

**SUBMISSION FROM MEDIAWORKS HOLDINGS LIMITED IN RESPONSE TO COMMERCE
COMMISSION STATEMENT OF PRELIMINARY ISSUES**

NZME LIMITED AND FAIRFAX NEW ZEALAND LIMITED

30 September 2016

1. Introduction

1.1 This submission is presented by MediaWorks Holdings Limited in response to the Statement of Preliminary Issues (the Paper) published by the Commerce Commission in relation to the application by NZME Limited and Fairfax New Zealand Limited seeking authorisation to merge their media operations in New Zealand.

1.2 MediaWorks TV, Radio and Digital (**MediaWorks**) are together New Zealand's largest independent cross-platform media company, reaching 3.7 million Kiwis and providing news and entertainment content across TV, radio and digital properties. MediaWorks TV operates two free to air channels, TV3 and Edge TV, and is a joint-venture owner of free-to-air channel Bravo. MediaWorks Radio is New Zealand's number one network nationwide, with 2.14 million listeners tuning in every week across its nine commercial radio stations. Our entertainment and news brands are household names including Newshub, The Rock, More FM, The Edge, Mai FM, George FM and RadioLIVE. MediaWorks' network of digital platforms includes a news website, entertainment and music websites, and an audio-visual on-demand service. MediaWorks' news and current affairs service Newshub is New Zealand's only 24/7 TV, radio and digital news service, providing the latest news and in-depth analysis, with TV and radio news bulletins and a dedicated app and website – as well as fuelling news content across programmes such as the Paul Henry show.

1.3 Contact details for MediaWorks are:

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In this submission, MediaWorks provides its response to the issues raised in the Paper.

2. Executive Summary

2.1 MediaWorks submits that the Commerce Commission should assess the proposed merger and its likely effects on the national market for the delivery of New Zealand news across online/digital platforms (the "National Market for Online News"), and the supply of advertising over various platforms, including online/digital platforms (the "National Advertising Market").

2.2 MediaWorks considers that the proposed merger should not be approved by the Commerce Commission, as it will result in a substantial lessening of competition in the National Market for Online News, for the following reasons:

- (a) The proposed merger will result in an increased concentration in the National Market for Online News;
 - (b) there are significant barriers for new players to enter the National Market for Online News, given the high costs of running a credible and national news organisation which collects and sources news across the country;
 - (c) these significant barriers will be exacerbated by the merged entity's dominant position in both the National Market for Online News and its position in the National Advertising Market.
- 2.3 The Commerce Commission should also consider potential public detriment as a result of the proposed merger, due to the fact that the merger will significantly reduce media plurality in New Zealand, and reduce the number of viewpoints that are available to the audience.
- 2.4 In the event that the Commerce Commission sees fit to approve the proposed merger, MediaWorks submits that the merged entity should be required to divest either the New Zealand Herald online or Stuff online.

3. Definition of the Market

- 3.1 In their application to the Commerce Commission, NZME and Fairfax submitted that the Commerce Commission should take a wide view of the market for news, and appear to define that market as being international and also across print and TV as well as online.
- 3.2 MediaWorks submits that there are a number of markets against which the Commerce Commission should assess the impact of the proposed merger. The market which MediaWorks will address in this submission is the National Market for Online News.
- 3.3 MediaWorks considers that the market for online news is distinct from the markets for TV, radio and press news, and is utilised and accessed in a fundamentally different way by audiences. In addition, it is widely accepted that consumers of news (at a global as well as national level) are increasingly shifting their consumption to online platforms. Online news has a number of unique attributes, which provide it with a distinct advantage over other news platforms. Online news providers can reach their audience in a dynamic way, engaging with the audience across an entire day, using images and video as well as long-form text and analysis. Online news providers are also able to collect data on its audience's engagement with its stories, and it able to understand those stories which are most popular (number of click throughs), more valued (number of "likes") and those that are not of appeal to its audience.
- 3.4 There is clearly a distinct market for local New Zealand news (i.e. at a national level), which is distinct from the market for global news. As the table below indicates, New Zealand audiences are significantly interested in local New Zealand news. That category of content is simply not available on non-New Zealand news sites.

Table 1: []:

2016										
May										
June										
July										

4. Factual scenario (if the proposed merger goes ahead)

Concentration in the markets

- 4.1 In relation to the competitive conditions of the National Market for Online News, MediaWorks notes that the merger will result in a concentration in the market, with the merged entity being dominant in the provision of online news in New Zealand. As can be seen in Table 2 below, the merged entity would account for 95% page impressions in the market. Table 3 demonstrates that in terms of individuals accessing the different sites within the National Market for Online News, stuff.co.nz and herald.co.nz are clearly dominant, with 2,302,000 individuals accessing the two sites, being 57.9% of AP+15.

Table 2:

July	newshub.co.nz	tvnz.co.nz/news	stuff.co.nz	nzherald.co.nz
Unique Browsers				
Page Impressions				

SOURCE: Nielsen Market Intelligence, July 2016, Average Daily Data

Table 3:

July	(000s)	Vert%
Totals		
newshub.co.nz		
tvnz.co.nz/news		
stuff.co.nz		
nzherald.co.nz		
nzherald.co.nz AND stuff.co.nz		

- 4.2 It is also worth noting that the merged entity will have significant advertising reach across New Zealand. The current reach across TV, radio and digital platforms to audiences consuming news via the four commercial players (who are in the National Market for Online News) is as follows:

- Fairfax reaches % of the audience
- NZME reaches % of the audience
- TVNZ reaches % of the audience
- MWL reaches % of audience
- Combined NZME and Fairfax would reach % of the audience

Accordingly, while reach is presently provided in a fairly competitive manner between the four existing players, the combined reach of Fairfax and NZME would put the merged entity in a position of significant market power in relation to National Advertising Market.

Ability for new players to enter the market

- 4.3 The cost of entry for online news content generation is significantly high. Providing online news coverage on a national and local basis is a major enterprise requiring substantial scale and significant investment, both in up front capital and on an ongoing basis. TV3's Newshub newsroom employs more than 200 people across Auckland, Wellington, Christchurch and Dunedin. The cost to MediaWorks of providing this credible nationwide news and current affairs coverage is around \$[] per annum.
- 4.4 While there are successful start-ups in the news content generation space at an international level, this has only been possible as a result of hundreds of millions of dollars of investment. Such investment to set up a brand new credible news content generation operation is highly unlikely to be available to a New Zealand start-up, given that the required scale economics do not exist here.
- 4.5 It has been argued that there is competition in the online news market from Facebook, Google and international news sites. MediaWorks disagrees with this position. Facebook and Google are simply platforms on which existing content is disseminated, and neither Facebook nor Google are in the New Zealand news content generation business. In respect of international news sites, there is no competition with New Zealand online news sites as those international news providers do not cover New Zealand events (other than in matters of significant global interest – and in which such circumstances they source the story from a local provider).
- 4.6 It has also been argued that that the provision of news opinion sites and/or blogs demonstrate the ease by which new players can enter the market. While these sites can offer valuable opinion and commentary, they are not genuine news gathering organisations – and lack the resource required to provide credible nationwide news and current affairs coverage. They do not offer a viable alternative to a newsroom and are not able to cover domestic news sufficiently to ensure the appropriate functioning of society.

5. Counterfactual

- 5.1 If the merger did not proceed, then the status quo could continue, with on-going competition between Fairfax, NZME, MediaWorks and TVNZ news and a balance of news views across society.
- 5.2 It is also likely that NZME and Fairfax would investigate alternative merger scenarios, for example:
- (a) TVNZ could acquire NZME or Fairfax.
 - (b) MediaWorks could acquire (or merge with) Fairfax.

(c) MediaWorks could acquire (or merge with) NZME.

5.3 In any of the above counterfactual merger scenarios, there would be greater competition in the market than there would be under the factual scenario, as there would be at least two competing digital news organisations with similar market share. If the merger proceeds, there will be one dominant digital news organisation, with very tough conditions for any other digital news content provider in both the National Market for Online News and the National Advertising Market.

6. Public benefit / detriment

6.1 The benefit of media plurality is widely acknowledged across a number of jurisdictions. In the UK, the broadcasting regulator Ofcom has stated (in relation to the goals and meaning of plurality):

"Plurality matters because it makes an important contribution to a well-functioning democratic society. Media plurality is not a goal in itself but a means to an end. Plurality in media contributes to a well-functioning democratic society through the means of:

- *informed citizens who are able to access and consume a wide range of viewpoints across a variety of platforms and media owners; and*
- *preventing too much influence over the political process being exercised by any one media owner."*

6.2 MediaWorks submits that this statement applies equally to New Zealand and that media plurality is key to the well-functioning of New Zealand democracy. In addition to the goals outlined above, a key part of plurality is the number of eyes over institutions of power, not just political organisations. This is particularly true in the smaller New Zealand market, where relationships with commercial organisations can have a significant impact on a media players' advertising revenues.