



Australian Competition and Consumer Commission (ACCC) Digital Platforms Inquiry

Submission from the Outdoor Media Association

01 INTRODUCTORY COMMENTS

The Outdoor Media Association (OMA) is the peak national industry body representing the majority of Australia's Out of Home (OOH) media display and media production companies, as well as some media display asset owners. The OMA advocates for reasonable, evidence-based regulation.

The OOH industry supported approximately 3,100 full-time jobs and added nearly \$650 million to Australian GDP in 2014.¹ In addition, the OOH industry contributes and performs upkeep on more than 17,000 items of community infrastructure, including bus shelters, kiosks, park benches, pedestrian walkways and telephone booths, which is valued at approximately \$352 million. The industry also provides an essential revenue stream to the government, returning 50 per cent of revenue via rent and taxes.²

OMA members also support more than 160 community organisations including Australian charities, healthcare organisations, environmental organisations, public bodies, and arts and cultural organisations. In 2017, it is estimated that the industry donated advertising space valued at more than \$36 million to charitable and community campaigns.

The OMA welcomes the opportunity to respond to the ACCC's Digital Platforms Inquiry, and is keen to ensure that its members' concerns, industry impacts and regulatory cost imbalance for large digital platforms are incorporated into the ACCC's investigations.

The OMA seeks to ensure that the ACCC recognises the role of the OOH advertising market in the broader media advertising landscape and that it is not immune to the effects of market dominance from digital platform players such as Facebook and Google.

¹ Deloitte Access Economics, 2016. "Out-of-Home Adds Value: Out-of-Home Advertising in the Australian economy," Outdoor Media Association.

² Ibid.

02 AUSTRALIAN OUT OF HOME ADVERTISING MARKET

The Australian advertising market is estimated at A\$15.2bn and is expected to grow at a 2.8% compound annual growth rate (CAGR) to \$17.6bn in 2021 (Figure 1). The Outdoor market segment has seen strong growth and currently represents 5.2% of the total advertising spend market. Growth is forecast to continue at a CAGR of 5.0% through to 2021.

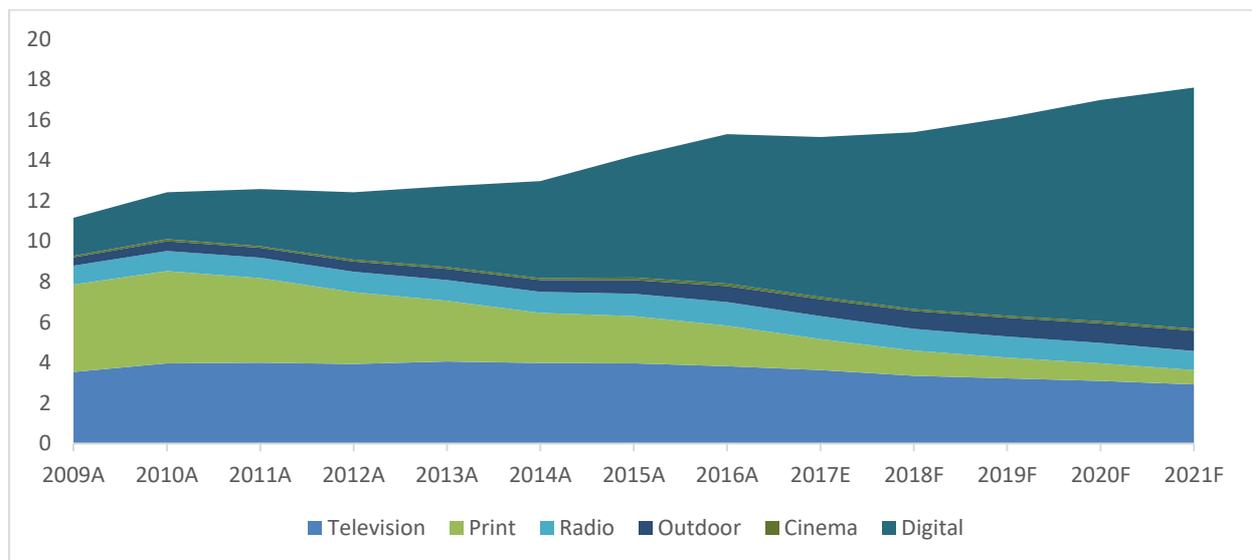


Figure 1. Advertising revenue by segment (A\$bn)³

Over the last decade, growth in the Australian advertising market has been dominated by Digital advertising which has grown at the expense of traditional segments such as Print. At the end of 2017, the Digital segment of the market was estimated at A\$7.9bn and is expected to increase from 48.3% today to 67.7% of the market by 2021.

Within the Digital segment (Figure 2), Display is anticipated to increase its share, rising to 40.6% in 2021, driven by considerable growth in video advertising. Both Search and Classifieds will decrease their share of digital advertising (45.0% and 14.4% respectively in 2021), although their total advertising expenditure will continue to show growth, (CAGR 9.5% for Search and CAGR 5.8% for Classifieds).

³ Venture Insights, 2017. "Australian Advertising Expenditure Market Outlook: Digital is taking its toll on the advertising market," June 2017.

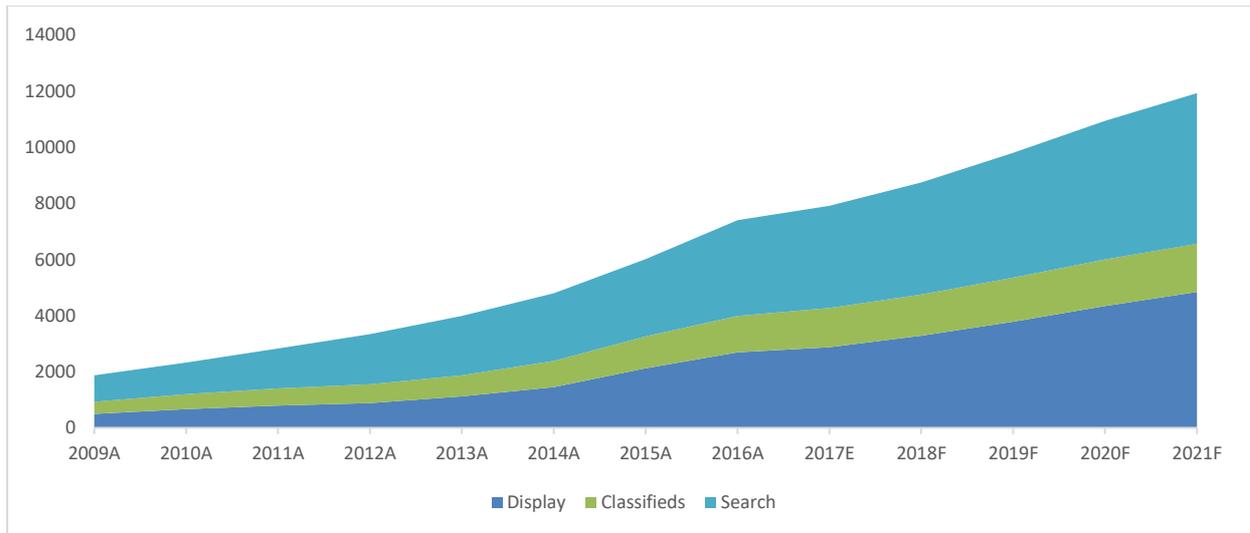


Figure 2. Digital Advertising by sub-segment (A\$m)⁴

On a global basis, the combined market shares of Google and Facebook for online advertising has been estimated at 44% and 18% respectively (Figure 3), demonstrating a significant degree of global market power. In Australia, we expect similar market shares with Google taking the majority of the digital search market and both Facebook and Google (YouTube) taking significant shares of the digital display market.

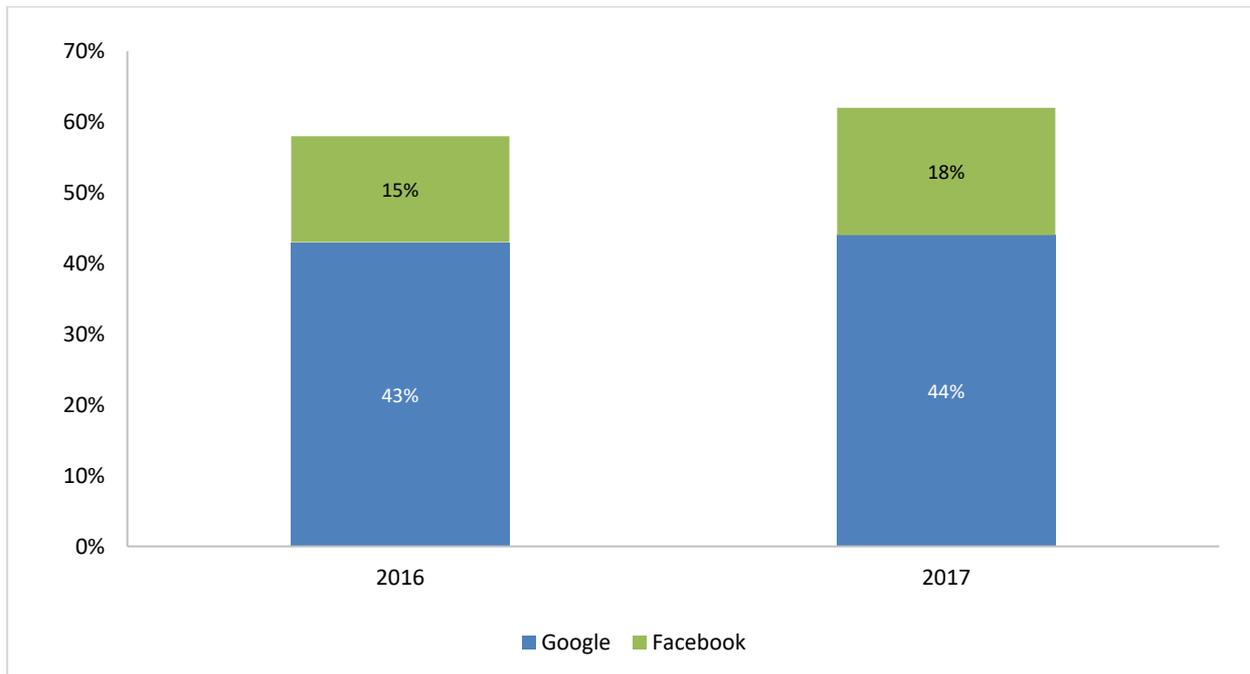


Figure 3. Global online advertising market share⁵

As noted in the ACCC’s Digital Platforms Issues Paper, not only do these players have significant market shares but the scale and focus of their business operations is equally significant.⁶ Google/Alphabet’s 2016 revenue was USD\$89.5bn (of which 75.4% is

⁴ Ibid.

⁵ Venture Insights, 2018. “Ad blocking – Google and publishers strike back,” March 2018.

⁶ Australian Competition & Consumer Commission, 2018. “Digital Platforms Inquiry: Issues Paper,”

advertising revenue), while Facebook's 2017 revenue at USD40.7bn (of which 98% is advertising revenue).

This shift to a market controlled by Facebook and Google has far-reaching repercussions for market diversity and the commercial survival of entire sectors of the Australian media and advertising industries. Digital media has splintered Australian audiences; domestic companies are competing for market share with international players who are permitted to operate outside of the regulatory framework and with the benefit of far larger budgets due to their market power.

The OMA supports and encourages vigorous competitive activity within the OOH industry, acknowledging the overall benefits this brings to the Australian economy as well as being a key driver of technological innovation. However, duopolistic practices impede the competitive process by creating barriers to entry and encouraging a concentration of power.

Given the scale of these players, the OMA is concerned about potential market distortions in six key areas: measurement; pricing; big data; regulatory standards; mergers and acquisitions; and, corporate taxation.

2.1 Measurement

There is broad industry concern about the way in which Facebook and Google report their advertising reach and the accuracy of their advertising measurement systems. In the last year alone, Facebook has faced a number of measurement errors,⁷ and there have been calls from industry on Facebook and Google to be more open about measurement data.⁸

By comparison, in the OOH advertising market, MOVE's audience measurement system has been custom-built for Australian conditions and provides base audience impact measurement recognised by both buyers and sellers as part of the OOH format and location valuation. MOVE was built in partnership with and has been endorsed by the Media Federation of Australia (MFA) and the Australian Association of National Advertisers (AANA). It has become an intrinsic part of outdoor campaign planning process, enabling advertisers to quantify the audience reached and to integrate this data with their increasingly sophisticated econometric investment models.

Given the competition for advertising spend, it is crucial that the measurement systems of digital platform providers are accurate and robust. If this is not the case, there is potential for market distortion with, for example, the over estimation of advertising reach which in turn can inflate the overall revenue share for digital platforms to the detriment of other sectors.

The OMA recommends that the ACCC investigates whether digital platform providers accurately meet the relevant industry measurement standards and are transparent and open in how their measurement systems work.

<https://www.accc.gov.au/about-us/inquiries/digital-platforms-inquiry/issues-paper>

⁷ Hobbs, T., 2017. "Facebook admits it is still 'not 100% there' on measurement," Marketing Week, 2 October. <https://www.marketingweek.com/2017/10/02/facebook-says-it-still-has-work-to-do-around-audience-measurement/>

⁸ Davidson, D., 2016. "Facebook, Google must come clean on measurement data," The Australian, 25 July. <https://www.theaustralian.com.au/business/media/facebook-google-must-come-clean-on-measurement-data-sorrell/news-story/e2d0d9431a20d5d406019f2d97814272>

2.2 Pricing

In addition to advertising measurement concerns, there have also been significant industry concerns around the prices charged by digital platform providers. For example, it has been estimated that Facebook costs Australian advertisers four times the global average CPM (cost per thousand impressions).⁹

Given the large market shares and the potential for misleading measurement data from digital platform providers, the OMA is concerned about the charging practices of Facebook and Google, and the impact these may have on the broader advertising market.

The OMA recommends that the ACCC investigates the pricing models of digital platform providers to ensure Australian consumers receive fair pricing outcomes.

2.3 Big Data

OOH advertising has embraced innovation and technological advances while adhering to the strict privacy laws that protect Australian users. Technology has strengthened the impact of OOH; transforming it from a passive medium to one that can be fully interactive. Innovative technologies such as Wi-Fi, Quick Response (QR) codes, Near-Field Communication (NFC), mobile technology and Motion and Gesture Recognition, have greatly increased the advertising models OOH can provide.

The OOH advertising industry has channelled its investment into innovation and technology to deliver broader benefits to local communities by upgrading public infrastructure to develop smart city models such as smart bus stops, and interactive screens with pertinent information, news and weather.

While advances in OOH technology benefit advertisers, consumers and the community, the control and ownership of consumer and business data can provide certain players with a significant competitive advantage. Large digital platform providers with data-driven economies of scale can have access to greater information about consumers' preferences and movements; platform-related applications can track home and work locations, current location and current activities as well as purchase preferences, likes and dislikes, for instance.

In an economy where these data insights are so valued, digital platform providers such as Facebook monopolise the market by harvesting personal information that is dynamic, continuous and updated in real-time. Currently, Facebook is able to do this through its own social media platform, as well as through the Facebook Partners Program, enabling them to extend their extensive data collection to Third-party partners' sources – something that will not change even in light of the recent announcement to limit access to the platform.¹⁰

More nefarious is Facebook's ability to accumulate data from consumers who are not active on its site. When users connect their email account with Facebook, non-users

⁹ Bennett, L., 2018. "Australia has the most expensive Facebook ads in the world," AdNews, 3 March. <http://www.adnews.com.au/news/australia-has-the-most-expensive-facebook-ads-in-the-world-study-finds>

¹⁰ Wagner, K., 2018. "Facebook will stop sharing as much of your personal data with people outside of Facebook," Recode, 4 April. <https://www.recode.net/2018/4/4/17199354/facebook-stop-sharing-data-outside-app>

are also captured. Instead of discarding their information, Facebook keeps non-user data attached to what has been referred to as a 'shadow profile'.¹¹ This blatant and insidious abuse of data collection is not only an invasion of consumer privacy; the hoarding of this information by Facebook ensures that it is operating on a level that no OOH advertising company would ever be able to do.

The OMA is concerned by the growing encroachment of digital platform providers into the OOH advertising market; their potential to use big data to effectively prevent competitors from offering similar services and/or fail to share or supply that data on competitive terms facilitates an abuse of market power. In 2015, Alphabet Inc (the parent company of Google) acquired Titan Outdoor to form Intersection. Through this acquisition, Alphabet has been able to amass data from consumers in the public domain via their smartphones and nearby street furniture infrastructure and produce targeted advertising to those individuals.¹² The proprietary information accrued, including data about individuals' locations and their movements, goes beyond the level of engagement that most OOH advertising has with its customers, and beyond a reasonable consumer's expectation of privacy.

The OMA notes that the European competition commission is currently investigating whether companies such as Google and Facebook can use big data to exclude new competitors or prevent competitors from competing because they lack access to the big data information and insights.¹³

The OMA suggests that the ACCC investigate the market impacts of digital platform providers with access to big data and whether this could lead to distortions in the advertising market – especially if these providers already have market power.

2.4 Regulatory Standards

The OMA works closely with Ad Standards to ensure that OOH advertising meets prevailing community standards and attitudes. The OMA also works with the Australian Association of National Advertisers, The Communications Council, The Australian Food & Grocery Council, and the ABAC Responsible Alcohol Marketing Scheme to ensure that members understand and adhere to all applicable self-regulatory codes.

In addition, the OMA also works closely with State and Local Government regulators to ensure that planning and roadside controls promote safe, high-quality signage and advertising, particularly in the context of new and emerging technologies.

The OMA notes that dealing with advertising regulations at the local, state and federal levels places a significant cost on the OOH industry and also directly impacts OOH advertising revenue. Examples include restrictions on outdoor gambling advertising by the Victorian Government and bans on outdoor/transport alcohol advertising by the South Australian Government.

¹¹ Hautala, L., 2018. "Shadow profiles: Facebook has information you didn't hand over," CNet, 11 April. <https://www.cnet.com/news/shadow-profiles-facebook-has-information-you-didnt-hand-over/>

¹² Stock News, 2017. "Alphabet Inc (GOOGL) In Hot Water After Gathering Android Location Data Without Users' Consent," Stock News, 22 November. <https://stocknews.com/news/googl-alphabet-inc-googl-in-hot-water-after-gathering-android-location/>

¹³ Drozdziak, N., 2018. "EU Asks: Does Control of 'Big Data' Kill Competition?" The Wall Street Journal, 2 January. <https://www.wsj.com/articles/eu-competition-chief-tracks-how-companies-use-big-data-1514889000>

The OMA is concerned that digital platform providers do not face the same level of regulatory obligations and as such are able to use this advantage to attract a greater share of the overall industry advertising budgets. Any market asymmetry in relation to the application of regulatory and/or industry standards can unfairly favour digital platform providers and increase costs for the OOH market players.

The OMA believes that the ACCC should investigate whether digital platform providers face the same level of regulatory and standards compliance in the Australian advertising market and ensure that there is a level playing field.

2.5 Mergers and Acquisitions and the OOH Market

In 2017, the OOH advertising sector was involved with a potential merger between two OMA members. Ultimately, this merger was blocked by the ACCC due to concerns that the OOH advertising market could become too concentrated if it proceeded.

As digital platform players increasingly expand their dominance to include more traditional media channels' business models, the OMA believes that the ACCC may need to reconsider its narrow market definition.

Given the size and scale of digital platform providers, the OMA is concerned that these players will use their market power to distort competition in the OOH advertising market; by entering the OOH market directly, or by acquiring an existing OOH advertising company.

In addition to potential market distortions, the OMA is also concerned that digital platform providers may use their proprietary access to big data sets of consumer and supplier information to further enhance their market power across advertising sectors.

Given these risks, the OMA believes that the ACCC should take into account the potential for market distortion in individual channels due to the entry of digital platform providers, and whether a broader market definition is needed into the future.

2.6 Corporate Taxation

There has been significant discussion in Australia and globally about digital platform providers such as Google and Facebook not paying their fair share of local taxes.

While there is no harmonised global approach to tax rules, many jurisdictions have tax exemptions and/or allow discounts to attract global companies to their shore. This enables global companies such as Google, Apple or Amazon to create complex tax structures that let them take advantage of these regimes and pay less than their fair share of taxes while still abiding by tax regulations.

The OMA recognises that the Australian government has been trying to crack down on multinational tax avoidance of local revenues. However, while both Google and Facebook have begun to bring their revenue onshore to be taxed, it is still believed that this falls short of the actual revenue made onshore.¹⁴

Any imbalance in effective tax rates between digital platform providers and OMA members will disadvantage the OOH market and its ability to compete for advertising

¹⁴ West, M., 2017. "Google, Facebook fall into line on tax, but eBay remains defiant," The Conversation, 2 May. <http://theconversation.com/google-facebook-fall-into-line-on-tax-but-ebay-remains-defiant-76946>

revenue.

The OMA believes that the ACCC should consider the corporate tax imbalance and the negative competitive effects on the Australian OOH advertising market.

03 SUMMARY

Given the above, the OMA is concerned that the market power of digital platform providers such as Google and Facebook could allow them to further increase their advertising market share to the detriment of other advertising segments including the OOH advertising market.

In addition, if these platform providers were to enter the OOH market then their overall advertising market power would significantly outweigh the OMA members.

As such, the OMA believes the ACCC should:

- Investigates whether digital platform providers accurately meet the relevant industry measurement standards and are transparent and open in how their measurement systems work. Investigates the pricing models of digital platform providers to ensure Australian consumers receive fair pricing outcomes.
- Investigate the market impacts of digital platform providers with access to big data and whether this could lead to distortions in the advertising market – especially if these providers already have market power.
- Investigate whether digital platform providers face the same level of regulatory and standards compliance in the Australian advertising market and ensure that there is a level playing field.
- Take into account the potential for market distortion in individual channels due to the entry of digital platform providers, and whether a broader market definition is needed into the future.
- Consider the corporate tax imbalance and the negative competitive effects on the Australian OOH advertising market.