.4.

3. Instant Articles

Instant Articles allows a publisher to post a full article on Facebook—that is, a person who clicks on an Instant Article can access the article without navigating to a different website and waiting for the article to load.⁴⁰ Instant Articles provides a fast, feature-rich reading experience on Facebook. As a result, Instant Articles deliver more traffic to publishers⁴¹ and are more likely to be shared than mobile web equivalents. People are also over 70 percent less likely to abandon an Instant Article due to the fast load time. On average, people read more articles when they see Instant Articles in their News Feed.

Instant Articles gives publishers the ability to sell their own ads, drive newsletter sign-ups, and monitor and track their traffic. If a publisher sells the ads itself, then it retains all of the associated revenue. If the publisher relies on us to backfill the ads through the Facebook Audience Network (which is discussed below in Section II.C.4), then we and the publisher each earn a share of the resulting ad revenue. More than 10,000 publishers around the world use Instant Articles, including a number of Australian brands, and Instant Articles now pays out more than USD \$1 million per day to publishers.

A publisher may choose whether to distribute their content via Instant Articles or not.



Figure 7: Sample Instant Article

A publisher may also post Branded Content on Facebook. We define Branded Content as any post—including text, photos, videos, Instant Articles, links, 360 videos, and Live videos—that features a third-party product, brand, or sponsor.⁴² It is typically posted by media companies, celebrities, or other influencers. We introduced Branded Content to meet the needs of our publishers, many of whom had existing partnership deals with marketers, and wanted to extend their branded content business on Facebook.⁴³

⁴⁰ While a publisher can publish Instant Articles for free, it can also choose to pay to “boost” them.

⁴¹ When a person views an Instant Article, that traffic is attributed to the publisher.

⁴² See Clare Rubin, Product Manager, and Nick Grudin, VP of Partnerships, *Updates to our Branded Content Policy* (Apr. 8, 2016), available at <https://media.fb.com/2016/04/08/updates-to-our-branded-content-policy/>.

⁴³ While some publishers choose to advertise on Facebook, they are not required to do so. Advertising is discussed in more detail below in Section II.C.

We do not charge publishers to distribute content through any of the three methods outlined above. Publishers may, however, choose to pay to “boost” their content to reach more people or to target a specific audience.⁴⁴ One of the reasons publishers may choose to boost their content is to meet the commitments they have made to their own advertisers (e.g., by boosting a post to drive more referral traffic to the publisher’s site, where the reader will see ads).

2. Facebook Helps Publishers Monetise

We help publishers of all sizes build and maintain their businesses. We provide tools to support publishers across the full spectrum of business models—whether subscription-based, ad-based, or a hybrid. We have also created a suite of features that enable publishers to earn the majority, and in many cases all, of the revenue for their content when it is shared on Facebook—and off Facebook, on their own mobile sites and apps through the Facebook Audience Network.

We offer publishers a variety of ways to monetise their content on Facebook:

- Publishers can serve their own advertising in Instant Articles and receive 100 percent of the revenue and control pricing for other features.
- Publishers can implement a payment wall. Paywalls give publishers control over access to their content and give them a mechanism to convert readers to paid subscribers.
- Publishers can use a variety of advertising tools, including subscription calls to action and publisher bar upsells, to drive subscriptions.
- Publishers can build their user base by promoting their offerings or email lists, which will enable them to convert users into paid subscribers in the future or to serve ads in the future.
- Publishers can take advantage of industry-specific tools we have created for them—e.g., Branded Content, which allows publishers to extend their brand deals to Facebook, as discussed above in Section II.B.1.b).

⁴⁴See *infra* Section II.C.1.

The Instant Articles feature discussed above in Section II.B.1.b) offers publishers the ability to sell their own ads and count their traffic.⁴⁵ Instant Articles pays out more than USD \$1M per day to publishers. We continue to work closely with publishers to improve and build upon the Instant Articles offering. For example, in response to feedback from publishers, we are now testing the implementation of a subscription paywall in Instant Articles. People that choose to subscribe will be directed to the publisher's website to complete the transaction, where the publisher will process the payment and keep all of the revenue.⁴⁶

We also help publishers monetise off Facebook. By participating in Facebook Audience Network,⁴⁷ publishers can monetise and create engaging ad experiences on their own apps or mobile websites, through a combination of access to Facebook advertisers and people-based marketing. Publishers retain the majority of the revenue for advertisements placed on their sites through Facebook Audience Network.

3. Facebook Helps Journalists with News-Gathering

Journalists use Facebook as a tool to support their news gathering and story-writing process. For example, journalists use Facebook to discover untold stories and as a communication tool to reach out to individuals. We also provide tools to journalists at no cost to support their news-gathering and reporting, such as our CrowdTangle tool described below in Section II.B.4. CrowdTangle provides detailed social media analytics to help media content creators measure their performance on social media and identify great stories. Recently, we launched CrowdTangle for Local News, which helps newsrooms find local stories.

⁴⁵For example, Zach Leonard, the Digital Managing Director for *The Independent*, recently explained: “[I]n Facebook Instant Articles we actually monetise within the application itself by advertising that is sold by Facebook on our behalf and we gain a revenue share from them. That has been quite a successful area for us.” Competition and Markets Authority, *Notes of a hearing with The Independent*, October 26, 2017, 21st Century Fox/Sky Merger Hearings, available at <https://assets.publishing.service.gov.uk/media/5a02fa5e40f0b60b048399ee/the-independent-hearing-transcript.pdf>.

⁴⁶Fitz Tepper, *Facebook is now testing paywalls and subscriptions for Instant Articles*, TechCrunch (Oct. 19, 2017), available at <https://techcrunch.com/2017/10/19/facebook-is-now-testing-paywalls-and-subscriptions-for-instant-articles/>.

⁴⁷Facebook Audience Network is discussed in more detail in Section II.C.4.

4. Facebook Supports Publishers and Journalists in the Transition to Digital Content Distribution

Over the past several decades, innovation and technological change have resulted in significant shifts worldwide in the way that information is accessed and consumed. For publishers and journalists, these changes have created challenges and uncertainties, as well as opportunities. We actively collaborate with media content creators to support them in maximising their reach and engagement on our services and to learn how to be a better partner. Our Media Partnerships Team works with media companies and media content creators of all sizes to assist them in achieving their objectives on Facebook and to collaborate on relevant product development, so that publishers can build new audiences, engage with their current audience, gather and promote news, and build their businesses through advertising, branded content, and subscriptions.

In January 2017, we launched the Facebook Journalism Project to support journalism globally and to build stronger relationships with the media community.⁴⁸ Through this Project, we are collaborating with journalists and publishers to develop products, learning from journalists about ways we can be a better partner, and working with publishers and educators on how we can equip people with the knowledge they need to be informed readers in the digital age.

The Facebook Journalism Project has three pillars:

- (i) collaborative development of news products, through which we will deepen our collaborative relationship with news partners, connecting them with Facebook product and engineering teams;
- (ii) training and tools for journalists, through which we are introducing new resources for newsgathering and reporting, including training courses in 9 languages and a certificate program via Poynter Institute for Media; and
- (iii) training and tools for everyone, through which we are partnering with organisations to better understand and promote news literacy both on and off Facebook, as well as continuing our efforts to identify and reduce the spread of news hoaxes.⁴⁹

⁴⁸See Fidji Simo, Dir. of Product, *Introducing: The Facebook Journalism Project* (Jan. 11, 2017), available at <https://media.fb.com/2017/01/11/facebook-journalism-project/>.

⁴⁹See Facebook, *Facebook Journalism Project*, <https://www.facebook.com/facebookmedia/get-started/facebook-journalism-project>.

While we have taken many steps as part of the Facebook Journalism Project, a few examples are particularly relevant to the Inquiry. For example, as part of the collaborative development of news products, publishers have asked us to provide more support for their subscription business models. Recognising how important this was to certain publishers and the news industry, we built a paywall for news content in Instant Articles, and we are now testing this feature in the U.S.⁵⁰ This paywall feature allows publishers to determine what, if any, of their content should be made available at no charge and what should be behind a paywall. Paywalls also provide publishers with converting readers into paid subscribers. We have also provided publishers with a variety of advertising tools to drive more subscriptions.

With respect to training and tools, we provide our CrowdTangle tool free of charge to media content creator partners. CrowdTangle, which was offered for a fee prior to its acquisition by us in 2016, allows media content creator partners to track the performance of their content in real-time across various social media platforms and to compare it with the performance of other publishers' content.⁵¹ Our Media Partnerships team also performs analysis of reach, engagement, and content for our partners.

With respect to training and tools for people, we have partnered with leading news literacy organisations to help people be more informed about the news they read and share on and off Facebook.

5. Facebook Is Working to Build an Informed Community

An informed, global community requires a strong news industry and journalists dedicated to uncovering and analysing new information. Internet and mobile technology has changed the way people consume news today. By reducing the cost of distribution, more journalists and publishers can (and do) create and distribute content to more people—and do it faster and more easily. It is our responsibility as an information distributor to amplify the good effects of information sharing and to mitigate the bad. We are working to create and maintain an

⁵⁰ See Tepper, *supra* note 46.

⁵¹ See, e.g., Sarah Kessler, *The Secret Tool that Upworthy, BuzzFeed, and Everyone Else Is Using To Win Facebook*, Fast Company (Jan. 23, 2015), available at <https://www.fastcompany.com/3040951/the-secret-tool-that-upworthy-buzzfeed-and-everyone-else-is-using-to-win-facebook>; Casey Newton, *Facebook buys CrowdTangle, the tool publishers use to win the internet*, The Verge (Nov. 11, 2016), available at <https://www.theverge.com/2016/11/11/13594338/facebook-acquires-crowdtangle>.

environment for professional journalism to thrive on our platform and for people to receive the content they want to be informed. We want to make sure the time people have on Facebook is spent engaging with authentic and meaningful content.

At the same time, we are working to combat false news and bad actors by:

- **Collaborating with others to find industry solutions.** Through the Facebook Journalism Project, we are working with publishers, journalists and educators to equip people with the knowledge they need to be informed readers in the digital age.
- **Disrupting economic incentives.** When it comes to fighting false news, one of the most effective approaches is removing the economic incentives for traffickers of misinformation. We have found that a lot of false news is financially motivated. These spammers make money by masquerading as legitimate news publishers and posting hoaxes that get people to visit their sites, which are often mostly ads. Some of the steps we are taking include:
 - Applying machine learning to assist our response teams in detecting fraud and enforcing our policies against inauthentic spam accounts; and
 - Updating our detection of fake accounts on Facebook, which makes spamming/spreading false news at scale much harder.

People tell us they do not like stories that are misleading, sensational or spammy. That includes clickbait headlines that are designed to get attention and lure visitors into clicking on a link. In response to this feedback, we have made updates to News Feed so:

- People see fewer stories from sources that consistently post clickbait headlines that withhold and exaggerate information; and
- Repeat offenders that repeatedly share stories marked as false will no longer be allowed to advertise on Facebook.
- **Building new products.** We are building, testing and iterating on a range of new products to limit the spread of false news and help people find a more diverse range of topics, news stories, and viewpoints on Facebook. This helps connect people to more diverse information and lays the cornerstone of a more informed community.
- **Helping people make more informed decisions.** We want to empower people to decide for themselves what to read, trust, and share. We promote news literacy and work to inform people with more context.

We are investing considerable resources in fighting false news; on our most recent earnings call, Mark Zuckerberg warned investors that these investments “will significantly impact our profitability.”⁵² However, our work is not done. We are committed to continuing to build and improve the ways that we support a healthy global news ecosystem and promote authentic, meaningful news media content on Facebook.

C. Value for Advertisers

Facebook makes it possible for a business of any size to connect with customers locally, nationally, and globally through advertising. We have enabled a whole new generation of entrepreneurs and small and medium-sized businesses to reach national and even global audiences. Most of these businesses would likely have been unable to afford print or television advertising that would have provided the same potential reach and return on investment as advertising on a platform like Facebook. While, as the ACCC notes at page 16 of the Issues Paper, digital advertising is accounting for a growing percentage of overall ad spend in Australia, digital platforms like Facebook are also growing the total amount of ad spend by making it possible for Australia’s small and medium-sized businesses to reach customers in local communities, in Australia, and around the world.⁵³

Worldwide, over 7 million businesses, the vast majority of which are small businesses, now advertise with us regularly, and this figure is growing.⁵⁴ In Australia, more than 350,000 businesses place advertisements on

⁵² Facebook, Inc., Fourth Quarter and Full Year 2017 Results Conference Call, Jan. 31, 2018, available at https://s21.q4cdn.com/399680738/files/doc_financials/2017/Q4/Q4-17-Earnings-call-transcript.pdf.

⁵³ See Australian Communications and Media Authority, *Communications Report*, 2016/17, at 40 (2017) (“Commercial Economic Advisory Service of Australia (CEASA) data for the year ended 31 December 2016 shows that combined advertising expenditure across the main media categories—print, television, radio, online, outdoor and cinema—increased by 7.8 per cent in 2016 to \$15.3 billion.”), available at <https://www.acma.gov.au/-/media/Research-and-Analysis/Report/pdf/Communications-report-2016-17-pdf.pdf?la=en>. In 2016, “[t]here were also increases in outdoor advertising of 16 per cent, cinema advertising of five per cent and radio advertising expenditure of three per cent.” *Id.* at 41.

⁵⁴ See Kathleen Chaykowski, *Sheryl Sandberg: Facebook Hit 5 Million Advertisers By Turning Users Into Marketers*, *Forbes*, Apr. 10, 2017, <https://www.forbes.com/sites/kathleenchaykowski/2017/04/10/sheryl-sandberg-facebook-hit-5-million-advertisers-by-turning-users-into-marketers/#71495cb2e99d>.

Facebook spent less than \$100 USD in 2017. Fewer than 150 Australian businesses spent more than \$1M USD placing advertisements on Facebook in 2017.⁵⁵

1. How Ads Are Placed on Facebook

Facebook makes it easy for any size business to create effective and high quality ad campaigns. First, any business can “boost” one of the posts from its Facebook Page. Boosting posts can help any business reach their business goals regardless of advertising experience. When a Facebook business posts to its Page, the business can select the “Boost Post” button to quickly create a Facebook ad using its post. The ad will look just like the Page post it is based on, except that it will have a “Sponsored” label in the top-left corner. Boosted posts are an easy way for businesses to get more people to like, share and comment on the posts they create. Boosted posts are also a way to reach new people who are likely interested in a business’s content but do not currently follow the business on Facebook. Boosted posts can include a call-to-action button to drive people to take other actions the business cares about, like booking an appointment, signing up for a newsletter, and more.

Businesses can also choose to create their own ads through “Ads Manager,” our user-friendly online portal that makes it easy for any size business to create a high quality ad campaign. It is an all-in-one tool for creating ads, managing when and where they will run, and tracking how well a campaign is performing.⁵⁶ To place an ad, an advertiser logs into the Ads Manager portal and follows these five easy steps:⁵⁷

⁵⁵ Apart from advertisements, businesses also benefit from Facebook by using the platform to connect directly with other businesses and with customers. For example, a study of Australian small and medium-sized businesses on Facebook found that 69% of them state that the platform helps them attract customers, 61% of them say they have increased sales because of the platform, and 78% of them believe Facebook helps to connect people in their community. See Facebook, Economic Impact Survey: Australia Data, <https://facebook.morningconsultintelligence.com/countries/australia/#Stats>. More than one million small businesses in Australia have a Facebook Page, and more than 80 percent of Facebook’s Australian users are connected to at least one small business in Australia. In total, about 200 million people around the world are connected to a business in Australia through Facebook.

⁵⁶ See Facebook, *Ads Manager*, <https://www.facebook.com/business/learn/facebook-ads-reporting-ads-manager>.

⁵⁷ See Facebook, *Getting Started with Ads*, <https://www.facebook.com/business/learn/facebook-ads-basics>.

- *First*, the advertiser selects an ad objective, a way to clarify its marketing goals for campaigns or even individual ads. While the objectives can be granular—for example, video views, page posts, or website clicks—they fall under three larger goals of awareness, engagement, and conversion.⁵⁸
- *Second*, the advertiser selects the criteria for targeting its audience based on demographics (e.g., age, gender, education), location, interests, and behaviour (e.g., purchase behaviour, device usage).⁵⁹ Facebook does not reveal any personal data about its users to the advertiser; the criteria is only used to define the target audience.
- *Third*, the advertiser chooses where it wants to run the ad, either on Facebook, Instagram, or the apps and websites in the Facebook Audience Network—or across them all. In this step, the advertiser can also choose to run ads on certain mobile devices.⁶⁰
- *Fourth*, the advertiser sets its daily or lifetime budget and the time period during which it wants its ads to run.⁶¹ Advertisers also can change their budget or pause advertisements at any time.
- *Finally*, the advertiser chooses the format and creates the ad.⁶²

Facebook allows advertisers to manage and edit all ad settings throughout the life of a campaign.

2. How Ads Are Delivered on Facebook

After an advertiser creates a campaign, it enters the ad auction and bids to have its advertisement shown to the right people on Facebook. Our ad auction is built to maximise value for businesses and people by balancing creating value for advertisers (by helping them reach and get results from people in their target audiences) with providing positive, relevant experiences for people using Facebook.⁶³ Our goal is to match the right ad to the right person at the right time. This is different than a traditional online advertising auction because the winner is not necessarily the ad with the highest monetary bid, but the ad that creates the most total value. A smaller bid could win the auction if the ad is much better-suited to the person.

⁵⁸ See Facebook, *Facebook Ad Objectives*, <https://www.facebook.com/business/goals>.

⁵⁹ See Facebook, *Choose Your Audience*, <https://www.facebook.com/business/products/ads/ad-targeting>.

⁶⁰ See Facebook, *Ad Placement*, <https://www.facebook.com/business/products/ads/how-ads-show>.

⁶¹ See Facebook, *Getting Started with Ads*, <https://www.facebook.com/business/learn/facebook-ads-basics>.

⁶² *Id.*

⁶³ We are transparent about our approach and explain it in information available to advertisers and the public. See, e.g., Facebook, *About the delivery system: Ad auctions*, <https://www.facebook.com/business/help/430291176997542>.

In pursuit of these goals, we calculate a “total value” for every ad, taking into account the advertiser’s bid, estimated action rates (*i.e.*, how likely we think a given person is to take that action), and the ad’s quality and relevance to a person (*i.e.*, how interested we think a person will be in seeing the business’s ad with measures of its overall quality and specific relevance). We then rank that ad against other ads a person is eligible to receive. The ad with the highest “total value” wins the auction and is shown to the person. By putting the right ad in front of the right person at the right time, we help advertisers maximise their return on investment and achieve better outcomes.

While the ad auction decides which ad opportunity to show a given person, our pacing system helps maximise advertiser value by minimising advertiser cost per result. The pacing system does this by utilising a discount bidding strategy, which deploys the advertiser’s budget on results with the lowest costs and aims to spend budget evenly over the course of the advertiser’s campaign.⁶⁴ These tools enable advertisers to serve ads on Facebook in a more targeted way and at a lower cost than many of the other options available to advertisers.

3. Personal Control over Advertising on Facebook

We empower people to exercise a great deal of control over the advertisements that are delivered to them, particularly compared to other modes of advertising, such as television, print, and outdoor displays. In particular, we give people tools to provide feedback on the ads that they see, which has an impact on the choice of ads that they will see in the future.

As Facebook is an advertising-supported service, people cannot opt out of advertisements altogether, but we provide several options to give them more control over the criteria governing the advertisements they see. Facebook enables users to set their own advertising preferences. Through our Ad Preferences tool,⁶⁵ a person can remove interest categories that have been associated with her and add interest categories for which she would like to receive relevant advertisements. People can also select “Hide ad,” which helps us avoid showing them more ads

⁶⁴For more information, see Facebook, *Your Guide to Facebook Bid Strategy* (Sept. 2017), available at https://go.fb.com/rs/z67-PVB-941/images/BiddingStrategyGuide_FINAL.pdf.

⁶⁵A person can access the “Ad Preferences” page either directly through the “Settings” option or through the explanatory window shown after selection of the second option behind the “x” on the top right corner of an ad. (This option reads “Why am I seeing this?”)

like the one viewed. In addition, if a person does not want us to deliver ads to her based on information about her activities on third-party websites or mobile applications, she can opt out through the Ad Preferences settings.

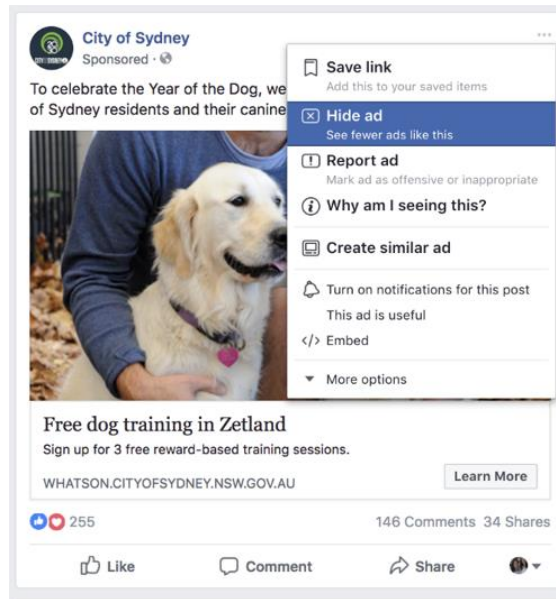


Figure 8: Sample Ad with Options Displayed

Our ability to deliver relevant advertisements benefits both the individual, who avoids the inconvenience of irrelevant advertisements, and the advertiser, who avoids wasting advertising impressions on uninterested consumers. In this regard, the interests of Facebook, our users, and our advertisers are aligned: each wishes for people to see relevant advertisements.

4. Facebook Audience Network

We launched Facebook Audience Network in 2014 to enable advertisers to extend the delivery of their advertising campaigns off Facebook to Facebook users on third-party mobile websites and mobile applications. Through Facebook Audience Network, we match advertisers seeking a broader audience to businesses looking to fill their unsold advertising space on their mobile apps and websites. We then deliver advertisements on these third-party businesses' properties.

To use Facebook Audience Network, advertisers simply choose it as an option in the Ads Manager platform. Facebook Audience Network is currently only available for certain advertising objectives, such as increasing traffic to the advertiser's website. For other objectives, such as driving people to view an advertiser's

Facebook page, Facebook Audience Network currently is not available because it would not be an optimal way to achieve the objective. The process for creating an advertising campaign that incorporates Facebook Audience Network is the same as for Facebook-only campaigns.⁶⁶

We have direct contractual relationships with the third-party businesses whose advertising space is ultimately filled, including many media content creators around the world. Our partnerships with these businesses are not exclusive. A business can continue selling its advertising inventory through other channels or directly to advertisers. The business receives the majority of the revenue collected from the advertisers that place ads on Facebook Audience Network.

5. Aligned Interests

Facebook, like many other platforms, is able to offer advertisers the ability to reach a large and engaged user base. Indeed, as noted above, our primary source of revenue is the sale of advertising, which in 2017 accounted for approximately 98 percent of the company's revenue.

That revenue is a critical factor in our ability to attract and retain users, because it funds our continuing investments in improving the services that we offer. Facebook depends on this positive feedback loop (also sometimes referred to as a "virtuous cycle"): if the services we provide are valued, they drive user engagement and retention (and growth), which in turn drive advertising revenues that are then used to fund further innovations to improve the user experience. In this way, the interests of Facebook, our users, businesses, and our advertisers are closely aligned. All are better off when people are happy with the Facebook platform: as our platform improves, people derive greater value from it and have more reasons to use it. Advertisers, in turn, continue to find Facebook an attractive way to reach those people.

Advertising should not be thought of as an "add on" that is unrelated to a person's Facebook experience. Rather, advertising content, like user-generated and publisher-generated content, forms an integral part of the Facebook user experience. That is why we work hard to present people with paid content that is just as relevant and

⁶⁶For example, the same targeting options, auction process, and advertising images are used for campaigns that incorporate Facebook Audience Network and Facebook-only campaigns.

useful to them as any non-paid content. The deeply interconnected nature of paid and non-paid content on Facebook is clearly highlighted by the fact that we use similar, if not the same, information to rank non-paid content and advertising content for users. The overall Facebook experience for individual users is built from both paid and non-paid content using the information shared by that person. The data that allows us to surface a relevant article based on content the person previously found engaging, for example, also allows us to show the person an ad for a subscription to that same news publication.

III. Facebook Has to Compete Vigorously to Attract People, Media Content Creators, and Advertisers

We compete on multiple sides of a multi-sided platform. On one side, we compete for the interest and attention of people, including against the many ad-supported online platforms. There is a vast and ever-growing number of these ad-supported platforms, each of which also deploys a variety of engaging features in an effort to capture user attention.

On another side, we compete against a wide variety of other online platforms and offline distribution outlets to attract and distribute media content. Competition for this distribution is vigorous and rapidly evolving. Many consumers “multi-home”—meaning, they access and consume content from different sources across multiple platforms. As a result, media content creators overwhelmingly make their content available across a range of distribution models. Ultimately, consumers tend to spend their time and attention on the websites, platforms, and apps that provide the most innovative and valued services and user experiences.

And on a third side, we compete for advertising revenue with the same platforms against which we compete for user attention, as well as with numerous other channels. This competition is significant. Advertisers typically do not have long-term commitments with us, and most advertisers diversify their advertising spending across multiple online and offline platforms, including television. They also typically devote a relatively small portion of their overall advertising budget to Facebook.

A. **Multi-Sided Platforms**

The economic principles governing how firms compete in single-sided markets differ in important ways from the principles that govern multi-sided platforms. These differences should be taken into account when analysing the potential impacts on competition in such markets.

Multi-sided platforms (also referred to as multi-sided markets) are unique from firms that compete in single-sided markets in two important ways:

- *First*, multi-sided platforms connect distinct groups that interact with each other through the platform. Many online and offline services—such as Facebook, Dailymotion, Google, Pinterest, Snapchat, Twitter, YouTube, Stan, and Foxtel (to name only a few examples)—are multi-sided platforms connecting people, media content creators, advertisers, and other customer groups.⁶⁷
- *Second*, interactions between the distinct groups create cross-market network effects, whereby the actions of participants on any side of the platform, or of the platform itself, affect participants on other sides of the platform (or the functioning of the platform itself).⁶⁸

These cross-platform network effects can be positive or negative. A positive network effect occurs when “the value that a customer on one side realizes from the platform increases with the number of customers on the other side.”⁶⁹ This can generate a “positive feedback loop” as described in Section II.C.5 above. A negative network effect reflects the inverse—when the multi-sided platform becomes less popular to all sides because membership on one side decreases. A negative network effect can trigger a negative feedback loop which, if not controlled, can quickly lead to the platform failing.

For example, as discussed in more detail above in Section II.A.2, we received feedback from the community that people wanted to see less public content in their feeds. In response to this feedback, we made updates to News Feed to prioritise content from people’s friends and family over news and other public content. If we ignored this feedback, however, our platform may have become less valuable to people, some of whom would leave, which in

⁶⁷Multi-sided platforms commonly connect other groups as well. For example, Airbnb connects people searching for a place to stay with homeowners renting their properties, and the Apple App Store connects Apple product users with application developers offering applications.

⁶⁸See Secretariat, *Executive Summary*, in POLICY ROUNDTABLES: TWO-SIDED MARKETS 11, 11 (Organisation for Economic Co-operation and Development Competition Committee, 2009) (OECD Paper); see also, e.g., David Evans, *Background Note*, in POLICY ROUNDTABLES: TWO-SIDED MARKETS 23, 29 (Organisation for Economic Co-operation and Development Competition Committee, 2009); David S. Evans & Richard Schmalensee, *The Industrial Organization of Markets with Two-Sided Platforms*, 3 COMPETITION POL’Y INT’L 151, 152 (2007).

⁶⁹Evans, *supra* note 68, at 29.

turn would reduce the platform's value to advertisers, leading to decreased revenues and a less innovative and attractive platform for the people that remain, who would then leave in greater numbers, and so on.⁷⁰

Unlike single-sided firms, a multi-sided platform must balance the interdependent demands of all its distinct customers.⁷¹

The ACCC has recognised the importance of looking at all sides of a multi-sided market. In its consideration of News Corporation's proposed acquisition of APN News & Media Limited's Australian Regional Media division, for example, the ACCC explained that "the analysis of competition on one side of the newspaper 'platform' cannot be isolated from the analysis of competition on the other side," and that "[i]t is necessary to consider the interrelated nature of demand."⁷² "For example, an increase in demand by readers on a particular platform will be likely to lead to an increase in demand from advertisers for advertising on the other side of the same platform."⁷³

The ACCC made a similar statement, again in the media context, in its decision not to oppose Seven West Media Limited's proposed acquisition of The Sunday Times publication and website from News Limited: "Media markets can be characterised by their interdependent two-sided nature. Suppliers of media platforms acquire or develop content to attract consumers, which in turn attracts advertisers. . . . Because digital and print news platforms are two-sided in nature, it is necessary to consider the inter-related nature of demand."⁷⁴

⁷⁰See, e.g., Evans & Schmalensee, *supra* note 68, at 159 (describing a feedback loop created by raising prices on one side of a platform).

⁷¹The different sides of a platform are interdependent to the extent their decisions affect each other, even indirectly. In the context of multi-sided platforms, network effects have also been referred to as cross-group externalities or indirect externalities. See, e.g., Mark Armstrong, *Competition in Two-Sided Markets*, 37 RAND J. ECON. 668 (2006); OECD Paper, *supra* note 68, at 11. The threat of triggering a negative feedback loop constrains how multi-sided platforms operate, a constraint not present for single-sided firms. David S. Evans & Michael Noel, *Defining Antitrust Markets When Firms Operate Two-Sided Platforms*, 2005 Colum. Bus. L. Rev. 667, 671 (2005) (stating that feedback loops in multi-sided platforms "may provide an economically important constraint" with respect to market definition).

⁷²News Corp. - proposed acquisition of APN News & Media Limited's Australian Regional Media division - ARM (1 Aug. 2016), available at <http://registers.accc.gov.au/content/index.phtml/itemId/1200083/fromItemId/751043>.

⁷³*Id.*

⁷⁴Seven West Media Limited - proposed acquisition of The Sunday Times publication and website from News Limited (27 May 2016), available at <http://registers.accc.gov.au/content/index.phtml/itemId/1198464/fromItemId/751043>.

While the ACCC has cautioned that “[i]n two-sided markets, if one market participant is able to get a substantial number of users on its platform, this may be sufficient to lead the market to tip to a dominant platform or monopoly;” it has also acknowledged that “tipping is not guaranteed and is less likely to occur in dynamic industries.”⁷⁵ In addition, “an important factor in considering whether a two-sided market is likely to tip is whether market participants on either side of the market single-home or multi-home. That is, whether users simultaneously use more than one platform to access the relevant goods or services. To the extent that users on both sides of the market do multi-home, the likelihood of tipping is lessened.”⁷⁶

The economic tools that regulators have traditionally used to define the markets within which to examine competition—such as the Small but Significant Non-Transitory Increase in Prices (SSNIP) test—do not accurately account for the complexities of multi-sided platforms.⁷⁷ These look to the loss in sales that would make a small price increase unprofitable. For a single-sided firm, these tests only need to account for losses from one group of customers (e.g., Side A). On a multi-sided platform, additional potential losses need to be taken into account. For example, a multiplier effect can magnify the losses on Side A if a reduction in demand from Side A reduces demand by Side B, which further reduces demand from Side A.⁷⁸ Further, the negative feedback loop results in losses to all sides of the multi-sided platform (i.e., Side B), even if the magnitude of these cross-platform effects are asymmetric in their strength.⁷⁹ Accordingly, understanding whether a market has multiple sides, as well as the impact this market structure can have on the players within it, are critical factors in any competitive analysis.

B. Facebook Competes in a Multi-Sided Market

Facebook is a multi-sided platform. It connects distinct groups of customers—people, media content creators, and advertisers—with one another. People and media content creators are connected with one another

⁷⁵ ACCC Determination to Authorise JV Arrangements Between Taxi Companies lodged by iHail (22 March 2016), available at <https://www.accc.gov.au/system/files/public-registers/documents/D16%2B35596.pdf>.

⁷⁶ *Id.*

⁷⁷ See Evans & Noel, *supra* note 71, at 699-700.

⁷⁸ See *id.*, at 700.

⁷⁹ See *id.*

based on a given person's preferences and connections to friends and Pages. Similarly, people are connected with advertisers offering products and services that are relevant to that person's interests, and advertisers are connected with people who might want to purchase their products or services. These relationships create cross-platform network effects through which each side is better off as the other sides grow.

An increased user base means *both* that media content creators can distribute content and advertisers can show ads to a larger pool of potential customers. At the same time, additional media content means that we will have a more robust offering to attract and maintain users, and having more advertisers means that we will have more resources to develop new services and to continue to offer those services to people at no financial cost.

The Digital Platforms Inquiry Issues Paper recognises some of these dynamics. As the Issues Paper explains, central to the assessment of market power "is the recognition that digital platforms provide services to different types of users (e.g., consumers seeking to search the Internet and advertisers seeking to reach an audience) and that the demand for the use of a platform by the different types of users can be interdependent (e.g., the value of a search engine to advertisers can depend on the number and type of consumers who use it)."⁸⁰ Managing this "interdependence" successfully is a critical task for a multi-sided platform like Facebook.

The ACCC also recognises an added complexity: the potential for network effects in a multi-sided market. In particular, "interdependence can lead to different types of network effects for one or more groups of users (e.g., the more users on a social media network increases the value of that network for other users as well as for advertisers)."⁸¹ These types of network effects can have the effect of magnifying the competitive constraints on participants in a multi-sided market, as actions in one side of the market could have a more significant effect in other sides of the market.

Some of the multi-sided market dynamics at play are reflected in Figure 1 to the Issues Paper, which summarises the relationships between digital platforms, media content creators, businesses and consumers in the supply of news and journalistic content. The figure does not, however, capture all of the relevant dynamics at play.

⁸⁰ Issues Paper at 18.

⁸¹ *Id.*

For example, it does not reflect the fact that media content creators and publishers use digital platforms to monetise their content, as explained in more detail above in Section II.B.2. The figure also fails to identify the other forms of value that media content creators get from digital platforms, including increased distribution and web traffic to their own websites as well as the ability to connect and engage with their audience.

In addition, Figure 1 does not adequately capture the value that digital platforms provide to consumers by simplifying the relationship to “free services.” As described above in Section II.A, consumers derive significant value from Facebook, including the ability to connect with family, friends, Groups and businesses that matter to them, and the ability to access diverse news media content. Underscoring this value to consumers, there is a growing body of research that has examined the “consumer surplus” generated by free-to-use internet services, to quantify the value derived by the individuals who use them.⁸² These studies show the significant benefits that online products create for society, with one recent paper attributing \$48.34 per consumer per month in value to Facebook.⁸³

Figure 1 also misstates what digital platforms provide to business. Facebook does not sell or provide data to advertisers. We provide them the ability to target their advertisements.

Finally, the figure correctly notes that media content creators collect data from consumers, but neglects to show that, like digital platforms, media content creators also provide targeted advertising services to businesses.⁸⁴

⁸² See, e.g., Avinash Gannamaneni, *Using Massive Online Choice Experiments to Measure Changes in Well-being* (2016, MIT), available at <https://dspace.mit.edu/bitstream/handle/1721.1/109654/987004031-MIT.pdf?sequence=1>; Boston Consulting Group, *Follow the Surplus: How U.S. Consumers Value Online Media* (2014), available at http://image-src.bcg.com/Images/Follow_the_Surplus_Feb_2013_tcm9-99551.pdf; Erik Brynjolfsson & Joo Hee Oh, *The Attention Economy: Measuring the Value of Free Digital Services on the Internet*, Thirty Third International Conference on Information Systems, Orlando 2012, at 15 (2012), available at <https://aisel.aisnet.org/cgi/viewcontent.cgi?article=1045&context=icis2012>.

⁸³ See Gannamaneni, *supra* note 82.

⁸⁴ See *infr* note 106.

1. Competition for User Attention

Ad-supported online platforms compete vigorously to attract and retain users. Because of the multi-sided nature of these online platforms, the presence of active users (and the time they spend on a platform) provides value to media content creators by increasing their potential reach (and therefore monetisation) and also to advertisers, which, in turn, enables the platform to attract advertising revenues. And it is those advertising revenues that fund our development of features and functionality for users—that is, we, like many Internet services, are funded by advertising rather than user fees. Maximising user value and engagement is therefore critical for Facebook to survive and thrive.

We compete with many other ad-supported online services, and not just other social media companies, for user attention. Regardless of how a platform gains user attention—whether by offering features similar to those that we currently offer or other features—the platform competes with us if it seeks to capture the limited supply of online user attention.

We currently attempt to attract user interest and attention by offering—and constantly updating and improving—a wide variety of tools and features, in an effort to maximise user value (as explained above in Section II.A). Facebook began as a way for college students to stay connected by visiting their friends' profile pages. While still maintaining this function, Facebook has evolved to allow users to connect, share, discover, transact, and communicate with others through a wide variety of products and services that are provided at no cost—including, but not limited to, messaging, content sharing, live video, games, payment solutions, and buying and selling listings.

Online platforms attract attention in different ways, offering numerous features, products, and services that are constantly evolving and that defy simple categorisation. We must compete with all of them for user attention. For example, Snapchat began as a service for sharing ephemeral pictures.⁸⁵ However, the service quickly expanded with many other competitive products and features, including a social network, non-ephemeral

⁸⁵See *Let's Chat*, Snap Inc. (May 9, 2012), available at <https://www.snap.com/en-US/news/page/8/>.

messaging and sharing, and even peer-to-peer payments, to name a few.⁸⁶ In all of these iterations, the service commands time and attention of users—and continues to compete with us.

Google, Yahoo!, Microsoft, Amazon, BuzzFeed, LinkedIn, Twitter, Snapchat, Pinterest, Yelp, Candy Crush, Clash of Clans, Pokémon Go,⁸⁷ and Dailymotion (to name but a few further examples)—together with a wide range of news media and other websites—also all compete with us to capture user attention by offering a wide variety of attractive products, tools, and features.

While our platform is popular, the reality is that we are still just one small part of how people connect with friends, family, and the world around us. Hundreds of other popular messaging services and photo and video sharing apps are available, free to use and just a click or tap away. The average person now uses eight different services to connect and communicate, twice as many as five years ago.⁸⁸ Multi-homing between these apps is commonplace and growing. For example, Pew Research recently found that 87 percent of Americans on Facebook also use YouTube, over a third also use Pinterest (37 percent) and Snapchat (35 percent) and just under a third also use LinkedIn (33 percent) and Twitter (32 percent).⁸⁹

Due to multi-homing and the widespread use of mobile devices that allow for easy adoption of and switching between apps, people can easily spread their limited time across more platforms than ever. So

⁸⁶ Douglas MacMillan, *Snapchat Valuation Nears \$18 Billion*, Wall Street Journal (May 26, 2016), available at <http://www.wsj.com/articles/snapchat-valuation-nears-18-billion-1464301359>; Josh Constine, *Snapchat Now Lets You Send Money To Friends Through Snapcash Deal With Square Cash*, TechCrunch (Nov. 17, 2014), available at <https://techcrunch.com/2014/11/17/snapcash/>; Gary Vaynerchuk, *The Snap Generation: A Guide to Snapchat's History*, The Huffington Post (Jan. 29, 2016), available at http://www.huffingtonpost.com/gary-vaynerchuk/the-snap-generation-a-gui_b_9103216.html.

⁸⁷ The mobile augmented reality game Pokémon Go is a useful illustration of the difficulty of categorising products in this space. The game grew to 21 million users within two weeks of its July 2016 launch, and was described as “one of the most exciting social media phenomena [a] since the launch of Facebook.” In the weeks following its launch, users spent more time on Pokémon Go than they did on Facebook (or Twitter or Snapchat). See *Pokemon Go: The Accidental Social Media Sensation*, Adweek (Aug. 26, 2016), available at <http://www.adweek.com/digital/pokemon-go-the-accidental-social-media-sensation/>.

⁸⁸ See GWI Social, GlobalWebIndex's flagship report on the latest trends in social media, Summary, Flagship Report, at 7 (Q3 2017), available at <https://cdn2.hubspot.net/hubfs/304927/Downloads/GWI%20Social%20Summary%20Q3%202017.pdf>.

⁸⁹ Pew Research Center, *Social Media Use in 2018* (Mar. 1, 2018), available at <http://www.pewinternet.org/2018/03/01/social-media-use-in-2018/>.

irrespective of whether a particular platform's products and features may (or may not) be analogous to any of those that we offer, it competes with us if it competes for user attention.⁹⁰

A study of Internet usage demonstrated that online platforms “compete with each other, at least to some degree, across even broadly defined products and service categories.”⁹¹ The study indicated that when Internet users gravitated away from an online platform, the beneficiary was not necessarily a platform that offered a similar type of service. Rather, consumers freely switch their time and attention between different categories of platform offerings (e.g., between a service offering articles and one offering messaging).⁹² This analysis has been supported by the views of online platforms themselves, which have typically stated in public filings that other online platforms are competitors regardless of whether they offered similar products or completely different ones.⁹³ For example, Yahoo!, which did not offer a social media or social network service, stated in its 2011 Annual Report filed with the United States Securities and Exchange Commission that it “compete[d] with social media and networking sites which are attracting a substantial and increasing share of users and users’ online time.”⁹⁴

2. Competition for Media Content Distribution

We compete against a wide variety of other online platforms and distribution models (both established and emerging) to attract and distribute media content. These include the platforms against which we compete for user attention, as well as television, newspapers, podcasts, news aggregation websites, content publisher websites, and other new technologies that allow for the distribution of news media content.

⁹⁰ See, e.g., David S. Evans, *Attention Rivalry Among Online Platforms*, 9 J. COMPETITION L. & ECON. 313, 314 (2013) (“Antitrust analysis should ... focus on competition for securing and delivering attention in considering market definition, market power, and competitive effects. Focusing on competition between specific products and services, rather than attention, could result in competition authorities and courts making either false-negative or false-positive errors in their decisions.”).

⁹¹ *Id.* at 324.

⁹² *Id.*

⁹³ *Id.* at 324-28.

⁹⁴ *Id.* at 324 (citing Yahoo! 2011 Annual Report (Form 10-K) at 14).

On the consumer side, people multi-home news distribution sources, accessing news media content across multiple distribution channels, including those listed above. A recent survey by the News & Media Research Centre of 2,004 Australian adults who access news once a month or more underscores this fact.⁹⁵ Figure 1.1 to that report (included below), shows the sources used to access news by participants in a given week: 78.7 percent accessed news content on television; 36.3 percent accessed news by radio; 39.4 percent accessed news through print sources (newspapers and magazines); 69.1 percent accessed news through websites and apps of newspapers, magazines, and radio companies; 72 percent accessed news through websites and apps of other news outlets, social media, and blogs; and 5 percent accessed news through other sources⁹⁶:

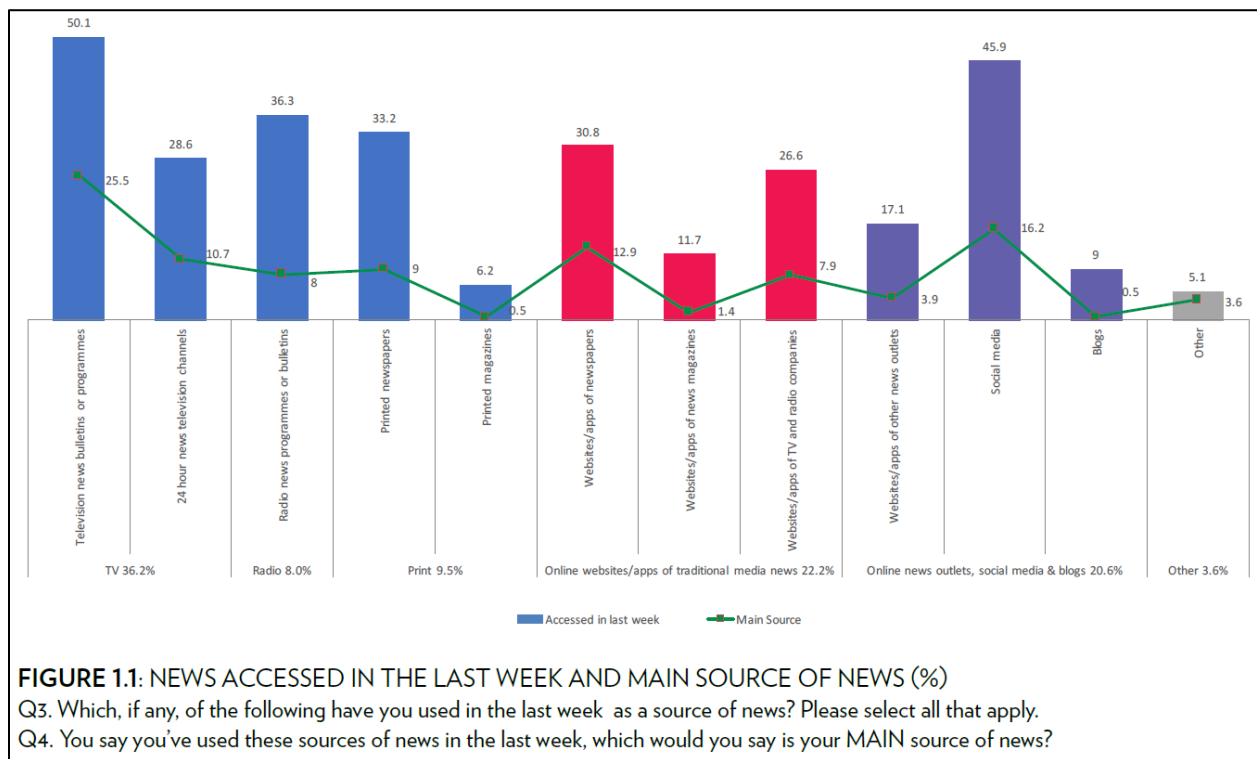


Figure 9: Image from Digital News Report: Australia 2017

⁹⁵News & Media Research Centre, *Digital News Report: Australia 2017*, 7 (2017) available at <http://apo.org.au/system/files/95161/apo-nid95161-346236.pdf>.

⁹⁶*Id.* at Fig. 1.1.

Multi-homing among media content distribution sources is not limited to the consumer side of the equation. Our relationships with media content creators and advertisers are not exclusive. Publishers can monetise content, and advertisers can display ads, on Facebook and other platforms simultaneously. Media content creators likewise make content available across an array of news sources—the same article may, for example, be published in print, posted on a standalone website, distributed via Twitter, made accessible via a proprietary application or standalone application, or linked to via Facebook, a news aggregator, or a blog. There have also been new technologies that allow for the distribution of news media content—for example, Amazon Echo and Google Home.

As described in its annual report, News Corporation explains that it delivers its “content to consumers across numerous distribution platforms consisting not only of traditional print and television, but also through an array of digital platforms including websites, applications for mobile devices and tablets, social media and e-book devices.”⁹⁷ “The Company believes that the increasing number of media choices and formats will allow it to continue to deliver its content in a more engaging, timely and personalized manner, provide opportunities to more effectively monetize its content via strong customer relationships and more compelling and engaging advertising solutions...”⁹⁸

3. Competition for Advertisers

Advertising—regardless of its form—is based on attention; for an ad to be effective, people have to see it, hear it, or experience it. There are now hundreds of companies competing for consumers’ attention across a host of advertising channels and platforms—including print, television, radio, online advertising, billboards and other forms of outdoor advertising, and so on. As a result, our competition for advertising includes not just all of the online platforms with which we compete for user attention, but also established offline ad platforms such as

⁹⁷See News Corporation, 2017 Annual Report (Form 10-K), at 1, available at <https://newscorpcor.files.wordpress.com/2017/08/412501-as-filed.pdf>.

⁹⁸*Id.*

television, newspapers, and outdoor advertising. This competition for attention is reflected in advertising spend. According to one estimate, an average \$100 of advertising spend is divided up between a range of different advertising mediums, with \$35 spent on television, \$12 on print, \$6 outdoor, \$6 on radio, \$6 on ad networks (like Criteo, Taboola, Oath, Facebook or Google), \$24 on “digital properties” (like Facebook, Google, BuzzFeed or Amazon), and \$11 on agencies or third parties.⁹⁹

a) *Advertisers Switch Channels Easily to Maximise ROI*

Companies typically invest in advertising because they believe that the money they spend on advertising will ultimately increase their sales. Therefore, an advertiser judges the effectiveness of a particular ad campaign by comparing its cost to the additional sales it generates (*i.e.*, return on investment or ROI). Advertisers value being able to reach an engaged user base, and are typically not wedded to any particular advertising channel or ad format. As a result, they will shift ad expenditures to any channel that allows them to put the right ad in front of the right person as long as the ROI justifies doing so.¹⁰⁰

A number of services and businesses are available to help advertisers switch between and among channels and manage their campaigns to maximise ROI. Demand Side Platforms (DSPs) and agency trading desks (including those operated by agencies such as DAN, WPP, Omnicom, Publicis, and Interpublic Group) routinely run campaigns on behalf of advertisers and use sophisticated techniques to optimise advertiser spending across various online and offline advertising channels. A number of DSPs, including, but not limited to, The Trade Desk, Videology, MediaMath, AppNexus Programmable DSP, DataXu, TubeMogul, Adobe Media Optimizer, and

⁹⁹See Matt Schruers, Disruptive Competition Project, *Infographic: How Ad Dollars Are Spent* (Jan. 16, 2018), available at <http://www.project-disco.org/media/011618-how-ad-dollars-are-spent/#.WsPIM9PwagY>.

¹⁰⁰See, e.g., David Evans, *The Online Advertising Industry: Economics, Evolution, and Privacy*, 23 J. ECON. PERSPECTIVES 37, 50 (Summer 2009) (“Advertisers base decisions about the level and allocation of their budgets on formal or informal analyses of the rate of return on investment.” (citation omitted)).

DoubleClick Bid Manager offer multichannel advertising and, in some cases, the dynamic reallocation of advertising spending across channels.¹⁰¹

Advertisers track and measure the success of their advertising campaigns accurately and in real time. If the ROI is not satisfactory on a particular platform, advertisers can and will quickly move their spending elsewhere. The typical lack of long-term commitments with any given platform facilitates this kind of rapid redeployment. And these tools allow advertisers rapidly to shift their budgets between channels, including various forms of digital, print, television, billboard and radio advertising, depending on their advertising objectives, campaigns and commercial decisions at any one time and based on which channels obtain the greatest ROI.

Advertising, as with any other form of production, exhibits decreasing marginal returns to investment. As an advertiser spends more in a specific channel, the marginal benefit from additional investment in that channel will decrease as the advertising base becomes more saturated. Therefore, ROIs will tend to equalise over time across channels at different levels of spend. In other words, it would not make sense for a large advertiser to spend all of its budget on a single channel.

As a result, this sector is incredibly dynamic and volatile, as advertisers constantly move to platforms where people choose to spend their time. Snap has quadrupled its revenue over the last two years (to USD \$824.9 million)—the overwhelming majority of which came from advertising. WPP estimates that Amazon more than doubled its ad revenues last year (to USD \$2.5 billion)¹⁰² and Citi estimates that this revenue will top USD \$50 billion

¹⁰¹See MediaMath: Cross-Channel Media, available at <http://www.mediamath.com/terminalone-os/#Cross-Channel-Media>; MediaMath + Brands, available at <http://www.mediamath.com/brands/>; AppNexus: Display, available at <https://www.appnexus.com/en/buyers/display>; DataXu: Audience-Based Buying, available at <https://www.dataxu.com/dsp/>; TubeMogul: Benefits, available at <https://www.tubemogul.com/benefits/>; Adobe Advertising Cloud: Adobe Media Optimizer, available at <http://www.adobe.com/advertising-cloud/media-optimizer.html>; DoubleClick: DoubleClick Bid Manager, available at <https://www.doubleclickbygoogle.com/solutions/digital-marketing/bid-manager/>.

¹⁰²Martin Sorrell, *How Amazon will crash Google and Facebook's advertising duopoly*, Wired Magazine (Jan. 2, 2018), available at <http://www.wired.co.uk/article/amazon-advertising-threaten-google-facebook>.

by 2028,¹⁰³ as marketers look to take advantage of Amazon's wealth of shopper data and Amazon's market-leading AI and voice technology.¹⁰⁴

b) *Many Outlets Offer Targeted Advertising*

Targeted advertising is a way to present advertisements to audiences that the advertiser believes will be receptive. When launching any ad campaign, advertisers attempt to target potential customers who are the most likely to purchase their product (or otherwise take the action desired by the ad campaign). If it is successful, targeted advertising maximises an advertiser's ROI by directing advertisements to an audience that is more likely to engage with the product. As a result, most advertising in any media (whether online, television, newspaper, direct mail, or outdoor) tries to identify and address a targeted audience. For example, an action movie might place a television commercial during a sporting event to target young male viewers.

Our approach of offering advertisers the option to target specific groups of consumers has been very successful, but it is by no means unique. From an advertiser's perspective, traditional offline media and online advertising channels all offer ways to target specific audiences.¹⁰⁵ Third-party services allow advertisers to dynamically reallocate advertising spend across channels and target sought-after audiences to optimise an advertiser's campaign.¹⁰⁶ Virtually all online advertising is now targeted advertising, and increasingly offline channels (such as television) are also capable of delivering more precisely targeted advertising. Targeted ads on television are becoming increasingly possible as a result of new technologies available from cable set-top boxes

¹⁰³Tae Kim, *Amazon is Citi's 'top pick' because of its growing advertising business*, CNBC (Jan. 29, 2018), available at <https://www.cnbc.com/2018/01/29/amazon-is-citis-top-pick-because-of-its-growing-advertising-business.html>.

¹⁰⁴See Christopher Mims, *How Amazon's Ad Business Could Threaten Google and Facebook*, The Wall Street Journal (Jan. 28, 2018), available at <https://www.wsj.com/articles/how-amazons-ad-business-could-threaten-google-and-facebook-1517157327>.

¹⁰⁵See Daniel L. Rubinfeld & James D. Ratliff, *Online Advertising: Defining Relevant Markets*, 6 J. COMPETITION, L. & ECON. 653, 664 (2010).

¹⁰⁶ See, e.g., AppNexus: Display, available at <https://www.appnexus.com/en/buyers/display>; DataXu: TouchPoint™, available at <https://www.dataxu.com/dsp/>; TubeMogul: Cross-Channel Advertising, available at <https://www.tubemogul.com/cross-channel-advertising/>; Adobe Advertising Cloud: Adobe Media Optimizer, available at <http://www.adobe.com/advertising-cloud/media-optimizer.html>.

and companies like Nielsen and TiVo.¹⁰⁷ By combining data sets available to them, these tools allow for more precise buying than the traditional gender/age targeting that television historically supported.¹⁰⁸

Television networks and newspapers are also collecting and using their own audience data to target their advertising. Major television networks around the world are building in-house data-driven ad sales operations and creating consortiums of audience-based ad targeting to leverage audience data across partner networks.¹⁰⁹ Australian newspapers are also forging partnerships to track and share user data in order to better target their advertising. According to a 2017 report, Fairfax Media, News Corp Australia, and Nine planned to start sharing data about their audiences in 2018 to compete against Google and Facebook for advertising dollars by “authentica[ting] user identification to ensure that whenever a reader logs in to an account with one of the publishers through any device, they will be able to be tracked and targeted.”¹¹⁰

Under these circumstances, we need to constantly justify our share of an advertiser’s budget versus competitor websites, applications, and offline channels. We have no inherent advantage in attracting future advertising revenue based on our current advertising revenue. And, as is common in the industry, the vast majority of our advertising customers, many of which spend only a relatively small portion of their overall advertising budget with us,¹¹¹ do not have long-term commitments with us.

¹⁰⁷ See Steven Perlberg, *Targeted Ads? TV Can Do That Now Too*, Wall Street Journal (Nov. 20, 2014), available at <http://www.wsj.com/articles/targeted-ads-tv-can-do-that-now-too-1416506504>.

¹⁰⁸ See *id.*

¹⁰⁹ See Sara Fischer, *TV networks race into data-based ad sales*, Axios (Apr. 3, 2018), available at https://www.axios.com/tv-networks-race-into-data-based-ad-sales-b732cb07-dc3a-4ffe-85a3-35723d41413c.html?utm_source=newsletter&utm_medium=email&utm_campaign=newsletter_axiosmediatrends&stream=top-stories.

¹¹⁰ Jennifer Duke, *Fairfax, News and Nine align to compete against ‘global players’*, Sydney Morning Herald (Dec. 14, 2017), available at <https://www.smh.com.au/business/companies/fairfax-news-and-nine-align-to-compete-against-global-players-20171213-p4yx06.html>.

¹¹¹ See Facebook, Inc., Second Quarter 2017 Quarterly Report (Form 10-Q), at 38, available at <http://d18rnop25nwr6d.cloudfront.net/CIK-0001326801/dffb94d1-5a1b-4ec2-8eb7-56901be40efd.pdf>.

4. Multi-Sided Market Dynamics Constrain Facebook and Drive Innovation

As described above, cross-platform dynamics, and the resulting feedback loops, are both the strength and the weakness of a multi-sided platform.¹¹² Cross-platform dynamics have played a role in our—and other multi-sided platforms’—ability to attract people, media content creators, and advertisers. The engaged user base attracts media content creators and advertisers.

These same cross-platform dynamics operate as a significant competitive constraint on each of the user-, media content creator-, and advertiser-sides of the market. If we did something to benefit one side at the expense of the others or to increase short-term revenue at the expense of user engagement and satisfaction, we would risk driving those other constituencies away from Facebook, triggering a negative feedback loop that could seriously threaten the company. Our interests are therefore necessarily aligned with the interests of the people using our platform, as discussed above in Section II.C.5. This means that changes that would increase short-term revenue at the expense of user engagement and satisfaction are ultimately bad for business. If, for example, we were to inundate people’s News Feeds with advertisements or unwanted media content, they would likely reduce their levels of engagement or could leave the platform entirely. This would make our platform less appealing to advertisers (decreasing our revenue and our ability to fund the innovation that is so critical to our ability to attract and retain users) and media content creators. If it is not good for users, it is not good for our growth in the long term.

This risk of alienating users and seeing cascading losses is real. If a platform takes its users for granted or stops innovating, for example, it risks alienating its users, or at least losing their attention. When that happens, there is no shortage of rivals poised to take advantage of such missteps.¹¹³ Myspace, for example, was perceived as bombarding its user base with advertisements in pursuit of short-term profits. These perceptions made the service

¹¹² See *supra* Section III.A; see also OECD Paper, *supra* note 68, at 11.

¹¹³ See David Garcia, Pavlin Mavrodiev & Frank Schweitzer, *Social Resilience in Online Communities: The Autopsy of Friendster* (submitted to Chair of Systems Design, ETH Zurich Feb. 22, 2013), available at <https://arxiv.org/pdf/1302.6109.pdf> (finding that Friendster saw its number of active users begin to decline rapidly in 2009, leading to the collapse of Friendster, after Friendster changed its user interface and suffered technical problems).

less popular for users, and subsequently less popular for advertisers. We have worked to avoid that situation by prioritising innovation to support a high-quality user experience.

Competitors like those discussed above and the constant possibility of new entrants mean that we must continuously innovate and improve our services or risk losing users, media content providers, other sources of public content, and advertisers. Success does not render us immune from competitive pressure. Just as previously leading online services such as Myspace, Friendster, Lycos, AltaVista, and Yahoo! were eclipsed after failing to innovate, we must ensure that we continue to be competitive with our rivals to retain users, media content providers, and advertisers. This is well illustrated by Pokémon Go, which has had significant subscriber losses since its initial rollout in the Summer of 2016. These losses have been attributed to its failure to innovate and deploy new game-play features.¹¹⁴

Our actual behaviour reflects this fast-paced, dynamic and competitive market environment. Rather than maintain our services at a status quo level (or risk allowing their quality to degrade), we have constantly innovated to better serve our users, media content providers, and advertisers. For example, in content sharing, we have regularly updated the News Feed feature since its initial development in 2006. These innovations were in part a response to ad-supported online platforms like Twitter, YouTube, and Pinterest, which have similar functionality and feel from the perspective of a user looking to share, read, view, and experience information (or an advertiser wishing to reach an engaged user base).¹¹⁵ We rolled out new camera-based features in 2017, and we are developing additional new features as part of a broad-based augmented reality offering.

¹¹⁴“The developers did not introduce new elements quickly enough to stop players getting bored. So far there has been little in the way of new gameplay aspects...” Mark Humphrey-Jenner, *What went wrong with Pokémon Go? Three lessons from its plummeting player numbers*, The Conversation (Oct. 18, 2016), available at <https://theconversation.com/what-went-wrong-with-pokemon-go-three-lessons-from-its-plummeting-player-numbers-67135>; see also Andrew Webster, *Niantic boss John Hanke on Pokémon Go’s first year and what’s next*, The Verge (July 6, 2017), available at <https://www.theverge.com/2017/7/6/15911936/pokemon-go-niantic-john-hanke-interview-one-year-anniversary> (The CEO of Pokémon Go’s parent company noted that development of new features lagged).

¹¹⁵Not all of our responses to competition have been successful. For example, in response to the popularity of Snapchat’s “disappearing” photos, we launched Poke in 2012. Poke allowed users to send Facebook messages with customized deletion deadlines. Poke was unsuccessful, and we discontinued the service in May 2014.

We have also developed new advertising products to retain and grow our advertising customer base. Over the past year alone, we have introduced several new mobile ad formats, including full-screen, 360-degree video, and interactive ads that let users swipe, tilt, and zoom through carousels of images. As our Chief Operating Officer Sheryl Sandberg explained on a recent investor call, one of our top priorities is working with our advertisers to develop “thumb-stopping” mobile-first video content:

Our goal is to be the best dollar and the best minute anyone spends. [W]e want them to take advantage of the opportunity that is mobile and the opportunity for the targeting we offer and the measurement we offer. I think what has taken us time and continues to take us time is we need to convince marketers to make mobile-first video and video and other ad format. We talked a lot about how the first TV ads were people reading their radio ads in front of microphones. And we’re still in the case that when people go to put an ad on mobile, they often will take an ad that’s really produced for TV and put it on mobile. And those work and they can work well but they do not work as well as ads that are natively mobile.... Mobile ads when they’re video are shorter. The brand comes in faster. They tell a story that doesn’t evolve but really gets you to understand the brand and offering really quickly. We talked about it as thumb stopping creative. And so the work that we have cut out for us is to help marketers and working with their agencies involved the format of the ads so that’s optimized for mobile, optimized for Facebook, optimized for Instagram. I think we’re making progress but we have a long way to get there.¹¹⁶

These dynamics also empower media content creators and advertisers to push for services and to offer products that are advantageous for them. The fact that online platforms often respond to these dynamics—for example, our recent introduction of subscription paywalls in Instant Articles—shows that technology companies are properly motivated by these dynamics to offer compelling and innovative news and content experiences that benefit all sides of the multi-sided market or markets.

C. The Barriers to Entry for Digital Platforms Are Low and New Entrants Compete Effectively with Established Competitors

The online space is a highly competitive and dynamic business environment characterised by extraordinary innovation, frequent entry, and explosive growth. Competition from established digital platforms

¹¹⁶ Facebook, Inc., Second Quarter 2017 Results Conference Call, July 26, 2017, available at https://s21.q4cdn.com/399680738/files/doc_financials/2017/Q2/Q2-17-Earnings-call-transcript.pdf.

and new entrants forces us to innovate continuously and provide new and better products and services for people and advertisers.

There is a reason that new companies are constantly able to enter the online space: the barriers to entry for online services are low. The products offered are typically software-based, which means they can be rolled out, adopted, and built upon much more quickly (and cheaply) than traditional industry products. A new mobile app requires minimal staff, capital investment, and infrastructure. The rise of cloud-computing platforms hosted by Amazon Web Services, Atlassian, Google, Slack and others has dramatically decreased the time and capital necessary to start and scale an online competitor. App stores run by Google, Apple, Microsoft, and Amazon (among others) provide pre-existing distribution platforms for applications to reach users and scale quickly.

On the consumer side, pervasive multi-homing, interoperability, and free-to-consumer or low pricing allow people to try out and adopt new apps quickly and easily if they find these apps to provide value in their lives. The ubiquity of Android and iOS mobile operating systems—both of which are operated by our competitors—facilitates multi-homing. These factors all make it easier for new applications to compete with established applications on the merits, and to do so quickly. This constant competition has led to a high rate of churn among the most popular online services.¹¹⁷

New competitors continually become established players by offering services that are similar to Facebook's, for example. Ad-supported social network competitors as varied as Pinterest and Snapchat have launched and quickly gained popularity. Snapchat, for example, is growing into a significant player that competes with longer-established online platforms. According to public sources, Snapchat's influence with millennials and its ability to insert ads without being disruptive have allowed the company to charge a premium to advertisers

¹¹⁷ See Evans, *supra* note 90, at 318-21 (“Over the past decade, the websites that receive the most attention—measured by the amount of attention spent on them—have changed dramatically. . . . [The] relatively low levels of correlation between ranks [of web platform popularity over time] given the short periods of time . . . reflect considerable churning.”).

compared to rivals like Twitter.¹¹⁸ An ad agency executive describes Snapchat’s quick progress: “Like Moore’s Law, Facebook was faster than Google, Twitter was faster than Facebook and Snap is faster than Twitter, because they all learnt from each other.”¹¹⁹ Snap Inc. (the company behind Snapchat) reached USD \$824.9 million in advertising revenue in 2017 and is projected to reach over USD \$1.7 billion in 2018.¹²⁰ As of June 2017, Snap Inc. reported that its daily active users grew by 21 percent year-over-year, compared to a 17 percent year-over-year increase for Facebook.¹²¹

These low barriers to entry force online platforms to innovate constantly, and underscore that online platforms are not insulated from competition because of network effects.¹²² In today’s digital economy, “[t]he underlying technology, and business models, facilitate entry and enable firms, with the right formula, to attain global scale quickly, and to challenge incumbent platforms in one or more dimensions. It also results in reversible network effects, unlike physical network industries, that can pose existential threats to the category leaders.”¹²³ As a result, “all online platforms, no matter how secure they may seem, [are forced] to keep innovating and providing value to users. And each needs to worry about other successful platforms in addition to the proverbial inventor in the garage.”¹²⁴

¹¹⁸ See Hannah Kuchler, *Snapchat proves its reinvention credentials ahead of IPO*, Financial Times (Oct. 17, 2016), available at <https://www.ft.com/content/6e4accd6-9260-11e6-8df8-d3778b55a923>.

¹¹⁹ *Id.*

¹²⁰ See Snap Inc., 2017 Annual Report (Form 10-K), at 44, available at https://otp.tools.investis.com/clients/us/snap_inc/SEC/sec-show.aspx?Type=html&FilingId=12569789&CIK=0001564408&Index=10000; Statista: The Statistics Portal, *Worldwide advertising revenue of Snapchat from 2015 to 2018 (in million U.S. dollars)*, available at <https://www.statista.com/statistics/603550/snapchat-worldwide-advertising-revenue/>.

¹²¹ See Snap Inc., Second Quarter 2017 Quarterly Report (Form 10-Q), at 22, available at https://otp.tools.investis.com/clients/us/snap_inc/SEC/sec-show.aspx?FilingId=12226283&CIK=0001564408&Type=PDF&hasPdf=1; Facebook, Inc., Second Quarter 2017 Quarterly Report (Form 10-Q), at 20, available at <http://d18rnop25nwr6d.cloudfront.net/CIK-0001326801/dffb94d1-5a1b-4ec2-8eb7-56901be40efd.pdf>.

¹²² See, e.g., David S. Evans, *Why the Dynamics of Competition for Online Platforms Leads to Sleepless Nights, but Not Sleepy Monopolies* (last revised Aug. 25, 2017), available at https://papers.ssrn.com/sol3/papers.cfm?abstract_id=3009438.

¹²³ *Id.* at 37.

¹²⁴ *Id.*

D. Having Access to Data Does Not Insulate a Platform from Competition

Despite the ease of entry into the online-attention space generally and social networks specifically, of which there are many examples, some commentators have speculated that access to or control of data—whether specific types of data or large amounts of it—provides an established market participant with a sustainable competitive advantage and/or inhibits the ability of new competitors to enter the market.¹²⁵

This is not the case. Our access to user data does not insulate us from competition or have the effect of deterring market entry. As more and more services and aspects of daily life are digitised, new competitors can enter the market without possessing data *a priori*—as numerous examples show.

1. There Are Many Sources and Ways of Obtaining Data

If a competitor needs data to launch or develop its offering, it has many options, including at least the following: (1) collecting data from users through offering innovative and attractive services; or (2) licensing data from widely available data sources. These options may require expenditures—just like hiring employees and buying computers—but they are not a particularly high barrier to entry.

Data is a non-rivalrous good; the fact that one party possesses some quantum of data does not render that same data unavailable to others.¹²⁶ An online platform that engages users can quickly gather a large audience and data about their activities and interests, even if its competitors have been and are doing the same thing. Our own beginning, in which we eclipsed the leading social media firm Myspace (which itself had eclipsed the previous leader Friendster), is a good example. More recent examples include the rapid rise and success of Pinterest and Snapchat. It is common for news media sites and other online companies to collect data on how users engage with their services, and the cost of doing so is low. This is true for both established and emerging companies, and across mobile and desktop platforms.

¹²⁵ Anja Lambrecht & Catherine E. Tucker, *Can Big Data Protect a Firm from Competition?*, 4 (2015), available at https://papers.ssrn.com/sol3/papers.cfm?abstract_id=2705530; see also Margrethe Vestager, Big Data and Competition, Address at the EDPS-BEUC Conference on Big Data (Sept. 29, 2016), available at https://ec.europa.eu/commission/commissioners/2014-2019/vestager/announcements/big-data-and-competition_en.

¹²⁶ See Lambrecht & Catherine E. Tucker, *supra* note 125, at 5.

We collect information that our users choose to provide, either through the information they share with other users or through their activity on the service. Our competitors—including, for example, Snapchat, Pinterest, Twitter, LinkedIn, Amazon, Youtube, and Dailymotion (and many others)—collect data in a similar manner. There are no structural or technological barriers preventing other digital platforms or online news media sites from collecting any of the data that we collect. Indeed, much of the data that we collect is generally possessed by these competitors, as well as many other companies—for example, newspapers, which also collect consumer data.¹²⁷ For example, in December 2017, Fairfax Media, News Corp Australia, and Nine announced an Australian anonymised digital identity co-operative that “would bring together and leverage the combined identity assets of each of these major content publishers, across a combined audience reach of more than 15 million Australians” to enable “marketers to more effectively target their audiences at scale across all three publishers using authenticated user IDs.”¹²⁸ As explained by Michael Stephenson, Nine’s Chief Sales Officer, “This co-operative will allow Fairfax, News and Nine to deliver addressable advertising to consumers with even greater scale using our combined identity in brand safe environments.... This combination of Australian publishers will offer a real alternative to the global players for our advertisers and agency partners.”¹²⁹

If a company wishes to utilise consumer data in the course of its offering, then it may also license or purchase it—and many companies do. Large data sets are available for purchase or license from a number of companies. We, however, are not one of these—we do not sell user data.

¹²⁷ See Steve LeVine, *How Old Tech could roar back*, Axios (Feb. 26, 2018), available at <https://www.axios.com/big-tech-new-rivals-old-tech-ibm-uber-facebook-1519609801-80daea23-cee2-44bf-ad54-f65336a996c2.html> (discussing study by IBM and Oxford Economics that shows that “incumbents like Unilever, Procter & Gamble, Bank of America and the UK’s Santander own about 80% of the world’s data”); see also Duke, *supra* note 110.

¹²⁸ News Corp Australia, *Fairfax Media, News Corp Australia, and Nine to Explore Creation of Anonymised Digital Identity Co-op to Drive Audience Addressability* (Dec. 14, 2017), available at <http://www.newscorpaustralia.com/news/fairfax-media-news-corp-australia-and-nine-explore-creation-anonymised-digital-identity-co-op>.

¹²⁹ *Id.*

2. Mere Possession of Large Amounts of Data Provides Limited Returns

A major reason that market participants cannot use their current access to data to gain an anti-competitive advantage is the limited utility of mere possession of data. Very large datasets can lead to “spurious correlations” that mislead companies.¹³⁰ Value is only created when the relevant data is analysed in order to bring about a desired result (e.g., making predictions about what product or service would be most interesting to an individual). With every passing year, new start-ups are leveraging smart data analysis and machine learning to outcompete legacy firms with large amounts of data.

Furthermore, even a market participant with a substantially greater amount of data than a new entrant does not necessarily possess an advantage proportional to the greater amounts of data it possesses. As professors Anja Lambrecht of the London Business School and Catherine Tucker of MIT have found, “by itself, big data is unlikely to be valuable. It is only when combined with managerial, engineering, and analytic skill in determining the experiment or algorithm to apply to such data that it proves valuable to firms.”¹³¹ Individuals with the necessary skills to interpret data are not difficult to attract, as evidenced by the large number of highly skilled employees flocking to join new start-ups.

Data analysis is also increasingly widely available for purchase or license, and in some instances at no charge. All online companies have access to a host of data analysis instruments and software tools to assist them in compiling and analysing user data. A number of companies have developed a wide menu of analytics tools that incorporate, for example, impressions metrics, readership trends, engagement rates, hashtag and keyword tracking, competitor benchmarking, and influencer identification. For example, we offer CrowdTangle (as discussed above in Section II.B.4) to publishers free of charge; comScore independently offers information regarding the number of impressions various websites receive; Google provides Web data analytics products (via both Google Analytics and DoubleClick); Amazon Marketing Services offers analytics for advertising on Amazon’s

¹³⁰ Lambrecht & Tucker, *supra* note 125, at 9-10.

¹³¹ Lambrecht & Tucker, *supra* note 125, at 11.

properties; and firms like Keyhole, Klout, FourthWall Media, and Crossix sell varied data and analytics suites for marketing on other social media platforms, across the Web, on television, and through industry-specific channels.

In short, advertisers and publishers can choose among many high-quality analytics providers for information to evaluate advertising campaigns and analyse their users.

IV. Conclusion

We continuously work to provide people with a highly-personalised, meaningful experience on Facebook and to facilitate connections among people and communities. Media content creators—which our platform helps to build and engage their audiences, promote their products, and monetise through advertising, branded content, and subscriptions—contribute to and benefit from that user experience. So too do the advertisers that drive so much of the revenue that we use to develop and improve our products.

Technological changes—such as the increasing digitisation of media—and the shifts in consumer preferences that both drive and flow from those changes are not the result of market structures or issues that are unique to Australia, but rather are global phenomena driven by a host of factors, including robust, intense and dynamic competition for consumer attention. They are happening quickly and developing in ways that can be very difficult to predict, which makes them a challenging subject for regulatory intervention. This is particularly the case considering that consumers often have the most to gain from market disruptions caused by technological change and the most to lose from interventions that are designed to protect particular business models from the effects of those changes.

Facebook is open to furthering the dialogue on these important issues and considerations. We therefore look forward to providing more information to the ACCC during the course of this important Inquiry.

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DIGITAL PLATFORMS AND AUSTRALIAN NEWS MEDIA: REPORT

APRIL 2018

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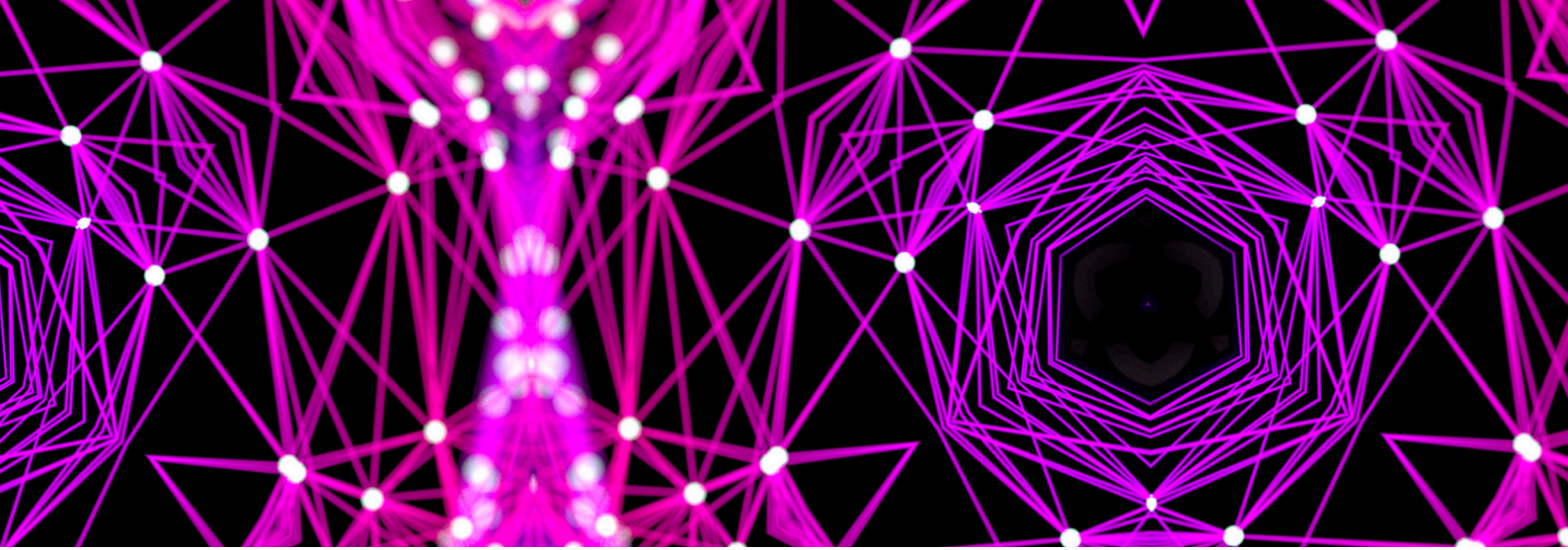


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CRICOS No. 00213J

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EXECUTIVE SUMMARY

This report was commissioned by Facebook in February 2018. The opinions contained in this report represent the independent views of the authors.

This report identifies the growing uptake in recent years of internet-distributed news which has given rise to movement away from a concentrated oligopoly of news providers in Australia. This is a strongly consumer-led development, with consumers increasingly attracted to the capacity to share, comment on and recirculate news through digital platforms.

This report focuses on the:

- benefits of internet distribution of news for consumers;
- benefits of internet distribution of news for advertisers;
- benefits of digital platforms for journalists and news publishers; and
- increasing level of competition in the provision of news that has occurred in the past few years, and the steps taken by the news industry to remain competitive in the digital age.

The structural shift to digital platforms as a means of distributing, discovering and sharing news is a global phenomenon. It continues to create significant benefits for consumers, advertisers and publishers in Australia. This has, in turn, contributed to the movement away from a concentrated oligopoly of news providers in Australia to a market in which there is increasing competition. The advent of digital platforms has contributed to this development and this contributes, in a more general sense, to some of the following industry dynamics.

CONSIDERABLE BENEFITS TO CONSUMERS FROM INTERNET DISTRIBUTION OF NEWS

The rise of digital platforms as a means of sourcing news has provided significant value to consumers. News consumers now have ready access to an almost infinite range of choices of news content and can access news across multiple sources. Consumers also have a significant degree of flexibility in customising the ways

that they consume available content.

Internet users have access to more information in convenient formats and often for free, across a range of increasingly sophisticated personal and mobile devices, and in ways that enable new forms of participation. Those consumers most engaged with news have been embracing these new opportunities to get, share, and comment on news, and engage communities of interest in discussion of the content.

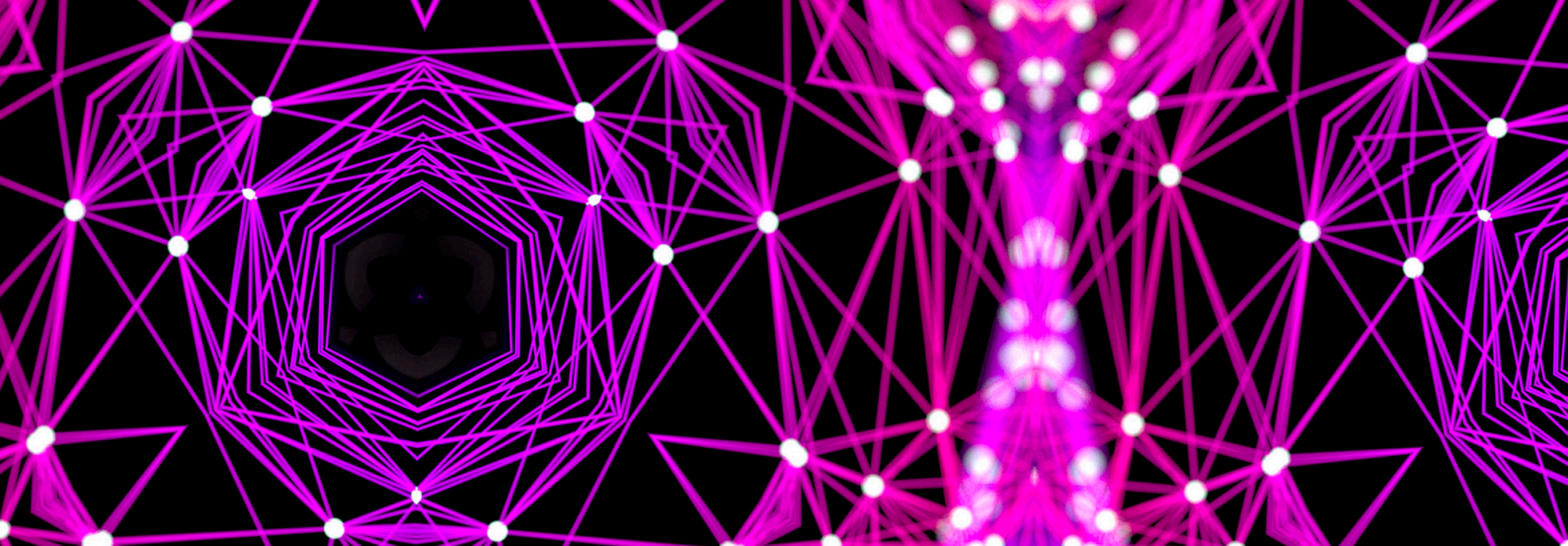
These developments mean that internet users have access to more and more information from more and more publishers, increasing the opportunities most people have to use diverse sources and encounter different perspectives on topics of interest.

This is discussed in more detail in Part A of this report.

DIGITAL PLATFORMS HAVE INCREASED COMPETITION IN THE PROVISION OF NEWS

The ease of access to sources and news content has generated a perceived increase in demand for news worldwide. As a result, news providers – both print-and-digital and digital-only - have embraced this trend and sought to develop business models that allow them to compete in the digital age.

All news media organisations have been engaged in innovation in their business models. The most successful news outlets in Australia have adapted to the digital news environment by diversifying revenue models, transforming journalistic storytelling, and better understanding their audiences. Successful organisations have adopted innovative business models, including by working with digital platforms such as Facebook, as well as alternative funding sources such as advertising, hosting events, philanthropy, memberships, spin-off products and crowd-sourced journalism. This trend, and the need for new providers to re-calibrate their business models in order to adapt to the changing news environment, started long before the rise of digital platforms. However, the increase



in internet distribution of news and digital platforms has created new opportunities for publishers and other content providers.

Internet distribution has provided new opportunities for domestic and international players to compete with the long-established oligopoly in Australian news media markets, and to compete alongside more traditional formats (e.g. print, television and radio).

Recent entrants in the Australian news market have included international titles such as *The Guardian* (commenced in 2013), *Daily Mail* (2014), *Buzzfeed* (2014) and *The New York Times* (2017), as well as local digital-only players such as *Junkee* (2012), *Crikey* (2000), *The New Daily* (2013), *The Conversation* (2011), *The Saturday Paper* (2014), *HuffPost Australia* (2015) and *Mashable* (2005).

This is discussed in more detail in Part B of this report.

BENEFITS TO ADVERTISERS FROM INTERNET DISTRIBUTION OF NEWS

Advertisers have also benefitted from the consumer-led movement to digital platforms, as it provides them with a much wider array of media content providers, and a much more detailed understanding of target demographics through data generated from online transactions. This is, in turn, beneficial for consumers, as they are more likely to see advertisements.

In addition, digital platforms offer a variety of online advertising solutions to suit advertisers' needs. Traditional digital advertising is being complemented by new forms, including: native advertising, customised online content, and e-commerce options on the news provider's site.

This is discussed in more detail in Part C of this report.

BENEFITS TO PUBLISHERS FROM INTERNET DISTRIBUTION OF NEWS

The internet distribution of news has raised some challenges for traditional business models. However, it has also created significant benefits for publishers and journalists. The consumer-led movement to digital platforms has enabled them to reach larger and more diverse audiences at a fraction of the cost of traditional formats.

Digital platforms also offer new opportunities for the monetisation of news content through social media referrals through a range of different business models (including subscriptions, "hard" or "soft" paywalls and other supplier relationships), the sale of advertising and other means. They also allow news content creators, journalists and editors to deepen their relationship with audiences, offering further opportunities to monetise content.

Both traditional and new digital-only publishers have benefitted from internet distribution of news through digital platforms. It has allowed some traditional publishers to pursue a digital-only strategy (e.g. *The Independent* in the UK), whilst allowing all publishers to structure their content to maximise benefits from the combination of their print offerings, digital content on their 'owned and operated' websites, and content promoted through non-owned digital platforms.

This is discussed in more detail in Part D of this report.



DIGITAL PLATFORMS HAVE INCREASED THE PROVISION OF QUALITY NEWS

Internet-distribution of news has also created an environment in which traditional news businesses have been able to increase their audiences, with digital strategies that have both used social media platforms and boosted subscriptions – through both ‘hard’ and ‘soft’ paywalls – to trusted news brands.

The increased competition between news providers means that there are now more quality Australian online news sites than ever before. These include public service media such as the Australian Broadcasting Corporation (ABC) and the Special Broadcasting Service (SBS) (which has partnered with *Vice* around the *Viceland* TV channel), and sites such as *The Conversation*, *Guardian Australia*, *Crikey*, *The New Daily* and *The Saturday Paper*.

DIGITAL PLATFORMS HAVE PROMOTED INNOVATION IN NEWS TO THE BENEFIT OF UNDERSERVED COMMUNITIES

There is significant evidence in the provision of innovation in Australian digital news markets. First, international news outlets such as *The Guardian*, *Daily Mail* and *The New York Times* have significantly added to the mix of Australian news content available to local audiences. Second, a number of news providers have innovated in catering to underserved sections of the community, including Indigenous Australians, young people, women and the LGBTIQ community. These news providers include ‘born digital’ (and primarily digital) brands such as *BuzzFeed*, *Junkee* and *Vice*, as well as *Guardian Australia*.

PART A

THE RISE OF INTERNET DISTRIBUTION OF NEWS AND ITS BENEFITS TO CONSUMERS

THE CHANGING NATURE OF NEWS PROVISION

News is vitally important to how societies, political systems and economies operate, and a democratic society and public sphere requires free and independent media.

The media is referred to as a 'Fourth Estate' due to its importance in scrutinising and holding to public account those who have power in other public institutions, including government, business, the judiciary and, indeed, the media. The 1947 United States Commission on the Freedom of the Press (Hutchins Commission) cited five core social responsibilities in the provision of news:

1. A truthful, comprehensive, and intelligent account of the day's events in a context which gives them meaning;
2. A forum for the exchange of comment and criticism;
3. The projection of a representative picture of the constituent groups in the society;
4. The presentation and clarification of the goals and values of the society; and
5. Full access to the day's intelligence (cited in Senate Select Committee on the Future of Public Interest Journalism, 2018, p. 3).

Society has typically looked to journalists as professionals trained in the creation and production of news to provide the information necessary to support these social and democratic citizenship goals. For more than a century, we looked to large news organisations to organise and distribute news content as a single content bundle. This has come to be known as the *mass media* or *mass communication* model, based on what McQuail (2005, p. 17) termed 'society-wide communication'.

In the 21st century, we have seen a diversification of sources of news with the rise of digital platforms. Publishers continue to distribute their content through a range of mediums, including print, radio and television. However, with the rise of internet distribution of news, publishers also increasingly distribute and readers engage with all forms of news content through digital platforms, including Facebook, Google, Twitter, Instagram, Snapchat, Apple News and others. News sharing has also become an increasingly important social practice, and consumers increasingly access online news through digital platforms¹.

THE GROWING AUDIENCE FOR INTERNET-DISTRIBUTED NEWS

The rise in news access through digital platforms has been one of the major developments in news consumption in the 2010s. This includes accessing news online from the publishers' own digital platforms, as well as news accessed through social media platforms.

The News & Media Research Centre at the University of Canberra found that in 2017, almost half of Australians (43.8 per cent) were identifying digital platforms as their main way of accessing news (Watkins et. al., 2017, p. 7). This included the websites of print, radio and TV providers as well as social media and news aggregators. Almost half of those surveyed (45.9 per cent) had accessed news from a social media platform over the course of a week, a lower number than those accessing news from television news bulletins (50.1 per cent).

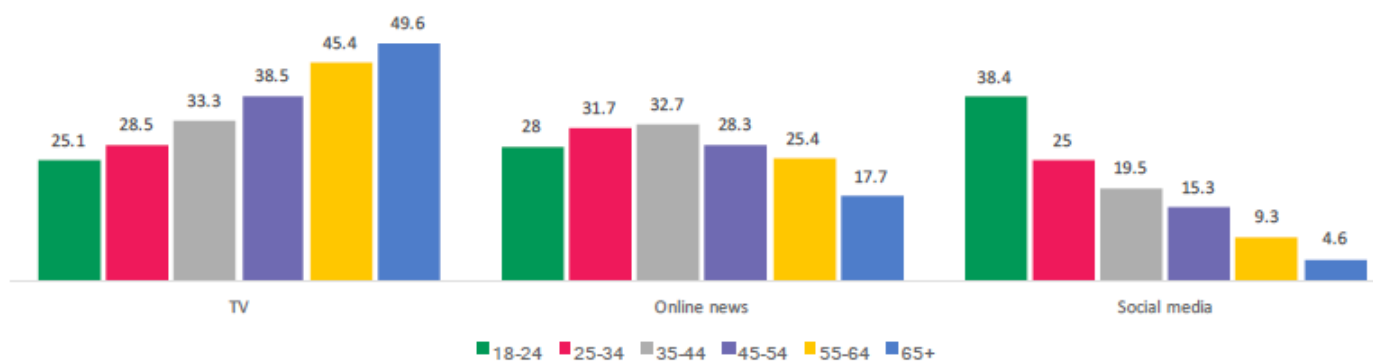
¹ In this report, we follow the Australian Competition and Consumer Commission (ACCC) in defining digital platforms as including 'digital search engines, social media platforms and other digital content aggregation platforms' (ACCC, 2018, p. 5).

FIGURE 1: MAIN NEWS CHANNELS FOR AUSTRALIANS, 2017 (%)



Source: Watkins et. al., 2017, p. 7.

FIGURE 2: MAIN NEWS CHANNELS BY AGE (%) IN AUSTRALIA



Source: Watkins *et. al.*, 2017, p. 7.

The News & Media Research Centre study identified a significant age-based correlation in the use of digital platforms. While online news platforms are accessed in a broadly even manner across age demographics, it was found that 38.4 per cent of Australians surveyed aged 18-24 identified social media as their main way of accessing news. However, just 4.6 per cent of those aged 65+ considered social media to be the main way of accessing news.

For television, the picture is a little more nuanced, with 49.6 per cent of those aged over 65 identifying television as their main source of news. Even in the lower age brackets (18-24 and 25-34), over a quarter of people surveyed identified television as their main source of news which continues to emphasise the importance of this medium in relation to news consumption.

CONSUMER BENEFITS FROM INTERNET-DISTRIBUTED NEWS

The digital era has seen a significant value shift to consumers of news, marking the continuation of trends towards access to a wider range of news sources. This trend began with access to cable and satellite news channels in the 1980s and 1990s, and includes the growth of online news and digital distribution platforms. These benefits have been most marked for those who access news from multiple sources at several times in any given day. For this group, digital platforms provide new opportunities to engage with the news by commenting on stories, sharing them, discussing them with others, and even publishing their own material online. News content providers have in turn been highly responsive to this market segment.

Internet-distributed news has brought new digital-only players, both domestic and international, into the Australian news market, making it more competitive. Historically, the Australian news media has been amongst the most concentrated in the world. In a 28-country study, Noam (2016) identified the Australian newspaper industry as having the second highest level of ownership concentration after China, and the lowest number of net news

voices (i.e. number of news providers with >1 per cent of audience share, excluding subsidiaries of the same company) of the countries surveyed, excluding China (Noam, 2016, pp. 1252, 1256). Papandrea and Tiffen (2016) observed that four companies dominated both traditional and new media (News Corporation, Fairfax, Nine Entertainment Group and Seven Network) and that there has been an increase in cross-media ownership by these conglomerates.

Traditional news media mastheads continue to have considerable competitive advantages in a changing news media marketplace. They have trained and experienced journalists and media experts, who bring tacit knowledge, contacts and industry-developed skills to news content production. They have established brands and a degree of trust and reciprocity with their audiences. In an age of information abundance, their reputations enable them to be viewed as reliable sources that have the resources and capabilities to deliver news content across multiple platforms in order to maximise value from a convergent media environment.

Bright (2016) has observed that ‘the significance of story importance cues for driving sharing mean that news editors have considerable power to shape the news agenda on social media’ (Bright, 2016, p. 344). Similarly, Mukerjee *et. al.* (2018) found that while there are a more diverse range of online news sources being accessed by consumers, there is nonetheless a minority of well established news sources at the core of the interpersonal online news networks generated by users through commenting and sharing practices.

The internet distribution of news has significantly increased the number of choices available to consumers.

NEWS VALUE SHIFTING TO AUDIENCES

Any study of the impact of digital platforms on the supply of news and journalistic content cannot therefore simply focus on how changes in news production, distribution and consumption arising from those digital platforms impact upon publishers and journalists. It needs to consider the relationship between digital platforms and media content creators, consumers and advertisers, as well as to society more generally.

The media economist Robert Picard (2010) has argued that any analysis of changes in news need to start from the perspective of value. He notes that the value of news is never simply what people are prepared to pay for it, as it clearly has both individual and social value. He also points out that, historically, while news organisations have been in the business of providing news to consumers, this has not been for the most part their core business, which has instead been to provide audiences to advertisers:

For more than a hundred years the business of news organizations has not been content and its consumers but rather audiences delivered to advertisers. From the business perspective, contemporary concerns about the industry are not fundamentally focused on content changes or changes in its consumption, but rather on the effects of those consumption changes on the business model of delivering audiences to advertisers. (Picard, 2010, p. 11)

For the most part, consumers have not primarily funded the production and distribution of news. While consumers pay for news provided by some commercial media organisations, news content creators have been primarily financed through advertising revenues (including classified advertising), with public service media being directly funded by governments, either exclusively (as with the Australian Broadcasting Corporation) or primarily (as with the Special Broadcasting Service).

Picard identifies five key stakeholders in news:

1. Publishers, and those who invest in commercial news businesses;
2. Consumers, who require timely and accurate information, as well as access to a diversity of views on topical issues;
3. Advertisers, who seek to reach those consumers most likely to purchase or consume their product or service;
4. Journalists and other media workers, who seek opportunities for paid employment;
5. Society, which benefits from a well-informed citizenry, a functioning polity and a cohesive society. The social value of news is particularly important when it goes beyond simply providing information to enabling greater engagement,

participation and understanding in social affairs.

The digital era has seen a significant value shift to audiences and advertisers. News consumers now have access to an almost infinite range of choices of news content on the internet. They can customise the content that is made available to them online, and interact with news producers and other consumers through real-time online comments pages. Moreover, they can share news content on digital platforms, indicate what content they most like, and engage communities of interest in discussion of the content.

MULTI-HOMING OF NEWS SOURCES

It should be noted that the primary source of news is not the only means by which this news is accessed. We would expect, for instance, that users primarily accessing news from social media platforms would often do so by 'clicking through' to content on the publisher's site, as well as accessing news through print, radio and television.

The University of Canberra study cited above finds that while 45.9 per cent of news consumers access news from social media sites, only 16.2 per cent of those surveyed identify such sites as their primary means of accessing news. Consideration of competition in news media markets therefore needs to recognise that consumers move between traditional news media sources, the online sites of traditional news media, and digital platforms.

Mukerjee *et. al.* (2018) empirically tested the proposition that a greater number of online news sources leads to audience fragmentation and 'filter bubbles', where users increasingly self-select news that reinforces their own values and ideas. Drawing on extensive evidence from the U.S. and the U.K., they found research against the 'filter bubble' hypothesis, arguing that 'audiences searching for news online are not fragmented in a way consistent with the hypothesis of self-selection or selective exposure', and that 'large segments of the online population obtain their news from a diverse range of media' (Mukerjee *et. al.*, 2018, pp. 42, 43).

PART B

BENEFITS OF INTERNET DISTRIBUTION OF NEWS TO ADVERTISERS

Advertisers not only have access to a much wider array of media content providers, but also have a much more fine-grained understanding of target demographics through data generated from online transactions. A more competitive news environment has also seen greater tailoring of news content to niche audiences and market segments, as well as partnerships with digital news platforms in the development of 'native advertising', or editorial content that sits within the publisher's masthead, rather than being stand-alone or incidental.

Changes in the channels that advertisers choose to use corresponds to the changes in Australian consumers' consumption patterns in these channels.

News publishers have reported growing revenue from digital and programmatic advertising. The latest figures showed that the Australian news media sector reported an annual revenue of \$2.07 billion, with digital growing by 8.5 per cent (Bennett, 2017).

Display and search advertising on mobile devices is growing at twice the rate of total internet advertising. In 2016, it represented 32 per cent (A\$2.283 billion) of total internet advertising spend. It is predicted to increase to 70 per cent (A\$6.974 billion) in 2021.

Emergent digital-only news platforms have been particularly attuned to the relationship between different target audiences online and the capacity to better target news content to maximise advertiser opportunities. For example, the Huffington Post – which is accessed by consumers globally – offers 45 content segments on its home page, that include content tailored to particular interests (parenting, travel, relationships) and communities (Queer Voices, Black Voices, Latino Voices) as well as sponsored content segments (Sleep & Wellness, Outspeak, The Power of Humanity).

FIGURE 3: MULTIPLE ENTRY POINTS TO HUFFPOST WEB SITE

The screenshot shows the Huffington Post website navigation menu. At the top, the 'HUFFPOST' logo is centered, with social media icons (email, Facebook, Twitter, Instagram, Snapchat) and 'EDITION' on the right. The menu is organized into several columns:

- NEWS**: US News, World News, Business, Environment, Health, Social Justice.
- ENTERTAINMENT**: Culture & Arts, Media, Celebrity, TV & Film.
- POLITICS**: Congress, Donald Trump, 2018 Elections, Extremism.
- COMMUNITIES**: Queer Voices, Women, Black Voices, Latino Voices, Asian Voices.
- LIFE**: Style & Beauty, Food & Drink, Parenting, Travel, Finds, Wellness, Relationships, Money, Home & Living.
- SPECIAL PROJECTS**: Impact: Project Zero, Impact: This New World, Highline, Listen to America, Podcasts.
- VIDEO**: (No specific items listed).
- FROM OUR PARTNERS**: Sleep & Wellness, Outspeak, What's Working: Purpose + Profit, The Power of Humanity.
- OPINION**: Expert analysis and commentary to make sense of today's biggest stories.
- NEWSLETTERS**: Sign up here to have the best stories delivered straight to your inbox.
- HUFFPOST PERSONAL**: First-person essays, features, interviews and Q&As about life today.

BENEFITS OF INTERNET DISTRIBUTION OF NEWS TO PUBLISHERS

The Internet distribution of news through digital platforms has offered several benefits for both traditional and newer, born-digital news publishers. Distribution through social sharing as well as through news publishers' own web sites has greatly expanded audience reach.

Digital platforms enable publishers and journalists to reach larger audiences at a fraction of the cost of traditional formats, and also diversify the reach of news, with social media being a preferred method for younger audiences (Watkins et. al., 2017, p. 7). For newer, digital-only news sites, digital platforms can be like 'newsagents', as Simon Crerar, the editor of *Buzzfeed*, has observed (Senate Select Committee, 2017, p. 48). Digital platforms also offer new opportunities for the monetisation of news content through advertising. Sites such as *Huff Post Australia* and *Junkee* estimated in 2017 that 40-60 per cent of their audience comes from social media referrals (Carson & Muller, 2017, p. 21).

Traditional news publishers have also benefited from digital platforms. The Guardian Media Group has observed that 'social media platforms have a powerful role in amplifying the news that is published by established news organisations, while established news media play an important role in amplifying the message of purely online news outlets' (Guardian Media Group, 2017). They argued that established news organisations continue to be more trusted by audiences, so that while they can generate content that is 'viral' and circulates most rapidly on social media, this is complemented by long-form content and opinion journalism on their own web site.

The Independent in the UK moved to being a digital-only news business in 2016, abandoning the print version of its newspaper. In their evidence to the Competition and Markets Authority, they observed that this had been the key to their corporate survival, enabling them to reinvest in basing correspondents in Moscow and the Middle East. The Independent described its approach to digital strategy as being three-fold: traffic to its own site; traffic through Facebook; and its premium subscriber-only content. In evidence to the Competition and Markets Authority in November 2017, Zack Leonard, Managing Director, Digital at *The Independent* observed that:

We also think of our business as not just the

destination website or, in other jargon, the 'owned and operated properties' but also our distribution of content through social media and...our own paid-for premium subscription-based application. Each of those has a slightly different collection of content each day. In simple terms, there may be stories that are simply distributed through social media channels, onto our Facebook page, for example. Those go out in two forms to Facebook; either as traditional posts, as you might know them, and also as Facebook Instant Articles which are, in their app, treated differently ... In the case of the former, the posts, that will link people back to our owned and operated website where we monetise them through advertising. Then in Facebook Instant Articles we actually monetise within the application itself by advertising that is sold by Facebook on our behalf and we gain a revenue share from them. That has been quite a successful area for us ... We practise a very ecumenical approach there and distribute quite confidently and actively with Facebook (Competition and Markets Authority, 2017).

BENEFITS OF DIGITAL PLATFORMS FOR JOURNALISTS

Digital platforms also provide an important way in which journalists can reach their audiences. Use of digital platforms to distribute news content can strengthen the connection between journalists and their audiences, broaden the reach of news stories and increase audience engagement. Social media platforms in particular have offered unique functionalities and features which have redefined user involvement in news. Krumsvik (2018) has identified four ways in which publishers and journalists and news organisations can interact with their audiences to derive mutual benefit from internet distribution of news:

1. Audiences can participate in the production of news content;
2. Journalists and their audiences can share news stories, and users can interact with other users;
3. Online discussions can be directed to social networks and be separated from editorial content to in order to more effectively manage participation; and
4. User interactions can be gathered to better enable the more effective targeting of news content.

Facebook Instant Articles is an example of an innovation introduced by a digital platform that has benefited both readers and publishers. Instant Articles allow publishers to post the full text of an article on Facebook, resulting in faster load time and a better reading experience for people. Traffic from Instant Articles counts as traffic to the publisher's website. Publishers can monetise their content through advertising in Instant Articles. If publishers sell the ads themselves, they keep 100% of the revenue. If Facebook sells the ads, publishers keep a majority.

Simon Crerar, Editor-in-chief of *Buzzfeed*, has noted that its journalists have used Twitter to 'road test' story ideas: if a story idea got 100 re-tweets, it was taken as a sign to publish on the news site (Carson & Muller, 2017, p. 20). This work also helps to build a vitally important relationship between journalists and their audiences as collaborators and co-creators in the production and distribution of news content.

Tandoc and Vos (2016) found that digital platforms were being used in newsrooms for:

- **Monitoring:** They monitor news stories published by other news organisations to catch the news stories that they might have missed. They stay posted on audiences' comments on their published stories, their competitors' published stories, and trending topics on social media;
- **Interacting:** They interact with news audiences by actively soliciting information from them about news events, looking for different viewpoints, crowdsourcing information, and engaging with audiences by involving them in the process of news construction;
- **Promoting:** They deliver and promote content, especially increasing views to stories which underperform in terms of clicks on their own websites. Media content creators are encouraged to have social media presence to promote content and drive traffic to their websites. This also serves the purpose of search engine optimisation for the promotion of their news stories.

The business blogger Ben Thompson, who produces the technology and media blog *Stratechery*, describes the role played by social media in building an audience of this content in these terms:

It's easy to look at where I am today, with my 1,000+ liked tweet, and presume that I had a head start; in fact, I was a nobody. To be sure, I had the good fortune of going to great schools and working for great companies – I credit both without hesitation – but I certainly wasn't a pre-established "brand" or social media dynamo: I had 368 Twitter followers, mostly former classmates that signed-up for Twitter because I taught a class about using the service, who then never touched it again.

What made the difference – what made Stratechery possible even more than WordPress, or Stripe, or Memberful, or any of the other tools that make it possible build a one-person publishing business – was social media. I only needed a couple of people who were willing to tell their friends, or audience, or

whatever you want to call it, and the fact they could do so with so little friction was the single-most important factor in getting from there, in 2013, to here, in 2018. (Thompson, 2018)

From a traditional journalist's perspective, the ABC political reporter and TV presenter Annabel Crabb has described the transformation of her professional role arising from digital platforms and the internet distribution of news in the following way:

One of the sources of good in social media is that it has made journalists more accountable. I left the Sydney Morning Herald in 2009 to work online, and one of the hardest things in the short term was having as my primary audience all these people who could write back straight away; as soon as you posted, you'd have all these comments and critiques. One of the safe things about newspapers historically was that they were just a one-way organ. File a story, off to the pub, people might write to you.

But the confronting thing about working online was and is that it's not the end of it when you file your story or column or whatever. You're then hearing back from people exactly what they think of it, who are prepared to say whatever they like. I think that's a really healthy thing. (quoted in McNair et. al., 2017, pp. 74-75)

QUALITY TRENDS WITH ONLINE NEWS

There can be little doubt that digital platforms have increased the range of choice in news that is available to audiences, and the spectrum of choices available to advertisers. But questions may be asked as to whether choice has come at the expense of quality. In this regard, one of the questions the ACCC has raised in its Issues Paper is in relation to 'impacts (both positive and negative) that digital platforms are having on consumers?' (ACCC, 2018, p.20).

New online-only providers have contributed significantly to the reporting of Australian political news, at a time when some traditional news providers have been downsizing their political reporting, both in newspapers and television (McNair et. al., 2017). Journalists such as Katharine Murphy, Gay Alcorn and Paul Daley (*Guardian Australia*), Michelle Grattan (*The Conversation*), Paul Bongiorno (*New Daily*), Bernard Keane (*Crikey*), Martin McKenzie-Murray and Mike Secombe (*The Saturday Paper*), Ben Eltham (*New Matilda*), Alice Workman and Josh Taylor (*Buzzfeed*), Osman Faruqi (*Junkee*) and Josh Butler (*HuffPost*) are among the many new (and well established) faces that are reporting on Australian politics and public affairs for publications that – with the exception of *Crikey* – did not exist in Australia ten years ago.

Guardian Australia has also received Walkley awards (the industry's awards for the best journalism in various fields) in 2013, 2015 and 2016. In addition, *Buzzfeed News* was a 2018 Pulitzer Prize finalist in the category of International Reporting for its reporting on the Russian assassinations in Britain and America (Laforme, 2018).

New online-only providers also provide reporting on a diversity of subjects and adopt a diversity of business models. Some are intended primarily to drive viewer traffic through their stories, while others are aimed towards particular demographics for whom this is not their primary concern.

However, it is fair to say that greater competition is occurring at both the 'quality' and 'popular' ends of the Australian news media market to a greater degree than ever before. Moreover, the provision of high quality journalism has been a very important driver of the digital strategies of traditional news outlets to bring subscribers to their sites.

EMPLOYMENT FOR AUSTRALIAN JOURNALISTS

Inquiries such as the Senate Select Committee on the Future of Public Interest Journalism (2017) noted the layoffs at large news media organisations such as News Corporation and Fairfax. This has been taken by some as *prima facie* evidence of declining opportunities in journalism. But it is complicated to measure trends in journalism, as developments in large organisations are more visible than those in smaller start-up businesses.

The Australian Government Department of Jobs and Small Business found that in 2017 there were 24,600 people employed as journalists and writers, with this figure expected to decline slightly to 23,700 by 2022 (Australian Government, 2018).

At the same time, jobs in journalism are not necessarily the traditional ones. It is likely that these figures do not present the full picture and that the trend is more nuanced than it at first appears. The New Beats Project, in its submission to the Senate Select Committee on the Future of Public Interest Journalism, made the point that:

The official figures that do exist, do not provide us with a clear or current picture. Moreover, there is no one consistent definition of what a journalism job actually is. The same economic and technological forces that have disrupted the journalism business model have also transformed common understandings of what journalism is (Zion et. al., 2017, p. 3).

COMPETITION IN THE NEWS INDUSTRY IN THE DIGITAL ERA

COMPETITION BETWEEN NEWS PROVIDERS IN AUSTRALIA

In Australia, the internet distribution of news has increased competition in markets for the provisions of news. Digital platforms have provided new opportunities for domestic and international players to compete with what has long been an oligopoly in Australian news media markets. Recent entrants in the Australian news market include print and digital media outlets (*The Guardian*, *Daily Mail*, *The New York Times*) that have established Australian titles, as well as digital-only players such as *Buzzfeed*, *Junkee*, *The New Daily* and *The Conversation*.

A number of major news outlets have entered the Australian news market over the last five years. These include *The Guardian*, *Daily Mail*, *BuzzFeed Australia*, *Junkee*, *HuffPost*, *Vice*, *Business Insider* and *The New York Times*.

a) International News Outlets: *Guardian Australia*, *Daily Mail Australia* and *The New York Times*

Of these new entrants, *Guardian Australia* and *Daily Mail Australia* have experienced the most rapid growth. *Guardian Australia* expects to break even in Australia in 2018. They have been expanding their operations based upon adapting the *Guardian UK*'s reputation for quality journalism as well as having a strong local news coverage, without the scale and scope of the Fairfax and News operations. It has a loyal reader base who respond positively to its left-liberal style of journalism, with about 65,000 Australian readers paying for content through a mix of subscriptions, one-off contributions and supporter relationships (Samos, 2018). Its CEO, David Pemsel, attributes its success in Australia to a strong alignment between its business model and its approach to journalism:

You've just got to have a core, clear editorial vision and you've got to be distinct, you've got to have a voice, you've got to have a very clear target audience and if you don't have those things, regardless of how efficient your business model is, you are just going to fail (quoted in Samios, 2018).

Adopting a different approach to the Australian news market, *Daily Mail Australia* is strongly driven by digital advertising, and does not apply paywall, subscription

or supporter models. Its news content is less driven by editorial concerns than it is by the desire to drive traffic to the site: its stories are often visually driven and celebrity based.

The New York Times launched an Australian online edition in May 2017. With an editorial staff of 10, it does not provide an Australian edition – unlike *Guardian Australia* and *Daily Mail Australia* – but rather provides tailored Australian content for those Australians accessing the *The New York Times* site. It describes its readership as: “globalizers,” a mix of Australians in Australia (many with experience abroad) plus Australians living in other countries, Americans and other expats in Australia, and those of various backgrounds who have a connection to Australia or who are just curious and eager to understand this part of the world’ (Cave, 2017).

b) Print and Digital: *The Saturday Paper*

Schwartz Media also commenced production of *The Saturday Paper* in 2014 as a print as well as online national publication, reversing a trend towards the number of national and regional newspaper titles that has been in place in Australia since the 1980s. Established by Morry Schwartz in 2014, it attracts a digital readership of over 100,000 in addition to print sales of 115,000 (Roy Morgan Research, 2018). Schwartz Media also publish *The Monthly* and *Quarterly Essay*, and have provided competition to upmarket broadsheet media by identifying underserved audiences.



c) Digital-Only News and Opinion Sites

The majority of the new entrants referred to above are digital-only news services that have been developed over the last decade, where typically target niche audiences are not well served by more established print mastheads.

Sites such as *Buzzfeed*, *HuffPost*, *Vox*, *Vice*, *Mashable*, *Junkee*, and others have grown rapidly in the 2010s, and are widely read in Australia. Some examples of successful online-only news and opinion sites in Australia include:

- *BuzzFeed*, which was founded in New York City in 2006, and now operates in 11 countries. It commenced operations in Australia in 2014, with a news room of about 12 staff (Carson & Muller, 2017). It is a hybrid news service, operating both as a content aggregator and a generator of original news content. It has been a notable innovator in native advertising, making it less susceptible than other online news providers to the falling returns for digital advertising.
- *Junkee*, which has been another successful online news provider, attracting over 1.5 million visitors per month (O'Donnell, 2016). Like *BuzzFeed*, it has a predominantly younger demographic, and mixes conventional news reporting and investigative journalism with music, travel, lifestyle and pop culture stories, and has also been highly innovative in developing native advertising. Its editor, Tim Duggan, has estimated that about 60 per cent of its traffic comes from digital platforms (Carson & Muller, 2017).
- *HuffPost Australia*, which was established in 2015 as an Australian subsidiary of the very successful *Huffington Post* online site. Estimated to have about 1.9 million unique page views per month, it developed a partnership with Fairfax Media for shared news distribution, although this was discontinued in late 2017 as *HuffPost* reduced its Australian footprint.
- *Crikey*, which is Australia's most established online-only news site. Founded in 2000 by former political staffer and shareholder activist Stephen Mayne, it was acquired in 2005 by Prostate Media Partners, headed by former Sydney Morning Herald editor Eric Beecher. Journalists such as Bernard

Keane, Guy Rundle and Helen Razer are among Australia's best known opinion writers. *Crikey* has developed spin-offs such as the arts focused *Daily Review*, edited by Raymond Gill, as well as hosting a number of blog sites. It is subscription-based with some freely available online content, and has about 14,000 subscribers.

- *The New Daily* was established in 2013, with former *Herald-Sun* and *Age* editor Bruce Guthrie as its founding editor. It is owned and funded by three major Australian superannuation funds: Cbus; SuperHoldings; and Australian Super. It employs 10 journalists, and is not reliant on advertising, subscriptions or paywalls to subsidise its journalism. It attracts just under 1 million site visits per month, and has developed video content sharing arrangements with the ABC. Its contributors include well-known Australian journalists such as Paul Bongiorno, Rob Burgess and Paula Matthewson.
- *Mashable*, which was established in the US in 2005, and is an online news site dedicated to digital developments and social media. It is estimated that over 60 of its articles are tweeted every minute. It is prevalent in digital campaign marketing as social media users are encouraged to interact with the content. *Mashable Australia* maintains a small office in Sydney.

Sites such as *BuzzFeed*, *Junkee* and *Mashable* make heavy use of social media platforms to both drive traffic to their own sites and to generate revenues from media partnerships.

The characteristic features of these new digital only news services include:

- A combination of strategies to drive traffic to their sites and use of social media platforms such as Facebook and Twitter;
- Aggressive search engine optimisation and viral content to drive traffic to their sites;
- Very lean organisational structures; and
- Strong reliance on digital advertising (Nicholls et. al., 2017).

Their impact on the news media industry has been very significant, with some academics referring to the ‘Buzz-feedification of journalism’, where timeliness is prized and where traditional news content sits alongside listicles, quizzes and other techniques to drive traffic through viral content (Tandoc, 2018).

The Conversation is also an important new provider of quality online news and commentary. *The Conversation* was launched in Australia with support from the Federal Government, universities and the CSIRO in 2011, and now operates as a non-profit site that has over 2.7 million online site users per month in Australia. Its content is largely derived from university researchers, supported editorially by a team of journalists. It has a paid staff of about 40, and receives corporate and foundation funding as well as having about 40,000 supporters who make regular payments to support the site. *The Conversation* has expanded internationally, and now operates in the UK, the US, Canada, New Zealand, France, Indonesia and Africa.

An important aspect of news content innovation by digital-only sites has been in the provision of news focused on underserved demographics. Whereas traditional mass media have assumed a relatively homogeneous ‘mass audience’, digital-only news providers can focus upon particular market segments. For example, *Buzzfeed* and *Junkee* have focused on younger audiences. Sites such as *HuffPost* have had a strong focus on content produced by and for the LGBTIQ communities. *Guardian Australia* has pioneered an innovative partnership arrangement with IndigenousX, publishing on a regular basis content produced by Indigenous Australian journalists and writers.

In these instances and many more, the internet distribution of news has enabled content innovation that broadens the diversity of Australian media in terms of the range of voices that are able to publish, and the range of topics of significance that are covered in depth in Australian news media.

TOP ONLINE NEWS SITES IN AUSTRALIA

Information on the top ten news sites accessed by Australians in February 2018 (see Table 1) shows that the traditional news providers are still the largest players (e.g. news.com.au, the Nine and Seven sites, the ABC and the Fairfax media). However, new sites such as *Daily Mail Australia* and *The Guardian* have captured significant audience share, ranking 5th and 7th in the Top 10 news sites.

In addition, while not a subject of the ACCC Digital Platforms Inquiry, it needs to be noted that both the ABC and the SBS are very significant providers of online news to Australians.

The ABC has long been a pioneer in online news, and in 2016–17, the average monthly reach of ABC Online in Australia was 7.7 million, or 39 per cent of online Australians (ABC, 2017). The SBS Online audience is about 2.5 million unique visitors per month, or just over 12.5 per cent of online Australians (SBS, 2017). In 2016, SBS began a partnership with VICELAND, rebranding its SBS2 digital TV channel as SBS VICELAND.

BUSINESS MODEL CHANGES TO COMPETE IN A DIGITAL ERA

Traditional news businesses have been in a period of protracted and significant change over the last two decades, including in relation to funding. These challenges and changes significantly pre-date the rise of digital platforms as one of the new methods for consumers to access news content.

News business globally have sought to respond to these changes in a number of different ways – in some cases selling “non-core” but profitable parts of their businesses, such as classified or real estate advertising businesses. In November 2017, Fairfax listed its Domain property site as a separate entity on the ASX, raising \$2.2 billion in its IPO. It is not clear, however, that the proceeds of these sales have been re-invested in promoting the distribution of journalistic content.

Kantar Media (2017) have identified that issues with the traditional news funding model (largely based on sales of newspapers and advertising) have arisen because:

1. There has been a shift of advertising revenues away from print media and towards digital;
2. The abundance of information online makes it more difficult for traditional news mastheads to differentiate themselves on the basis of quality; and
3. There has been a declining consumer preparedness to pay for news when so much is freely available online.

This relationship is presented in Figure 4.

However, a number of these assumptions must be challenged. Recent research and statements from leading figures in the news industry suggest, again, that the picture is far more nuanced and complicated. In their report *The Future Newsroom*, Andrea Carson and Denis Muller (2017) challenged the assumptions that news businesses are in decline, and that established news mastheads are struggling with the transition to digital. Carson and Muller’s research findings:

tell an optimistic and largely untold story about modern digital newsrooms that starkly contrasts with the doom and gloom narrative of the decline of traditional media that has pervaded much commentary about news media (Carson & Muller, 2017, p. 3).

Carson and Muller find that diversifying revenue models, transforming journalistic storytelling, and better understanding audiences have been critical to this success. That is, news providers, including traditional news providers, can be successful in the digital era, but the business models of news providers have had to adapt and innovate, and they will need to continue to do so.

Murdoch's insight challenges the claim made by some that there is declining consumer preparedness to pay for news when so much is freely available online. As we observe below, customers are prepared to subscribe and pay for quality news.

Rupert Murdoch observed at the 2009 Federal Trade Commission workshop on Journalism in the Digital Age that:

The old business model based on advertising-only is dead. Let's face it: a business model that relies primarily on online advertising cannot sustain newspapers over the long term. The reason is simple arithmetic. Though online advertising is increasing, that increase is only a fraction of what is being lost with print advertising. That's not going to change, even in a boom. The reason is that the old model was founded on quasi-monopolies such as classified advertising – which has been decimated by new and cheaper competitors such as Craigslist, Monster.com, CareerBuilder.com, and so on. Even online display advertising is in such huge supply that its price is under constant pressure. In the new business model, we will be charging consumers for the news we provide on our Internet sites. We are already charging – and successfully so – for the Wall Street Journal online. WSJ.com boasts more than one million subscribers. Barrons.com has another 150,000 subscribers. We intend to expand this pay model to all our newspapers in the News Corporation stable, such as the Times of London, The Australian, and the rest. (Murdoch, 2009).

FIGURE 4– CHALLENGES FACING THE TRADITIONAL NEWS INDUSTRY BUSINESS MODEL

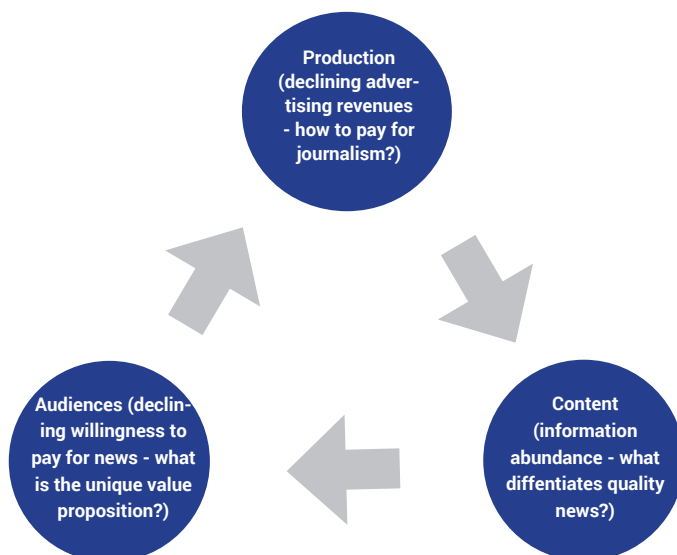


TABLE 1 - TOP TEN NEWS SITES (MON 26/2/18 - SUN 4/3/18)

RANK	NAME	PARENT COMPANY	AVERAGE DAILY UNIQUE AUDIENCE
1	news.com.au	News Corp Australia	1,448,167
2	nine.com.au	Mi9 (Nine Entertainment Co. partnership with Microsoft)	1,275,647
3	ABC News Websites	ABC	1,185,817
4	Daily Mail Australia	DMG Media	885,158
5	Yahoo7 News Websites	Oath Inc. (Verizon/AOL/Yahoo) Seven West Media	719,347
6	Fairfax Digital Regional Network	Fairfax Media Limited	408,238
7	The Guardian	Guardian Media Group	384,066
8	MSN News	Microsoft	310,126
9	BBC	BBC	308,928
10	Herald Sun	News Corp Australia	301,911

Source: Nielsen Digital Content Rating, <http://www.nielsen.com/au/en/top10s.html>

Strategies of Traditional News Businesses

There has been considerable content and business model innovation among traditional news businesses in recent years, as more hybrid, experimental and evolutionary approaches to funding journalistic content are being developed in news markets.

There is considerable anecdotal evidence that this has become more significant over the last few years. In the U.K., publications such as *Private Eye*, the *New Statesman*, the *Spectator*, the *Economist*, *Prospect* and the *London Review of Books* have all reported increased print and digital revenues over the past five years. In the U.S., digital subscriptions to the *Washington Post* doubled in 2017, reaching 1 million subscribers (Stelter, 2017). *The New York Times* reported a 46 per cent increase in digital subscription revenue between 2016 and 2017, and now has over 2.5 million digital-only subscribers.

For traditional news businesses, it no longer makes sense to differentiate between print and digital in terms of audience reach. Figures below on cross-platform audience share show that while there is a decline in print sales, it is not as dramatic a decline as is sometimes assumed.

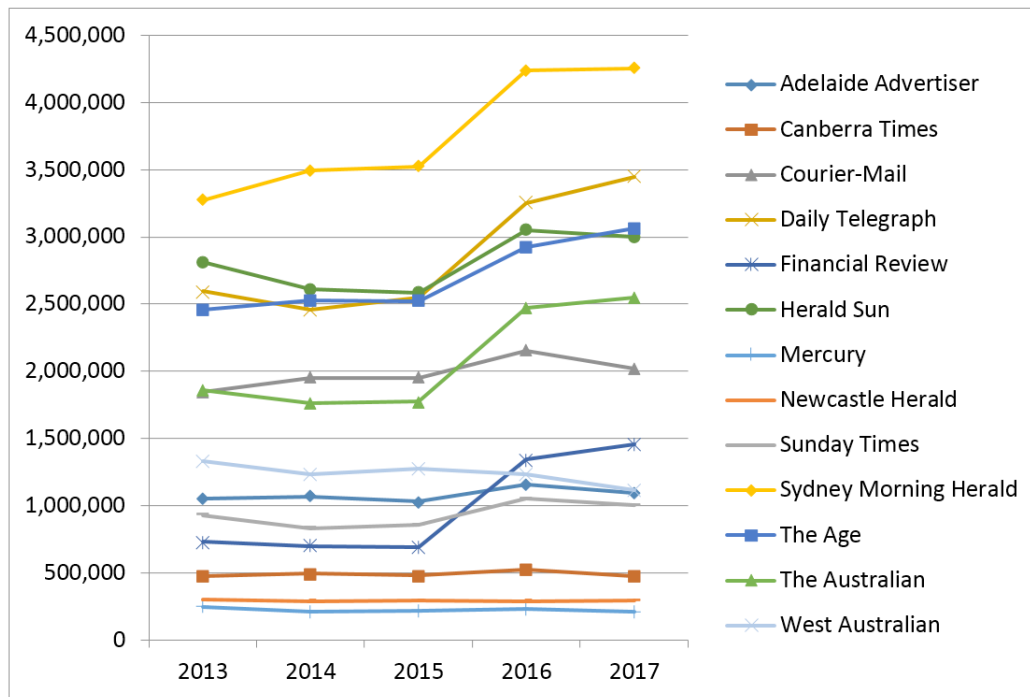
Viewed over a 5-year timeframe, there has been an upwards trend in combined print + digital readerships for the majority of Australian traditional print media news brands. Notable among these has been the increase in audience share for *The Sydney Morning Herald* (3.3m in 2013 to 4.25m in 2017), *Daily Telegraph* (2.5m in 2013 to 3.5m in 2017), *The Age* (2.5m in 2013 to 3m in 2017), *The Australian* (1.85m in 2013 to 2.5m in 2017), and *The Australian Financial Review* (730,000 in 2013 to 1.45m in 2017).

TABLE 2 - CROSS-PLATFORM AUDIENCES FOR AUSTRALIAN NEWSPAPERS, DEC 2016-17

PUBLICATION	PRINT		DIGITAL (WEB / APP)		TOTAL CROSS-PLATFORM AUDIENCE (PRINT, WEB OR APP)		% CHANGE IN TOTAL CROSS-PLATFORM AUDIENCE
	DEC-16	DEC-17	DEC-16	DEC-17	DEC-16	DEC-17	
	(000'S)	(000'S)	(000'S)	(000'S)	(000'S)	(000'S)	
(Aust. population '000)	19,776	20,103	19,776	20,103	19,776	20,103	
Adelaide Advertiser	639	583	714	713	1,156	1,092	-5.50%
Canberra Times	105	106	449	398	525	476	-9.30%
Courier-Mail	1,099	971	1,344	1,312	2,153	2,022	-6.10%
Daily Telegraph	1,478	1,336	2,188	2,512	3,254	3,446	5.90%
Financial Review	415	386	1,048	1,155	1,342	1,453	8.30%
Herald Sun	1,552	1,542	1,951	1,936	3,050	3,002	-1.60%
Mercury	116	106	140	126	229	212	-7.40%
Newcastle Herald	153	176	155	156	290	292	0.70%
Sunday Time	370	347	803	740	1,050	1,001	-4.70%
Sunday Morning Herald	1,132	1,056	3,644	3,780	4,238	4,255	0.40%
The Age	959	945	2,464	2,603	2,924	3,061	4.70%
The Australian	931	888	1,756	1,899	2,474	2,550	3.10%
The Saturday Paper	114	115	162	102	265	193	-27.20%
Weekly Times	271	264	48	38	310	298	-3.90%

Print is net readership in an average 7 days; digital is net website visitation and app usage in an average 7 days.
Source: Roy Morgan (<http://www.roymorgan.com/industries/media/readership/cross-platform-audiences-newspapers>)

FIGURE 5 – PRINT + DIGITAL AUDIENCES FOR TRADITIONAL AUSTRALIAN NEWS BRANDS, 2013-17



Source: Roy Morgan Research, various.

In pursuing a digital strategy, the traditional news businesses face two core decisions:

1. Do they wish to apply a 'paywall' to content i.e. it is only available through subscription or direct purchase?

While a few publications pursue a relatively 'hard' paywall – The Australian and The Australian Financial Review are examples, as is the Financial Times in the UK – the majority have pursued a more 'soft' paywall, with some online content freely available, but with a requirement to pay after a certain point (e.g. The Age and Sydney Morning Herald make ten articles per month freely available).

2. To what extent will they use digital platforms to drive traffic to their sites, as distinct from relying on brand profile to expect audiences to come directly to their own news sites?

News publications with a 'hard' paywall typically make relatively little use of social media, although there is evidence of some change. Publications that are not subscription-based make the most use of social media, and those with a 'soft' paywall typically provide a mix of freely available and subscriber-only news content. Zack Leonard at The Independent refers to this as the distinction between content accessed primarily from the news publisher's 'owner and operated properties', and content accessed from digital platforms not owned by the publisher.

The Rise in Digital Subscriptions

For consumers, the best way to guarantee news quality amidst concerns about the poor quality of free news is to pay for online news. The preparedness of consumers to pay for online news has been the subject of considerable research (Goyanes, 2014; Fletcher & Nielsen, 2017; Kantar Media, 2017). The key reasons why consumers are prepared to pay for online news are:

- Access to specialist and exclusive content, as scarcity increases value. This is particularly apparent with financial news;
- Access to 'evergreen' content, where content with greater length and or durability is the product of more extensive journalistic research;
- Access to a plurality of views and perspectives, as social media, online search and aggregators have heightened sensitivity to the value of impartiality amidst concerns about overly partisan or 'fake news' (Kantar Media, 2017, p. 34).

It is typically more established news outlets and brands that are able to persuade consumers to pay for online news. Their past reputation for quality news gives a signal to consumers that they are a trusted source of news in the future, although this trust can be eroded by poor quality news, going downmarket, 'clickbait' and inaccurate reporting. Digital-only providers have generally been less likely to seek subscriber access, although *The Guardian* has been notable in recent years for its ability to convert its very large global online readership (estimated to be as high as 50 million) into a supporter base, where 600,000 readers have become members of *Guardian Online*,

making recurring or one-off payments of their own choice of amount (*Economist*, 2018).

Some news providers have maintained high online readerships while operating a 'hard paywall', whereby very little of their content is freely available online. A notable example is the UK *Financial Times*, which has seen its online subscribers increase from 780,000 in 2015 to over 900,000 in 2017. John Ridding, the Editor-in-Chief of the *Financial Times*, observed that "For us, the whole digital strategy is rebuilding in digital what is happening in print ... we want to recreate that brand loyalty and brand habit" (Weissman, 2018). Its digital strategy has not simply been a transactional one, where content is exchanged for payment: the *Financial Times* has generated a large amount of data from its online users which it uses to drive its news coverage and its digital product strategy.

Beyond Paywalls: New Ways of Funding Journalism

Much of the discussion about the future of online news has revolved around the question of whether content should be free, maximising reach but minimising revenues, or behind paywalls, reducing reach but maximising revenues. For most established news providers that have operated a paywall, they have needed to make it relatively 'soft', offering some content for free on social media or its own online platforms, in order to drive subscription access to premium content (Kantor Media, 2017, pp. 16-26). Both 'soft' and 'hard' paywalls are well understood by consumers, although there is the risk that they simply reinforce established patterns of preparedness to pay for news e.g. older, higher-income males are the group most prepared to pay for online news, as they already subscribe to other media.

What is increasingly apparent is that this binary

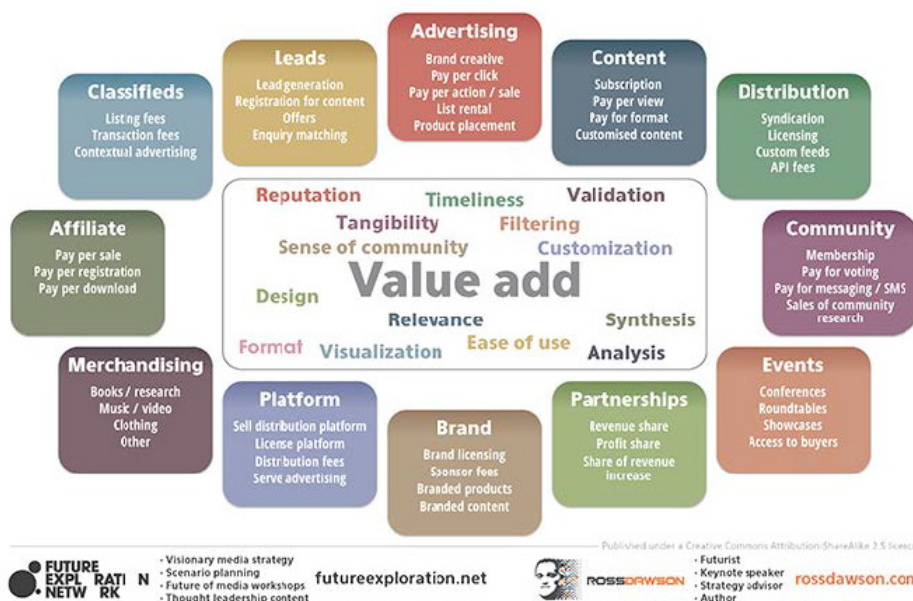
opposition no longer captures the full range of news media industry responses to the challenge of new business models. More innovative models, such as the membership model being pursued by *The Guardian*, or the fundraising model pioneered by *Wikipedia*, may attract new groups to pay for online news, particularly if these groups already pay for other digital products such as Spotify or Netflix. It is worth noting that the membership model has been particularly successful for *The Guardian* in the United States, where there is a long history of fundraising and pledge drives for National Public Radio and public broadcasting services.

Carson and Muller (2017, pp. 35-44) have identified eight ways that are in addition to paywalls and traditional advertising that online publications are using to generate news sources of revenue:

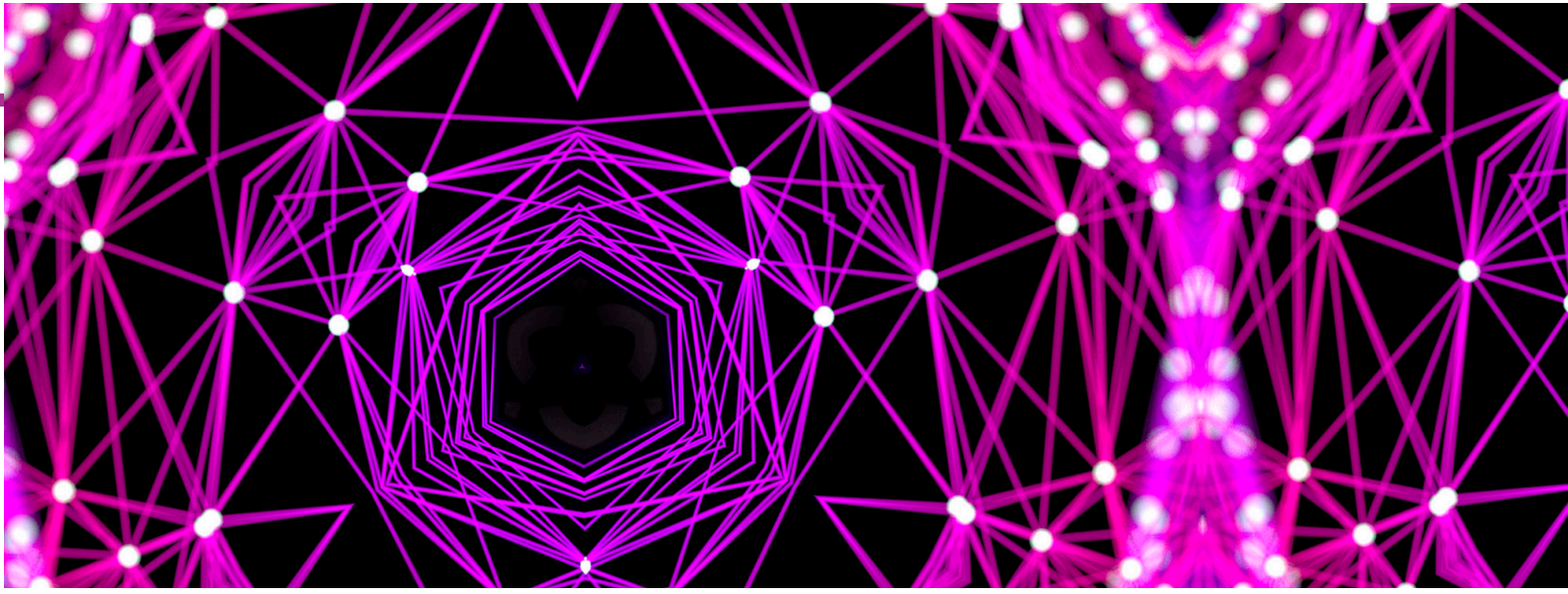
1. Native advertising;
2. Selling access to databases (e.g. Mumbrella matches brands to advertising agencies);
3. Hosting events e.g. industry conferences, creative writing workshops;
4. Spin-off products and services;
5. Philanthropy;
6. Memberships and public donations;
7. Ancillary studio work; and
8. Crowdfunding the reporting of individual stories and/or journalists.

In her submission to the Senate Standing Committee on the Future of Public Interest Journalism, Denise Shrivell of MediaScope, a media advisory business, identified 12 ways in which media businesses can value add from news product, that range from merchandising (books, clothing etc.) to brand licencing to community memberships and events.

FIGURE 6 - VALUE ADDING OPPORTUNITIES FOR NEWS BUSINESSES



Source: MediaScope, 2017.



CONCLUSION

This report shows that digital platforms and the internet distribution of news have brought significant benefits to news consumers, advertisers, publishers, and journalists. They have enhanced flexibility and choice for news consumers, allowing a much wider variety of news to be accessed, shared and commented upon, across multiple devices and formats. Digital platforms have also allowed journalists and news editors to better communicate with their audiences through social media interactions.

There has been an enhancement not only of consumer choice, but of diversity and quality of news content. New digital-only providers have innovated in news to reach previously underserved demographics, and enhance the overall range of quality news options available to Australian news consumers. These include both international news outlets and brands that have set up in Australia and locally-based 'born digital sites'.

Greater competition in news and advertising markets has also promoted innovation among traditional news brands. In many cases, their print and digital readerships are increasing, as audiences draw upon a combination of free content and digital subscriptions. All news brands are also innovating with their digital business models, challenging the traditional 'free versus paywalled content' debate by developing new value-adding strategies. These include native advertising, hosting events, spin-off products and services, philanthropy, memberships and public donations, and crowdfunding news stores and individual journalists.

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