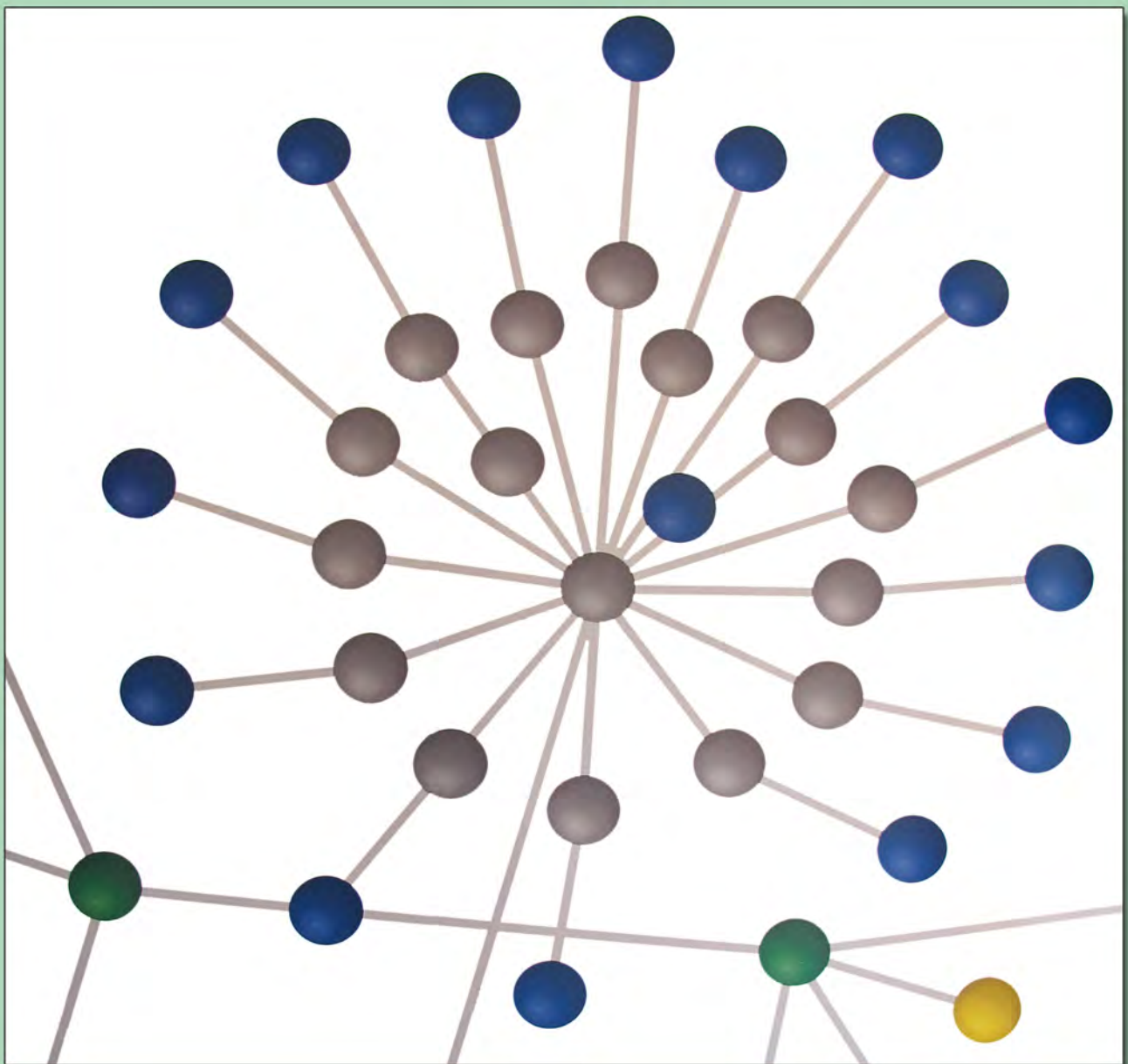




UNIVERSITY OF  
CANBERRA

# STATE OF THE NEWSPAPER INDUSTRY IN AUSTRALIA, 2013



**Franco Papandrea**

The News and Media Research Centre



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**Franco Papandrea**

**The News and Media Research Centre  
Faculty of Arts and Design  
University of Canberra**



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## Preface

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The *2012 Report of the Independent Inquiry into the Media and Media Regulation* (the Finkelstein Inquiry) included a detailed review of newspaper industry structure and performance in Australia. This was motivated by the fact that the impact of the internet on the viability of newspapers had become a major issue. There was concern about the 'eventual impact on the supply of news, especially the kind of news that is essential to the healthy functioning of a democratic society' (Finkelstein 2012: 55). The Report included data, generally up to 2010, on matters such as trends in newspaper circulation, the pattern of newspaper revenues, and the state of the advertising market.

The Finkelstein Inquiry concluded that, while newspapers were under significant financial pressure, there was not, at the time the Report was written, a case for government support of the industry. At the same time, it was recognised that the situation required 'careful and continuous monitoring'. It was recommended that one function of the proposed News Media Council would be to chart trends in the news industry with a view to monitoring its health and performance.

As is well known, a News Media Council was not established. The recommendation of the Inquiry to establish such a body to 'set journalistic standards for the news media in consultation with industry, and handle complaints by the public', as well as conduct relevant research, failed to gain political support. Of course, the need for systematic monitoring of the 'state of the news media' in Australia remains.

The News and Media Research Centre (N&MRC) at the University of Canberra aims to contribute to on-going research on the state of the news media in Australia. In this regard, we are fortunate to have, as a member of the Centre and as an Adjunct Professor at the University of Canberra, Franco Papandrea, the author of this Report.

Professor Papandrea was a key adviser to the Finkelstein Inquiry and was responsible for compiling much of the industry data upon which it relied. In this Report he up-dates and expands this work to include the years 2011 and 2012. He also provides an overview of the economic state of the newspaper industry in Australia as seen from the perspective of mid-2013. The Report reflects our interest in the preservation of a robust news media and its fundamental role in a democratic society.

Professor Peter Putnis  
Director, N&MRC



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# 1. Introduction

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The growth of the internet as a popular news and advertising medium has spawned a deep structural adjustment process in the Australian newspaper industry. The emergence and rapid growth of online competition in the advertising market has greatly eroded the traditional primacy of newspapers as an advertising medium. The magnitude of the threat of online competition was initially underestimated by newspapers (Fairfax 2011). Steady growth in the overall advertising market of which newspapers continued to capture the largest share helped mask the threat posed by online competition. And while newspapers moved early to establish an online presence the initiatives were largely seen as complements to their traditional activities rather than strategic actions to reposition their operations to improve their competitiveness in the rapidly changing environment.

The threat posed by the internet was underscored by the onset of the Global Financial Crisis (GFC) and the associated sharp drop in the overall advertising market which was reflected in all the traditional major media. In contrast to traditional media, online advertising continued to grow through the GFC albeit at a somewhat reduced rate. Newspapers have since scrambled to restructure their operations to try and contain the impact of the new rival. Their efforts so far have been concentrated in two broad areas: restructuring of printing operations to realign production costs with lower revenues and seeking to convert their online readership popularity to earnings.

This is not the first time that newspapers have had to contend with new competitors, but there are significant differences between their current and previous experiences. Both radio and television grew to become major competitors of newspapers in the advertising market. Each medium had particular unique strengths that could not be matched entirely by the others. Consequently, after the initial market adjustments each medium was able to secure a reasonably consistent share of a generally growing market. Further, to the extent permitted by ownership regulation, newspaper owners protected their interests by taking early prominent positions in the establishment and development of the new media. In contrast, there was little involvement by newspapers in the establishment of the internet and its rapid development as a major competitor caught them somewhat unprepared. By the time they became fully aware of the threat, the new online competitors had already established themselves as powerful rivals in the market.

The increasing range of news and advertising services accessible on the Internet is changing the relative comparative advantages of the established media and the consequential adjustment process is having a significant impact on established structures. The impact on newspapers has had both positive and negative implications. Newspaper websites are very popular giving them an online following much larger than their offline readership. But newspapers have not been able significantly to capitalise on their online popularity. Recent initiatives to charge frequent visitors for online content have had some limited success. Early indications suggest slow growth in online subscriptions. Also, because the internet has largely unbundled advertising from other content, the popularity of online newspaper websites has not produced commensurable gains in advertising

earnings. Indeed, the unbundling has helped specialist online advertisers to make significant inroads in markets such as classified advertising in which newspapers were traditionally dominant.

This report examines the recent performance of newspapers as a basis for understanding the current state of play in the industry. The analysis and framework of the paper were influenced by an earlier analysis conducted by the author as a consultant to the Independent Inquiry into Media and Media Regulation (Finkelstein Inquiry 2012). The analysis presented here extends and updates that earlier work. It relies primarily on data available in the public domain such as circulation and advertising revenue. Detailed industry data on investment, assets, revenue and employment and other aspects of the industry's structure are scarce. Overall, to the extent permitted by the available data, the focus of the paper is on the industry as a whole rather than individual newspapers or individual firms, although it does highlight Fairfax Media Limited (Fairfax) in a case study.

## 2. Structure and Performance

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### 2.1 Industry structure

The Australian newspaper industry is one of the most highly concentrated in the world with four significant owners overall, one of which has interests only in provincial newspapers. The metropolitan and national daily press consists of 12 titles – two national titles, two published in each of Sydney and Melbourne and one in each of the remaining States and Territory capital cities – controlled by three owners. News Corp Australia (News Corp) is the dominant player owning seven of the 12 titles with a combined 65 per cent share of the metropolitan and national daily circulation. Fairfax, the second ranked player, owns four papers with a combined 25 per cent share of the circulation. The third player, Seven West Media Limited, owns one paper with approximately 10 per cent share of the circulation. The two largest players compete directly with each other only in Sydney and Melbourne, and also have one national paper each. All other markets have only a single daily paper owned by News Corp in Adelaide, Brisbane, Darwin and Hobart; by Fairfax in Canberra; and by Seven West Media in Perth.

Outside the capital cities there are 37 daily newspapers of varying size and quality each serving a provincial centre. Ownership of the provincial press is largely held by News Corp, Fairfax Media and by APN News & Media Limited which controls 17 titles in regional Queensland and New South Wales.

### 2.2 Functions of newspapers

Newspapers operate in a dual-product market in which copies of the content are sold (or given away) to readers and space is sold to advertisers for the distribution of promotional or other information to consumers. In effect, the content is a bundle of diversified information which readers are left to ‘unbundle’ in the process of selecting and consuming what is of interest to them. Production involves the collection and reporting of news stories and other articles which are packaged together with advertising information for printing on paper for subsequent distribution to consumers. Revenue is earned from copy sales (circulation) and from advertisers. The rates charged for advertising space are closely linked to the size and demographics of the readership.

There are two general categories of advertisements sold by newspapers: classified advertisements and display advertisements. Display advertisements are further subdivided into retail advertising (advertising meant for consumers in a local market largely purchased directly by the advertisers) and national advertising (advertising meant for consumers in a multitude of local markets or nationally, and purchases are typically intermediated by advertising agencies).

Classified advertisements are brief messages typically grouped together in alphabetical listings in a dedicated section of a newspaper. They are sold at a minimum fixed rate up to a given threshold number of words plus a variable rate for additional words or space.

Display advertisements typically occupy an identifiable space often spanning two or more columns and may be located anywhere in the newspaper. Pricing varies with both the size and location of the advertisement, with prominent pages in a newspaper attracting a premium.

Newspapers play an important filtering role in the selection of news stories and other content and in facilitating their consumption by readers in a familiar style, layout and positioning in the body of the paper. There is a level of implicit trust by readers that the information provided to them is reasonably reliable and accurate. The reputation of a newspaper is important in this regard. Readers value the content because it provides desired information in an accessible form that enables them to stay informed about news events or satisfy other interests such as reading for leisure/pleasure, finding employment opportunities, finding suppliers of products or services, or obtaining practical information such as stock market prices or weather forecasts.

For advertisers, newspapers have been providing an important medium for distribution of their messages to a large pool of people. Consumption of the advertising messages in a newspaper occurs through a self-selection process by interested readers at a time of their choosing and the advertisements can be returned to and compared with others on one or more occasions. Classified advertising in particular also played the important market-exchange function of bringing together occasional buyers and sellers of products and services.

The advent of the internet has seriously undermined the competitive advantages that newspapers have been able to derive from their traditional functions. In contrast with traditional media which compel audiences to wade through a bundle of wanted and unwanted content in order to consume what is of interest, the internet allows consumers to get what they want directly. In the internet environment, this unbundling of content has severely eroded the capacity of newspapers to use the drawing power of their published stories to attract viewers to co-located advertisements. More dramatically, search engines have both simplified and made more efficient the market-exchange function traditionally performed by the classified sections of newspapers. While this portends difficult consequences for newspapers the situation is not entirely gloomy.

This is not the only time that newspapers have had to deal with strong competition from powerful new media built on new technologies. The development of radio and television as mass media for the distribution of information and advertising eroded the dominance of newspapers in the advertising market and contributed to a decline in circulation. After a period of adjustment including closures of newspapers, the situation eventually settled down with the old and new media using their comparative strengths to compete with each other. The new competitors expanded the range of products on offer enabling consumers to benefit from a better alignment of their needs with the products on offer. As a result consumption patterns changed and while some abandoned newspapers others embraced both the old and new media as complements rather than substitutes.

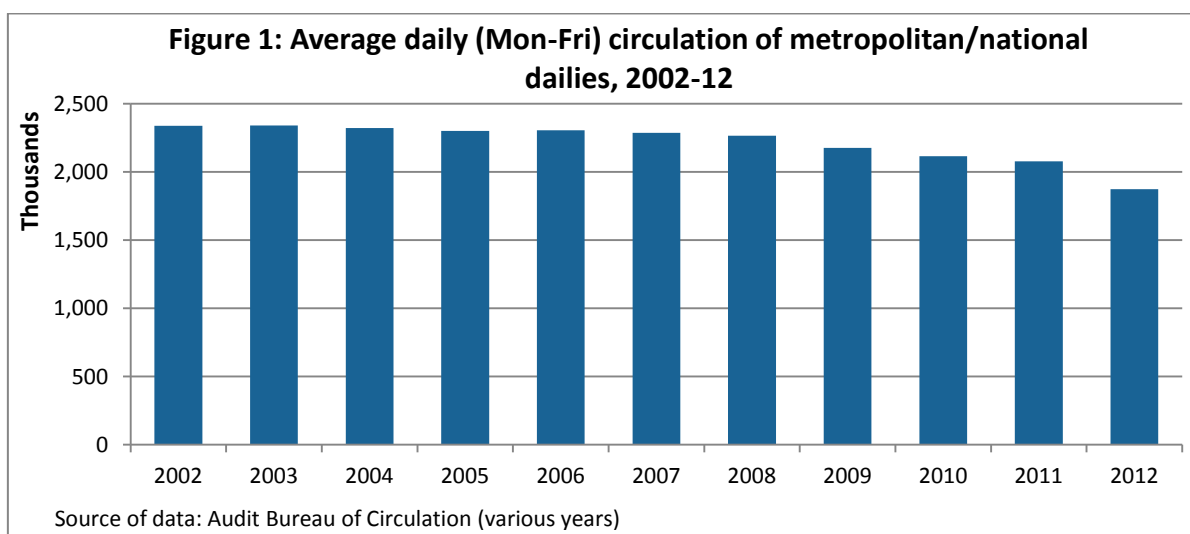
The pressures exerted by the internet are more severe than those experienced by newspapers in earlier periods of adjustment. But newspapers continue to have strengths and produce products that consumers want and are prepared to pay for. Much of what they

produce is unique and not available elsewhere and will continue to be in demand. The question, therefore, becomes not whether newspapers will disappear but how the unique functions they play in society will be delivered. How newspapers have been adjusting to the new market environment is examined in what follows.

## 2.3 Circulation

As noted by the Finkelstein Inquiry, newspaper circulation has been in decline for several decades. There was a dramatic decline in circulation in the period 1984-92 associated with the closure of several daily newspapers. Circulation has continued to decline steadily ever since with the rate of decline accelerating noticeably in recent years. **Figure 1** provides details of the average daily (Monday-Friday) aggregate circulation of metropolitan and national dailies over the past decade including a progressively increasing pace in the rate of decline starting in 2006.

Circulation dropped sharply in 2012. A prominent media analyst was reported describing the 2012 December quarter results as “the worst newspaper audit on record” (Knott, 2013). More recent data (Audit Bureau of Circulations 2013) indicates the high rate of decline has continued in the first half of 2013. According to the industry association’s *The Newspaper Works* (Jarret 2013), “the downward trend in print circulation reflects major publishers’ long-term strategy of removing low-yielding copies and investing in digital alternatives”. The situation, however, seems more complex and more pessimistic.



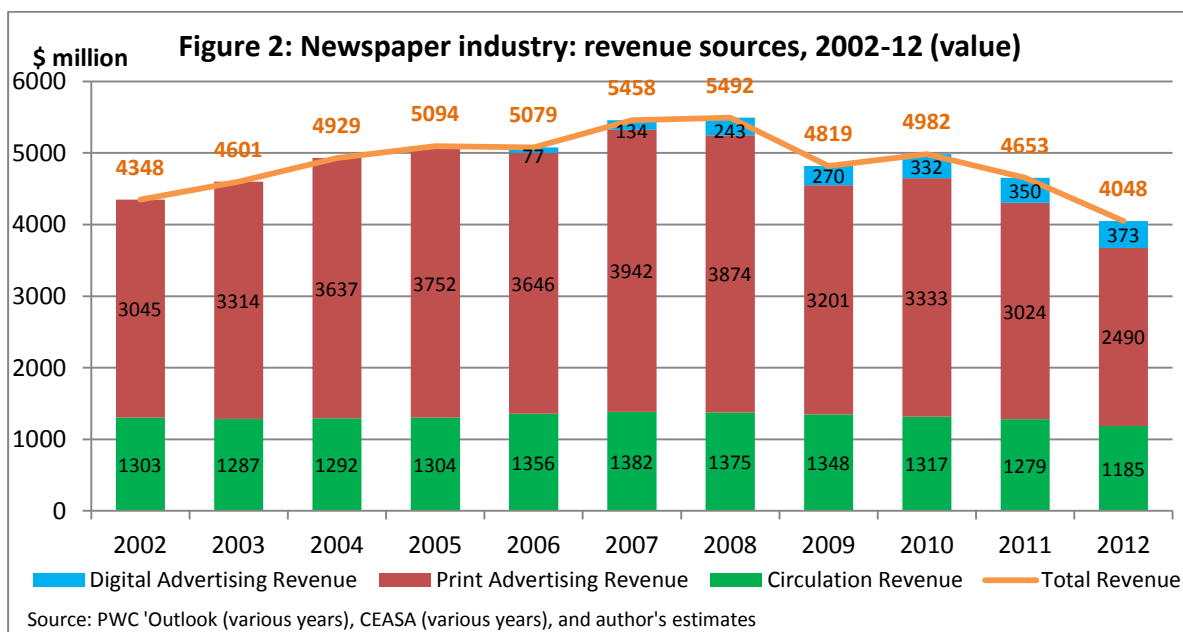
Newspapers are in a state of transition as they seek to adapt to the digital economy. Broad age profiles of newspaper readership indicate that reading of newspapers is skewed towards older generations. In 2010-11, reading of newspapers was highest for those aged 65 years and over (86 per cent) and lowest for those aged 14-17 (52 per cent). Also, online news sites are less likely to be the main source of news for older Australians (ACMA 2011). Thus a significant part of the decline in circulation is likely to be associated with a lower tendency to read newspapers among younger age groups as well as their greater tendency to migrate to online consumption of news. The latter tendency, however, does not

necessarily equate to increased readership of online versions of newspapers, particularly when access is subject to payment.

The recent introduction of pay-walls for access to major daily newspaper titles has led to a significant take-up of digital subscriptions. Newspaper circulation audits have started to include measurement of digital subscriptions for some individual newspapers. The available digital subscriptions data are showing some early encouraging growth. Although encouraging, the growth in digital subscriptions generally has been insufficient to offset fully the loss of copy sales. Both the *Sydney Morning Herald* and the *Age*, for example, experienced a substantial net loss in combined print and digital paid circulation in the year ending June 2013 (PwC 2013). Also, as digital subscriptions make a smaller contribution to revenue than print sales, a shift from print to online typically leads to a net loss in sales revenue.

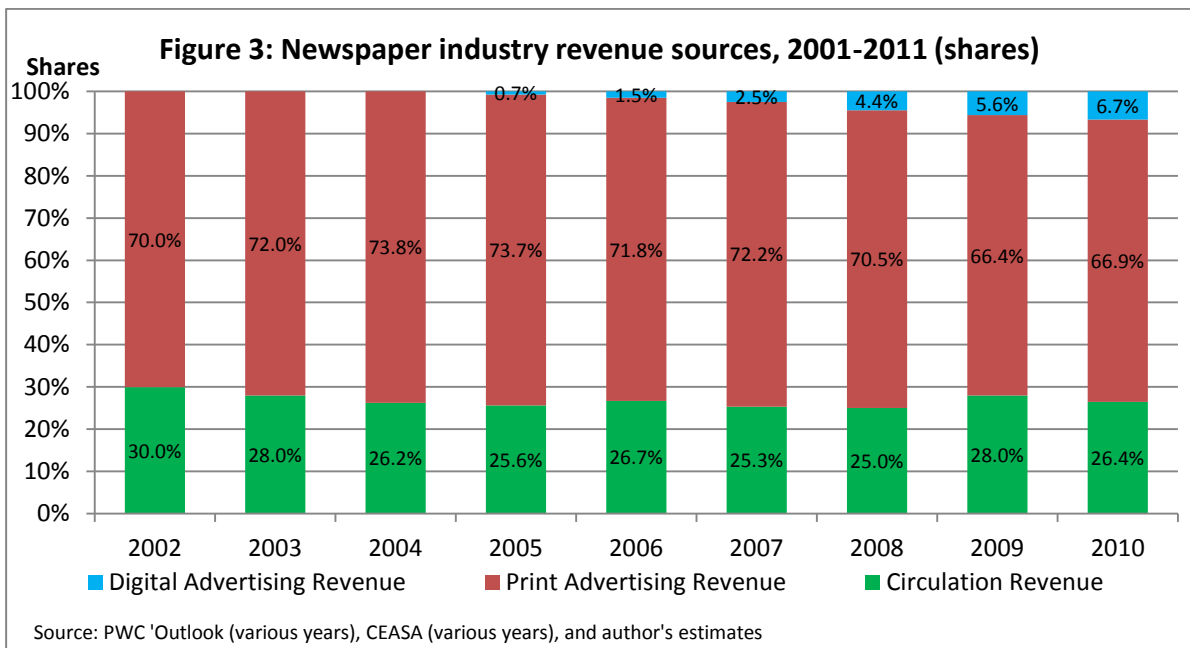
## 2.4 Revenues

Daily newspapers have traditionally derived their revenues primarily from the sale of advertising (around 70 per cent). Copy sales made up almost all the rest. In recent years online advertising and subscriptions have contributed a small but growing proportion of revenue. **Figure 2** shows the major components of the total revenue that accrued to newspapers in the period 2001-11 in value terms.



The share of total revenue contributed by each component is shown in **Figure 3**. Overall total revenue grew steadily from 2001 to 2008 before experiencing sharp decline in 2009 primarily reflecting the impact of the Global Financial Crisis on advertising expenditure generally. Total revenue increased from approximately \$4.3 billion in 2002 to \$5.5 billion in 2008 followed by a decline of \$670 million in 2009. Although abated in its magnitude the decline in total revenue has continued in subsequent years. In 2012 total revenues were a little more than \$4 billion, the lowest level ever for the past decade.





It is interesting to observe that despite the significant loss in circulation volumes noted earlier, circulation revenue did not experience much change before 2011. This is likely due to increases in copy prices. Most of the revenue losses are attributable to reductions in print advertising revenue. While digital advertising has become a significant and growing source of revenue, the magnitude of its contribution has so far been insufficient to make up for the decline experienced in print advertising.

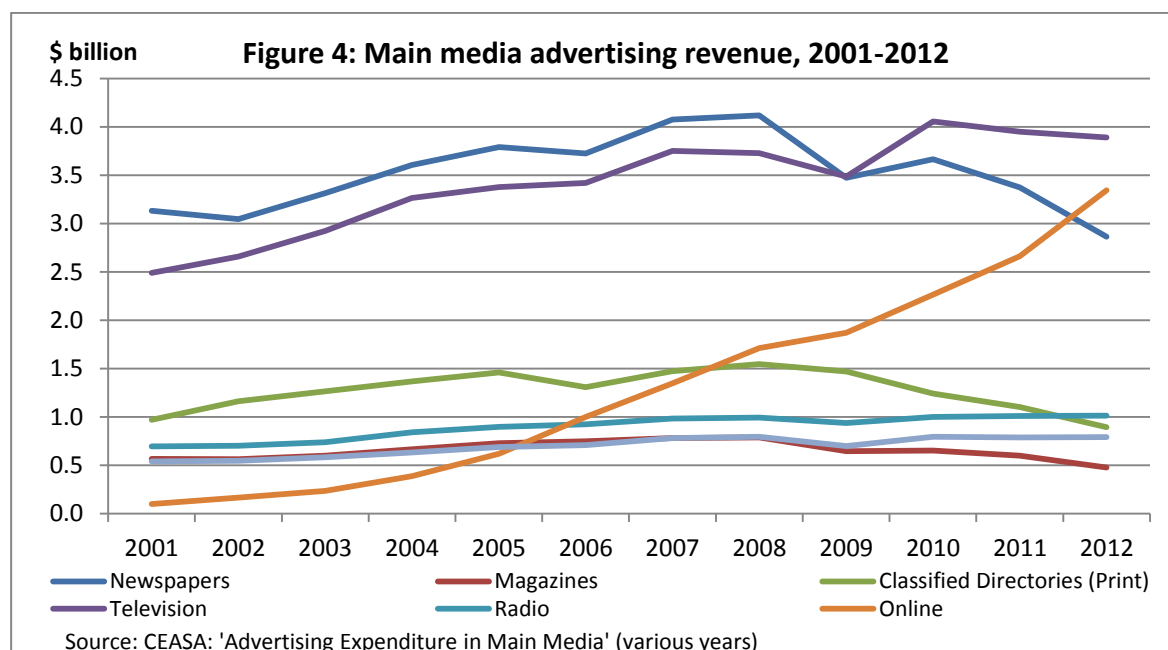


## 3. Media advertising

### 3.1 Media competition

Aggregate advertising expenditure generally tends to mirror changes in the level of economic activity. An analysis of long term trends in advertising expenditure in main media by the former Bureau of Transport and Communications Economics (BTCE, 1993) found that its rate of growth was almost the same as the rate of growth of gross domestic product (GDP) and slightly lower than that of private consumption expenditure.

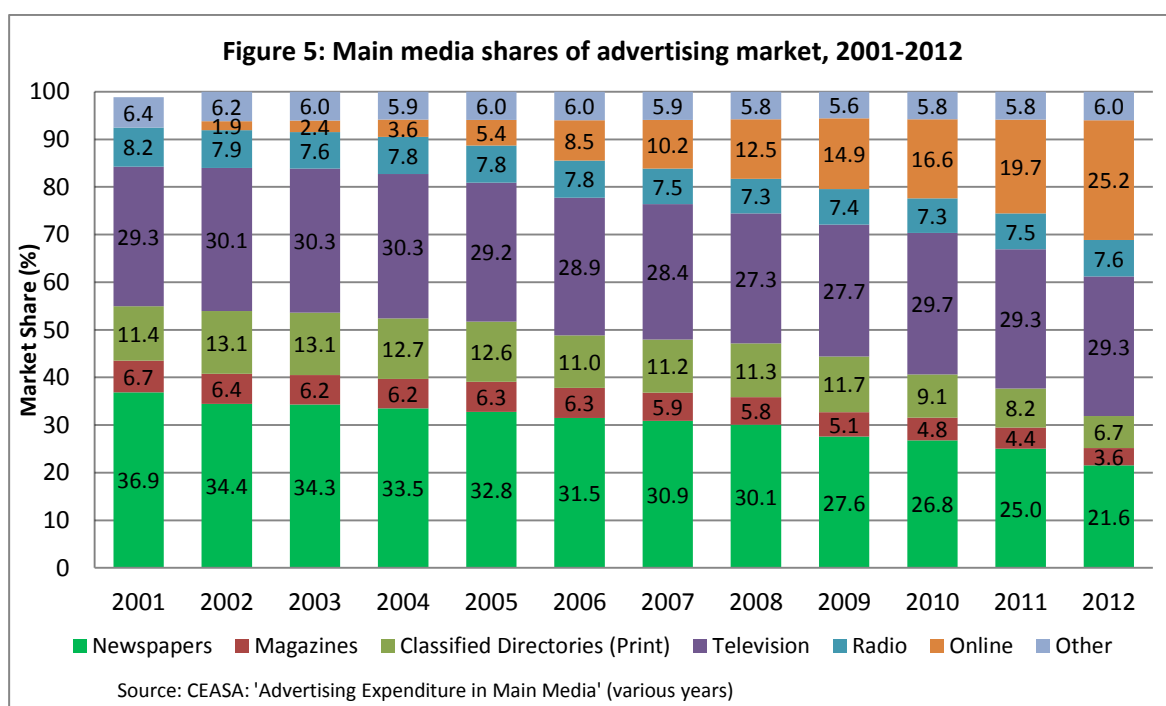
Within the advertising market newspapers compete with other media for a share of the market. In addition to newspapers, the main players in the advertising market are television, radio, magazines, and online advertisers. Newspapers and television (including both free-to-air and subscription television) have been the largest two players in the advertising market. In recent years, however, their primacy has been severely challenged by the rapidly increasing online advertising sector. **Figure 4** provides details of the distribution of advertising revenue among the main media in the period 2001-2012.



In the period 2001-2012, the rapid growth of online advertising has considerably altered the structure of the advertising industry. The growth of online advertising has impacted most on newspapers, magazines and printed classified directories with each of those media suffering significant loss of market share, particularly after 2005. Historically, newspapers represented the largest (in terms of revenue) sector of the advertising market. However, as a result of recent declines in newspaper advertising revenues, the sector lost its primacy to television in the aftermath of 2009. It dropped further down in the ranking in 2012 when it was relegated to third place by the continuing surge in online advertising which appears

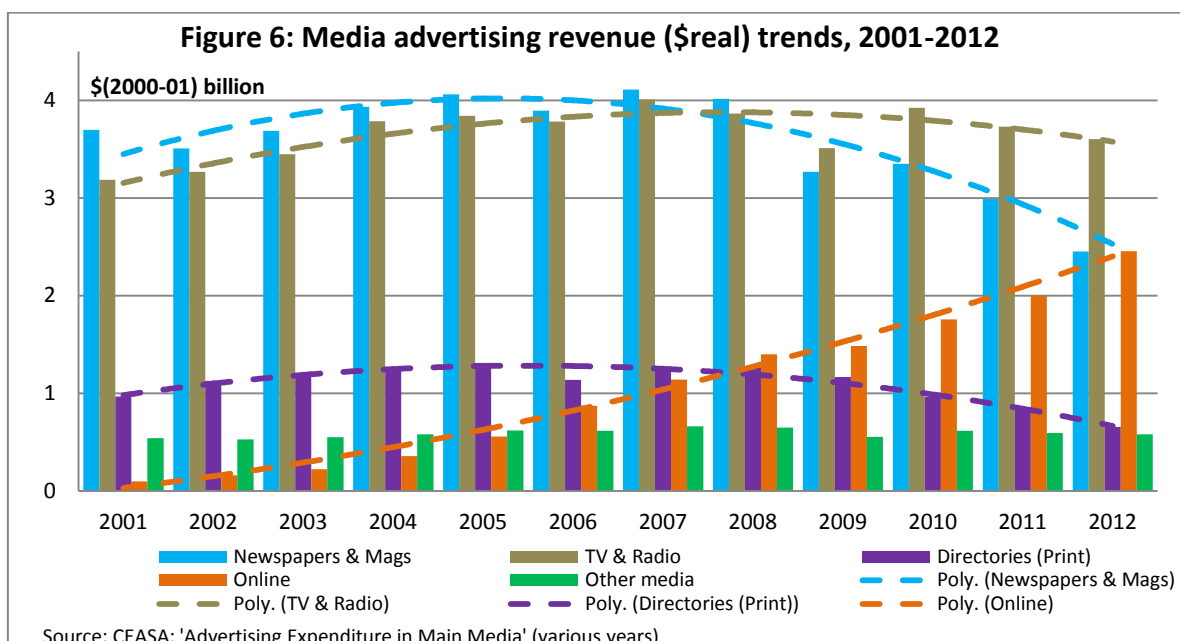
destined to become the largest sector of the advertising market in the not too distant future (see Figure 4 for details).

The structural changes in the advertising industry are more evident from the changes in the market share accruing to the main industry sectors. As shown in **Figure 5**, in the period 2001-12, newspapers went from the first to third ranked medium in the market as its share shrank from 36.9 per cent to 21.6 per cent. While the combined market share of free-to-air and subscription television has been relatively stable throughout the period, within the sector free-to-air television broadcasters sustained a substantial loss of market share which was counterbalanced by a significant growth of advertising on subscription television, particularly in the second half of the period. Both magazines and printed advertising directories have suffered substantial losses of market share. Online advertising was the only sector recording substantial growth in market share, going from less than 2.0 per cent of the market in 2002 to become the second largest sector in 2012 with a market share of 25.2 per cent.



The underlying trends in revenue earned by the various sectors of the advertising industry paint a dismal outlook for the print media (newspapers and magazines) and directories. In a growing market, nominal annual revenue earnings tend to distort underlying trends because decreases are attenuated and increases are magnified. To take account of these effects revenue data for the period 2001-12 have been adjusted for inflation and are thus expressed in \$2000-01. Figure 5 displays the deflated advertising revenues for the main media sectors. To avoid overcrowding in the figure, the results for Newspapers and Magazines revenue have been aggregated into a single category as have Television and Radio. For both aggregations the components have had very similar experiences in the period under review. Consequently the underlying trends of the components would closely approximate the trend of their respective combined category. To achieve a closer fit with

the revenue results second order polynomial functions (rather than linear functions) have been used to estimate the underlying trends. The estimated trends are shown in **Figure 6**.

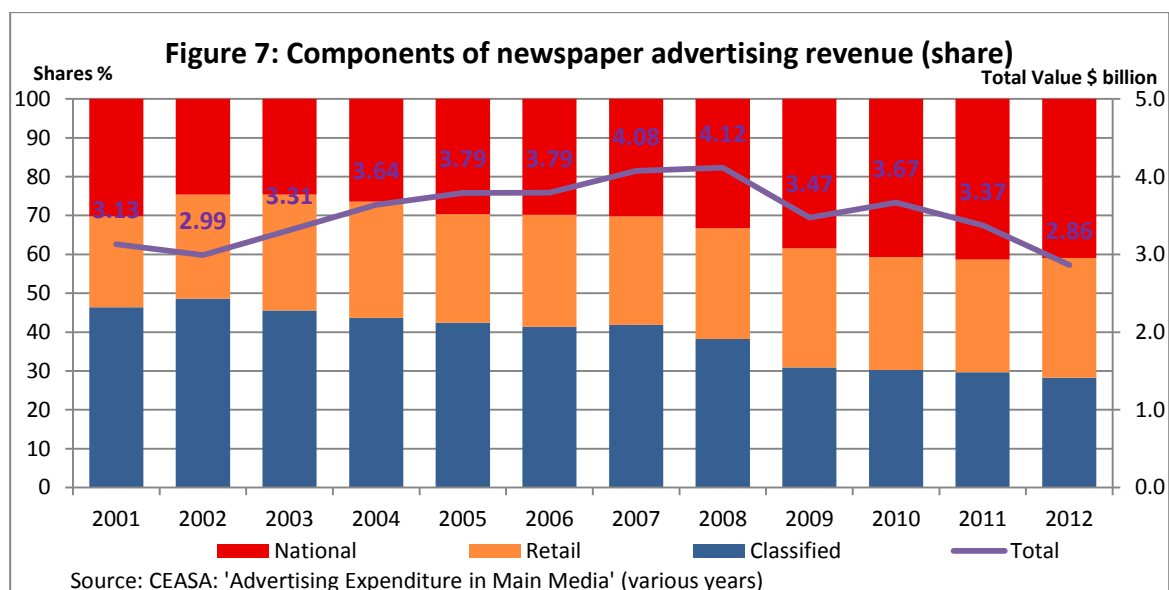


The trends suggest different degrees of losses of revenue for all the traditional media. The losses are least for electronic media (Television and Radio) and are most pronounced for print media (Newspapers and Magazines). In contrast, online advertising displays a steadily rising trend throughout the period. It is worthy of note that in 2012 online advertising was approximately equal to the combined advertising revenue of newspapers and magazines. Furthermore the overall outlook for newspapers is not rosy. PwC (2013) forecasts a continuing substantial decline of total revenue in the Australian newspaper market in the years 2013-17 with an estimated negative compound annual growth rate of -7.1%. Digital is expected to be the only growing sector of revenue and by 2017 is forecast to be 29 per cent of the much shrunken total revenue accruing to newspapers, which by then is forecast to be a little more than two thirds of its size in 2012.

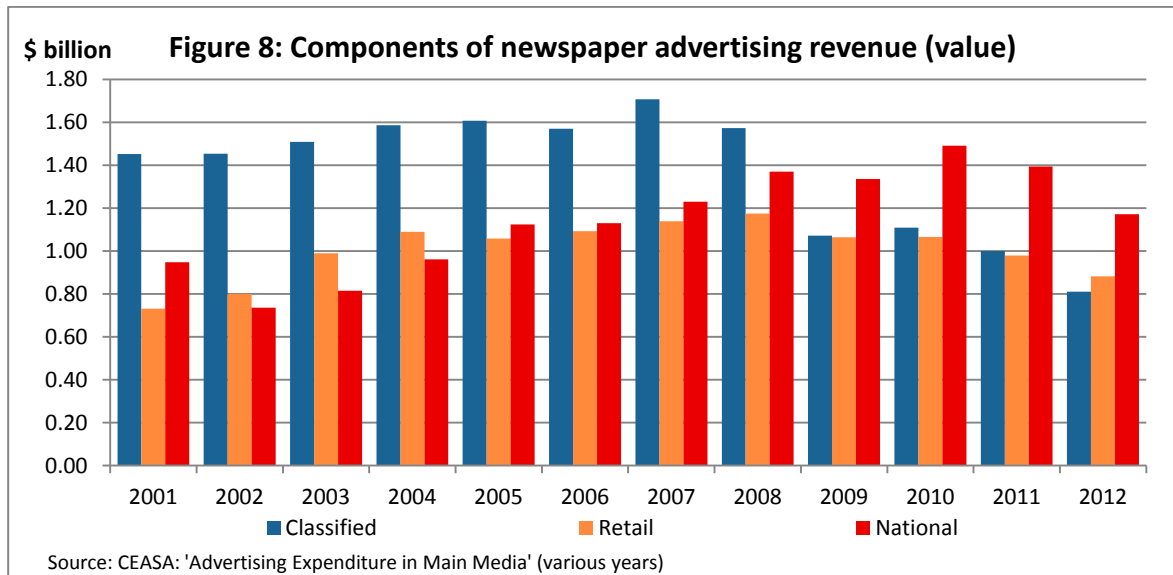
The intensity of the impact of the structural changes generated by the growth of online advertising is greatest on types of advertising that are more contestable by online media. The available data allow analysis of three broad types of advertising: national display advertising, retail display advertising, and classifieds. As online advertising earnings of newspapers cannot be disaggregated from the total online advertising revenue, the results will be somewhat distorted. In 2012, almost eight per cent of the total online advertising revenue was earned by newspapers. Consequently, the distortions should be small and unlikely to compromise significantly the validity of the results.

First we look at the importance of each of the main categories of advertising to overall revenue generated by newspapers. **Figure 7** provides details of the annual share of total revenue contributed by each category for the period 2001-12. At the beginning of the period, classified advertising was by far the most important contributor to advertising earnings of newspapers, generating a little less than half of the total revenue. From 2004,

the share of total advertising revenue earned from classifieds began to decline at a moderate rate before experiencing a sharp decline in 2008 and 2009 with further moderate declines thereafter. By the end of the period, the share of total revenue contributed by classifieds had shrunk to 28.3 per cent to become for the first time the smallest of the three components of newspaper advertising revenue. In contrast to classifieds, the share of revenue contributed by national advertising grew throughout the period to become the largest contributor to total revenue. The share of revenue contributed by retail advertising increased significantly in the early part of the decade rising to 30 per cent in 2003 and has remained relatively stable afterwards.



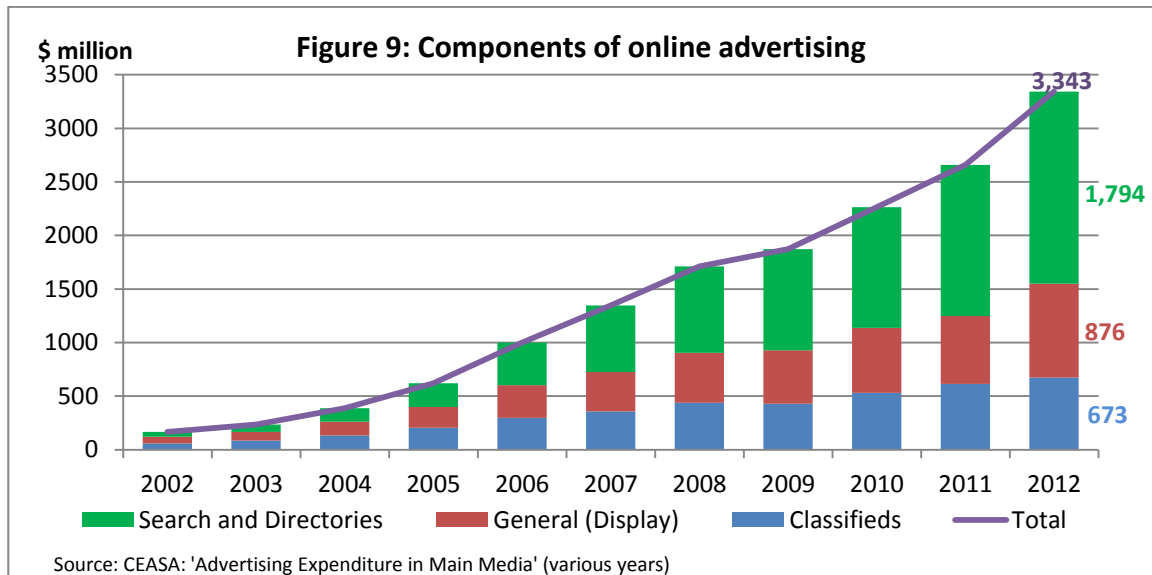
The diminishing contribution of classifieds to newspaper advertising revenue is largely due to a dramatic decline in earnings in that subsector in 2008 and 2009. This is vividly illustrated in **Figure 8**. As noted earlier the overall advertising market experienced a sharp decline in 2009. While all three newspaper advertising subsectors were affected by the industry-wide decline, classifieds suffered a much sharper setback than the other subsectors. Figure 8 also shows that the increase in the relative share of national advertising in newspaper revenues is not due solely to the shrinking share contributed by classifieds, but is also a reflection of steadily increasing earnings from that subsector. In overall terms, the increased earnings from national advertising have helped newspapers weather the impact of reduced earnings from classifieds.



### 3.2 Impact of internet advertising

The emergence of the internet as a major advertising medium is having a substantial competitive impact on other major advertising media, particularly newspapers and printed directories. As noted above, the growth of internet advertising has impacted primarily on printed media (Newspapers, Magazines and Directories) with little impact on electronic media and other forms of advertising. The popular perception is that classified advertising has suffered most from internet competition. To gain a useful insight into the impact of online competition on printed media we compare the growth of each the main components of online advertising with the experience of corresponding components of print advertising.

**Figure 9** gives details of online advertising as well as the contribution derived from its three main components: general display; classified; and 'search and directories'. With some adjustments, offline advertising data can be reassembled into roughly similar categories. For the purpose, newspaper, magazines and printed directories advertising are aggregated into a single broad category with three components, namely: general display (comprising national and retail display advertising), classifieds, and printed directories. Data for online search and directories are likely to include some advertisements that traditionally would be deemed to classified advertisements. To that extent, online and offline data would be at variance. Consequently, while the analysis will provide some useful insights into the competitive flows in the sub-markets the identified patterns should be viewed as indicative rather than conclusive.

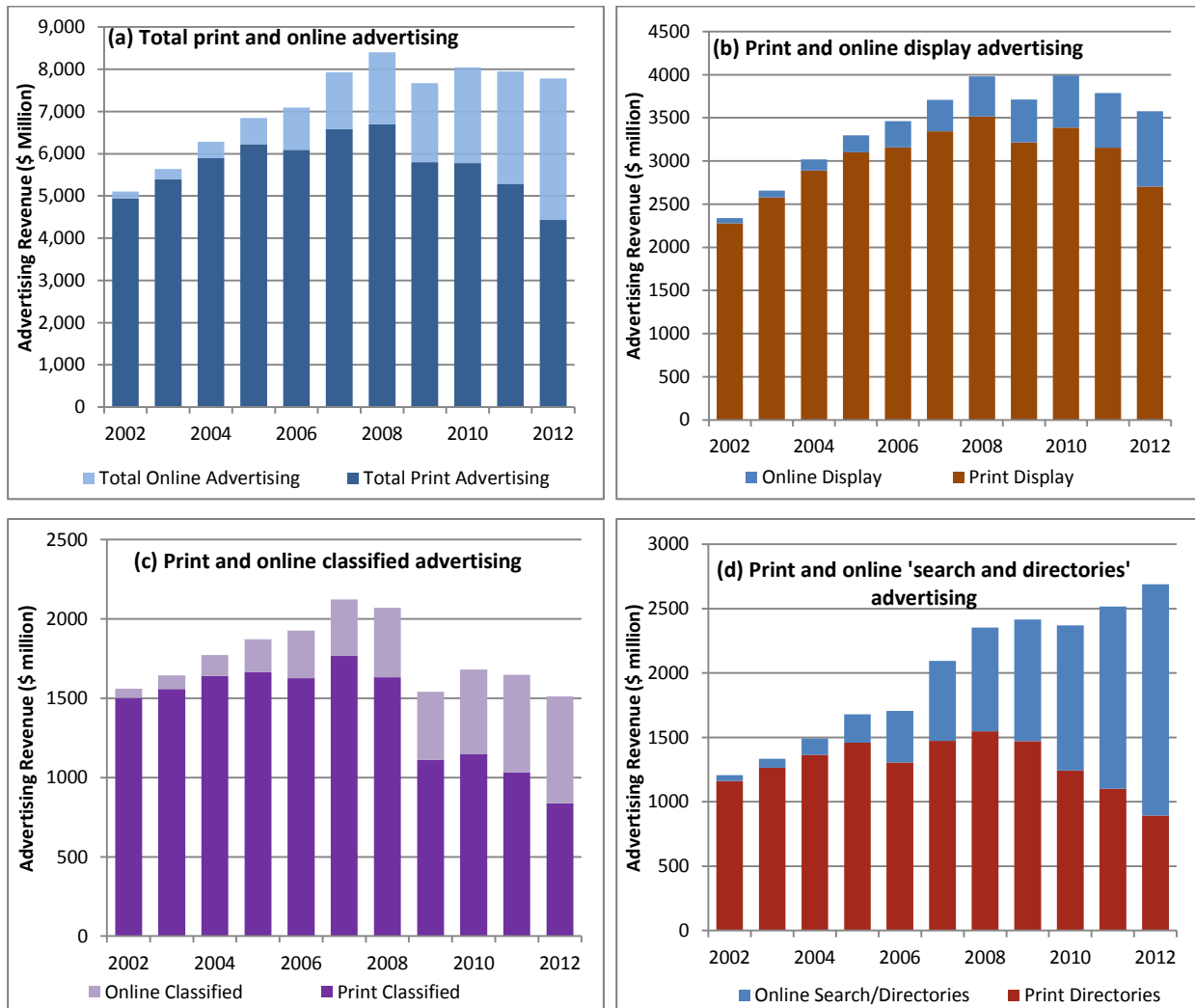


The rapid growth of online advertising is clearly evident from the data displayed in **Figure 9**. All three components are displaying rapid growth. Care should be exercised when interpreting the magnitude of the growth rates as they are clearly influenced by the low starting base of each of the data series. Nonetheless from the relative magnitude of the growth rates it is evident that search and directories advertising is growing more rapidly than the other two components.

To delve a little deeper into the competition between print and online advertising we look at how much of the combined market accrued to the two competitors over the period 2002-2012, a period spanning virtually the whole history of online advertising. We do this for the combined print and online market and for each of their three main components defined as indicated above. The results are presented in **Figure 10**.



**Figure 10: Competition between print and online advertising**



note 1: Total Magazines 'Non-National' assigned 80% to 'Display' and 20% to 'Classifieds' in 2010 and later

note 2: Business Publications 'Non-National' assigned to 'Display'

note 2: For 2002-04, online advertising notionally allocate to sub-markets on basis of later trends.

Source: Source: CEASA: 'Advertising Expenditure in Main Media' (various years)

From panel (a) of Figure 10, it is clear that in the growing aggregate print and online advertising market in the period 2002-2008, both components were growing, but online grew more rapidly. In other words, the growth of online advertising was like a pesky and irritating competitor to the established print media meriting concern, but not yet a major threat. This changed starkly in subsequent years starting with the sharp drop in print advertising in the wake of the GFC aggravated by continuing growth in online advertising, albeit at a slower rate than in preceding years. In the weak market that followed, print advertising lost further ground to online advertising which resumed its earlier growth trend. By 2012, online advertising had captured 43 per cent of the combined print and online advertising market and was continuing to grow at the expense of its competitors.

The other panels of Figure 10 show that online advertising was making inroads in all three components of the aggregate market. Its impact was least in display advertising and greatest in 'search and directories' advertising. By 2012, online advertising had captured 24.5 per cent of the aggregate print and online display advertising market, 44.5 per cent of

the classified market, and two thirds (66.7%) of the search and directories market. In popular perception, the classified and search and directories markets tend to be conflated, hence the impression that online competition has been devastating to its print adversaries. On that conflated basis, by 2012 online certainly had become the dominant player with a share of the market of almost 59 per cent. Individually, the superior search capabilities of online advertising have relegated the print competition to a diminishing role in the search and directories market. In a 'strictly' defined classified market, print still holds the greater share of the market but its position continues to be eroded by a shift to online advertisements.

## 4. Changing Structures

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### 4.1 Impact on newspapers

The preceding analysis paints a tough future for traditional print media. While the Australian industry, thanks in part to a high level of concentration and the newspaper closures that produced it in the 1980s, has been spared the spate of closures afflicting its American counterparts, its future will be marked by extensive change and will be assured only by the extent of its capacity to adapt to the new competitive environment.

The long term decline in circulation noted above is symptomatic of declining readership of traditional newspapers. Roy Morgan newspaper readership survey data reported by the Australian Communication and Media Authority (ACMA, 2011) shows that in 2010-11, an average 72 per cent of Australians (aged 14 or more years) had read a newspaper (excluding local and community newspapers) in the seven days preceding the survey, 10 percentage points lower than the corresponding rates in 2006-07. However, if reading of newspapers on the web is included, overall reading of newspapers is increasing. According to some recent findings, the combined print and online readership (adjusted to exclude double counting of those that read both versions) of newspapers has generally held up, and in some cases increased, over the five-year period to 2011 (Roy Morgan Research 2012). Also, newspaper websites are popular sources of news. Of the top ten most popular news websites six are associated with newspapers (Nielsen Media Research 2012).

The popularity of the internet as a means of access to news and information was noted in a study by Ewing and Thomas (2012). In a series of recent surveys, they found that by 2011 more than three quarters of internet users were accessing some form of news on the internet (pp. 22-24). They also found that the proportion of users identifying the internet as an 'important' or 'very important' source of news and information had risen from 68.6 per cent in 2007 to 76.3 per cent in 2011 (p. 20).

The ACMA's 'Digital Australians' online survey (ACMA 2011: 26) found that access to online news content was second only to watching broadcast television as a media activity regularly engaged in by respondents. Overall, 59 per cent of respondents had accessed news from news websites or social networking sites. In the month preceding the survey, 52 per cent of respondents had visited a news website. Some 22 per cent of respondents had also accessed news through social networking sites. Of those visiting news websites, 88 per cent had a preference for Australian websites — 37 per cent had mainly visited an Australian newspaper website and 51 per cent other Australian news websites.

Traditional media (television, radio and print) continued to be the main source of news for 68 per cent of the respondents; online was the main source of news for 23 per cent of respondents (p. 37). For 37 per cent of those visiting Australian television or radio broadcasters' websites, the main reason for going there was access to news (p. 39).

Although newspapers are very popular sources of news on the internet, visits on the sites tend to be fleeting. Australian data on time spent on news websites is very scarce, but there

is no suggestion that the local experience differs significantly from that in countries like the US and UK. For the US, Google's Chief Economist Hal Varian (2010a) notes that in June 2009, there had been 70 million unique visits to US news websites, involving 3.2 billion web page views in 600 million sessions. This was equivalent to an average of 8.5 sessions and 49 pages per person. However, he also noted that on average a person spent 38 minutes a month on online news consumption or a little more than 70 seconds per day. In contrast, the average time spent reading a newspaper in the USA is about 25 minutes per day. In other words, the average offline reader in only two days spends one third more time on reading a newspaper than an online reader does in a whole month.

Analysis of Nielsen online audience data in the USA by the Pew Project for Excellence in Journalism (2010) indicated "that the websites of legacy news organizations – especially cable stations and newspapers – dominate the online news space in traffic and in loyalty. But no one keeps visitors very long. The average visitor spends only 3 minutes 4 seconds per session on the typical news sites".

More recent data from the UK paints a similar picture. There, the average time per month spent by visitors on newspaper websites was also 38 minutes. The average amount of time was highest for people with household incomes in the range £25,000-34,999 (49.3 minutes) and lowest for those with household incomes in the range £10,000-24,999 (29.9 minutes). The average time spent reading newspapers online by those with higher household incomes ranged from 33 to 40.8 minutes per month. (ComScore 2012)

The small average time spent on online news consumption reduces the appeal that online readers of newspapers have for advertisers. Not surprisingly, as noted by Varian (2010b) "advertisers are willing to pay more for their share of reader's attention during 25 minutes of offline reading than during the 70 seconds of online reading". This is at the core of the reason why rates for online newspaper advertisements are a small fraction of print advertising rates. Varian also provides an explanation for consumers' weak engagement with online news:

There's a reason for the relatively short time readers spend on online news: a disproportionate amount of online news reading occurs during working hours. The good news is that newspapers can now reach readers at work, which was difficult prior to the internet. The bad news is that readers don't have a lot of time to devote to news when they are supposed to be working. Online news reading is predominately a labour time activity while offline news reading is primarily a leisure time activity. One of the big challenges facing the news industry is increasing involvement with the news during leisure hours, when readers have more time to look at both news content and ads.

## **4.2 Charging for access to online content**

As already noted, newspaper websites are popular online sources of news. However, initiatives and strategies to monetise that popularity have had mixed results. The main approach so far has been the installation of pay-walls to access content and there are examples of successful models established by some major newspapers overseas. Locally, both Fairfax and News Limited have recently placed much of their news content behind pay-walls but there are very little data on their experiences.

There has been considerable discussion about the viability of charging for access to online news content. The many online sites where access to news is readily available free of charge makes it difficult to levy an access charge unless what is offered can be differentiated by some form of exclusivity such as the provision of additional services or access to content not elsewhere available. This is a standard feature of markets with many competitors each supplying an undifferentiated commodity. Those seeking access to generic news stories have many choices available to them and typically would have little difficulty in accessing the desired information from a range of alternative popular websites, such as the ABC, NineMSN and Yahoo!7. However, the range of stories and depth of coverage available from those sites is not generally as comprehensive and as detailed as the content of newspapers. Consequently the choices of those seeking access to differentiated content not available elsewhere are much more limited and thus they are more likely to be predisposed to pay an appropriate price for the desired content. But the size of the market will be limited and will be highly dependent on the price charged. There are some broad parallels here with the large differences in demand for free-to-air and pay TV.

The Finkelstein Inquiry received some interesting information in this regard. A submission to the Inquiry by Ewing and Thomas (2011) indicated a low willingness to pay for an online version of a newspaper. Seven in ten of the respondents to their 2009 and 2011 surveys indicated they would not consider paying for an online version of a newspaper and less than one in ten indicated a willingness to pay a typical hard copy cover price (\$1.50 was suggested) for the online version. There was some preparedness to pay a lower amount and this varied by age of respondents. Those aged 25-34 and 50-64 were the most likely to have been prepared to pay, with just under one third in each group being prepared to pay something. More than half of those prepared to pay something, however, indicated an amount of 50 cents or less. Preparedness to pay was also found to be positively correlated with frequency of access.

The low willingness to pay for online access to news is a major problem for future prospects of newspapers. As noted above much of the traffic to online news sites is made up of casual visits by readers primarily in search one or a small number of items of interest. Often the interest is likely to be in contemporary news items not exclusive to the site visited. In such cases the individual simply goes elsewhere if a site seeks to charge for access. Less casual readers offer greater prospects to newspapers as potential digital subscribers. But so far, they represent only a small proportion of those visiting news sites.

Current print edition subscribers are at the other end of the scale of interest and willingness to pay for access to newspapers. They are often loyal habitual readers of particular newspapers and are unlikely to discontinue their subscriptions at least in the short term. In between, the situation is more complex and made up of 'marginal', price-sensitive, print edition readers who may be attracted by the lower-cost of online access, and current frequent visitors to online news sites willing to pay something less than a print subscription to read a newspaper online. These latter readers are the main focus of the online pay-wall strategies being implemented by newspapers.

The Audit Bureau of Circulations introduced auditing digital newspaper sales in the June quarter of 2012 using a process that became compulsory for all its members from 1 July 2013. Recently published data provide details of digital sales growth over the past year.

The circulation data for the twelve months ending June 2013 show continuing contraction of total weekly print sales amounting to 10.9 per cent. In the same period, while digital sales for some individual newspapers recorded healthy growth, the increased volume in digital sales was not sufficient to offset the decline in print sales (Blight, 2013).

### 4.3 Future prospects

The preceding analysis depicts a depressing picture of an industry being overwhelmed by enormous pressures and struggling to adjust to the new competitive environment. It's not surprising therefore that some commentators have been led by recent events to predict the demise of newspapers or serious problems for democracy from a weakened industry unable to perform the important public interest role of holding governments and powerful institutions to account.

The changing structure of the newspaper industry and its capacity to perform its public scrutiny functions received extensive consideration by the Finkelstein Inquiry (2012). Its report noted that the Inquiry's analysis revealed "moderate concern about the ability of newspapers to adjust to the changed market environment" but at the same time there was "reason to believe that newspapers are well placed to adjust their operations in response to the evolving digital environment provided they are prepared to develop and adopt appropriate strategies to manage the necessary changes" (p. 307). It also reached tentative conclusions about the future health of journalism in Australia.

The necessary restructuring to adjust to the digital environment will not be smooth sailing. Both threats and opportunities are present. Much will depend on the ability of established newspapers to develop viable business models that will enable them to continue playing a major role in the industry. Their confidence that they will be able to do so is noted. Nonetheless, it might be prudent for policy makers to maintain a watching brief to ensure that future developments do not endanger the effectiveness of the role newspapers play in democratic functioning of society. (p. 316)

Developments since the Inquiry delivered its report accentuate the deep structural changes that are taking place. The decline in print circulation has quickened, forcing major newspaper publishers to decisive action to re-align operating costs with lower revenues and implement strategies to expedite transition to fully digital operations. Fairfax (2012), for example, has embarked on a three-year strategy of changes aimed at converting its business to "a dominant force (in) a predominantly digital future" with a commitment to "print for as long as it remains profitable". The strategy included the introduction of metered paywalls for its major mastheads, increased integration of news production for the mastheads including 'digital-first' publication of stories, conversion of broadsheet papers to tabloid format, closure of some significant printing works and large staff reductions. News Limited's newspapers are similarly affected and are also pursuing strategies focused on transitioning their operations to the digital environment (Kwek 2012).

The decline in print circulation and advertising is forecast to continue unabated in the mid-term. **Table 1** provides details of PwC (2013) forecasts which anticipate that print daily circulation sales will decline at an average compound annual rate of -4.5 per cent in the period 2013-2017 and that the related revenue from print circulation will decline at twice that rate (-9.1%). Over the same period the volume and related revenue of digital daily circulation sales are forecast to grow at compound annual average growth rates of 41.3 per cent and 53.2 per cent respectively. However, because of the low starting base and the high rate of growth of digital circulation, the corresponding growth in volume terms is substantially smaller than the anticipated loss in print circulation volumes. As shown in Table 1, paid digital circulation is forecast to grow from 32,000 to 181,000 in the period 2013-2017 (i.e., a net gain of 149,000) whereas paid print circulation is forecast to decline by 565,000 in the same period. As a consequence aggregate circulation (digital plus print) is forecast to decline at the annual average compound rate of -3.1 per cent in volume terms and -6.6 per cent in revenue terms. The higher rate of decline in revenue reflects the fact that the unit price of digital circulation is significantly lower than that of print circulation.

**Table 1: Newspaper circulation and advertising forecasts, 2013-2017**

	2012 (base)	2013	2014	2015	2016	2017	2013- 2017 CAGR
<i>Daily paid print circulation (thousands)</i>	2,690	2,613	2,512	2,413	2,283	2,142	-4.5%
<i>Daily paid print circulation (\$ millions)</i>	1,486	1,372	1,254	1,134	1,026	921	-9.1%
<i>Daily paid digital circulation (thousands)</i>	32	65	96	137	162	181	41.3%
<i>Daily paid digital circulation (\$ millions)</i>	18	36	65	98	123	150	53.2%
<i>Daily paid total circulation (thousands)</i>	2,722	2,678	2,608	2,550	2,445	2,323	-3.1%
<i>Daily paid total circulation (\$ millions)</i>	1,504	1,408	1,319	1,232	1,149	1,071	-6.6%
<i>Print advertising (\$ millions)</i>	2,129	1,837	1,620	1,459	1,322	1,209	-10.7%
<i>Digital advertising (\$ millions)</i>	373	394	420	439	463	489	5.6%
<i>Total advertising (\$ millions)</i>	2,502	2,232	2,040	1,898	1,785	1,698	-7.5%
<i>Print advertising as % of total advertising</i>	85%	82%	79%	77%	74%	71%	
<i>Digital advertising as % of total advertising</i>	15%	18%	21%	23%	26%	29%	

Source: PwC Outlook: Australian Entertainment and Media 2013-2017

As shown in Table 1, newspaper advertising revenue is similarly anticipated to continue shrinking in the period 2013-2017, because gains from digital advertising are insufficient to make up for the loss in print advertising. Overall, this suggests that the transition of newspapers to a digital market is expected to be a hard and drawn out process. When the market eventually settles down, the industry will likely be significantly reduced in size and influence particularly in the advertising market. In the 'news' market, the reputation of the established mastheads should provide the industry with a solid base to retain and build its influence in the new environment.





## Case Study

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### FAIRFAX MEDIA

Newspapers owned by Fairfax Media have been a longstanding feature of the Australian newspaper industry for more than one and a half centuries. The company's history dates back to 1841 when the founder John Fairfax purchased the daily newspaper *The Sydney Herald* – later renamed *The Sydney Morning Herald* (Fairfax undated). The Fairfax family retained control of the company until financial difficulties led to the appointment of receivers in 1990. It became a publicly listed company in 1993. Today it is one of Australia's largest diversified media companies and controls some of Australia's best known daily newspapers and almost 30 per cent of Australia's daily newspaper circulation (including 25 per cent of national/metropolitan daily circulation), second only to News Corp Australia which controls a circulation about twice as large. *The Sydney Morning Herald* and its stable-mate *The Age* in Melbourne have a long history as Australia's primary media for classified advertising. Because of its historical position as a respected news media company, its dominance in classified advertising, and the publicly available data on its operations, Fairfax Media makes an excellent case study of the impact of the internet on newspapers.

Fairfax Media (2012) claims to be “in the front of the pack” with its digital initiatives. Amongst Australian newspapers, it was one of the early movers in creating an internet presence with its so called ‘f2’ digital initiatives in the late 1990s. It committed significant resources to the venture and in addition to establishing websites for its principal mastheads it invested in new ventures such as MyCareer.com.au, Drive.com.au and Domain.com.au to establish a foothold in online classified advertising. The early initiatives were seen as “direct, natural and necessary adjuncts to our core print business” and “as an essential investment that supports and strengthens our franchises while providing the opportunity to build a business” (Fairfax Annual Report, 2001). The direct threat online was to become to its core print business was not foreseen or anticipated.

**Figure F1: Fairfax publishing and f2 trading revenue, 2001**

<b>PROFIT AND LOSS</b>	<b>2001</b>	<b>2000</b>	<b>Variance</b>
PUBLISHING: Underlying trading	\$M	\$M	%
Trading revenue	1,237.2	1,289.5	(4.1%)
Costs	894.1	869.7	(2.8%)
EBITDA	343.1	419.8	(18.3%)
Depreciation	58.6	61.9	5.3%
EBIT	284.5	357.9	(20.5%)
f2: Underlying trading			
Trading revenue	51.3	55.4	(7.4%)
Costs	86.6	93.3	7.2%
EBITDA	(35.3)	(37.9)	6.9%
Depreciation	6.6	2.8	(135.7%)
EBIT	(41.9)	(40.7)	(2.9%)

Source: Fairfax Annual Report (2001)

**Figure F2: Fairfax Digital 2006**

**Fairfax Digital**

Each month, Fairfax Digital attracts an audience of 5 million Australians and over 8 million unique browsers. Each week, our advertisers pay us well over \$1 million to reach this audience.

The Australian digital media sector experienced outstanding growth in FY05 with total advertising revenues growing to \$488 million. Fairfax Digital strengthened its position as the pre-eminent Australian digital media publisher. Revenue grew by 37.5% to \$55.3 million with EBIT of \$4.6 million. In addition to an internet audience exceeding 8 million unique browsers per month, the division is also reaching new audiences in the mobile sector. Content syndication agreements were completed with mobile telecommunications companies Hutchinson '3', Telstra and Vodafone, enabling subscribers to reach *The Sydney Morning Herald's* and *The Age's* branded content on their mobile phones. The division's exclusive distribution of drive.com.au and domain.com.au within the automotive and real estate sections of Yahoo! Australia and NZ was expanded to include mycareer.com.au in the employment section (commencing October 2005), displacing seek.com.au. These distribution agreements operate for three years. In July 2005, Fairfax purchased RSVP.com.au, Australia's leading online dating site.



Source: Fairfax Annual Report (2006)

Ongoing growth in newspaper advertising, albeit at a slower rate than the advertising market generally, masked the emerging threat posed by online advertising in the first five years of the second millennium. Fairfax, in particular, with its own significant online activities that were beginning to contribute positively to both revenue and profits, felt reassured by its solid presence in the online environment. Its 2005 annual report notes that:

“Fairfax Digital was profitable at the EBIT level for the first time. Total traffic across all the Fairfax sites increased 21% to over 8.1 million unique browsers per month. RSVP, the #1 online dating service, is performing ahead of expectations following its acquisition in July 2005, with memberships climbing to over 630,000, up 59% year-on-year”.

By 2006, its CEO David Kirk noted that rapid growth of the company's internet businesses was changing its overall growth and earnings profile. Answering a rhetorical question on where Fairfax Media would be five years later he said: “I'm often asked that question. I believe newspapers will be with us for decades to come. Five years from now, Fairfax will still be a very successful newspaper company, with strong brands and mastheads. It will also be a significantly bigger internet company. We will be distributing our content over more media.” (Fairfax Annual Report, 2006).

In the next two years Fairfax expanded its operations in a merger with Rural Press, which owned dozens of regional newspapers, magazines and some radio stations. It then further expanded its media assets by acquiring several capital city radio stations from Southern Cross Broadcasting. As part of the merger with Rural Press, Fairfax's intangible assets more than doubled from \$2.9b to \$6.2b representing three quarters of the corporation's total assets at the end of the 2007 financial year. Its net assets were just under \$5b. (Fairfax Annual Report, 2007).

The sharp drop in US advertising revenue in the wake of the Global Financial Crisis (GFC) and significant erosion of newspaper markets by online competitors had a parallel in Australia which began to have a serious impact in the 2007-08 financial year. Fairfax acknowledged the emerging pressures in its 2008 annual report but was confident it was well placed to meet the challenges:

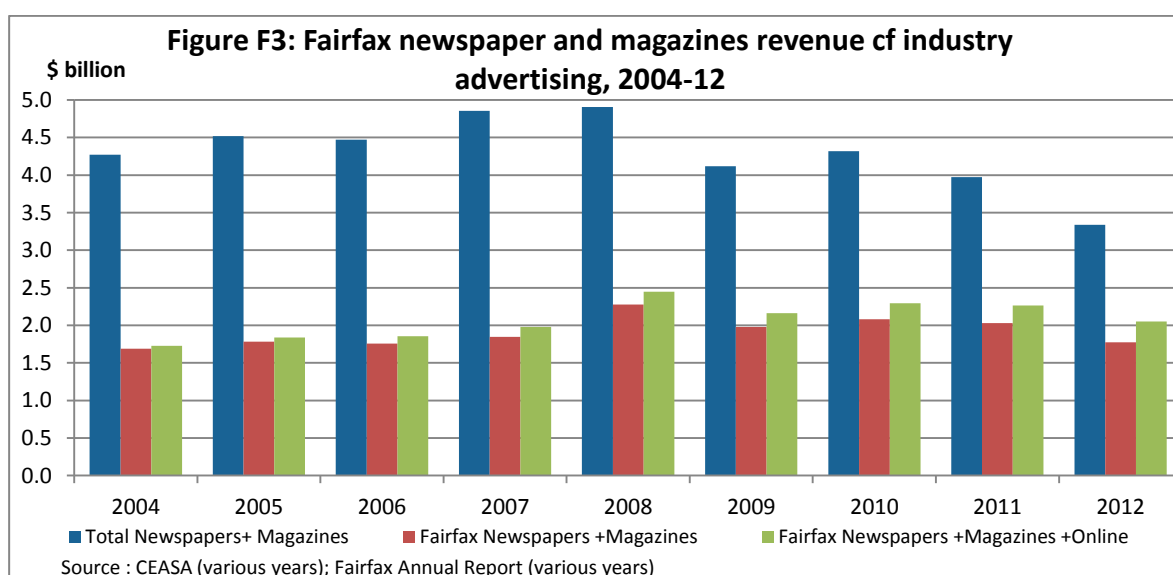
Fairfax Media has taken decisive steps to ensure that we are better positioned than publishers in the United States and the United Kingdom to respond to these structural challenges:

- Our newspapers have an excellent record of circulation growth and long-term circulation and readership stability. This is a result of our investment in colour and other innovations to revitalize our publications.
- We have firm cost disciplines that have been devised so as not to harm the internationally recognised quality journalism for which we are renowned.
- We have far stronger online positions than our peers overseas, yielding the #1 news and information sites in Australia and a greater share of online classified and display revenues. We own 100% of our entire portfolio of internet assets.

No other major publishing company in the world has such strength in newspapers and magazines across metro, regional, financial, community, and agriculture publishing; a comprehensive portfolio of successful online news, classified and transaction businesses; and a strong radio network. (Fairfax Annual Report, 2008)

But all was not well! The Australian newspaper industry has not recovered from the large drop in advertising revenue in 2009 and the subsequent strengthening of competition from online suppliers of advertising. Fairfax was not spared the industry's pain and its fortunes have been waning. Notwithstanding the high growth in its digital revenue in more recent years, the corporation's total operating revenue, which stood at \$2.9 billion in 2008, declined 10.7 per cent in 2009 and has continued to decline gradually thereafter reaching \$2.3 billion in 2012 (20.7 per cent below 2008).

**Figure F3** provides details of Fairfax's revenue from newspapers and magazines with and without online revenue for the period 2004-2012 and compares it with total main media advertising revenue for newspapers and magazines in Australia. Advertising in newspapers and magazines generally rose steadily between 2004 and 2008 before entering a period of rapid and ongoing decline. By 2012 it had declined to a level slightly more than two thirds of the peak revenue reached in 2008 and more than 20 per cent below the level in 2004. Fairfax's newspaper and magazine revenue (including circulation revenue) followed a similar trend to overall newspaper and magazine advertising. Its newspaper and magazine revenue performance (without and with online revenue) in the 2004-2008 period mirrored that of overall newspaper and magazine advertising and bettered the overall performance with some solid growth in 2008. It also performed better than average in the subsequent decline experienced by the industry. In 2012 Fairfax's newspaper and magazine revenue, not including online revenue, was 22 per cent below its 2008 peak and 16 per cent below the peak if online revenue is taken into account. Over the same period total newspaper and magazine advertising was 32 per cent below the 2008 peak.



Consistent with its revenue performance, Fairfax's nominal profits declined steeply in recent years. In the past four years for example, a net profit was registered only in 2010 with significant losses in the other years, including a massive loss of \$2.7 billion in 2012 following write-downs of almost \$2.9 billion in the intangible value of mastheads and other items. However, the underlying operating profit has been positive in three of those four years (substantial loss in 2009) albeit significantly below that achieved in 2008. In 2012 net profit before tax and significant items at \$85.7m was considerably below that in the preceding two years. Details are provided in **Table F1**.

**Table F1: Fairfax financial indicators**

	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
Revenue from operations (\$m)	1767.7	1873.4	1907.8	2111.4	2900.9	2599.1	2476.8	2463.4	2319.7	2033.8
Net profit before significant items (\$m)	207.6	237.6	234.3	267.8	395.3	242.4	290.5	283.8	205.4	143.5
Net profit (\$m)	276.7	260.3	227.5	263.5	386.9	-380.1	282.1	-390.9	-2732.4	-16.4
Total equity (\$m)	2068.7	2168.7	2136.8	4961	4965.3	5011.8	5306.7	4438.7	2042.7	1816.2
Total assets (\$m)	3531.2	3592.8	4087.1	8000.5	8293.1	7487.6	7394.1	6700.6	4006.6	3016.7
Net earnings per share (cents)	28.1	26.3	24.4	22.7	24.6	-21.6	11.5	-17	-116.2	-0.7
Dividend per share (cents)	16.5	23.5	19.5	20	20	2	2.5	3	3	2
Market price per share (\$)			3.48	4.36	2.69	1.23	1.36	0.98	0.58	0.55
Market capitalisation (\$m)			3268	6451.2	4071.4	2892.9	3198.7	2304.9	1364.1	1305

Source: Fairfax Annual Report (various years)

The enormity of the change that has taken place in Fairfax Media is reflected in the drop of its market capitalisation from \$4.1 billion in 2008 to less than \$1.4 billion in 2012. Shareholders in the company have been the main losers. The large difference between

market capitalisation and the company's book value of total assets suggests that further substantial write-downs of intangible assets are likely and some financial analysts are anticipating eventual closure of some mastheads (Goldman Sachs, 2013).

In the meantime, Fairfax has embarked on a three-year strategy of 'changes to its business designed to support a sustainable cost base and to move along the journey from print to digital publishing' and ensure that it becomes 'a dominant force in what (it expects) will be a predominantly digital future'. Along the way to the digital future, the corporation states that: 'We remain committed to print for as long as it remains profitable' (Fairfax Annual Report, 2012).

Detailing the planned changes on 18 June 2012, Fairfax Media announced a 1,900 cut in staff numbers with about 150 in editorial activities at its metropolitan mastheads (*The Sydney Morning Herald*, *The Age* and *The Canberra Times*), a shift to tabloid-sized editions of the broadsheet newspapers from March 2013, establishment of paywalls for the *Sydney Morning Herald* and the *Age* websites (also in 2013), and the closure of its Chullora and Tullamarine printing facilities by June 2014 (Zappone 2012). Overall, the restructuring was expected to deliver annual cost reductions of \$235 million by 2015.

Further restructuring and cost-saving initiatives were put in place in the 2012-13 financial year. In presenting the company's results for the year, Greg Hywood, Fairfax Media CEO, stressed that "responding to structural change and cyclical downturn has been, and will continue to be, our greatest priority. And we are making good progress" (Fairfax 2013a). Operating revenues declined a further 8.2 per cent in that year and early indications are that the decline is continuing in the 2013/14 financial year. The company has again written down the value of some of its mastheads (mainly regional newspapers) and has sold some business entities. The combined annual saving of the restructuring initiatives over the past two financial years is expected to be around \$311 million by 2015.

Fairfax (2013b) reported growing digital readership and early positive results of its paywall system: "We achieved half of our 12-month target for paid subscribers in the first four weeks since introducing digital subscriptions for *The Sydney Morning Herald* and *The Age*. There has been minimal impact on overall traffic numbers. We now have 68,000 paid digital subscriptions and 98,000 bundled print and digital subscriptions. Around one third of the digital subscriptions are iPad only".

Fairfax's revenue from digital subscriptions and digital advertising and other activities has been growing strongly and contributed 14 per cent of total revenue in 2012-13. However, the growing contribution of digital to total revenue continues to be insufficient to balance the loss in revenue in print activities. Consequently, further restructuring is likely to be a feature of the company for several years to come.



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## Note on Author

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**Franco Papandrea** is adjunct Professor in the Faculty of Arts and Design and Member of the News and Media Research Centre at the University of Canberra, Australia. His primary research interests are in communication and media policy and industrial organisation of media. As a well-established expert with decades of experience in those fields he has frequently been called to provide research and consultancy services to Australian and International regulatory authorities and other major clients. His appointment to advise the two foremost Australian public inquiries into newspapers (House of Representatives Select Committee on the Print Media – 1991, and the Independent Inquiry into Media and Media Regulation – 2011) twenty years apart has been a highlight in his career.

## The News and Media Research Centre (N&MRC)

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**The News and Media Research Centre (N&MRC)** undertakes research into the continuing influence of media content in shaping the way we communicate with each other and understand the world around us, particularly in relation to key issues such as health and the environment. The research of the N&MRC contributes to practical initiatives by governments, consumer groups, and communication and media companies to improve communication systems and standards.

The work of the Centre encompasses: user perspectives on new communication technologies; the role of the news media and public communication in shaping knowledge about social issues; research into the ‘mediatisation’ of politics; and the role of the media in the policy development process.

Enquiries regarding proposed research should be made to [megan.deas@canberra.edu.au](mailto:megan.deas@canberra.edu.au)





