

Wilson & Horton Limited and Fairfax New Zealand Limited – Application for authorisation of a business acquisition

Submission by:

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Summary:

1. The proposed merger of Wilson & Horton Ltd. (NZME) and Fairfax New Zealand Ltd. would create a near monopoly in newspapers and a dominant position in New Zealand media.
2. The applicants' commercial case for their merger is at best unconvincing. If the merged companies failed, the nation would lose significant media resources, which are essential to the nation's discourse.
3. The applicants' journalistic case for their merger is highly problematic. It would likely lead to fewer journalists, fewer voices, less diverse opinions, and more editorial control vested in fewer hands.
4. One partial remedy would be for the merged entity to commit to a Charter of Conduct, which would help bring transparency to its operations and help to sustain journalistic diversity and independence.
5. In the absence of such a Charter, authorisation for the merger should be declined.

Commercial issues:

6. The proposed merger of Wilson & Horton Ltd. (NZME) and Fairfax New Zealand Ltd. to create a near monopoly in newspapers and a dominant position in New Zealand media fails a simple test.
7. The two companies don't explain how their new entity will make more money. Without money, they can't provide more and better journalism they're promising. Without better content, they won't make more money.
8. Thus the merged entity would be stuck in the same doom-loop destroying many media companies worldwide. Content providers get poorer while content aggregators such as Facebook and Google get richer by accumulating users and capturing advertisers.
9. The few successful exceptions among media companies are typically highly creative, highly specialised or widely international. Very few are former newspaper publishers because they usually fail to make the extreme cultural and commercial transformations required.

10. Take the UK's *Daily Mail*. Global traffic to its website has soared by 550 per cent since 2009 to more than 14 million daily users. But it generated only £73 m (\$150 m) of revenue from them last year (up 18 per cent on the year), compared to £499 m (down 7 per cent) from its 1.7 m print readers.
11. Fairfax and NZME cited this example from an article in *Management Today*, a UK journal, in their application to the Commerce Commission¹.
12. A recent NZME investor briefing² described the similar landscape in New Zealand. Advertising revenues here grew by 5 per cent a year 2011-14. Within that, newspapers' share fell by 22 per cent over the four years to \$484 m, while online's rose by 79 per cent to \$589 m.
13. But Fairfax and NZME are mainly missing out on this online growth. Each has only a 6 per cent share of the online market, while Facebook has 16 per cent and Google has 37 per cent.
14. Facebook is brilliant at keeping its users on its site by bringing content to them; and globally it has mastered the difficult art of making money from mobile users, who increasingly dominate online activity.
15. Google is also exceptional at creating loyal users and selling ads tailored to them. Both companies know vast amounts about their users, and deploy extremely powerful analytics to drive content and advertising to them.
16. NZ media companies, in common with most of their counterparts overseas, are failing at both strategic imperatives, as Fairfax and NZME describe in their application.
17. Fairfax and NZME say they won't have much of a future if they remain competitors. Unfortunately for their readers, this interesting analysis is redacted from the public version of their merger application to the Commerce Commission. Given the importance of this application, the analysis should be made public immediately.
18. But together, they say they can take on Facebook and Google. With combined revenues of \$802 m and operating profits of \$133 m, they'll have the resources to generate more and better content, and thus attract more users and advertisers.
19. Their application talks a lot about cost savings and synergies but is unconvincing on both.

¹ Fairfax New Zealand Limited/Wilson and Horton Limited, May 27, 2016, Application to the Commerce Commission, Public Version, page 15

² NZME Investor Briefing, June 16, 2016, APN News & Media's page on the ASX website, <http://www.asx.com.au/asxpdf/20160616/pdf/437ybg7rb127k8.pdf>

20. On costs, some can be saved on sales and administration, although NZME has just added \$7.5 m a year in head office costs thanks to its demerger from APN³. There is little overlap in newspaper printing and distribution around the country.
21. On content, the companies say a merger will reduce some duplication such as journalists from both organisations covering the same stories.
22. What they don't say is that the biggest cost savings by far would come from a sharp reduction in journalists. But this would run counter to their promise of more and better content.
23. Certainly, the merged company would have lots of registered online users – signing up being the first step in knowing more about them to interest advertisers. Fairfax has some 650,000 online, and NZME some 887,000 from the *NZ Herald* site and internet radio, plus 1.6 m from GrabOne, its special offers site.
24. But how would it make money from them? Their application shows little hope for paywalls and subscriptions, while shedding no light on the advertising revolution they would need to pull off to tackle Facebook and Google.
25. To stand any chance of success, the merged entity would have to transform itself very rapidly into a very different company, culturally and commercially. It has a vast amount to do, starting with rationalising Fairfax's six websites and NZME's 38. But disparate shareholders and fierce internal politics will stunt progress.
26. Thus, the commercial case is unproven.

Journalism issues:

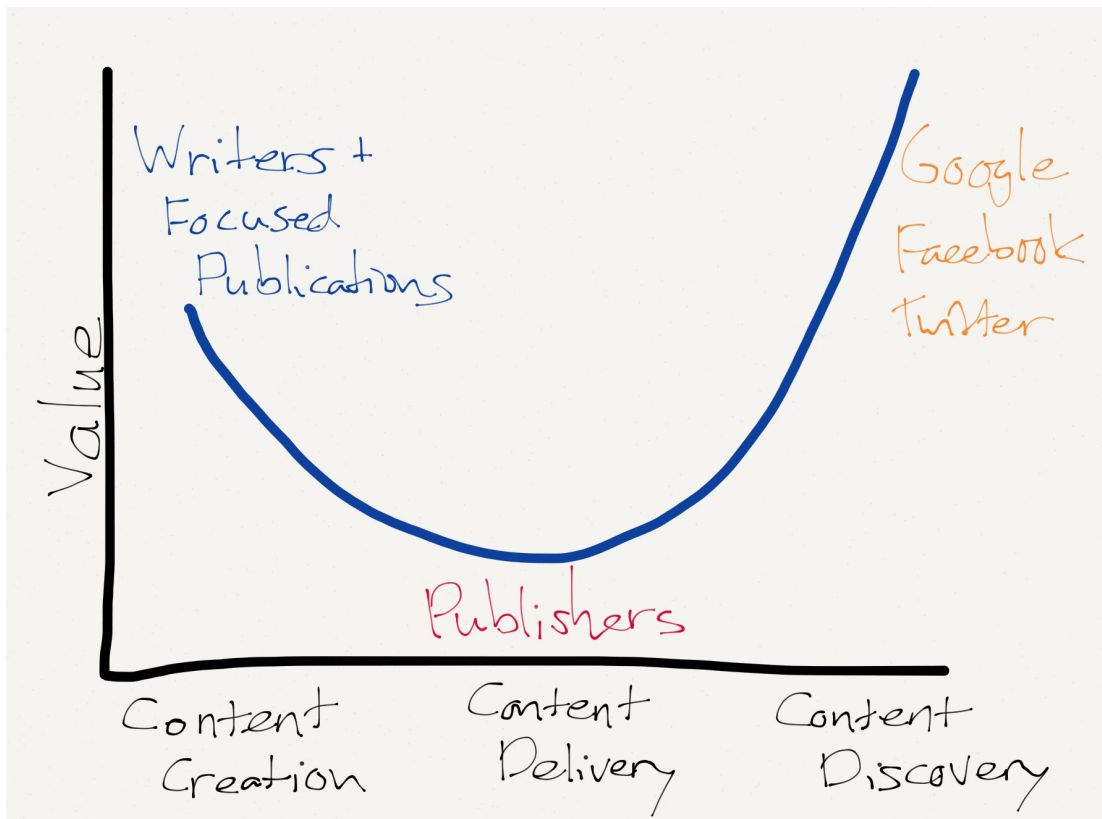
27. The applicants say they are merely large operators in a crowded market. They devote 28 pages listing competitors from global media companies to local bloggers, and describing the opportunities for new entrants.
28. But the merged company would employ a large majority of New Zealand journalists, and have a near monopoly of newspaper readers and substantial audiences online and on radio.
29. Thus, it will have significant power to shape what we learn and think. Moreover, who decides how to use that power will be concentrated in fewer hands in the merged company.
30. The Commerce Commission is equipped by law and resources to examine hard data such as share of advertising markets. But for the sake of the

³ NZME Investor Briefing, *ibid*.

nation's discourse, it must also examine the soft power exercised by media companies.

31. Public confidence in its merger ruling will hinge on its analysis and judgements on those media issues.
32. That won't be easy. The two companies don't know how the merged entity will operate. They say they have scrupulously avoided discussions while they are still deemed to be competitors. Even internally, speculation is rife but strategising minimal.
33. Over time, however, commercial logic dictates journalists will work in one highly integrated national organisation. Some will still be based in regional offices and smaller towns. But they will draw heavily for their local print and online publications on centrally supplied news and features on politics, business, sport, lifestyle and the like.
34. This would be the most cost-effective structure. It would also ensure some local content, some of which would flow back up the line for wider dissemination. Logically, though, there would only be one integrated national newsroom for digital, print and radio and only one subordinate newsroom in each region, plus local bureaus.
35. It would also be the best commercial structure, allowing the company to customise content and advertising across digital, print and internet radio down to an individual audience member, based on what it knows about his or her reading, viewing and listening habits. This is the secret of Facebook and Google's success, which the merged entity would have to emulate to survive.
36. But this unified national structure will inevitably mean fewer journalism jobs, and fewer people making editorial decisions. The losses would be far steeper if the merged company fails commercially. Its demise would damage the nation's discourse.
37. The outlook is grim. Globally, the internet has destroyed publishers' lock on readers and advertisers. The winners are specialised content creators at the beginning of the value chain and the likes of Facebook and Google that dominate content discovery at the other. Providers of content delivery, such as websites and print publications, are floundering in the middle.
38. Ben Thompson, a US analyst, offers insightful analysis on this in his article "Publishers and the Smiling Curve"⁴. It includes this graphic on the value chain:

⁴ Thompson, Ben. Stratechery, October 28, 2014:
<https://stratechery.com/2014/publishers-smiling-curve/>



39. In another piece of analysis, *"Newspapers are dead; long-live journalism"*⁵, Thompson examines how the "writers and focused publications" can thrive at the content creation start of the value chain.

40. While this offers a promising future in large markets, the NZ market is very small. Thus very small audiences here for such specialised journalism make their commercial viability extremely challenging, and the dominance of a merged Fairfax/NZME even greater.

Remedy:

41. There is one way the merged Fairfax/NZME could try to fight back, commercially and journalistically. As a New Zealand company it could generate a far higher degree of trust with its audience, turning their loyalty into a competitive advantage against the likes of Facebook and Google.

42. In contrast, as individuals we know very little about what those giants know about us, how they shape content and advertising to us, and how they make money from us.

⁵ Thompson, Ben. Stratechery, March 24, 2014:

<https://stratechery.com/2014/newspapers-are-dead-long-live-journalism/>

43. To build high trust, the merged company would have to commit to a charter embracing:
- its code of ethics
 - the data it collects on us
 - how it makes money from us
 - how it makes editorial decisions
 - what editorial influence it allows sponsors and native advertisers
 - where it stands on public issues
 - how it guarantees plurality of voices
 - how it deals with grievances
 - how it prevents powerful shareholders dictating editorial positions by, for example, limiting shareholdings to a maximum of 15 per cent, and by creating a trust as the cornerstone shareholder to block a takeover of the company.
44. If it won't commit to such a charter, the merged entity would hold a powerful position in media and the nation's discourse, with very weak constraints on and accountability for how it used that power.
45. Thus, in the absence of a charter the regulators must decline the merger.

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Appendix:

Rod Oram's CV

Rod Oram has 40 years' experience as an international business journalist. He has worked for various publications in Europe and North America, including the *Financial Times* of London from 1979 to 1997.

Rod and his family emigrated to New Zealand in 1997. He was business editor of the *New Zealand Herald* 1997-2000.

He is currently a columnist for the *Sunday Star-Times*; a regular broadcaster on radio and television; and a frequent public speaker on sustainability, business, economics, innovation, creativity and entrepreneurship, in both NZ and global contexts.

For more than a decade, Rod has been helping fast-growing New Zealand companies through his involvement with The ICEHOUSE, the entrepreneurship centre at the University of Auckland's Business School.

From 1999 to 2012, Rod held a number of advisory and honorary roles at Unitec in entrepreneurship, innovation and business, including an adjunct professorship. He will shortly take up an adjunct professorship at Auckland University of Technology.

Penguin published in 2007 his book on the New Zealand economy, *Reinventing Paradise*. In 2008, the Royal Commission on Auckland Governance engaged Rod to write a "foresight" research paper on Auckland in 2060. He was named the Landcorp Agricultural Communicator of the Year for 2009.

In 2010, Rod was the winner in the individual category in the *Vero Excellence in Business Support Awards* and was Columnist of the Year in the consumer category in the national magazine awards for his columns in *Good*, a sustainability magazine.

In 2015, Rod contributed a chapter on New Zealand and the Global Financial Crisis to *New Zealand Government and Politics*, 6th edition, edited by Janine Hayward. This is an extensive collection of research writings for NZ university students published by the Oxford University Press.

In 2016 Rod has contributed to a peer-reviewed research paper on the economics of the Trans Pacific Partnership Agreement. He was a finalist in the business opinion category in the Canon Media Awards.

Rod has served as a trustee of the Sustainable Business Network and the Council for Socially Responsible Investment. As a member of the Anglican Church's Auckland Diocese and General synods, Rod is deeply involved in sustainability and fossil fuel divestment activities.

Rod was a founding trustee and the second chairman of Ākina Foundation, which helps social enterprises develop their business models in areas of sustainability. He remains actively involved with the foundation and the ventures it supports.

Rod's next book, *Three Cities: Seeking Hope in the Anthropocene*, will be published by Bridget Williams Books in August 2016.

- *Sunday Star-Times* [columns](#)
- Radio NZ *Nine to Noon* [segments](#)
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- Ākina Foundation www.akina.org.nz

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