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I Want My ABC (and SBS and NITV)

The future of national public broadcasting

A public broadcasting sector designed for the 21st century would look different to the one we have today. There are opportunities and risks relating to all reform options for Australia's public broadcasters.

Discussion paper

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February 2016

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Summary

If a public media sector was designed in 2016 with an eye to the future, it would be different to Australia's current one, with the ABC, SBS and National Indigenous Television (NITV). A system designed for the 21st century would not likely consist of eight free-to-air TV channels, another pay TV service, 15 broadcast radio services, two separate on-demand TV services, two podcasting catalogues, and two sprawling online platforms.

The missions of the public broadcasters, however, have never been more relevant, their cultures more valuable, or their local market advantages more pronounced. The country needs high quality news, local content and multicultural broadcasting as Australia faces a changing media environment, cultural challenges and globalised markets.

Reform of public broadcasting brings opportunities and risks. The most desirable and achievable, goals and benefits of reform would be to:

- Accelerate transition to digital-first strategies, protecting and growing future relevance;
- Remove advertising from SBS;
- Improve the cultural diversity of the ABC;
- Strengthen the delivery of SBS' multicultural charter obligations; and
- Provide financial and political security for both organisations.

Considerable risks arise with any moves to reform:

- Potential to alienate existing audiences and undercut strong stakeholder support;
- Potential for major disruption to operations, staff and management; and
- Potential degradation of SBS and NITV's distinct characteristics.

Four options for reform are addressed in this paper.

- Combining the board and executive management levels;
- Combining support and back-office functions;
- Consolidating digital content, publishing and on-demand services; and
- A comprehensive rationalisation of services, leadership and management.

To achieve the most desirable goals of structural change — namely digital orientation and the removal of advertising — the latter two scenarios must be explored.

Importantly, however, these are also the scenarios that carry the greatest risk.

A key observation is that a merger of administration and back-office functions will not achieve worthwhile financial efficiencies. The ABC and SBS have already achieved significant operating efficiencies, exceeding those identified in the Lewis Review.

Recommendations:

- **Holistically review the entire suite of radio and TV broadcast services.**
The ABC, SBS and NITV broadcast a large number of services. A review could identify consolidation opportunities, and places where niche audiences would be better served online or by other parts of the media ecosystem. Such a process may reveal sources of significant savings, savings that could be invested in reducing the broadcasters' reliance on advertising, and/or into a re-orientation towards digital services, in particular for the organisations' journalistic output. Furthermore, this process may reveal opportunities where culturally diverse voices can reach wider audiences.
- **Consolidate online services**
The ABC, SBS and NITV maintain separate systems and infrastructure that provide fundamentally the same service, specifically media on-demand, news article publishing, and podcasting. Given the apparent poor performance of SBS' online news - which should be an important part of SBS strategy and charter delivery - this seems a severe problem. The ABC's extensive and increasing online news output could be made available for translation and interpretation to the SBS' languages other than English. The over-riding goal is to produce more and better content, but maintain fewer, better-built online channels.
- **Any savings from reform must be re-invested into public broadcasting**
Administrative and operational re-structuring could save money, and this must be reinvested into the public broadcasters to assist in their delivery upon charter obligations. Any attempt to reduce expenditure, instead of improving the services and defending public media from long-term threats, would undercut the entire rationale of structural reform and leave the ABC, SBS, NITV and their viewers and funders in a weaker position to face the challenges of the 21st Century.

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Introduction

If a public media sector was designed in 2016 with an eye to the future, the result would be radically different from Australia's status quo. Nonetheless, the missions of the ABC, SBS, and NITV have never been more relevant, especially as the local market alternatives are failing on a number of fronts. Yet these public broadcasters are under threat: the SBS' valuable advertising revenue is at risk, and competitive challenges to the broadcasters will only increase over the next decade.

ANALOGUE LEGACY

Australia's public broadcasters — the ABC, NITV and SBS — have foundations and cultures inherited from the analogue era. But over the last decade, their operations have sprawled —counted together, the ABC, NITV and SBS transmit eight linear free-to-air TV channels (the traditional model whereby viewers watch programs only at the time they are broadcast, from a limited, domestic set of channels), another pay TV service, and 15 linear broadcast radio services¹, not including the ABC's international broadcasting operations. The broadcasters maintain two separate on-demand TV services, two podcasting catalogues, and two online platforms (hosting a chaotic array of experiences and brands)². Even excluding HD simulcasts and the ABC's extensive domestic regional localisation, the services have 1,512 hours of broadcast TV space to fill each week, and 2,520 hours of radio airtime. Two administration, leadership and governance bureaucracies oversee that output.

The broadcasters' high number of TV and radio channels is likely to become increasingly anachronistic in the modern media age, where audiences personalise their consumption. Offering multiple services provides choice, but does so in a way inferior to on-demand services. When assessed collectively, across ABC, SBS and NITV, some services have overlapping content, while others address niche markets better served online (sometimes by commercial online services). These problems are sharpened by the limitations of production/acquisition resources, and also of broadcasting spectrum. (As discussed below, the 2014 Mid-Year Economic and Fiscal Outlook – MYEFO

¹ "ABC Annual Report 2013-14." Annual Report. Australian Broadcasting Corporation. Accessed September 21, 2015. <http://about.abc.net.au/wp-content/uploads/2014/12/ABCAnnualReport2014Accessible.pdf>.

"SBS Annual Report 2013-14," n.d. Accessed September 21, 2015.

² *ibid.*

hereafter – made the discussion of broadcasting spectrum particularly important. Significant opportunities exist here.)

The volume of broadcast hours demanded by all those radio and TV channels also stretches resources. While the advent of digital production methods has allowed the broadcasters to produce more with less (for example, ABC's News24 was funded by production efficiencies), critics complain of increased repeats, and an increase in content bought in from exterior sources.

These complaints have some justification. Over the last ten years the main ABC TV channel's prime time, first release Australian content has dropped 30 per cent, although the figures are up significantly for the full 24 hours. For ABC2 and ABC Kids, the proportion of repeats and buy-ins is above 90 per cent³. Repeats are a strategy much more suitable for the analogue world than the digital world, in which audiences can consume content on demand. Likewise, the internet can deliver content from producers around the world, lessening the value of the broadcasters' investments in syndication fees. (We must, however, acknowledge counter-arguments: older audiences, remote and regional audiences, and poorer audiences do not use on-demand services as much as other audiences, and thus benefit from repeats. It is also possible to argue that judicious curation mutualises the costs of accessing international content, although that assumes common tastes across the entire population.)

In any case, the greatest demand in the digital era is for media-makers to produce excellent content and experiences, a task made difficult when combined with the need to fill so many channels. The online media market is intensely competitive; audiences already seek out the best, most compelling and relevant content from providers around the world. The best competitors are experts in producing content in forms perfectly suited for their digital platforms, and have sophisticated distribution and marketing methods that evolve as their ecosystem does. The world-leading media organisations have either evolved in the digital era, or have moved aggressively away from their traditional roots to "digital first" strategies⁴.

These competitors have only just started paying attention to the Australian market, and there is no reason to think they won't increase in number and in strength. In light

³ Figures derived from analysis of the ABC Annual Reports 2004/5 (p126) and 2014/15 (pp212-214). The ABC does not publish data of repeat and overseas acquisitions for ABC3 and News24 on TV, nor its many radio services.

⁴ Byers, Dylan. "N.Y. Times Accelerates Digital-First Effort." POLITICO. Accessed October 8, 2015. <http://www.politico.com/blogs/media/2015/05/ny-times-accelerates-digitalfirst-effort-206637.html>. CXOTalk. CXOTalk Featuring Tanya Cordrey, Chief Digital Officer, The Guardian. Accessed October 8, 2015. <https://www.youtube.com/watch?v=hc9aal1tzo>.

of this environment, it must be reasonable to ask whether Australia's public broadcasters, in their current forms, can bring sufficient focus on producing the very best, most distinct, most appealing content in a way that serves their missions and their audiences.

A FICKLE FINANCIAL ENVIRONMENT

The ABC and SBS have suffered through the last 18 months, and the future has more dangers. The 2014-15 Federal Budget and MYEFO cut the broadcasters' budgets by approximately 4.5 per cent collectively⁵. The SBS executive had hoped to offset the effects of the budget cuts by doubling the capped number of advertising minutes on TV, but legislation allowing them to do so failed to pass the Senate. Aside from the cuts to the ABC's government appropriations, the ABC's non-government sources of revenue (largely merchandising, royalties and grants) appear to be in a long-term pattern of decline⁶. The cancellation of the ABC's Australia Network international television contract also removed a source of international reporting resources.

SBS advertising revenue

Although both broadcasters' budgets are currently vulnerable to governmental whim, the SBS' significant reliance on advertising income places it at a particular risk. The structural migration of audiences away from linear broadcast television is most pronounced in younger generations, but is in no way exclusive to them. Research from Deloitte found that the majority of Australian video consumption already happens away from linear broadcast⁷. Reports by the TV-industry funded Nielsen shows a slightly slower shift away from linear TV, but the trend line remains, as do the generational patterns⁸. (Sports coverage is an exception, but that has only driven up the competition and costs for rights acquisition.)

⁵ "Australian Government Mid-Year Economic and Fiscal Outlook, Appendix A: Expense Measures," December 2014. http://www.budget.gov.au/2014-15/content/myefo/html/11_appendix_a_expense-02.htm.

⁶ According to "ABC Annual Report 2013-14." and "ABC Annual Report 2012-13," n.d. the ABC's own source revenue has declined by either 10per cent or 15per cent since 2009/10, depending on whether you remove one-off gains.

⁷ "Deloitte Media Consumer Survey 2015 (Fourth Edition)", August 10, 2015. <http://www2.deloitte.com/au/en/pages/technology-media-and-telecommunications/articles/media-consumer-survey-2015.html/> <http://landing.deloitte.com.au/rs/761-IBL-328/images/deloitte-au-tmt-media-consumer-survey-2015-100815.pdf>

⁸ "Australian Multi-Screen Report Q2 2015." Regional TAM, OzTAM, Nielson, September 4, 2015. <http://www.shopnielsen.com/all/australian-multi-screen-report-q1-2015>.

Audiences remain hungry for video content, but are consuming it on demand platforms like Netflix and local competitors Presto and Stan⁹. In addition, audiences are consuming short-form video on YouTube, Facebook, Instagram, and entirely different media on social platforms and apps. Commensurately, advertising spend is moving from TV to online platforms¹⁰. The poor outlook for television advertising profit is the main reason share prices of the Australian commercial television broadcasters have declined around 90 per cent over the last ten years¹¹.

SBS is not immune from similar TV advertising profit reductions¹². Although SBS has digital presence, and managers report that SBS OnDemand is close to breaking even, advertising revenue from those platforms is unlikely to replace that of television, not least because users avoid or skip ads on leading on-demand video services¹³. On the internet and via apps, the vast availability of inventory and competition drives advertising unit prices lower, especially for organisations like SBS, who do not know as much about their users as do Google and Facebook. Furthermore, users increasingly ignore or block online ads¹⁴ or avoid video ads by using on-demand services.

Online distribution costs

Streaming video and radio - a distribution platform experiencing rapid growth - poses another budget risk to public broadcasters. Although online technology gives audiences flexibility they value, unlike broadcast technology, each additional user brings additional costs. It makes no difference to the broadcaster's costs if an

⁹ "Netflix Reaches 1.89 Million Australians. Foxtel Loses Share (but Not Size) as Netflix Expands Pay and Subscription TV Market." Roy Morgan, August 11, 2015. <http://www.roymorgan.com/findings/6389-netflix-expands-market-foxtel-steady-australia-pay-tv-svod-july-2015-201508102349> .

¹⁰"What Are the Spending Habits of Australia's Advertisers?: Digital to grab majority of total media ad spend by 2018" eMarketer March 18, 2015. <http://www.emarketer.com/Article/What-Spending-Habits-of-Australias-Advertisers/1012234>

¹¹ "Google Finance: Ten Network Holdings Ltd, Seven West Media Ltd, Prime Media Group, Nine Entertainment Company Holdings." September 30 2005-September 30 2015 <https://www.google.com/finance?chdnp=1&chdd=1&chds=1&chdv=1&chvs=maximized&chdeh=0&chfdeh=0&chdet=1444103520000&chddm=920521&chls=IntervalBasedLine&cmpto=ASX:PRT;ASX:SWM;ASX:NEC&cmptdms=0;0;0&q=ASX:TEN&ntsp=1&ei=pJYUVtGCLtCIOATryYL4DA>

¹² The SBS annual report for 2013-14 appears to contradict this analysis, but in fact the outlook remains dire for SBS's advertising income: Although advertising *revenue* was up for 2014, the y/y increase was driven by the FIFA World Cup and the Hyundai A-League. *Profit* from those series does not exist. SBS CEO Michael Ebeid testified to the senate estimates committee on May 27, 2015 that the SBS loses money on the FIFA World Cup, and on the Tour De France.

¹³ Deloitte op cit.

¹⁴ Newman, Nick. "Executive Summary and Key Findings of the 2015 Report." Digital News Report. Reuters Institute for the Study Of Journalism, June 15, 2015. <http://www.digitalnewsreport.org/survey/2015/executive-summary-and-key-findings-2015/>.

additional listener tunes into their radio broadcast. However, each download of video, audio or even text content adds to the broadcasters' IT costs.

The ABC has previously discussed its successful iView platform in these terms¹⁵. Web, mobile web, and smartphone application servers and content distribution networks have the same audience cost structure and limitations, albeit at a much cheaper rate per user. The overall equation is a serious budget risk for the ABC and SBS; the transition of audiences from broadcast platforms to online platforms costs increasing amounts of money.

¹⁵ Scott, Mark. "The Australian Misunderstands the ABC Model." Text, June 14, 2012.
<http://www.abc.net.au/news/2012-06-14/scott-journalism/4068996>.

The Recent History of Australian Public Media Policy

The 2014 budget cuts and efficiency review

In 2014 and the first half of 2015, government policy towards the ABC and SBS changed significantly, and, in response, so too did the organisations. The 2014-15 Federal Budget and MYEFO cut around 4.5 per cent from the ABC and SBS' combined budgets, representing a loss of \$304m over five years. The ABC's contract to provide international TV broadcasts on The Australia Network was also terminated, taking with it 60 per cent of the funding for international services¹⁶. The MYEFO also anticipated legislation passing that would allow the SBS increase the number of advertising minutes they broadcast on TV each hour, thereby raising new revenue. This legislation failed to pass the Senate. The subsequent re-allocation of \$4.1 million to the SBS in the next MYEFO¹⁷ can be interpreted almost as an emergency measure.

The ABC executive, while shaping their management response to the decreased budget, used the moment to re-orient the organisation further towards digital platforms. By June 2015, 238 ABC staff had taken redundancies¹⁸, whereas the ABC's digital networks division has been steadily hiring staff, and in October announced a new hiring process for 30 additional digital product positions, according to media reports¹⁹.

While announcing the 2014 MYEFO, then-Communications Minister Malcolm Turnbull recommended to the ABC that it make some changes to its executive and oversight structures. He advocated for the appointment of a chief financial officer (CFO), presumably in addition to the chief operating officer. He said this was needed to improve the "value for money" that the organisation could provide. Turnbull also advocated that the chief editorial functions be separated from the managing director.

¹⁶ "ABC Annual Report 2014-15," October 2015. http://about.abc.net.au/wp-content/uploads/2015/10/2014-15_Annual_Report.pdf.

¹⁷ "Mid-Year Economic and Fiscal Outlook 2015-16." Commonwealth of Australia 2015, December 2015. http://www.budget.gov.au/2015-16/content/myefo/download/MYEFO_2015-16-Final.pdf.

¹⁸ Australian Broadcasting Corporation. Answers to Senate Estimates Questions on Notice Budget Estimates Hearings. Question 51, 27/5/2015.

¹⁹ "ABC Seeking 30 More Staff to Bolster Its Digital Network." mUmbRELLA. Accessed October 11, 2015. <http://mumbrella.com.au/abc-seeking-30-more-staff-to-bolster-its-digital-network-323272>. This citation quotes an ABC media release, which could not be located on the ABC's website.

Both of these roles should have dual reports, answerable, according to Turnbull, both to the board and to the managing director²⁰.

Both the budget cuts and the need for a new CFO position were underpinned by findings in the 2014 "Efficiency Review" (aka the "Lewis Review"). The review's terms of reference were essentially to examine whether the ABC and SBS were running as efficiently as possible, and if not, whether there were opportunities for savings that could be returned to the government's general expenditure. The report mainly focused on "back-end" operations — IT, HR/Payroll, accommodation, administration — and asked whether combining any of those functions might be feasible and desirable from a financial perspective.

Crucially, examining the number and type of media services delivered was beyond the scope of the report, meaning that this potential source of savings and optimization was ignored. A partially redacted public release of the draft audit identified a number of potential savings. If those savings were totalled up, they would amount to a yearly saving of around \$40 million, although the authors noted that many of the savings were mutually exclusive²¹, and there were high implementation costs associated with redundancy payouts. The value of cuts to the ABC and SBS budgets in the 2014-15 Federal Budget and MYEFO exceeded those listed as possible in the publicly released version of the audit, so the figures in the "Lewis Review" are now out of date.

Transmission funding

Although not widely discussed, the 2014 MYEFO also made a significant change to how transmission funding was to be allocated. This transmission funding pays for the ABC and SBS's use of the radio and television broadcasting infrastructure, such as radio and television transmitting antennas. The public broadcasters' transmission funding, around \$193 million per year, had historically been granted as separate allocations from "base" or untied funds. Therefore any change in the cost of the transmission services previously had no effect on funding for content-making or support operations. The broadcasters thus had little incentive to negotiate favourable terms, or to consider how the number and combination of services impacts transmission funding. The 2014 MYEFO changed this structure, so that transmission funding was included in the overall allocations for the broadcasters, and was not quarantined from other uses.

²⁰ Turnbull, Malcolm. "Speech: The Future of Our Public Broadcasters." Malcolm Turnbull MP. Accessed October 1, 2015. <http://www.malcolmturnbull.com.au/>.

²¹ Lewis, Peter. "ABC and SBS Efficiency Study Draft Report (Redacted)," April 2014. https://www.communications.gov.au/sites/g/files/net301/f/ABC_and_SBS_efficiency_report_Redacted.pdf.

The ABC and SBS now have a considerable incentive to negotiate a more favourable supply contract. However, the current vendor, Broadcast Australia - a private company owned by a Canadian superannuation fund - enjoys a near monopoly when it comes to its infrastructure's breadth and coverage. Nonetheless, the ABC and SBS can now consider at least some of that \$193 million a potential source of operational funding. The size of that portion will depend on the negotiated terms, and the services being supplied. It is therefore now reasonable to note that reducing the number of TV and/or radio channels services can free up some of the budget from transmission-related costs, as well as the costs of filling linear broadcast hours with content.

Triennial funding

The ABC and SBS are, by convention, on a triennial funding cycle, with the current triennium finishing at the end of 2016. Under this model, the broadcasters apply and receive budget allocations in three-year cycles. However, the 2014-15 Federal Budget and MYEFO cuts, coming mid-cycle, have diminished the predictability of public media funding. (The ABC has had out-of-cycle increases in funding, but they have recently been tied to specific initiatives²².)

Merger proposal

Almost as soon as the coalition government under Malcolm Fraser set up the SBS, various parties have publically and privately raised the idea of merging the ABC and SBS, a suggestion that always raises controversy. The cabinet led by Fraser's immediate successor, Bob Hawke, considered a paper on the subject in 1985. Much later, in 2014, when the Lewis Review canvassed the possibility of the ABC and SBS co-locating, Fraser condemned the proposal, saying it was the first step towards a merger.²³ Most recently the outgoing ABC managing director, Mark Scott, told senate estimates that it was worth considering whether Australia needed two public broadcasters. That generated front-page stories in *The Guardian*²⁴ and *The Sydney Morning Herald*²⁵.

²² "ABC Gets Record Funding Boost." Text. ABC News, May 12, 2009.

<http://www.abc.net.au/news/2009-05-12/abc-gets-record-funding-boost/1680934>.

²³ Matthew Knott, "Merger with ABC means death of SBS, warns Malcom Fraser", *Sydney Morning Herald*, 31 May 2014, accessed 16 February 2016. <http://www.smh.com.au/federal-politics/political-news/merger-with-abc-means-death-of-sbs-warns-malcolm-fraser-20140530-399v2.html>

²⁴ Meade, Amanda. "ABC Boss Mark Scott Questions Whether Australia Still Needs SBS." *The Guardian*, February 9, 2016, sec. Media. <http://www.theguardian.com/media/2016/feb/09/abc-boss-mark-scott-questions-whether-australia-still-needs-sbs>.

²⁵ Matthew Knott. "ABC Power Grab: Mark Scott Suggests ABC and SBS Should Merge." *The Sydney Morning Herald*, September 2, 2016. <http://www.smh.com.au/federal-politics/political-news/abc-power-grab-mark-scott-suggests-abc-and-sbs-should-merge-20160209-gmpbj.html>.

There have been previous triggers for public debates about a merger. In 2008 the ABC commissioned research from the Boston Consulting Group (BCG) into the feasibility of a merger. The ABC was compelled to release some of its work, and the paper that was made public assumed no change in the services provided – ie, the number of television, radio and online channels would stay the same. Its most optimistic financial projection found only \$45 million in yearly cost savings from a potential merger, but noted very grave cultural and technical challenges and risks²⁶. The SBS had no input to that paper, and its executive and board also condemned the idea of a merger in media statements. Since BCG’s work in 2008, the ABC and SBS services have changed a great deal, and the combined budgets have also changed by more than \$45m/year, so there remains little relevance to the publicly released information from that time.

The previous trigger for a merger debate was public comments by the controversial ABC managing director Jonathan Shier. He floated the idea in 2000, but it did not progress.

The only known instance of an ABC/SBS merger proposal reaching high levels of government is the federal cabinet submission produced under the Hawke administration during 1984-5²⁷.

Whole-of-sector reform attempts

The public broadcasters exist within the wider context of an Australian media industry. Malcolm Turnbull, as Prime Minister, has flagged a review of the significant policies concerning privately-owned media. The Prime Minister has told reporters that cabinet is likely to consider media reach and ownership rules in the near future, and that new Communications Minister Senator Mitch Fifield is currently examining the laws. However, Turnbull also noted that his government would be unlikely to introduce legislation that wouldn’t pass parliament²⁸.

²⁶ “Project W Summary Findings (Draft).” Supplementary Budget Estimates 2008-2009., n.d.

²⁷ Australia, National Archives of. “1984-85 – Hawke Government - Managing the Australian Broadcasting Commission and Special Broadcasting Service.” Accessed October 1, 2015. <http://www.naa.gov.au/collection/explore/cabinet/by-year/1984-85/abc-sbs.aspx>.

²⁸ Taylor, Lenore, and Katharine Murphy. “Malcolm Turnbull Exclusive Interview: The Full Transcript. ‘People Take More Notice of You as PM.’” The Guardian, October 23, 2015, sec. Australia news. <http://www.theguardian.com/australia-news/2015/oct/23/turnbull-being-pm--people-take-more-notice-of-you>.

In early 2014, when Mr Turnbull was Communications Minister, he took soundings from the industry on the same subject²⁹, and proposed to the then-Prime Minister Tony Abbott that a cabinet submission be considered³⁰.

Senator Stephen Conroy, while Communications Minister in 2011, launched a "convergence review" into the whole sector, framed as a wide-ranging exploration of how Australia's media sector should be regulated in the digital era. After considerable activity, few particularly disruptive changes were made. The ABC and SBS's digital operations were acknowledged in their charters, commercial TV licenses got cheaper, and new analogue TV licences were ruled out. No other measures passed parliament.

²⁹ "Turnbull Says Local Content Wouldn't Suffer under Media Ownership Changes." Text. ABC News, March 10, 2014. <http://www.abc.net.au/news/2014-03-10/cross-media-ownership-laws-malcolm-turnbull-john-williams/5309526>.

³⁰ Murphy, Katharine, and deputy political editor. "Malcolm Turnbull Puts Plan for Media Ownership Reform on PM's Desk." The Guardian, March 13, 2015, sec. Australia news. <http://www.theguardian.com/australia-news/2015/mar/13/malcolm-turnbull-puts-plan-for-media-ownership-reform-on-pms-desk>.

Opportunities for Australia's public broadcasters

Despite the financial challenges presented by a shifting operating environment and political uncertainty, Australians have plenty of reasons to be hopeful and ambitious for their public broadcasters. The missions of those broadcasters have never been more relevant, their cultures more valuable, or their local market advantages more pronounced.

Cultural diversity

Prime-Minister Malcolm Fraser launched the SBS, partially motivated by a need to reach local non-English speakers with information about then-new Medicare. Over the last 41 years, that mission has evolved beyond pure information to include culturally diverse entertainment, stories and tones of voice. Multilingual services remain in the SBS charter, and form a significant part of SBS's radio broadcasts, and SBS TV's off-peak broadcasts. The SBS workforce is highly multilingual and culturally diverse. These characteristics are rare in Australia's elite institutions, but are very well suited to our economic and social future benefits.

This globalised age calls for multicultural broadcasting, like that envisioned in the SBS charter. Australia will not be able to isolate itself in coming years, and few would advocate doing so. In this light, the SBS' value extends from serving domestic multiculturalism to providing audiences with the social fluency needed to engage with the outside world (although this is not yet explicit in its mission). The economic growth of Australia, a country of 24 million people, relies on its ability to trade with the eight billion people who inhabit the world beyond its shores, and in particular the three billion in our immediate region. Observing this, The Australian Council of Learned Academies has called for "smart engagement with Asia", driven by understanding regional cultures and leveraging the Asian-Australian diaspora³¹. The CSIRO 2012 "Global Megatrends" report identified a coming shift in the international economy to Asia. They suggested engagement with our Asian neighbours would "build new export markets, trade relations, business models and cultural ties for Australia. Tourists, funds

³¹ Ang, I, Tambiah, Y, and Mar, P (2015). Smart engagement with Asia: Leveraging language, research and culture. Report for the Australian Council of Learned Academies, www.acola.org.au.

and ideas will increasingly flow out of Asian countries and into Australia's economy and society."³²

Multicultural confidence and understanding is likely to be crucial as well. The world is in the midst of a refugee crisis, and although the numbers reaching Australia are relatively tiny, racial vilification has periodically flared nonetheless. Twenty years of political expediency has bequeathed a public sphere where manufactured controversies based on cultural differences can take hold, and cause real damage. Cases in point include panellists on talk shows³³, the 2015 senate enquiry about Halal certification³⁴ and political actions by right-wing groups that have escalated to intimidation and violence³⁵. Once again, the SBS can have a role in helping the Australian population be enthusiastic about diversity.

The opportunities for the SBS going forward cannot, however, obscure its existing missions. Core SBS stakeholders, namely ethnic and migrant communities, also retain a crucial need for the media organisation. This paper is not intended to be an in-depth review of the SBS's current role serving Australian communities who speak languages other than English, but it is worth addressing the role of the SBS' foreign-language services at a time when the internet and satellite broadcasting have provided audiences access to non-English media directly from overseas sources.

In this environment, the SBS continues to play two critical roles. First, news, entertainment and information about world events must be framed and curated in a manner relevant to people in Australian contexts. Furthermore, Australians who are not fluent in English must not be excluded from the public sphere in their country, towns and cities – their inclusion is a both a democratic necessity and a pragmatic matter of access to public services. In this sense, Fraser's original motivation for the SBS remains relevant, however much the means of delivering it may change.

³² Hajkovicz, S. A., H. Cook, and A. Littleboy. *Our Future World: Global Megatrends That Will Change the Way We Live*. CSIRO, Australia, 2012. <http://newwealth.com.au/docs/2012-09-17-CSIRO-Ourpercent20Futurepercent20World.pdf>.

³³ Meade, Amanda. "The Verdict: Nine's Show Is a Free-for-All Where Offence Is Expected and Indulged." *The Guardian*, October 8, 2015, sec. Television & radio. <http://www.theguardian.com/media/2015/oct/09/the-verdict-nine-shouting-match-offence-expected-indulged>.

³⁴ "Cory Bernardi's Halal Inquiry Has Unleashed a Torrent of Anti-Islamic Hatred." *The Sydney Morning Herald*. Accessed October 8, 2015. <http://www.smh.com.au/federal-politics/political-news/cory-bernardis-antihalal-crusade-unleashes-torrent-of-hate-20150620-ght0l8.html>

³⁵ Rubinsztein-Dunlop, Sean. "Anti-Islam Hate Campaign Raises Tensions to Violent New Heights." *Text*. ABC News, April 21, 2014. <http://www.abc.net.au/news/2014-04-21/anti-islam-hate-campaign-raises-tensions-to-violent-new-heights/5402526>.

Difficulties of commercial news

The ABC's and SBS' main sources of revenue, namely government appropriations, have a better long-term outlook than the revenue sources of its domestic competitors, although they are still at some risk from hostile policy. Repeated surveys of Australians have found only 11per cent of news users are prepared to pay for journalism online³⁶, and as detailed above, advertising revenue on traditional platforms continues its structural decline and digital replacement is insufficient. The news industry's replacements, namely "content marketing" or "native advertising" appear to erode trust in the host news brand³⁷ - an asset already in short supply in Australia³⁸. So, as the business models of commercial competitors remain poor, the need for the publicly funded newsrooms is stronger, and their opportunity greater.

³⁶ Dunne Breen, Michelle. "Australia." Digital News Report. Reuters Institute for the Study Of Journalism, June 2015. <http://www.digitalnewsreport.org/survey/2015/australia-2015/>.

and

Alcorn, Niki, Lucy Buchanan, Jeremy Smith, and Gregory. "Deloitte Media Consumer Survey 2015: Australian Media and Digital Preferences – Fourth Edition." Deloitte Australia, August 10, 2015. <http://www2.deloitte.com/au/en/pages/technology-media-and-telecommunications/articles/media-consumer-survey-2015.html>.

³⁷ Newman, Nick. "Attitudes to Sponsored and Branded Content (Native Advertising)." Digital News Report. Reuters Institute for the Study Of Journalism, June 2015. <http://www.digitalnewsreport.org/essays/2015/attitudes-to-advertising/>.

³⁸ Dunne Breen, Michelle. "Australia." Digital News Report. Reuters Institute for the Study Of Journalism, June 2015. <http://www.digitalnewsreport.org/survey/2015/australia-2015/>.

Challenges for Australia's public broadcasters

Transition to digital

In general, audiences continue to migrate away from broadcast platforms towards digital platforms. While that shift is no longer newsworthy, the data indicate the shift has become inexorable, and over the long term, is likely to become almost absolute. Younger generations vastly prefer digital platforms, and now that the internet has been with us for more than ten years, we can see that user preferences do not migrate back to broadcast when individuals move into older stages of life. People currently in their thirties display more digital behaviours than did 30-year-olds in the 1990s³⁹. There is some evidence that poor internet connectivity for remote regional and rural audiences is slowing their uptake of on-demand video and audio. That said, the digital ecosystem and its associated behaviours have far greater implications than a shift from scheduled to on-demand video and audio.

The digital environment presents specific challenges for Australia's public broadcasters; there is more competition, and production for online, mobile and social platforms is not a core competency for the ABC, SBS and NITV⁴⁰.

Performance standards

Overall, indicators of the ABC's performance have been quite good, especially in comparison to commercial competitors. The Newspoll "ABC Appreciation" survey consistently finds that 84-89 per cent of Australians believe the ABC provides a valuable service, and both ABC TV and Radio's approval ratings were significantly higher than

³⁹ Alcorn, Niki, Lucy Buchanan, Jeremy Smith, and Gregory. "Deloitte Media Consumer Survey 2015: Australian Media and Digital Preferences – Fourth Edition." Deloitte Australia, August 10, 2015. <http://www2.deloitte.com/au/en/pages/technology-media-and-telecommunications/articles/media-consumer-survey-2015.html>.

This source has no data on 30 year olds' behaviours during the 1990s, so readers need to employ logic: Broadband, even at 1500kbps, was not available in Australia until 2000, the smartphone hadn't been invented, and mainstream digital social platforms were more than a decade away.

⁴⁰ A full discussion of how the digital ecosystem has changed media and media competencies is beyond the scope of this paper, but the widespread disruption to the international media industry gives an indication; in particular the entrance and rapid growth of new players ranging from social networks, to startup media organizations, employing people with new skills and different work practices.

their commercial competitors⁴¹. Visits to ABC online are trending up modestly, reaching 4.4 million unique users each month⁴², equivalent to 17per cent of the total Australian population (although some visitors may be from overseas, a statement which holds for the rest of the website traffic figures quoted below). The ABC News' services are the most widely used of all Australian broadcast outlets, although only second online.⁴³ However, its broadcast and online audiences are significantly older than the general population and to the audiences of its competitors⁴⁴. It has launched smartphone and tablet applications which have up to a million active users a piece⁴⁵, equivalent to 4per cent of the Australian population.

ABC News has benefited from the division's re-orientation towards "digital first". According to a recent speech by Managing Director Mark Scott, news and current affairs website visits rose 37per cent in the last financial year, off the back of investments in a mobile-optimised version, more local news, breaking news capability, investigative units, and an interactive unit and fact-checking unit⁴⁶. The ABC's news and current affairs sites attract 3.8 million unique visitors each week, equivalent to 15per cent of the Australian population. The ABC also calls itself the market leader in social media: its audiences on all major social platforms have grown in the past year, with their growth in Facebook subscribers being the highlight, an increase of 113per cent in in the FY2014-15⁴⁷.

However, there are areas where the ABC is working to make up ground. Its lack of cultural diversity impedes its ability to truly reflect Australian society, as required by the charter, and weakens its claim to legitimacy. Fewer than 8per cent of content-makers come from non-English speaking backgrounds, and the figure remains below 10per cent for executives, both significantly lower than the general Australian population⁴⁸. Some ABC managers believe that addressing this problem would also

⁴¹"ABC Annual Report 2014-15," October 2015. http://about.abc.net.au/wp-content/uploads/2015/10/2014-15_Annual_Report.pdf.

⁴² *ibid.*

⁴³ Watkins, Jerry, Sora Park, Warwick R Blood, Michelle Dunne Breen, Glen Fuller, Franco Papandrea, and Matthew Ricketson. "Digital News Report: Australia 2015." University of Canberra, June 2015.

⁴⁴ This analysis is drawn from the underlying data of the Digital News Report, cited above. Readers can request that data from The Reuters Institute via <http://www.digitalnewsreport.org/contact-us/>

⁴⁵ "ABC Annual Report 2013-14."

⁴⁶ Scott, Mark. "Digital Discordance and the ABC." presented at the New News Conference, Centre for Advancing Journalism, University of Melbourne, October 9, 2015.

⁴⁷ "ABC Annual Report 2014-15," October 2015. http://about.abc.net.au/wp-content/uploads/2015/10/2014-15_Annual_Report.pdf.

⁴⁸ The figures for the ABC come from an email to The Australia Institute from ABC spokesperson Nick Leys: "Distribution of Employees from Non-English Speaking Backgrounds by Job Group," October 21, 2015. There isn't an exact comparison number from the ABS, but the 2011 census found that around

help bring the ABC's audience age profile closer to the Australian one and maintain the organisation's reach as the population continues to diversify.

Despite the investments in the online-focused in-depth National Reporting Unit, the ABC's current affairs and investigative prestige and strength remain closely associated with broadcast platforms (Four Corners on TV and Background Briefing on radio, for example). The ABC News website does not encourage the long session times correlated with in-depth reading: this is most apparent when the ABC News page layouts are compared to industry leaders, who have designed pages with appropriate line-lengths and heights, and integrated additional rich media and functionality with elegance.

SBS advertising

SBS' partial reliance on advertising revenue brings with it certain tensions. The most obvious is that advertising degrades the audience's enjoyment of programming. The research on this subject is contradictory, and tends to reflect the commissioning entity: SBS' submission to the Senate quoted research finding a majority of viewers would prefer more advertising to cutting local programs⁴⁹. The lobby group SaveOurSBS says their survey data indicates the vast majority of SBS audiences dislike TV advertisements, especially those that break into programs⁵⁰. (In neither case was the research performed independently, nor did any of the researchers provide statistical confidence intervals.) Alienating audiences with advertising is especially risky in an era when linear broadcast TV is competing against advertising-free platforms, such as Netflix.

The released, redacted, version of the ABC and SBS Efficiency Study (aka the "Lewis Report") also noted the conflict between SBS charter and advertising; it suggested that that the greater the SBS' reliance on advertising, the more pressure on management to

30per cent of Australians spoke foreign languages. The figure of 42per cent immediately descended from foreign-born parents is inflated in terms of diversity, by the high rates of British and New Zealanders. In any case, ABC managers have confirmed to The Australia Institute that they are seeking to improve the organisations' cultural diversity.

⁴⁹ Special Broadcasting Service. Submission to Senate Environment and Communications Legislation Committee, Enquiry into Communications Legislation Amendment (SBS Advertising Flexibility and Other Measures) Bill 2015. "Maintaining Multicultural and Multilingual Media Services through Advertising and Sponsorship Flexibility - SBS." Submission to Senate Environment and Communications Legislation Committee, Enquiry into Communications Legislation Amendment (SBS Advertising Flexibility and Other Measures) Bill 2015, April 2015.

⁵⁰ Submission to Senate Select Committee into the Abbott Government's Budget Cuts. "Impact Of Budget Cuts and Advertising on the SBS." Submission to Senate Select Committee into the Abbott Government's Budget Cuts, December 10, 2014.

be "delivering on commercial expectations, against delivering those functions described in the SBS Charter."⁵¹ SBS' submission to the Senate hearings on the subject argued, however, that the SBS must always "balance commercial and charter imperatives", and look for opportunities, like sports, where advertising does not compromise content quality⁵². That submission also noted the majority of the world's public broadcasters take advertising; in this respect, the ABC and the UK's BBC are outliers. Canada, the Netherlands, New Zealand and Austria are amongst the countries whose broadcasters show TV advertising.

SBS digital

The SBS' digital content strategy appears to emphasise distributing and complementing its broadcast programs. sbs.com.au reached an average of 1.5 million unique users each month from April 2014-15, equivalent to 6per cent of the Australian population. SBS invested in their SBSOnDemand video products earlier and more aggressively than did the commercial networks, and have extended the product onto 22 platforms, from smartphones to Telstra's connected TV service, T-box. They report 65per cent growth for OnDemand online over twelve months, hitting a figure of 492,000 unique users in April 2015, equivalent to 2per cent of the Australian population.⁵³

SBS News' online reach is very poor in comparison to its broadcast reach, despite being the main source of traffic to sbs.com.au. SBS' broadcast news services are the fourth most widely used on traditional platforms, but on digital platforms, its reach was outside the top 21, putting it behind all the major domestic brands, as well as the UK-based Mail Online, Huffington Post, and "an other regional or local newspaper website"⁵⁴. Their online news reach was 523,000 unique users in April 2015, equivalent to slightly over 2per cent of the Australian population. For smartphone and tablet use,

⁵¹ Lewis, Peter. "ABC and SBS Efficiency Study Draft Report (Redacted)," April 2014.

https://www.communications.gov.au/sites/g/files/net301/f/ABC_and_SBS_efficiency_report_Redacted.pdf.

⁵² Special Broadcasting Service. Submission to Senate Environment and Communications Legislation Committee, Enquiry into Communications Legislation Amendment (SBS Advertising Flexibility and Other Measures) Bill 2015. "Maintaining Multicultural and Multilingual Media Services through Advertising and Sponsorship Flexibility - SBS." Submission to Senate Environment and Communications Legislation Committee, Enquiry into Communications Legislation Amendment (SBS Advertising Flexibility and Other Measures) Bill 2015, April 2015.

⁵³ All figures in this paragraph from "SBS Annual Report 2014-15," October 2015.

http://media.sbs.com.au/home/upload_media/site_20_rand_1007358725_sbs_annual_report_2014_15.pdf.

⁵⁴ Watkins, Jerry, Sora Park, Warwick R Blood, Michelle Dunne Breen, Glen Fuller, Franco Papandrea, and Matthew Ricketson. "Digital News Report: Australia 2015." University of Canberra, June 2015.

research by Nielsen and the Interactive Advertising Bureau indicates that SBS is somewhere outside the top ten news brands.⁵⁵ Despite entertainment being listed as the top attraction for smartphone users, SBS did not feature in the top 25 brands used by Australians^{56 57}.

⁵⁵ "Mobile Ratings Report." IAB Australia & Nielsen, July 2015.

<http://www.shopnielsen.com/LiteratureRetrieve.aspx?ID=203146>. Pg 20

⁵⁶ ibid

⁵⁷ A note on audience figures: The paragraphs above, concerning the ABC and SBS' reach, quote a number of online and digital audience figures. However, different organisations use different tools and methodologies. This paper only makes direct comparisons between data points that are derived from common methodologies, and the comparisons are therefore valid. Readers should take care comparing other data points; some figures are monthly, some are weekly. Some figures come from surveys, some come from digital trackers. Where meaningful, this paper compares figures to the total Australian population, which we believe provides the most useful baseline. That said, measurement ambiguity is not unique to digital audiences; the methodologies for measuring broadcast and print audiences are also imperfect.

Goals or Benefits of Structural Reform

Thus far, this paper has reviewed - at a high level - how the legacies of the public broadcasters are influencing their current operations, the significant external environment, some of the key internal dynamics, and the relevant recent history of public media policy and reform. With this background, the paper now posits some goals for any attempted reform of the public media sector.

Some of the goals and benefits of reform appear both feasible and desirable.

Financial security

The first goal of any reform must be to provide the ABC and SBS with financial security and consistency. The unpredictability of revenue prevents strategic planning, impairs morale and hiring and, some argue, prevents the ABC from being truly independent of government. The SBS is in a similar position, although the contribution from advertising revenue exchanges exposure to government policy for some exposure to market conditions.

Digital reach

Any reform must also help bolster the organisations' online reach, scale and comprehensiveness, particularly in digital news. Excellent online news is a strategic imperative for media organizations in the digital era. News is also at the core of both organisations' charters and of their continued appeal. As noted above, the ABC has recognised that it needs to invest in a wide swath of news and current affairs, with a 'digital first' approach. Most of the ABC's strongest current affairs and investigative journalism remains produced and published within its broadcast programs (although it has started investing in deeper journalism content online).

The SBS' online news offer has poor reach, and their non-English language offerings (which are a charter obligation) are predominantly in audio, and are separated from other news offerings in user experience and navigation. A potential goal of structural reform would be to replace duplication with complementary production, and to re-focus the digital news experience away from organisational silos towards modern user behaviours. There is little benefit from maintaining a vast number of news and current

affairs brands and sub-brands online, and even less from publishing news content fragmented in different user experiences⁵⁸.

Removing advertising from SBS

There is a considerable benefit in removing advertising from the SBS. If we accept the analysis in the "Lewis" review, and of the SaveOurSBS group, then advertising interferes with the audience's enjoyment of the content, and interferes with the SBS delivering upon its charter. It is also an insecure revenue source: in the long-term, as audiences largely migrate from linear television, and advertising-free competitors become more attractive video sources, reliance on revenue from television advertising must be considered a risk. Online advertising is a highly risky replacement source. Online and smartphone advertising is already a far less lucrative business for media organisations than broadcast advertising, and most experts expect that internet behemoths, such as Facebook, Google and Apple, will continue to grow their share of an already ultra-competitive market.

The SBS's reliance of advertising is significant: In FY2015, advertising and sponsorship contributed \$71m to SBS revenue⁵⁹, approximately 18per cent of the organisation's total budget. Meeting the goal of replacing that revenue source is unlikely without very significant reform and restructuring of the entire public media budget.

Strengthening the SBS' delivery on its charter

The SBS charter has an emphasis on providing language-other-than-English services and programming aimed at a multicultural audience. In contrast, their operational emphasis appears to have turned toward providing global and multicultural programming for a mainstream audience. This is not necessarily a criticism, rather a question of whether the charter needs to be re-examined.

The SBS's flagship imports include the soccer world cup, Tour De France, and Eurovision. On SBS1 77per cent of content is imported, and 55per cent of content is in English. On SBS2, which screens a lot of 'world movies', 90per cent of content is

⁵⁸ "User Experience" is a term of art online. It is a large concept, but for the purposes of this paper, it can be understood as meaning the designs, templates and curations in which content sits. There are excellent arguments for providing different user experiences for different platforms, but generally speaking, consistency between types of content on a single platform greatly benefits users, and therefore publishers.

⁵⁹ "SBS Annual Report 2014-15," October 2015.

http://media.sbs.com.au/home/upload_media/site_20_rand_1007358725_sbs_annual_report_2014_15.pdf.

imported and 40 per cent is in English⁶⁰. Furthermore, the charter does not emphasise news and information services that interpret global subjects for a diverse Australian audience. As Australia's economic, societal and cultural future relies on global integration, it may be beneficial to review the charter.

Finding efficiencies without altering services

A theoretical possibility exists of finding efficiencies without changing the services delivered. The model for this would be to reduce duplication and expense in support services, management and infrastructure. However, when seeking to do so, the Lewis Review and the BCG report were only able to identify efficiencies of a few less than 4 per cent at the most, and both organizations appear to be implementing viable efficiencies without structural reform.

Reallocation of broadcasting spectrum

Reducing the number of broadcast services could reduce the amount of spectrum allocated to TV and radio – a valuable and limited resource. In 2013 the Australian government's spectrum regulator, ACMA, raised nearly \$2 billion by auctioning spectrum previously used by analogue TV (the buyers were Telstra, Optus and TPG)⁶¹. The size of the potential dividend available if the ABC and SBS reduced their number of broadcast services is highly dependent on complexities of which kinds of services can occupy which bands of the spectrum, geographic niceties and whether TV or radio services are considered. (Those complexities put dividend calculations beyond the scope of this paper.) However, given the high sums involved in spectrum auctions and ongoing use, they must be factored into considerations of the number of broadcast services the ABC and SBS offer.

⁶⁰ "SBS Annual Report 2014-15," October 2015.

http://media.sbs.com.au/home/upload_media/site_20_rand_1007358725_sbs_annual_report_2014_15.pdf. pp 131-132

⁶¹ ACMA. "Digital Dividend Auction—results." Web pages, May 27 2013. <http://www.acma.gov.au/Industry/Spectrum/Digital-Dividend-700MHz-and-25Gz-Auction/Reallocation/digital-dividend-auction-results>.

Structural Reform Risks

Along with the potential benefits of any structural reform, considerable risks exist.

Alienating audiences

The broadcasters' current audiences tend to be hostile to change. The ABC and SBS derive considerable benefit from having loyal audiences who have a justifiable sense of ownership and attachment to the content they consume. The "ABC Friends" and "Save Our SBS" groups, who often question programming changes, exemplify this.

Loss of SBS distinctiveness

The SBS has areas of clear distinctiveness from the ABC, and from Australia's fully commercial broadcasters. These are not only charter obligations, but also specialities of clear benefit to Australia's domestic society and international economic and cultural opportunities. However, as the smaller of the two broadcasters, it is the organisation whose culture and distinctiveness is most at risk. Managers tend to focus on areas where the budgets and headcount are larger, and the ABC is large on both fronts. Furthermore, most organisations have pressure to assess their activities on the basis of return-for-investment. In public broadcasting that tends to be audience numbers served per dollar spent. That equation disadvantages the niche content that is core to the SBS' charter. Executives with experience managing larger budgets, serving larger audiences, leading larger staffs, and thriving in more competitive political environments often (but not always) win power. This puts the managers and staff of smaller organizations at risk. All of these factors suggest that merging the ABC and SBS would, if managed carelessly, erode the SBS's multicultural assets.

Management failures

Structural changes, including organisational mergers, are difficult to manage, putting the quality of content, staff retention, and organisational productiveness at risk. During restructures, managers' and leaders' focus is on HR, staffing and cultural compatibility⁶². They are less able to focus on the maintaining or improving the quality

⁶² Witzmann, Natalie, and Christoph Dörrenbächer. "The Link Between Cultural Due Diligence and Socio-Cultural Post-Merger Integration Management as a Critical Success Factor in M&As." Accessed December 14, 2015. http://www.mba-berlin.de/fileadmin/user_upload/MAIN-dateien/1_IMB/Working_Papers/2015/IMB_Working_Paper_84_Doerrenbaecher__Witzmann.pdf.

of output, and the service to the audience. Maintaining strategic focus is rare. These are some of the reasons the Harvard Business Review suggests that between 70-90per cent of mergers and acquisitions "fail"⁶³. Technology integrations are particularly risky, and almost every production and administration process in modern media production relies on technology. Many of the theoretical opportunities associated with mergers lie in one party to the merger migrating to another technology. However, the depth and complexity of systems integrations and training needs, means that these migrations tend to cost much more than anticipated, and provide more HR and management distractions.

⁶³ Clayton M. Christensen, Richard Alton. "The Big Idea: The New M&A Playbook." Harvard Business Review. Accessed October 12, 2015. <https://hbr.org/2011/03/the-big-idea-the-new-ma-playbook>.

Options and Proposals for Sector Reform

For the purposes of bounding the discussion, this paper identifies a number of models, and for each it notes some advantages and disadvantages, along with a small amount of context. All of these assume that any budget savings would be re-invested into service provision, as opposed to returning to general government revenue. Readers may find it useful to combine elements from each model. These models are only outlined, as the detailed designs would need to draw on input from a wide range of stakeholders, including government, civil service, the organisations themselves and community representatives.

1) A combined senior executive and board structure, overseeing separate operations, providing as-is services.

Under this model a single board and senior executive would have responsibility for the budgets, strategic direction, and operational accountability of both organisations. The publicly released version of the 2008 Boston Consulting Group study included an option with a combined ABC and SBS board, although that model anticipated more integrated operations.

This model would aim to:

- Allow the ABC, SBS and NITV to co-ordinate at a high level;
- Provide more flexibility, by pooling the entire revenue and assets (including brands, channels to market and broadcast spectrum); and
- Maintain distinctiveness between the services, by keeping separate content-making and product development teams.

This model would risk:

- Inefficient competition for resources between the ABC, SBS and NITV departments; and
- Achieving only minimal service and content rationalisation and resource re-deployment.

It is hard to see how this option would achieve, on its own, the financial restructure necessary for reducing the SBS' reliance on advertising, or improving the organisations' ability to compete in the digital environment.

2) Combined support and back office, providing as-is services.

This would retain editorial separation, but combine all the more generic operations, like IT, HR, Payroll, accommodation and transmission. This is essentially the model identified in the redacted Lewis Review in 2014 and publicly released work by the Boston Consulting Group in 2008. Both reports identified less than \$45m in potential savings, and the ABC and SBS organisations have changed considerably since the research was done. They have expanded services, changed operating procedures, and more recently, have implemented extensive efficiency programs.

This model would aim to:

- Eliminate all support and back-office duplication, and less-than-best practice;
- Allow the organisations to negotiate better deals from suppliers, based on greater volume; and
- Maintain content and product distinctiveness.

This model would risk:

- Achieving no additional cost savings, due to the organisations' managers having already achieved high efficiency.

This model also holds little chance of realising any of the goals identified in the paper.

3) Combined multi-platform and on-demand products

It is not immediately clear how the ABC, SBS, NITV and Australian public benefit from maintaining (at least) two separate digital networks for article and media publishing, program guides, program extensions, on-demand video and podcast distribution, live streaming infrastructure, or smartphone and tablet apps for TV and Radio.

For online news and current affairs in particular, there may be advantages in identifying coverage overlaps and redeploying resources to translation and re-contextualisation services, serving both non-English speaking audiences in Australia and overseas. There are some subtleties to this kind of reform: the line is not clear between digital product development and IT services.

This model would aim to:

- Improve the digital product offering, by investing more resources in each, on a per product basis;
- Reduce unnecessary duplication;
- Improve content discoverability, by structuring experiences around user needs, as opposed to organisational silos;

- Increase the broadcasters' total LOTE news reach and comprehensiveness, by translating and re-purposing ABC News content; and
- Reach more English-speaking news audiences with the SBS and NITV expertise in diverse cultures, inside and outside Australia.

This model would risk:

- Not achieving product efficiencies, because of un-anticipated technical integration difficulties;
- Worsening the user-experiences of the products, by not understanding audiences' needs (or not having the skill to meet them);
- Losing audience, because of the changes to their habitually-used products; and
- Losing management focus on content quality, because of difficulties managing the product transitions.

This model is likely to help the broadcasters compete on digital platforms, but is unlikely to realise enough service efficiencies to allow the SBS to remove advertising. However, it would take a great deal of change management, both internally and externally.

4) A comprehensive service rationalisation, operational, management and service integration.

This sits at the extreme, perhaps unfeasible, end of the structural reform continuum. In this model, the organisations would go through a process of identifying service duplication, where content could be shared, where content could be shifted to more suitable platforms. This process would involve all eight linear free-to-air television services, 15 linear radio services, and numerous digital products. The same process would also take place with leadership and management structures, administration and support and infrastructures. The existing charters could be maintained as-is, or they could undergo modest evolution to acknowledge a combined operation, and the changed circumstances of the digital environment.

This model would aim to:

- Accelerate the transition of the entire public media sector towards fulfilling the charter in the current and future digital eras;
- Maintain the missions of all media organisations;
- Find efficiencies in commissioning, content production, transmission, digital product development and management, news-gathering, digital publishing and distribution, management, administration, support and infrastructure; and
- Remove advertising from the public media services.

This model would risk:

- Severely diminished output and charter fulfilment, for a period of many months, while the restructure was implemented;
- Loss of good staff, due to uncertainty and worsened working conditions;
- Extreme implementation expenses, due to redundancies, systems and administration integration problems;
- Diminishing known, if imperfect, service offers, but never realising the, currently hypothetical, benefit; and.
- Losing the distinctiveness and cultural expertise currently held in the SBS and NITV.

It is unrealistic to expect that a full service and support rationalisation can be executed, realising all the benefits, and none of the risks. That said, if readers can imagine moving to this model, then it is reasonable to hope that the \$71 million generated by SBS' advertising might become unnecessary. Alternatively, a condition of merging might be that advertising is banned on any of the services, and the organisation is free to structure and operate their services in any way within that budgetary constraint. It is worth noting that the SBS and its supporters have historically been hostile to any suggestion of merging the public broadcasters. It is difficult to imagine that any combination would be successful if this remained the case.

Key Observations

This paper reviews in brief the current situation for Australia's public broadcasters, their external environments and internal dynamics, their recent history and future trajectories, and four potential scenarios for reform. It is intended to stimulate discussion and further analysis with more data and information from the broadcasters, government and wider stakeholders.

However, even at this early stage, there are some clear conclusions to make and desirable actions to take.

The most desirable, achievable, goals and benefits of reform would be to:

- Accelerate both public media organisations' transitions to digital-first strategies, protecting and growing future relevance;
- Remove advertising from SBS;
- Improve the cultural diversity of the ABC;
- Strengthen the delivery of the obligations in SBS' charter; and
- Provide financial and political security for both organisations.

Ideally, these goals and benefits would be realized while also:

- Retaining existing audience and stakeholder support;
- Minimising staff and management disruption; and
- Maintaining distinct multicultural expertise and content.

“Savings” must be retained within the sector

This paper strongly advocates that any "savings" from financial and operational restructuring of the sector must be re-invested into the sector, and its delivery upon charter obligations, as opposed to returning money to general government expenditure. If the government treats any structural reforms as an opportunity to reduce expenditure, instead of improving the services and defending public media from long-term threats, it would undercut the entire rationale of structural reform and leave the ABC, SBS and Australian people in a worse position. The strength of international competition in the digital environment, and failures of the local market, upholds that conclusion absolutely.

An administration merger will not achieve worthwhile financial efficiencies

Firstly, we must acknowledge that the ABC and SBS have already achieved significant operating efficiencies, exceeding those identified in what was publicly released from the 2014 "Lewis Review" and the superseded 2008 Boston Consulting Group review. Unless the redacted and unreleased information in the Lewis review was significantly different to that published, the reviews identified less than a \$45 million benefit from its proposed reforms, which the broadcasters have subsequently found through non-merger means.

However, the necessary re-investments exceed that figure. Removing advertising and sponsorship from SBS (our second listed goal) would cost upwards \$71 million per year. The re-orientations towards digital should, over the long term, involve the majority of both budgets; more than a billion dollars each year. In this context \$45 million is minor.

Recommendations

Holistically review the entire suite of linear services

When reviewed collectively, the ABC, SBS and NITV linearly broadcast a large number of services. A superficial analysis suggests content overlaps, indistinct missions and brand offers.

Two factors argue against maintaining numerous overlapping services. First, the media ecosystem, undergoing a digital transition, is increasingly moving towards un-bundling, on-demand and personalised content catalogues. Audiences can increasingly find a broad range of high quality content from a range of providers. Duplicating, mimicking and re-licensing content siphons resources away from high quality content that can compete in a fiercer marketplace.

The budget restructure in the 2014 MYEFO produced an opportunity to divert money from transmission towards content creation. If, altogether, the ABC, SBS and NITV were to reduce the number of services they needed to distribute via broadcast, the transmission suppliers would have fewer services for which to charge⁶⁴. Furthermore, as noted in the goals and benefits section of this paper, spectrum currently allocated to the ABC and SBS's broadcasts have value to other parts of the communication industry; commercial and community broadcasters and the telecoms. If the ABC and SBS' spectrum requirements went down, that newly available spectrum might be auctioned, (most likely to telecommunication companies) and the resultant funds re-invested in the ABC and SBS.

A deeper, holistic analysis of the content offering and commissioning briefs would be valuable. It would allow for the identification of consolidation opportunities, and places where niche audiences would be better served online or by other parts of the media ecosystem. Such a process may reveal sources of significant savings, savings that could be invested in reducing the broadcasters' reliance on advertising, and/or into a re-orientation towards digital services, in particular for the organisations'

⁶⁴ The Australia Institute understands that negotiations are currently underway between the ABC and SBS and Broadcast Australia, the Canadian-owned transmission suppliers. All parties are, no-doubt, aware of the potential for future restructures of service mix and their implications for the value of the contract. If flexibility were built into the contract, we might expect Broadcast Australia to extract profit elsewhere. In retrospect, the Howard Government's 1999 privatisation of transmission without stimulating competition has harmed the sector.

journalistic output. Furthermore, this process may reveal opportunities where culturally diverse voices can reach wider audiences.

Consolidate online services

The ABC, SBS and NITV appear to be passing up significant opportunities for savings and efficiency by extensively duplicating services and effort in their online and mobile services. They maintain separate systems and infrastructure that provide fundamentally the same service, specifically media on-demand, news article publishing, and podcasting. Given the apparent poor performance of SBS' online news - which should be an important part of SBS strategy and charter delivery - this seems a severe problem.

Sharing content, translation, and publishing systems presents likely opportunities to make more efficient use of resources. The over-riding goal is to produce more and better content, but maintain fewer, better-built online channels.

The ABC's extensive and increasing online news output could be made available for translation and interpretation to the SBS' languages other than English. This has potential to serve and grow both the SBS's multicultural stakeholders and the ABC's international audiences; both are important charter obligations. SBS' significant cultural expertise could also benefit the ABC's English-language services, and offset the ABC's lack of content-making diversity.

Combining Video on Demand services and infrastructure (ABC iView and SBSOnDemand) would expose all audiences to a greater breadth of the ABC, SBS and NITV's content, thereby extracting greater value from charter-relevant content. It would also allow the product development resources to be concentrated into a single offer per platform. The same principle applies to on-demand, podcasting and live-streaming audio.

Conclusion

This paper does not pretend to be the final word on reform of Australia's public media sector. The discussion needs input from all stakeholders; the media organisations themselves, audience groups, government, the staff and independent production sectors. However, as a source of independent analysis, The Australia Institute is pleased to introduce a well-evidenced and reasoned, stimulating perspective, underpinned by a deep commitment to the ABC, SBS and NITV's missions, and support for their futures.