THE SHORT CUT
with ANDREW MACKEN

EUROPE'S DATA CRACKDOWN WON'T HARM WEB GIANTS

IN less than a month, new EU regulations will come into effect that go by the name of General Data Protection Regulation (or GDPR). These regulations are designed to give internet users substantially more control over how their information is shared and used. They also create significant penalties for noncompliance.

At first glance, this might sound like terrible news for digital advertising behemoths, Alphabet (owner of Google) and Facebook.

But somewhat counterintuitively, there is a scenario in which these businesses actually benefit.

According to industry observer Baekdal, the basic principles of GDPR can be summarised as follows: everything must be consent based; you can only collect what is adequate, necessary and not excessive in relation to the specific service you offer; people have the right to transparency; people have the right to be forgotten; and IP addresses are also considered to be personal information.

Now, the business models of large-scale advertising can be simplified as follows: collect user data that is valuable to advertisers; and use AI-based algorithms to allow advertisers to present the right ad, in the right format, to the right person, at the right time.

Given the very high return on investment of such personalised ad targeting to advertisers, businesses such as Google and Facebook can charge advertisers a lot for this unique service.

Naturally, if Google and Facebook were no longer allowed to collect user data, then their ability to provide advertisers a highly targeted search platform would become impaired over time.

So, the question is: to whom will consumers provide consent for their personal data collection?

Consider this. If Google were to offer you continued free use of Gmail, Maps, YouTube etc in return for your consent to share your data for the purposes of personalised, targeted advertising — would you agree?

Or if Facebook were to offer you continued free use of Facebook, Instagram, WhatsApp, Messenger etc in return for your consent, would you agree?

One hypothesis is that most would agree on the basis the value they receive from the free use of these technology platforms is adequate compensation for the provision of personal data to be used for personalised, targeted advertising.

On the other hand, if OpenX asked for consent to use your personal information, most would probably ask: "Open-Who?" Or AppNexus?

You see, there are numerous tracker services that are embedded into web pages by publishers to gain access to your personal information.

And chances are, these services are going to be significantly less successful in gaining user consent than the likes of Google and Facebook.

And if true? Many publishers might have a problem. You see publishers also sell targeted advertising.

But, going forward in the EU, they will only be able to do so if users consent to personalised tracking. And if they don't, then publishers will need a new business model.

One such model might be publishing via the Google or Facebook platforms.

If this is the way the industry evolves, then Google and Facebook stand to increase their share of digital advertising revenues even further.

All of the above said, predicting the future is hard. But one can certainly envisage a scenario in which Alphabet and Facebook do quite well out of this new regulation.

ANDREW MACKEN IS CHIEF INVESTMENT OFFICER OF MONTGOMERY GLOBAL INVESTMENT MANAGEMENT

RIO FRAUD CLAIMS 'DAMAGING BUT UNTRUE'

RIO Tinto chairman Simon Thompson says the mining giant will vigorously defend itself against allegations of fraud which he acknowledges have called its reputation into question.

Speaking at his first Australian general meeting, Mr Thompson said the Anglo-Australian miner was committed to a culture of transparency and integrity.

"Over the past two years, our reputation has been called into question by allegations of accounting fraud in relation to former

MINING

assets in Mozambique and of bribery in Guinea (Africa)," Mr Thompson told shareholders in Melbourne yesterday.

"Despite these events, as I visit our operations around the world, I am convinced that Rio Tinto's culture is both strong and healthy."

The Australian Securities and Investments Commission on Tuesday updated its allegations against Rio Tinto, its former chief executive, Tom Albanese, and former chief financial officer Guy Elliott, about the timing of a multibillion-dollar writedown linked to a failed coal project in Mozambique six years ago.

The project was listed in Rio's 2012 half-year accounts as worth $US3.4 billion but sold for $US50 million in 2014.

ASIC alleges Mr Albanese and Mr Elliott failed to comply with auditing rules and failed to exercise their powers and discharge their duties with the care and diligence.

Mr Thompson said: "We strenuously deny these allegations and will vigorously defend ourselves in court."

Rio Tinto in October reached a settlement with the UK's Financial Conduct Authority over the valuing of its Mozambique coal venture, paying a penalty of $36.4 million for breaching disclosure and transparency rules.

A shareholder resolution calling on Rio to review its membership of the Minerals Council of Australia was not passed by shareholders.

Not so good, guys

JB profit gloom hits share price

ELI GREENBLAT AND SCOTT MURDOCH
RETAIL

JB Hi-Fi chief executive Richard Murray at the Chadstone store. Picture: AAP

SHARES in JB Hi-Fi have plunged after the consumer electronics giant was forced to rein in its profit outlook as intensive price competition and unfavourable weather conditions crunched earnings at The Good Guys business.

The Good Guys, bought by JB Hi-Fi for $870 million in 2016, was again the cause of shareholder pain as a slew of management changes and growing price competition shaved its earnings.

JB Hi-Fi yesterday said while its branded stores continued to perform strongly and in line with expectations, its Good Guys arm was struggling in the midst of tough trading conditions.

As a result, group net profit is now expected to come at about $230 million for the 2018 financial year, down from previous guidance of $235 million to $240 million.

"The Good Guys performance has been impacted by challenging conditions in the home appliance market, due to unfavourable weather conditions coupled with heightened price competition," JB Hi-Fi said in a statement. "This has had an adverse impact on gross margin in the second half as we continue to focus on sales and market share."

Chief executive Richard Murray said the white goods retailing sector was especially competitive, which meant the company had to spend money to defend its market share.

"It's been very competitive and the Good Guys wants to maintain market share," Mr Murray told a conference in Sydney yesterday.

"We have been through a bit of a period of change and, fundamentally, when you go through change and the market gets pretty aggressive, that is not helpful.

"Some of the (other) retailers might be trying to take some short-term share but we are happy with how we have maintained it but at a gross margin levels that has cost us."

While downgrading its profit outlook, JB Hi-Fi reaffirmed its group sales guidance of $6.85 billion for the financial year.

JB Hi-Fi stores would generate $4.75 billion while The Good Guys would kick in $2.1 billion.

Third quarter like-for-like sales at JB Hi-Fi were up 4 per cent but fell by 2.9 per cent at The Good Guys, the retailer said.

Last year JB Hi-Fi posted a better than expected 36.5 per cent increase in underlying full-year net profit to $207.7 million as revenue roared ahead by 42.3 per cent to $5.6 billion, helped by the acquisition of white goods specialist The Good Guys.

Shares in JB Hi-Fi fell 9 per cent yesterday to close at $23.28.

THE AUSTRALIAN

MARKET WRAP

BUOYANT BOURSE HITS TWO-MONTH HIGH

A FOURTH-consecutive positive session has taken the Australian share market to its highest level in two months.

The benchmark ASX 200 yesterday closed 0.6 per cent higher at 6050.2 points, while the broader All Ordinaries index was also up 0.6 per cent at 6136.7 points.

Bell Direct equities analyst Julia Lee said the good run continued yesterday due to the Australian dollar's fall, a rally in growth stocks and gains by the banks. "Over in the US we did see Apple impress the market and that has helped our information technology stocks, and while they are a small part of the market, it has fed into the market's confidence in growth stocks and you can see that in A2Milk and Bellamy's," Ms Lee said.

"The banks are also firing up with bank earnings season, and the weaker Australian currency is boosting companies like QBE and the healthcare companies that make their income offshore."

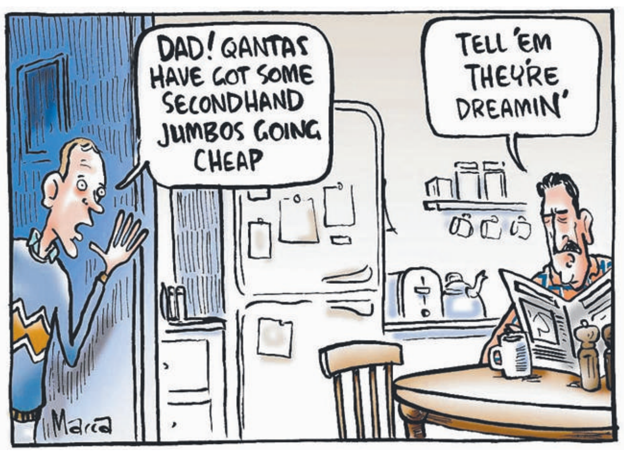
Software maker **Xero** gained 3.4 per cent to $39.50, **A2 Milk** rose 3.8 per cent to $11.70 and baby formula supplier **Bellamy's Australia** was 0.8 per cent higher at $18.59.

The **Commonwealth Bank** and **National Australia Bank** gained 0.4 per cent, while **Westpac** added 0.3 per cent and **ANZ** was 0.2 per cent stronger.

QBE added 2.7 per cent to $10.17, **CSL** 0.5 per cent to $169.71 and **Cohlear** 0.6 per cent to $194.97.

Qantas shares hit their highest mark since November 2017, soaring 8.1 per cent to $6.27 after the airline flagged a record full-year underlying pre-tax profit between $1.55 billion and $1.6 billion.

Woolworths' quarterly food sales growth outpaced Coles, and its shares rose 0.9 per cent at $27.99. Coles owner **Wesfarmers** gained 0.1 per cent to $43.63.



DOLLARS & SENSE by MACCA