

**NZME LIMITED AND FAIRFAX NEW ZEALAND LIMITED  
COMMERCE COMMISSION CONFERENCE**

**6 DECEMBER 2016**

**9.30 am**

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**CHAIR:** Good morning, everybody. Can I just check to see that the microphone is working.

Let's begin. It's now 9.30, so I'd like to start by welcoming you all here to the Commerce Commission's conference on NZME and Fairfax application for approval to merge its two businesses. The Commission considers that this is an appropriate occasion on which to hold a conference to further investigate this matter. I'm Mark Berry, the Chair of the Commerce Commission and with me are the other Commissioners on this matter. They are Sue Begg to my right who is the Deputy Chair, and to my left, Elisabeth Welson and Graham Crombie.

As you are aware, Fairfax and NZME have sought clearance or authorisation to merge their New Zealand operations and the Commission is currently scheduled to make its decision by 15 March next year. The Commerce Act requires the Commission to give clearance for the proposed merger if it is satisfied the merger would not have the effect of substantially lessening competition in any market. If the Commission is not satisfied and declines clearance, we will grant authorisation if we are satisfied that the merger will result in such benefit to the public that it should be permitted; if not, authorisation will be declined.

The way we have assessed whether competition is likely to be substantially lessened in this case and whether the merger is likely to result in such a benefit to the public that it should be permitted is set out in our Draft Determination which was circulated in early November.

The conference notification and agenda was published on our website on 29

1 November and as you'll know from this, there will be a number of confidential sessions  
2 which are closed to the public. The Commission members have reviewed copies of all the  
3 submissions made on the application and the draft. I should add that we received two late  
4 cross-submissions yesterday which we will also consider and in due course these will be  
5 posted on our website.

6 The purpose of the conference is to assist us in our deliberations and to do this,  
7 Commission members and Commission staff will ask questions of the attendees present  
8 here. There will not be opening or closing statements, nor will we be assisted by parties  
9 speaking to their submissions. Parties will not be permitted to question other attendees nor  
10 to rebut statements of others unless expressly invited to do so by the Commission.

11 Following the Commission, we do not expect any further round of  
12 cross-submissions, but parties may be asked to follow up in writing on any unanswered  
13 questions in the usual way that happens at our conferences. I should add that I'll revisit the  
14 forward-looking processes at the end of day 2 or possibly even after the conference once  
15 we have a better feel for the material before us and what further matters may be relevant for  
16 submissions.

17 The conference proceedings will be recorded. When asked to speak, please identify  
18 yourself and speak slowly into the microphone so that the stenographer does not have  
19 difficulty keeping up with you or hearing you. For those of you who are not seated at the  
20 table with microphones, if you are asked a question then please come up and use the  
21 microphone that is positioned in the room. A transcript of the day's discussion will be on  
22 our website as soon as possible.

23 Just one point of background to help the conversation over the next few days; in  
24 submissions received on the draft, there has been further discussion of the Commission  
25 accepting behavioural undertakings or imposing conditions in order to govern the way that  
26 the applicants may act post-merger. For mergers, we have no jurisdiction to accept  
27 behavioural undertakings. All we can accept are undertakings to dispose of assets or  
28 shares, so I do urge you to recognise that in terms of submissions made over the next two  
29 days.

30 As you'll see from the agenda, breaks have been scheduled throughout the day.  
31 Commissioners will not be available during the breaks. This room will remain open during  
32 the break so please secure any confidential information that you have. Any documents  
33 provided to the Commission for the first time at this conference should also be given to  
34 Gavin McNeill sitting over here so that we can put those on the record.

1           Turning to health and safety housekeeping matters which in this day and age are  
2           mandatory. Please wear your visitor pass at all times. On departure, please return to  
3           reception to sign out. If there's an emergency and there is a continuous siren, please  
4           evacuate the building using the stairs, do not use the lifts. Commission staff will  
5           accompany you to the nearest assembly point. If there is an earthquake, drop, cover and  
6           hold and stay indoors until the shaking stops and that you are sure it is safe to exit using the  
7           stairs. I should hasten to add we have had engineering reports relating to the structure of  
8           this building. It has recently had structural enhancement and before we re-entered the  
9           building we did have structural engineer certificates to certify the status of the building.

10           All visitors must obey reasonable instructions while on the premises. Visitors must  
11           ensure that they do not create a hazard for other people or property on the premises. So  
12           that's all the official stuff at the start.

13           Can I begin by first of all just going around the table for the benefit of the  
14           stenographer and also for us so that we can identify all of the participants initially at the  
15           round-table here. So if I can start with Mr Mellsop on my far left and if you can just go  
16           around introducing yourselves.

17           **MR MELLOP:** James Mellsop from NERA.

18           **PROF PICKER:** Hi, I'm Randy Picker, Professor at the University of Chicago Law School.

19           **MR JAGUSCH:** Chris Jagusch, I'm with NZME as General Manager of Regional Print  
20           Operations.

21           **MR HEADLAND:** Matt Headland from NZME, General Manager Agency Markets.

22           **MR CURRIE:** Shayne Currie, the Managing Editor of NZME.

23           **MS JUDKINS:** Sarah Judkins, NZME Chief Strategy Officer.

24           **MR BOGGS:** Good morning, Michael Boggs, the CEO of NZME.

25           **MR PILKINGTON:** Troy Pilkington, Partner at Russell McVeagh.

26           **MS KEENE:** Sarah Keene, Partner at Russell McVeagh.

27           **MR TONG:** Simon Tong, I'm the Managing Director of Fairfax.

28           **MS BOUCHER:** Sinead Boucher, I'm the Executive Editor for Fairfax.

29           **MR HUTCHINSON:** Robert Hutchinson, I'm the Product Development Director at Fairfax.

30           **MR BOYLE:** Andrew Boyle, Chief Operating Officer, Fairfax.

31           **MS NORRIS:** And I'm Joanna Norris, I'm Fairfax Media South Island Editor-in-Chief.

32           **CHAIR:** Thank you. I'll do the introductions for the table over here. We have Robin Foster who  
33           has been engaged as an independent expert for the Commission and there's other staff  
34           members seated over on that side, many of whom will be known to you through this

1 process, no doubt, and variously through this conference. Following Commissioner  
2 questions, we will typically ask them to think up or develop any further questions that  
3 should be put.

4 There's going to be a number of other speakers at the conference, notably there are a  
5 number of journalists, as I understand it, who are proposing to participate in the conference,  
6 and certainly we are very interested in hearing views from them. Is it possible for those  
7 journalists to identify themselves? Some have given notice to us of an expectation to  
8 speak. Perhaps if they could identify themselves.

9 **MR ORAM:** Yes. Good morning, this is Rod Oram calling in from Auckland.

10 **SPEAKER:** (Inaudible).

11 **MR CROWLEY:** John Crowley from Fairfax.

12 **CHAIR:** Do we have somebody else on the speaker phone there?

13 **MR McNEILL:** Not yet.

14 **CHAIR:** Does that do all of the introductions we need?

15 **MR REES:** Jeremy Rees from Fairfax as well.

16 **MS PRINGLE:** Grant McKenzie from Allied Press in Dunedin is on a delayed flight, so he will  
17 be in later.

18 **CHAIR:** I just wanted to get the landscape. Just bear in mind, when each participant speaks, if  
19 they can identify themselves carefully for the record so we don't get lost on the transcript.  
20 It is going to be a bit messy over the next two days.

21 **MS KEENE:** We're also expecting Gail Hambley from Fairfax Australia to join by telephone.

22 **CHAIR:** Let's just keep a housekeeping check on all of this. It's not often we have a range of  
23 participants, and particularly difficult when they're not all in the room. Let's get started on  
24 the substantive questioning. The first session is going to be led by Sue Begg and so I'll  
25 hand over to Sue to lead off.

#### 26 **COMPETITION ASSESSMENT - READER MARKETS**

27 **COMMISSIONER BEGG:** Thanks Mark. So the first session is about reader markets and I'm  
28 starting with online reader markets. As you're all aware, we reached a preliminary view  
29 that the merger of NZME and Fairfax would substantially lessen competition in the market  
30 for online New Zealand news. We identified the major producers of online New Zealand  
31 users: Fairfax, NZME, TVNZ, RNZ and MediaWorks, and noted that there are other  
32 smaller players as well.

33 We considered that the applicants were each other's major competitors, the closest  
34 competitors for New Zealand online news, and we thought it was unlikely that the other

1 existing competitors would have sufficient scale to act as a significant constraint  
2 post-merger. We're not saying that they aren't a constraint, but not a significant constraint,  
3 not sufficient constraint.

4 We didn't think that expansion by existing competitors or entry by new players  
5 would be on a sufficient scale to constrain the merged entity. So our analysis focused on  
6 the upstream market for the production of New Zealand news rather than the downstream  
7 market for distribution. We noted that the downstream distribution market included other  
8 firms not involved in the production of New Zealand's news such as third party aggregators  
9 like Google and social media networks like Facebook. We concluded these parties weren't  
10 competitors in the production of New Zealand news, and obviously we've got a lot of  
11 submissions on that.

12 We considered that the increase in market power that would result from the merger  
13 would be likely to result in a substantial lessening of competition which might be exercised  
14 by increased prices through the introduction of a paywall and/or the reduction in the quality  
15 of the news that's produced.

16 We've received submissions from NZME and Fairfax that competition will not be  
17 substantially lessened and the three key reasons proposed in your submissions are the  
18 competition from TVNZ, RNZ MediaWorks and others, the low barriers to expansion by  
19 them or entry by others, and a particular focus was the competitive role of Facebook in a  
20 two-sided market and other parties like Google, but I thought we'd focus on Facebook  
21 because they obviously are one of the key parties.

22 So first of all I'm going to ask some questions of you about the competition from  
23 TVNZ, RNZ, MediaWorks and what degree of constraint that imposes on you. Then I'd  
24 like to briefly explore the barriers to entry and expansion by those parties and then we'll  
25 spend a bit of time on the constraint that's imposed by the likes of Facebook and the  
26 distribution market, the interaction with the distribution and the production.

27 So turning, then, to that first matter which is the closeness of competition between  
28 the applicants and the other major producers of online news. As you'll be aware, we  
29 presented in the Draft Determination quite a lot of data analysing, looking at different ways  
30 of assessing market share, and the usage data that we had showed that NZME and Fairfax  
31 are the two most consumed New Zealand news websites by some margin.

32 We also, in looking at the constraints imposed by different types of media like TV  
33 and radio, considered that those, that TV and radio news, wasn't a close substitute. We  
34 reached that conclusion in part because of the inability of consumers to switch to radio and

1 New Zealand for up to the minute news in a way that you can get online. We note that  
2 different New Zealand news websites had different strengths. For example, Stuff and  
3 Newzealandherald.co.nz are focused more on text-based news, the One News Now on  
4 video, Newshub on video and audio and RNZ on audio content.

5 My first question is to, let's say I'll start with Fairfax and then to NZME. What do  
6 you make of those consumption statistics, the fact that NZME and Fairfax have so much  
7 greater market share of its online market. What do you think that that implies for the  
8 constraint that you're imposing on each other?

9 **MR TONG:** I'll start and then hand off to the team. Simon Tong, Managing Director. I think one  
10 of the points that I would make in terms of the competition in the market is that Stuff itself  
11 has had to grow into the position that it's created and has done so over some time, so we are  
12 aware of how you can leverage the market opportunity to grow your business and, most  
13 particularly, social media is now a very key tool in creating scale. Perhaps more so now  
14 than even two years ago. In fact, there are many businesses that you can point to that have  
15 built their entire news business off social media. That allows you to scale fairly quickly.  
16 So we've used that ourselves and we see that from the others.

17 One other point I would make before handing over to Sinead to answer the question  
18 is that video in particular is the fastest growing area of news consumption and so Television  
19 New Zealand and MediaWorks are very well placed as that part of the market grows. Not  
20 only is the consumption of media and video growing, but also the return financially is  
21 extremely high relative to other forms of advertising.

22 **MS BOUCHER:** To that I would add that the barrier to entry for other news organisations in the  
23 digital world is very low and front of mind is somewhere like The Spin Off which is  
24 possibly just over a year or so old but the other day were touting already having unique  
25 users of over half a million people. So that's in -- you know, that's a quarter of Stuff's  
26 traffic within a year or so of growth. So they're obviously feeling very ambitious about the  
27 scale that they can achieve, a lot of which has been through their social media strategy.

28 I would say that in terms of competition and consumption of news, Radio  
29 New Zealand, TVNZ, MediaWorks all do put up-to-the-minute news on their websites and  
30 RNZ particularly can break into that at any moment during the course of their radio show  
31 during the day. The Kaikoura earthquake is a perfect recent example of that. John Key's  
32 announcement yesterday, another one. So they can make those flexible decisions at any  
33 point there.

34 Further, the main concentration of those other, you know, TVNZ, MediaWorks,

1 RNZ, their newsrooms are concentrated in the biggest cities; Wellington, Auckland,  
2 Christchurch, Hamilton, where NZME and Fairfax are also in competition with them. So in  
3 terms of looking at national stories created out of big centres, there's a very strong, robust  
4 competition between all of those groups and from a Fairfax editor's perspective, and with  
5 all respect to NZME, they are not the major sort of -- or the only competitor we look to, to  
6 sort of benchmark how we're tracking, if there are any scoops or any other stories that  
7 we've missed etc, by any stretch.

8 We look at all of those competitors, they all challenge us every day, they're all very  
9 high quality, and we also are challenged every day through individual bloggers, political  
10 commentators, political bloggers, The Spin Off, other news sites. We've heard that  
11 Newsroom is about to launch in January, that's another news journalism website by two  
12 very experienced former editors who've assembled quite a high quality senior team, so we  
13 expect them to also produce quite a lot of competition for us for good stories.

14 **COMMISSIONER BEGG:** But do you see the competition, your main competitor is NZME?

15 **MS BOUCHER:** Not at all, we absolutely don't. We don't see them in any different way. We  
16 actually see -- you know, the production of stories, the creation of stories is actually only  
17 one facet of how we compete. It's how we put together a whole, I guess a whole product of  
18 appealing content to our audience. That's a very important part of what we do. In that  
19 respect Facebook is an enormous competitor to us because they are editors and curators of  
20 the world's news feeds these days.

21 So they have at their fingertips, you know, access to content from everybody in the  
22 world and they also can control how people see that and what news, what agenda they are  
23 sort of exposed to. We've seen a lot of that in recent times with the US election. You  
24 know, they've come under a lot of criticism. So we compete with them for people's  
25 attention and for their, I guess perception of what news is and what's sort of happening.

26 **COMMISSIONER BEGG:** You did mention there just a little bit earlier in your comment, you  
27 emphasised that the other competitors, RNZ, etc, compete more strongly on a national  
28 basis, but for local news do you find that NZME is more of a competitor? Is there a  
29 distinction?

30 **MS BOUCHER:** Less of a competitor because there's very little overlap between the two  
31 companies in regional news. So, for example, in the South Island, which is a real  
32 strong-hold for Fairfax with a lot of local publications, I would estimate there would be a  
33 small handful of NZME journalists covering the whole South Island. They can obviously  
34 speak to that more. So our competitors in the South Island are Allied Press, a lot of the

1 local publishers in the local towns that we compete in every day, that we're in every day,  
2 and NZME isn't really part of that landscape at all for us.

3 **MR HUTCHINSON:** Prior to joining Fairfax, I spent ten years working at the Australian  
4 Broadcasting Corporation and the experience at the Australian Broadcasting Corporation  
5 was you could take a broadcast capability, starting with radio, and scale that into a very  
6 successful online news resource. As they began to roll their television news into constant  
7 coverage as well, ABC has gone from what really was a minor television and radio-led  
8 national news provider into the third largest online news provider, and that work is  
9 generated by journalists now who are capable of writing for top of the hour radio news,  
10 capable of writing for online news, capable of shooting their own video as well as having  
11 that video appear in the 7 o'clock bulletin.

12 It's just an example of how the core resource of storytelling inside a public  
13 broadcaster in this example, I'm using as an analogy both the RNZ and TVNZ, once the  
14 internal resources are redirected with an objective to be serious in online news and achieve  
15 substantial scale, the material is all there ready to go, it's just workflow changes and  
16 technology improvements that accelerate that.

17 The other observation we had at the ABC in Australia was how quickly brands from  
18 the US and the UK could launch into Australia with quite small newsrooms and get a lot of  
19 online scale, the Daily Mail, The Guardian, Huffington Post and BuzzFeed all being great  
20 examples. And in that case what they were able to do was essentially choose the verticals  
21 of coverage that say News Limited and Fairfax Australia are covering that created the most  
22 attention for them, but bring all the skills they've developed, scaling up around the world  
23 and into the US in particular, to the Australian environment and therefore were able to build  
24 very large audiences really quickly.

25 I raise that point simply to say that it would take a small number of journalists from  
26 each of those big international players, essentially able to read our websites, to create a very  
27 compelling offer of New Zealand news to New Zealanders. In addition, they have many,  
28 many years of optimising for search engines and optimising for social platforms and skills  
29 that are built up over -- built in incredibly competitive environments like the United States  
30 and therefore they grow to sufficient scale very, very quickly.

31 **COMMISSIONER BEGG:** Have you got any thoughts, then, on why there are far fewer people  
32 going to the websites of TVNZ, MediaWorks and RNZ than to the two main websites,  
33 given you're sort of describing compelling content and so on, and the move to video, which  
34 they would have a strength in, you'd think, compared with yourself?



1 **MR TONG:** I'll tackle that to start with. I think in the case of MediaWorks, they've reset with  
2 Newshub in an attempt to create a digital presence and it's very successful. They're going  
3 very well with it, I think, something for Mr Weldon to be proud of in terms of the  
4 rebranding. In the case of both of those organisations, they haven't faced anything like the  
5 declines that we've seen in our core business.

6 So those declines that we've seen and have been running with for several years has  
7 driven us to move to the internet much faster perhaps, recognising that the revenue is not  
8 necessarily following but there aren't too many options. TV is starting to see those  
9 declines, though. So Newshub's reset, TVNZ haven't had to shift so quickly because  
10 MediaWorks has been in trouble.

11 Radio New Zealand, under Paul, has really improved remarkably in the last couple  
12 of years and so again is sort of at the start of that journey. So I think some of it is to do  
13 with market dynamics and what we've seen in print. But in the end, digital was compelling,  
14 there isn't really any other market to enter.

15 **MS BOUCHER:** I would just add to that from the editorial point of view, that I guess the  
16 transformation of our newsrooms from being print focused to being digitally focused  
17 probably began back in sort of 2008 roughly, when we were really, as a business starting to  
18 feel it bite. And for a lot of those other -- the broadcasters and RNZ, that's really only come  
19 in the last couple of years and we're often asked about some of the key things we did and  
20 cultural things we had to challenge by them.

21 So I think it's actually just a matter of time, that they're later to it than us, and they're  
22 really catching up. If you look at RNZ in particular, the growth that they have achieved in  
23 their digital audience over the last year probably out-paces just about anybody else in the  
24 business, including ourselves. Newshub is the same since they got really serious about  
25 being in digital news within the last year or two, you can see that start to grow their  
26 audience substantially. So I think it's just a lag in time rather than their offering being less  
27 competitive or less attractive to people.

28 **COMMISSIONER BEGG:** Okay, I'll turn to NZME, same questions basically.

29 **MR BOGGS:** Thank you, Commissioner. Michael Boggs here from NZME. Before I pass over  
30 to Shayne, maybe I can touch on a couple of the points that you raised there. Firstly on  
31 video, to reiterate I guess what Simon said regarding Fairfax, it is our fastest growing  
32 product and the content that is accessed is the highest growth rate we have in the business.

33 Just to reiterate that, we had our largest days on our website in the last two weeks  
34 and video has been the driver of that, so that content is absolutely what our audience is

1 looking for. I guess New Zealand On Air reiterated that to us just in the last six months.  
2 We partnered with a third party to produce video for regional news and what NZ On Air  
3 has said is those that can produce video, very important again, just reiterating that's what  
4 the audience wants and that's how people are wanting to access their news these days. So  
5 obviously we have a got some key competitors in that space, television networks of  
6 Television New Zealand and MediaWorks.

7 The other area we have that you mentioned was radio and so it would be fair to say  
8 that we feel we've got over 4 million reporters in the field from a radio perspective, as do  
9 Radio New Zealand and as do MediaWorks. So the information we're able to get back  
10 from a radio perspective, again in events like the last two weeks help us build our content  
11 and help us give instant news and that is a way we are able to get instant news, through that  
12 talk back process.

13 So again, we have very strong competitors. In fact, Radio New Zealand has the  
14 largest radio network in the country from a listener, an audience; MediaWorks has a larger  
15 share than NZME overall. So again, the ability to access information and give instant I  
16 think comes back to it's not just about online, it truly is around how other news can be  
17 disseminated from, you know, the whole of the population calling into talk back overall.  
18 So that is a key way we access information and share it in the marketplace. Maybe if I can  
19 pass to Shayne to give you some more specifics.

20 **CHAIR:** Can I just check for a moment that the volume is sufficient for the people on the phone.

21 Can we check to see that the listeners on the telephone are hearing the conversation?

22 **MR CURRIE:** Can you hear us, Rod?

23 **MR ORAM:** Yes, I can thank you.

24 **MR CURRIE:** Shayne Currie from NZME. I just wanted to pick up two or three points and to  
25 answer the question. Within our own news room, not just in Auckland but around the  
26 country, we certainly do see Radio New Zealand, One News, TVNZ, Newshub, as key  
27 competitors. Radio New Zealand has indeed had the fastest digital growth in the last 12  
28 months. In fact I saw some Nielsen stats earlier this week which showed an 80 per cent  
29 increase for them digitally after a huge news week last week and in the past month.

30 I think it's really important to reiterate that none of the organisations now can be  
31 defined by just one flat form or one discipline. We're well beyond the text-based news or  
32 in the radio case, audio. We have created a new video platform, a new video brand called  
33 New Zealand Herald Focus which screens up to seven or eight pieces a day, one to two  
34 minutes each. That has driven a lot of our video growth.

1 But as well as that, we've now equipped all of our frontline reporters with iPhone 6s  
2 and an app called Videolicious. So they're not out in the field just collecting quotes and  
3 text stories but actually filming as well and filing that as part of their duty. So, you know,  
4 we're seeing this massively changing landscape in the New Zealand media and right to the  
5 core of how a journalist performs their duties. That's not just the case at NZME, and I'm  
6 sure Fairfax, but across the board as well.

7 In the case of Radio New Zealand, for instance under Paul, we've seen the  
8 introduction of John Campbell and his show is not just broadcast on the airwaves but on  
9 video as well, you can actually watch him, and we've seen that grow.

10 In the case of One News, you know with their re-designed website in the last 18  
11 months, they've also seen phenomenal growth. They are certainly, in the digital space,  
12 competing against us. Yesterday I had some angry calls from the news room because  
13 they'd had John Armstrong commenting on the Prime Minister's resignation and John, of  
14 course, very well regarded, well renowned New Zealand Herald commentator.

15 That goes to the core of just how we see TVNZ as a competitor. They're not just in  
16 the video space, they're very much doing the commentary and the text-based writing as  
17 well. So I think that's an illustration of the different disciplines that everyone is now  
18 tackling.

19 **COMMISSIONER BEGG:** Thank you. I thought I'd ask Professor Picker to comment really on  
20 the strength of competition from the traditional medium like TV and radio, and then your  
21 thoughts on how much NZME and Fairfax, how much they get of readers and visits to their  
22 website versus the others, Radio New Zealand, etc. If you'd just like to comment?

23 **PROF PICKER:** Sure. So I thought what was apparent in the materials and what's apparent in  
24 the Draft Determination is that competition is digital first, and that seems to be the case for  
25 everybody. And so if you ask what's organising competition in this space, it's not the  
26 traditional platforms of distributing, it's not the fact that we're a TV company, we're a radio  
27 company, we are a print company, everyone sees the digital platform as where the  
28 competition takes place. I think what a competition authority should do, I think you ought  
29 to focus on where competition is taking place, and it sounds like it's taking place there for  
30 everybody.

31 Then it seems to me you've got questions of how does the content get produced,  
32 how do the stories get told, story-telling is really important, how does it get distributed.  
33 What's interesting there is, is the -- and just heard here, the way in which the presence of  
34 this online platform is, I think, revolutionising all of that. So what Shayne just said about

1 all of my reporters are now video because they've got iPhone 6s, of course, what else would  
2 you do? That's obviously the right way to organise it. The idea that Facebook, I think  
3 through their new Facebook Live, is in some sense in the business of making it possible for  
4 everyone who's got a smartphone -- and everyone's got a smartphone -- to create these  
5 videos and produce news and then to distribute those.

6 So I think there's no question that traditional media has enormous strengths in  
7 telling stories and identifying those stories, but their monopoly over distribution is gone.  
8 I mean, that's what you saw in the comments, the powerful role that Facebook and Google  
9 play there is dramatic and their ability to shape and curate and, you know, these people, my  
10 fellow country colleagues who sit in Silicon Valley, who are sitting there with their, you  
11 know, their computers and they tweak the code and all of a sudden the mix of what I'm  
12 seeing changes. Their ability to tailor that to me because of the information they have,  
13 that's a world these people -- and they're nice people -- but this is a world they don't live in  
14 and are struggling to compete in. So I hope that's responsive.

15 **COMMISSIONER BEGG:** So just summarising one point that I've got out of the discussion, I  
16 don't think anyone's objecting to us defining the market as "online news", nobody seems to  
17 be suggesting that we should be including in the market the traditional ways of delivering  
18 TV or radio. Obviously, they still -- not to say they don't provide some constraint, so that's  
19 one point.

20 The other is, nobody seems to be saying that despite the statistics which show that  
21 the two -- the merging parties have such a large market share, the argument seems to be that  
22 the others are a bit slow to the party and they are increasing at a greater rate, which I'd have  
23 a question mark over -- I'm not sure what the stats show on that -- and even though they're  
24 quite small in terms of the people who visit, they still are imposing a constraint. Is  
25 that really the arguments I'm hearing? Then we've got the Facebook and different  
26 distribution and constraints there, I accept that, and we're going to talk about that shortly.  
27 Anyone want to add any further comment?

28 **MR TONG:** Perhaps one comment. Simon Tong from Fairfax. So our own analysis of our  
29 audience has shown that 13 per cent of our audience are getting their news from their  
30 newspaper, 25 per cent are getting their information from online, but in almost all cases, it's  
31 multiple sites, and I think that's the key to the point that you're making.

32 The New Zealand audience is very savvy and moves across multiple sites. It would  
33 be very rare to find anybody who's got one app on their phone. Yes, they'll have a  
34 favourite, but they will move across and consume. So that's the constraint that we face and

1 that's just talking about the New Zealand competition as opposed to, for instance, how  
2 Facebook might shift the goal posts in terms of what is served up.

3 **MS KEENE:** I think also, Commissioner Begg, we might follow up more specifically on the  
4 comment about quite small, because it's a technical point about the way that data is being  
5 measured, and we don't agree with that proposition.

6 **COMMISSIONER BEGG:** Okay. I must say it's very difficult to measure market share, it's  
7 quite an unusual market. I'd just like to invite Mr Levy to comment and comment on the  
8 issues and perhaps you might have some thoughts that you'd like me to follow up, questions  
9 to ask.

10 **MR FOSTER:** Thank you very much, I'm Robin Foster, one half of the Foster/Levy partnership.

11 **COMMISSIONER BEGG:** Sorry, mixing it up.

12 **MR FOSTER:** It's hard to disagree with what we've heard about the moves into the digital world  
13 and some of the challenges ahead, but I would point out we should just be careful that  
14 everyone is in that market first of all, because in New Zealand as in other countries there is  
15 still quite important consumption of traditional news media alongside digital news media.

16 In the paper that we wrote, we commented on the different characteristics of those  
17 news media from the point of consumers, to point out that in many cases they were  
18 complementary to each other rather than substitutes for each other. So television being a  
19 place where you can go for news packaged into a convenient bulletin at the end of the day,  
20 see what's happening, which conveys a sense of both trust and credibility to its audiences;  
21 radio, which is much more convenient for short-term headline news; newspapers, which  
22 provide the space for very effective in-depth analysis of the issues, scrutiny of the behind  
23 the scenes stories, and then online news and digital news which is much more focused on  
24 convenience and personalisation.

25 This is what consumers have told us when they're asked about the sources of news  
26 they use and what is important to them. They don't necessarily see news as being a single  
27 commodity across all of those different platforms. They think of it as in different forms  
28 and with different values and different uses. Indeed, I think there was a very interesting  
29 table in the Draft Determination which actually looked at, in New Zealand, the perspectives  
30 of New Zealand users of different news media -- it was figure 15 -- where newspapers  
31 come way out ahead in terms of reliability, credibility, dependability and trustworthiness,  
32 whereas in contrast, online is way ahead in making people feel informed, giving a balanced  
33 view, getting the latest developments from breaking news stories.

34 That's not to say that we're not in a world of conversions and digital news, but just

1 to point out that from the consumers' point of view these things are different and have  
2 different uses and are not always seen as being direct competitors of each other.

3 Of course, on the production side, I don't know of a single major news organisation  
4 around the world which isn't trying to develop its production capabilities so that it can  
5 produce stories across all the different platforms that their consumers want to use. But one  
6 of the key words I think came from one of the speakers this morning, which was that of  
7 "first mover advantage". This is a world in which it has been important to be ahead of the  
8 game, both in establishing the resources required, the infrastructure and resources, the  
9 brand name, encouraging online usage, getting into those search listings, and while  
10 everyone is trying to do it, those who started later in the game will find it more difficult.

11 I think one of the things that the Commission has to think about is the extent to  
12 which there are some very powerful first movers in this market and that others will find it  
13 harder to catch up.

14 So while I find it hard to disagree with many of the points which have been raised  
15 this morning, I would just like to list those two or three caveats to the discussion.

16 **COMMISSIONER BEGG:** Thank you. I think that I'd just like to pick up on the first mover  
17 advantage question. I think that's an important one. Clearly we see that the two main  
18 parties are the predominant market share, although we can debate how you measure that.  
19 You've painted a picture that the others are catching up; is that true? Can they? They're  
20 difficult markets to make headway in or make money out of, at least, so appreciate your  
21 thoughts.

22 **MR HUTCHINSON:** Robert Hutchinson, I will just again go back to the example of the ABC  
23 because I think the Australian market is just a year or two further down the digitisation or  
24 digital disruption path. So most of the publishers and broadcasters launched services of one  
25 sort or another in the mid to late 90s, but did not give them very much care and attention  
26 until the early 2000s.

27 And what we saw at the ABC was that the big publishers, essentially News Limited  
28 and Fairfax Australia, got away to very big leads in terms of their reach, so the audiences  
29 they could aggregate to their digital channels. However, once the ABC decided to commit  
30 itself to being a digital-first organisation, it caught Fairfax quite quickly because the  
31 decision literally was, in 2015, where they started redirecting resources inside their news  
32 division, and it really took one year to run down Sydney Morning Herald, and that will  
33 bounce backwards and forwards in terms of the market. But essentially, the way in which  
34 content is distributed is more likely to affect how quickly you can grow rather than the

1 production itself.

2 Because, you know, we have print journalists writing in one publishing business and  
3 you have essentially broadcast journalists writing in another and yet through a whole  
4 variety of means, including using distribution channels, obviously managing your brand  
5 effectively in the market, you are able to grow very, very quickly, and catch up to an  
6 incumbent.

7 **MS BOUCHER:** I would just add to that in relation to the, I think it was, 2013 data around  
8 consumer news consumption and preferred products, that three years is a very long time in  
9 terms of how people have changed the way that they consume. Three years ago, our mobile  
10 audience was probably a tiny fraction, now it's more than a half of our audience every day.  
11 I think one thing we all note within the sort of digital news room, digital business, is how  
12 rapidly you can grow and how rapidly you can fall, and I would think about Facebook  
13 versus Myspace as being a perfect example of that. You know, Myspace were arguably the  
14 first movers, but they're not even in the picture any more.

15 And just a last point. All journalists work from any of the range of producers in this  
16 country. That's all produced for digital audiences first and some of that is then put back  
17 into other channels where it might be appropriate. So the newspaper, The Dominion Post  
18 that you may have read this morning, the stories in that will all be also found on Stuff and  
19 some of those will also have video elements or social elements as well, and I would say that  
20 is the same for TVNZ, for RNZ, Newshub, NZME.

21 **COMMISSIONER BEGG:** Okay. So I'll turn to NZME, then I'm going to come to staff just to  
22 check whether -- they're over the data a lot better than me so they might have some  
23 thoughts as well.

24 **MR CURRIE:** I also agree that using data from 2013, the landscape has changed very  
25 dramatically in terms of the way people -- and the brands that people are consuming. We  
26 saw during the recent earthquake, for instance, The Guardian creating a live blog using four  
27 or five of their own staff, access and editorial for New Zealanders. And while I don't have  
28 the stats as to how many New Zealanders tuned into that particular blog, it was certainly  
29 created for this local market.

30 The Daily Mail has set up operation in Australia and has a team of people there  
31 creating New Zealand news for the domestic market in New Zealand. It's very easy now  
32 for these, you know, quite major news brands and others, other start-ups, to set up a market  
33 and create news and an audience that we traditionally haven't seen as recently as three years  
34 ago.

1           The other point I'd make about just first mover, while The Herald site's been around  
2 for more than 15 years, it's really only been in the last two or three years that we've moved  
3 to a truly digital first environment and that's not just in the way that we're producing our  
4 journalism, but the culture of the news room and pulling together, in our case, one  
5 integrated news room in the last 12 months where we've seen New Zealand Herald, Radio  
6 Sport and Newstalk ZB, all of the journalists moved from two buildings into one in  
7 Auckland.

8           We've seen some good growth in the last 12 months since that digital first shift, but  
9 we were certainly not the first cab off the rank.

10 **MR MELLISOP:** I'm not sure, Commissioner Begg, if you're going to get on to barriers to  
11 expansion separately.

12 **COMMISSIONER BEGG:** I'm going to come to that quite soon but there's been a bit of blurring  
13 of the boundaries, so feel free to --

14 **MR MELLISOP:** Just one comment, that when we analyse whether there are first mover  
15 advantages, we need to remember that the issue here is what would happen if the merged  
16 entity raised price or lowered quality, so it's a dynamic question. I think that's just  
17 important to remember when thinking about what these advantages may or may not be. But  
18 we can come back to that later on.

19 **PROF PICKER:** And if I could address one issue on first mover advantages. If we're blurring as  
20 well. So if the future of online news is data driven, personalised and curated by someone at  
21 the interface, the first mover advantage on that is clearly Facebook and Google. It's not  
22 NZME, it's not Fairfax, it's not the New York Times, it's none of those. And so the  
23 unbundling of newspapers and the unbundling of content and the fact that each story is on  
24 its own and someone else has to repackage it, that's what Facebook and Google are good at  
25 and they've got a scale of operation there that no single news organisation will ever have.

26 **COMMISSIONER BEGG:** Okay. I'll just check with staff whether there's any questions.

27 **MR IRVINE:** One question; you've talked of the growth of Mediaworks/Newshub sites or Radio  
28 New Zealand/Newshub sites, how do those compare with the growth of traffic on your own  
29 sites? Is it the same in absolute terms? You've talked about percentage growth of these  
30 sites which, from the market share data we have, are starting from a very, very small base.  
31 What are the trends in the growth in traffic on your sites for you in content?

32 **MR TONG:** So for Stuff, the trend is flattening, our growth has slowed quite dramatically over  
33 the last period. You will see spikes around things like the earthquake, the Prime Minister's  
34 announcement yesterday, you know, so you'll see some spikes out of that, but in general



1 terms, it's flattened off.

2 **MR CURRIE:** And for us, our digital growth is around 20 per cent year-on-year, which as I say,  
3 it's only been in the last two or three years that we've moved to that truly digital first  
4 environment, but certainly -- and we can get you the real numbers for Radio New Zealand  
5 and One News, but they've got much higher percentages than that.

6 **MR TONG:** One other question is if there are any other parties from TVNZ or MediaWorks or  
7 Radio New Zealand that are wishing to speak on these questions at the moment?

8 **MR PATTERSON:** Ross Patterson from Minter Ellison. We've got the TV New Zealand team.  
9 We didn't introduce ourselves at the beginning, but Brett McAnulty and Cate Slater, TVNZ,  
10 and John Small from Covec who's provided an economic report on behalf of TVNZ.

11 To date, the Commission has heard from the applicants only on this issue and  
12 TVNZ's submission has been that although it is characterised by the applicants as being a  
13 major head-to-head competitor in the online digital space, it is not and will not be that, for  
14 the reasons that were set out in the submission. We've asked for a closed session at some  
15 stage today to share with the Commission updating information in relation to that, because  
16 it is commercially sensitive.

17 But, certainly, the view that we expressed in our submission was that we certainly  
18 would not be a competitive constraint on the merged entity in the online news space. So  
19 we'll share that information at a later stage. If you have any questions of TVNZ people in  
20 relation to what could be shared publicly, ask them now, but in terms of that broader  
21 picture, we'd like to leave it to that closed session.

22 **COMMISSIONER BEGG:** Okay, over to TVNZ whether there's anything they would like to  
23 say, respond to the arguments that we've heard about your competitive roll, and in  
24 particular, we're going to go on to barriers to expansion. So one of the key questions I have  
25 for everyone there is it's all very well to say that online makes it easy to expand, but it's still  
26 quite hard to make money out of it and that seems to me one of the barriers to this whole  
27 process. I'm not sure whether TVNZ have --

28 **MR PATERSON:** That's the information we'll share in the closed session.

29 **COMMISSIONER BEGG:** Okay.

30 **MS NICHOLSON:** Alex Nicholson, General Counsel for MediaWorks. I just want to respond on  
31 a couple of points, really. First of all, I'd reiterate that MediaWorks, Newshub would also  
32 express the same sentiment as TVNZ has just made which is that we do not consider  
33 ourselves to be a competitive constraint in the online news space, due to the space between  
34 Fairfax, Stuff and NZME Herald and Newshub at this stage. I also wanted to pick up on a

1 couple of points that were made.

2 First of all, in terms of the digital first focus, while of course everyone accepts and  
3 acknowledges the advantages and the opportunities in digital, the reality is that turning  
4 yourself from a TV/radio company into a digital first company is not that simple. I'd  
5 submit that a news site or a news force which is written for press is much more suitable and  
6 is much more able to manoeuvre itself into the digital world and get that head start that  
7 everyone else have achieved.

8 And that when you have your focus as TV and radio, people who are writing for  
9 TV, people who are writing for radio, it's a significantly different skill set for digital. And  
10 when I look at someone, using as an example ABC, I just would consider -- I don't know  
11 what resource ABC has, I don't know what revenue opportunities there are in the Australian  
12 market but I would suggest they're probably significantly different from what there is in  
13 New Zealand, and for a company like MediaWorks.

14 So those were the only points I wanted to make at this stage, but you're welcome to  
15 discuss further if you wanted to at any stage.

16 **COMMISSIONER BEGG:** Just a question. The parties here have presented that you guys are  
17 catching up, that Newshub, etc, has been very successful, it's only a matter of time. What's  
18 your response to that?

19 **MS NICHOLSON:** That would be lovely. I'm very flattered by all the positive comments being  
20 made about Newshub at the moment. We don't see that, I mean, the idea that we might be  
21 able to catch up in a year's time; that's not something which is currently within our, you  
22 know -- we're not relying on that, that's for sure. I think that I'm probably not the best  
23 person in terms of an expert on that one, but we certainly wouldn't see that we have any  
24 chance of catching or you know, getting up that gap any time soon.

25 **COMMISSIONER BEGG:** Thank you. Just checking, Rod Oram, if you can hear. Did you  
26 have any comments that you would like to make?

27 **MR ORAM:** Yes, I can thank you. Just very briefly on the question of new entrants, mention was  
28 made of Daily Mail, Guardian and Huffington Post going to Australia, but I think it's  
29 important to remember that that's a much larger market than New Zealand. Secondly, the  
30 Guardian had a very substantial financial backing from Graeme Wood who was the founder  
31 of wotif.com, who had failed to make his own online news business, the Global Mail work,  
32 so he backed the Guardian in 2013.

33 My own experience here in New Zealand was, in 2006, some colleagues and I had  
34 what we thought was a good proposition and raised some money, but not enough, to launch

1 a business news and events service so that didn't work. Last year, I tried again and had  
2 discussions with Penny Jones who was the head of international business development at  
3 the Guardian and I continued those discussions this year with David Monk at the Guardian  
4 who's their international news editor Asia-Pacific based in Sydney.

5 Although it was clear there was scope for content-sharing, given the great  
6 imbalance of content, i.e. a lot of Guardian global news potentially but not much  
7 contribution from New Zealand to the Guardian, there would have had to have been some  
8 commercial discussion there about the terms.

9 The first thing is I have a minor role in the news room now and I'll leave Tim  
10 Murphy and Mark Jennings to describe how that's going. But my expectation certainly  
11 would be should that get off the ground, and I make the editorial contribution that I've  
12 suggested, I would certainly be expecting very little or no pay.

13 The second point is, the discussion today so far has been very much around instant  
14 news. Indeed, some of it citizen-sourced as we hear about earthquakes and the like. But  
15 there would also need to be very important discussion about high quality analysis and  
16 opinion, both of editorial kind of the news organisations themselves and then outside  
17 opinion. I think that would be an incredibly important part of reader choice and whether or  
18 not readers would get such choice.

19 The third point I'd make is Sinead made mention of Facebook and how its  
20 algorithms determine what we see. What I was arguing in my first submission to the  
21 Commerce Commission was there is a tremendous opportunity for a media organisation in  
22 New Zealand to create an incredibly strong relationship with readers, viewers, members,  
23 whatever, here in New Zealand and give them real clarity about how they produce news  
24 and what they put to them in a way that Facebook and Google don't. That's a complete  
25 black box.

26 Indeed, we've seen, particularly during the US presidential election, this  
27 extraordinary rise of fake news. Some BuzzFeed analysis showed that that massively  
28 overtook real news on Facebook in the last couple of months before the election.

29 And I was arguing, in my submission, that there was an opportunity to create that  
30 kind of credibility in New Zealand, and indeed, perhaps the merged entity could. However,  
31 the applicants, at least the heavily redacted public version we could see, failed to make the  
32 case about how they would create that relationship, either journalistically and then feed  
33 through into advertising and thus become new and better competitors than Facebook and  
34 Google and thus therefore have a commercial future.

1           And so my concern was around the failure, and I stress this was at least in the  
2 heavily redacted public version of their application, they failed to make that case as to how  
3 they could do new, different and better and that would make them a very strong news  
4 organisation.

5 **COMMISSIONER BEGG:** Thank you. So I'll get parties at the table to comment on that, but  
6 also to comment, just to close off, really, the entry and expansion. A lot of the discussion  
7 has already been about expansion of the existing players, so the question of entry by new  
8 players, the point being made that the market in New Zealand is much smaller than  
9 Australia, and also the point that it's very hard to monetise; it's all very well to enter but to  
10 actually make money out of it is rather hard. You guys are proposing a merger for that very  
11 reason. Why would it be different for new entrants? I'd appreciate comments. Who would  
12 like to go?

13 **MS BOUCHER:** I just would like to make one comment in terms of barrier to entry. Some of the  
14 comments from TVNZ and Newshub about not seeing themselves as competitors and not  
15 catching up to us really reflect only on what they are looking at as traffic on our own sites.  
16 But if you look at Facebook and our presence on Facebook and their presence on Facebook,  
17 Facebook being a huge, you know, channel for people to only consume their news via, they  
18 have already equivalent audiences to us through those social networks. So they have  
19 already caught up to us in terms of reach via social platforms which is the most important  
20 distribution platform for the future.

21           We'd also say that with video being one of the most important ways not only for  
22 people to consume content and news in future, but also from a, monetisation point of view,  
23 they are far better placed than us to compete in that space at the moment. And if I think  
24 back to, say, the week of the earthquake, we probably produced 50 videos that week and I  
25 would say TVNZ produced 12 times that many. MediaWorks probably, you know, six or  
26 seven times that many.

27           So they can compete far better than us in the areas that are likely to be of most  
28 profound importance in the sort of coming months and years.

29 **COMMISSIONER BEGG:** Do you have any thoughts on new entry by new parties sitting  
30 overseas, the Guardian, etc coming to New Zealand? Do you see that that could be a viable  
31 economic proposition?

32 **MS BOUCHER:** Well, they obviously think so in terms of setting up major news rooms in  
33 Australia that have either staff there focused on New Zealand news or have teams here.  
34 I've read quite a few articles on the Guardian produced by their New Zealand journalists

1 here. So I think they can choose to compete in the areas that they think are the most  
2 important and valuable to them.

3 They may not choose to compete in areas like South Canterbury or, you know, Bluff  
4 where we are really trying hard to remain in those communities, but in terms of big stories  
5 on digital platforms, I think it's a very low barrier to entry. I'd again go back to someone  
6 like The Spin Off which has managed to achieve a really substantial audience and for  
7 everything I've heard from them, a pretty good business out of having a small team focused  
8 on really smart strategy about reaching a big audience.

9 **PROF PICKER:** So it seems to me you're right. What I hear you saying is we're saying, they're  
10 saying, that it's easy to produce content or it's produceable. The question is how do you  
11 make money off of it? I think that's sort of almost the biggest issue in the whole  
12 proceeding, right? So Sinead's individual filing, she says "We haven't figured out how to  
13 do that, everything's moved online and we haven't figured out how to do that".

14 I think a number of the outsiders, the academics believe in paywalls, Robin Foster  
15 talks about paywalls, I've talked about paywalls, we're the outsiders, we're the people who  
16 haven't been on the coal face, as Sinead put it, and that's right. But unless you can figure  
17 out a way to sell this content in a credible way, it's hard to see how that works. Selling it  
18 maybe solves the Facebook and Google problem. That's true for an entrant or true for an  
19 existing firm. I don't see an imbalance there, I guess is the point I want to make on that.  
20 Someone needs to figure out how to do that.

21 **MR CURRIE:** Shayne Currie here. I just wanted to raise a couple of points to answer Rod  
22 around the quality journalism comments that he made. The benefits I see of the proposed  
23 merger for journalism are in two particular areas. One is at local community regional level,  
24 where we will have the ability to preserve jobs under a merger, and that the overlap in  
25 many cases is in the main centres.

26 The other area is I personally do not believe that a paywall for commodity news will  
27 work in any market, whether it's New Zealand or overseas, but the ability for a merged  
28 company to be able to focus its attention on specialist areas of journalism. So at the  
29 moment at any particular press conference, at John Key's press conference yesterday, we  
30 saw 20 journalists from probably 12 different media organisations including the smaller  
31 ones who operate from the gallery.

32 You have to ask yourself is that the best use of resources when there's all these  
33 different outfits, including our own, who are there. Would it not be better to have two or  
34 three of your journalists of the five, say, who were there to be focusing on unique, planned,

1 exclusive news that could actually be a better sellable option on a specialist website?

2 **CHAIR:** Can I just ask a question relating to the Guardians of this world and so on. When you  
3 put together the media product offering to the New Zealanders, whatever format, I assume  
4 that, historically, you would have seen that there would have been a significant amount of  
5 national followed by a lower amount of regional and then international news, with that kind  
6 of blend that over the years is typically done.

7 Going forward, isn't that going to be a problem for the likes of the Guardian?  
8 New Zealand consumers aren't going to swing over to them if it is, you know, 90 per cent  
9 international news, 10 per cent domestic. What is the kind of blend that you would aim to  
10 strive for historically?

11 **MS BOUCHER:** I think editors are always looking for the magic perfect formula that is going to  
12 be most appealing to their audience. But one thing we realise, like it or not, is that we're  
13 actually in a competition for people's attention, and how they spend their sort of disposable  
14 time. And so on our mobile site we know that we have to have something fresh for  
15 someone who's queuing for a coffee, to be able to sort of fill in their time.

16 We know from our newspaper audiences that yes, they like to see their local news,  
17 what's happening locally, but equally, they put a huge importance on world coverage. Also  
18 on death notices and things like that, but they want the whole blend. The Guardian's  
19 audience, the Daily Mail's audience, the Huffington Post, they have grown huge  
20 international audiences because they offer very high quality journalism. Well, some of  
21 those players do. The Guardian's journalism is incredibly high quality and absorbing, and  
22 I personally, as a consumer, spend a lot of my time on those products, as well as looking at  
23 our own.

24 So I definitely see them as competition for us in terms of people's attention and their  
25 focus on news, and while we're still striving to cover all the small towns and regions and  
26 things around New Zealand, we're actually battling for the attention of people who can also  
27 look to those other areas.

28 **PROF PICKER:** The key on this is, is that it was in the old media we all got the same blend, we  
29 all got the same newspaper. That's not how online works. They give us completely  
30 different ones. The one that I get may be different than the one James gets, will be different  
31 than the one you get. It's the ability to put together individualised blends. Randy really  
32 likes stuff on the Chicago Cubs. That's the genius of online and that's, again, where the  
33 information matters so much.

34 **MR HUTCHINSON:** I think that actually is the critical point, is that curation is removed from

1 the editor because Facebook decided which news provider and which angles from each of  
2 those news providers got presented to you, and it did that. Essentially, if you imagine at the  
3 most massive amount of content, i.e. the entire world's content is being pumped into  
4 Facebook and then based on your personal preferences, the preferences of your friends, the  
5 way in which you consume content on Facebook, the way in which people who share traits  
6 with you everywhere in the world consume content on Facebook, it packaged and, you  
7 know, so completely unbundled and then rebundled your personal experience.

8 That is a deeply compelling offer to an end consumer which explains why the  
9 amount of time spent on Facebook is -- you know, I believe it's over 40 minutes versus --

10 **PROF PICKER:** 50 minutes a day is the New York Times quote.

11 **MR HUTCHINSON:** So 50 minutes a day versus 2 to 4 minutes on our own apps, for example,  
12 in a typical day. I think that huge disparity in the accumulation of attention and the fact  
13 that there is such an extraordinary focus on technology sifting and sorting and curating for  
14 you, the person, so you, the individual, it's not a capability that we have.

15 You know, I walked the length of Facebook's offices in November last year, it's like  
16 a kilometre, and there were thousands of software engineers and product managers testing  
17 ideas, most of which will never be rolled out to everyone on Facebook, but they tested it on  
18 0.01 per cent of their 2 billion people audience and found out very, very quickly whether  
19 that would increase the engagement they received, etc.

20 That is not something we have an ability to control and in fact Facebook explicitly  
21 constrain us because they have slowly pushed down the organic reach we have on  
22 Facebook. What I mean by that is we have people who like the Stuff page and in 2013  
23 approximately 12 per cent of them would have seen any article that we put up, and now it's  
24 6 per cent and that's just a deliberate pushing down of the organic reach that publishers  
25 have, for example.

26 **COMMISSIONER BEGG:** So that's a change in the algorithm?

27 **MR HUTCHINSON:** The algorithm would probably be tweaked every single day. Actually, to  
28 put it -- I don't want to use -- I will use the word "scary". It's intelligent enough to tweak  
29 itself and so it's not like the data scientists are turning dials, they're literally saying "Here is  
30 our goal. I want people to spend 2 more minutes watching video". And then the machine  
31 goes, "Here's the things that make people watch 2 more minutes of video".

32 So it's literally being trained all the time to improve the experience of users, both  
33 me personally like my news feed is very good and it shows me news I want to read,  
34 including from the Guardian and Stuff and The Herald and Newshub, actually, but what it

1 also does is push to me a whole lot of other elements that increase my levels of engagement  
2 so they have more opportunity to display advertising, they have more opportunity to  
3 understand my behaviours with regards to types of content and things shared by my friends,  
4 etc, and therefore again learn a little bit more about me.

5 **COMMISSIONER BEGG:** I'm just going to say that we've moved on to Facebook, and I think  
6 that's what we should do, so we'll seek your views on how Facebook is providing a  
7 constraint, etc.

8 **MR FOSTER:** I just wanted to interject, before moving into the Facebook discussion, I think  
9 there must be an algorithm in the room that keeps returning us to Facebook, which is  
10 secretly working on our brains. But it was just to make the point in terms of entry from  
11 international news providers, it seems to me whatever we think about Facebook, in the end,  
12 it's about who's producing the content relevant to New Zealand which is important both for  
13 competition and when we get into the discussion tomorrow, for plurality.

14 From what I hear about the financial challenges facing all news media companies  
15 around the world, I suspect there are good reasons to think that there won't be major moves  
16 by organisations like the Guardian or the Daily Mail into setting up big offices and resource  
17 bases in New Zealand. That's not something that they will see as being attractive or  
18 financial viable.

19 What they do do, and what other news organisations do, is look for chances to come  
20 in, if you like, parachuting in their journalists for big events and reporting those, and  
21 making use of those stories around the world. That's how they make their money.

22 So the earthquake was a natural example. It was big news, it was headline news in  
23 the UK, it was clearly going to be a headline news across the world and it required some  
24 coverage. But day-in day-out detailed coverage of New Zealand politics, social affairs,  
25 events, sports, that's not going to be financed by international news organisations setting up  
26 here.

27 So the critical point is, I think, how much competition is going to come from the  
28 existing established players in New Zealand, which is the discussion you were having to  
29 that point, and what the Commission has to decide is the extent to which it believes the  
30 story that there is a huge amount of potential out there from TVNZ and others, or as they  
31 seem to be saying, not a lot. But I think it's focusing away from that, that takes us away  
32 from the heart of the issue before the Commission.

### 33 **FACEBOOK**

34 **COMMISSIONER BEGG:** Thank you, I think that's useful. Okay. Facebook seems to be the



1 problem that you're all facing, it's the answer to the concerns we have it would appear, so  
2 you tell us. So I'd like to explore a little bit more. The constraint that Facebook provides to  
3 you, obviously one of the arguments you've made is that there's a lot of content served up  
4 on Facebook and to get eyeballs you have to serve up attractive content, so that's one.

5 I think I heard suggested that Facebook's algorithm affects you in terms of to get to  
6 content on to Facebook or noticed on Facebook, you might have to do certain things that  
7 could affect the quality of your content. So I'd be interested to hear from that. But just an  
8 open invitation to start with to describe what you think the role of Facebook is in  
9 constraining you before the merger and how that constraint would continue to apply post  
10 the merger. I'm particularly interested in quality of your output because that's one of the  
11 things that we think could be reduced by the merger.

12 **MR TONG:** If I could take that question first in terms of the commercial side of it and then  
13 maybe Sinead can comment on the quality. So the first and most important point is that  
14 Facebook and Google are taking most of the money that we use to pay for the journalism.  
15 So that is a material constraint. Their growth in the last month, data that we got two to  
16 three days ago, was 60 per cent, and despite our best efforts, and in fact, that we go to all  
17 the parties --

18 **COMMISSIONER BEGG:** So that's 60 per cent of the total advertising spend in New Zealand?

19 **MR TONG:** Their growth, month-on-month, yes.

20 **COMMISSIONER BEGG:** Their growth, 60 per cent growth.

21 **MR TONG:** Yes, so despite all the best efforts of the parties, all the parties in the room, we're  
22 going backwards against those guys, and they do that with three people in New Zealand.  
23 So it comes to the second point that I would make, and I do agree with the comments that  
24 were made around the international players. It's more the business model that they can  
25 deploy using Facebook. So in the case of the Huffington Post, they have approximately  
26 800 journalists, and yet they are the largest news site in the world. We at Fairfax have 540  
27 for a population of 4.5 million which we jealously guard because we know that they do a  
28 great job and we're trying to find a way to pay for them.

29 So the model that Facebook allows is for -- and in the case of Huffington Post in  
30 Australia, they have seven journalists on the ground who produce seven to 10 stories a day  
31 each and that gives them enough local content to take some audience away, not enough to  
32 be the competitor, but it's about being chipped away at the edges which reduces your ability  
33 to monetise the audience on your own platforms because it's Facebook and Google that are  
34 essentially taking the lion's share. The data that we provided, I think our combined share in

1 that same market was around 11 per cent of the revenue and declining.

2 So that's one of the key constraints that Facebook has on us, is that by taking the  
3 revenue that we have otherwise used to pay for the journalism, we're struggling to continue  
4 to operate our business. I'll ask Sinead to comment on the quality.

5 **COMMISSIONER BEGG:** Just before you go, does Facebook pay you anything for the content  
6 that comes --

7 **MR TONG:** [Shakes head].

8 **COMMISSIONER BEGG:** No, you don't get any share of their ad revenue?

9 **MR TONG:** No. What we get is some audience from them, but -- and Robert is better qualified  
10 than I to speak on this -- essentially that audience is not as high a quality and therefore in  
11 terms of how you can be repatriated in terms of through your advertising, you don't get the  
12 same sort of return as you would, for instance, someone that's a loyal member of Stuff, just  
13 simply because you're unable to provide an advertiser with specifics around that individual.  
14 So we get some audience from them and that's how growth typically is now driven. But no,  
15 there's no other financial return.

16 **MS BOUCHER:** Just one aspect of Facebook's constraint on us in terms of, I guess, of quality, is  
17 not so much Facebook, the company itself, but it's Facebook, the community. So the social  
18 media platforms are a major check on us in terms of accuracy, fairness, balance. If we ever  
19 printed something or published something that has an error in it, that is perceived to be too  
20 far one side or too far the other, we certainly hear about it from the moment we publish,  
21 through social and that's Facebook, Twitter, all sorts of things.

22 That is, you know, a major impact on how we preserve the quality of what we do.  
23 But the flip-side of it is, back to Simon, the reality is we are a commercial business and we  
24 need to have money to fund the journalism that's at the heart of what we do. We exist to  
25 serve New Zealanders with high quality New Zealand journalism, and the realities of that  
26 are that without the revenue to do that, we will no longer be able to maintain that.

27 So the Facebook dynamic is complex but inescapable for us at every level of our  
28 business. So it provides a way for us to source news, to gauge the mood of what people are  
29 feeling, to pick up news tips and story ideas and all those sorts of things because it is really  
30 the place where people are living, living out their lives, and it certainly has a huge impact  
31 on us being able to be picked up if anything that we publish is wrong or off beat or off  
32 balance, and to be able to respond accordingly, compared to the old days where you had to  
33 wait 24 hours after you published a newspaper or someone might ring you or submit a letter  
34 or something like that.

1 **MR BOGGS:** Just with regard to quality and being able to maintain that quality using Facebook  
2 as a distribution channel, for example, at NZME we've got an internal target of having  
3 25 per cent of our content being planned and unique. So it's not John Key announcing that  
4 he's stepping down, because we didn't know about it and it will never be unique to us. So  
5 from a content perspective, 25 per cent is the target that we're aiming to get to and we're  
6 moving towards that. We're currently at about half of that.

7 So the rest of that content is likely to be with Fairfax, likely to be with MediaWorks,  
8 much of it will likely be with the Guardian and you can get that from many, many other  
9 providers on Facebook. We buy a whole lot of our content, so again, we may well buy  
10 from the Guardian, for example, and many others around the world to actually access their  
11 content.

12 So what we try and do, as I say, is have as much as possible planned and unique to  
13 us. We had a story last week titled "Black Gold". It was about the trade of human hair  
14 from China. So we make that to be a very deep story, full of video, full of engagement,  
15 whether it be with data that we can access through our data journalism team, to get a much  
16 better engagement and therefore use other platforms to try and bring the audience to us.

17 So the ability for us to be able to have less on the transactional, non-unique and less  
18 resource put into that actually gives us the ability to actually then have more planned and  
19 unique, which is a very big focus for us. That's the way we see that we'll be able to  
20 continue to get the engagement, continue to have people on Facebook, for example, want to  
21 come and read the content that we produce by our storytelling.

22 **MR CURRIE:** Yeah, and I think just to -- there's some key facts around Facebook. It is the  
23 world's biggest news site and Mark Zuckerberg, founder of Facebook, is by far the world's  
24 most powerful editor. That's a point raised by many other media organisations around the  
25 world.

26 The other thing about Facebook is they hold data on our audience and their habits  
27 that we don't have because of the funnel upon which our audience is reading articles within  
28 the Facebook community. So, for instance, Instant Articles which were established earlier  
29 this year or late last year, is our journalism but harboured solely within the Facebook  
30 environment on the basis it's a -- well, it is, it's a beautiful user experience, but Facebook  
31 holds all of that data on the audience, knows their habits, knows what they'll read next and  
32 then bases -- you know, that's where the algorithm then kicks in.

33 You and I and everybody in this room who is on Facebook, our news feeds are all  
34 different based on our previous reading habits. Facebook's big goal obviously is to keep

1 people within that environment rather than feeding it out to news organisations and media  
2 websites like ourselves, and at last count I think 1.4 billion plus people on Facebook, it's a  
3 phenomenal beast, and it is absolutely 100 per cent our major competitor and constraint.

4 **MS JUDKINS:** Just to reiterate that, in the first nine months of this year, the SMI data indicates  
5 that 81 cents out of every incremental dollar that was spent on online advertising in  
6 New Zealand went to Google and Facebook. The amounts that they can yield from the data  
7 and the insights that they have makes it such a valuable proposition for advertisers trying to  
8 target direct audiences, that they are a very formidable competitor in that respect.

9 **COMMISSIONER BEGG:** The competition from content providers on Facebook, you're saying  
10 that after the merger, that that will provide a constraint on you and will drive quality, but  
11 I suppose that raises the question of what quality is. Is it going to drive you to have more  
12 cat videos on your websites to compete with what's being served up on Facebook? Or you  
13 know, is it going to force you to produce good quality journalism? Are you saying that  
14 your prime competitor is not having any affect at all on the quality of your journalism? I'll  
15 come to someone in the back there once I've heard from you, if that's okay.

16 **MR CURRIE:** Shayne Currie here. I think every news room and editor in the country is driving  
17 to produce as much quality journalism as possible. In our own case, as Michael stated, we  
18 aim to have at least a quarter of all of our journalism and content to be that planned, unique  
19 and in the case last week of "Black Gold", that took three months to investigate to travel to  
20 China for two of our journalists. Even though it was subsidised by an Asian Foundation  
21 grant, it was very expensive piece of journalism but an amazing piece of work at the same  
22 time. We want to do much more of that.

23 A lot of people's views on the quality of journalism in this country comes down to  
24 the first 12 stories on a home page or what might be coming through your Facebook  
25 algorithm. That's like an iceberg, that's the 10 per cent of what lies beneath. There's 90 per  
26 cent other great content, whether it's at regional or local community level, great work that  
27 goes on every minute of the day in this country, not just from our organisations. But people  
28 talk about cat videos, because that's what they click on, unfortunately, and as much as we  
29 would love the 25 per cent to be clicked on a lot more, we still strive to produce that  
30 content, and to continue to strive to hit that level at least of a quarter.

31 **COMMISSIONER BEGG:** So you don't think, though, that that striving to achieve that  
32 25 per cent of quality product, is that not driven by your competitors? Is this just  
33 something journalists like to do?

34 **MR CURRIE:** Yes, even within our own news room, journalists are ultra-competitive. They

1 want that front page lead spot or the top spot on the home page, to have their story leading  
2 the Newstalk ZB news on the hour. So there's both internal and external competitor sort of  
3 positions going on, and certainly what we see coming out of Radio New Zealand,  
4 Television New Zealand, Fairfax and MediaWorks certainly drive this, but not just them,  
5 you know, The Spin Off and the style of writing that comes from there certainly makes us  
6 strive to ensure that our writers are the best in the stable that we have in New Zealand.

7 **COMMISSIONER BEGG:** So that's almost, I think I'm hearing you say, that impetus is really  
8 separate from the Facebook constraint because the Facebook constraint might drive you to  
9 more cat videos and less quality.

10 **MR CURRIE:** Well, there's a saying that the best Facebook stories in terms of shares are stories  
11 and journalism based on emotion. That's more human interest type stories, although you  
12 know, a major news event like an earthquake or John Key resigning will always get  
13 thousands of shares on Facebook. But generally speaking, emotion drives a lot of the  
14 Facebook content.

15 It's not the kind of -- you know, we're always striving to personalise our stories and  
16 so forth, but the way the Facebook algorithm works, it's not what drives our kind of desire  
17 to build up our portfolio of great journalism.

18 **COMMISSIONER BEGG:** Thank you. Conscious of the time, but I'd ask that the fellow from  
19 the back, can you identify yourself?

20 **MR CREWDSON:** I'm Patrick Crewdson, I'm the editor of Stuff. In terms of the point of how  
21 Facebook acts as a constraint on quality, Facebook's interest is obviously in having users  
22 that remain on Facebook for a long time. So their algorithm exists to serve content that  
23 readers are going to find valuable. Over the last few years they've made a number of public  
24 pronouncements about how they shape that algorithm, to favour content that users are going  
25 to engage with deeply, either by reading it in depth, by choosing to share it, by reacting to it  
26 with "likes" or the other reactions Facebook now allows, or by commenting on it.

27 They've specifically outlined measures to reduce the amount of click-bait that they  
28 serve. There have been, internationally, businesses that have been set up, risen to  
29 prominence on the back of Facebook's algorithm and then had their fortunes plummet when  
30 the algorithm changed. A good example is Upworthy which existed to promote that sort of  
31 cat video click-bait, and had a brief moment in the sun and then failed once that algorithm  
32 changed because Facebook was looking for content that users would engage with more  
33 deeply, rather than content that they would find superficially appealing but ultimately  
34 unsatisfying.

1           So I think in that way, Facebook incentivises us, if we're attempting to reach an  
2 audience on Facebook, it incentivises to us produce content that people are going to engage  
3 with in-depth either by if it's an article, consuming it, spending time on that page; if it's a  
4 video that we might produce directly on Facebook, via Facebook Live, by watching along a  
5 significant amount of that video, by sharing it, by commenting on it, by liking on it.

6           So it incentivises us to produce content that people are going to find valuable which  
7 we would consider as high quality content, and I would also say that while cat videos and  
8 the Kardashians are a part of our mix, a small part, if you look at the stories that have  
9 performed particularly well on Facebook this year but also the content that's performed well  
10 on our site, that's not in the top echelon of content, it's the relevant local journalism that we  
11 provide that is far and away the most popular content.

12 **MS BOUCHER:** I could just add to that, if it's helpful. We recently actually looked back on what  
13 was the -- out of all the top news stories of the year, what was the mix in terms of what we  
14 would call hard news versus celebrity news. Of the top 15 stories, four had any relevance  
15 to celebrity at all. They were things like Prince and David Bowie's death, which were  
16 obviously huge stories, actually not trashy sort of celebrity-driven stories.

17           So we know that our audience wants high quality news, whether it's local news or  
18 national news or international news. They do not expect from us to deliver click-bait and  
19 that is not a term that is ever discussed in any way, aspirational way, within any of our  
20 news rooms at the moment. I don't think it reflects what we produce out of our news rooms  
21 now or would ever strive to produce, because it's actually a road to nowhere in terms of  
22 what your audience doesn't want that from you, you start to deliver that unsatisfying  
23 experience to them, they go somewhere else, your advertisers go somewhere else.

24 **COMMISSIONER BEGG:** Okay. I think that we're scheduled to have a break here for morning  
25 tea. I think when we come back we've scheduled for the advertising markets, but I think we  
26 can do a little bit more on Facebook before we get to advertising markets, which I didn't  
27 have so many questions about. So we'll come back at 11.20.

28 **Adjournment from 11.05 am to 11.23 am**

29 **COMMISSIONER BEGG:** Welcome back. As I said, I thought we'd continue with a bit of  
30 discussion about Facebook and its role before moving on to competition in the advertising  
31 market. So I thought I'd get Robin Foster first of all to make some comments. Because he  
32 was sitting over at that desk, I missed that he had some thoughts, so if he can make some  
33 comments, then we'll have some further discussion.

34 **MR FOSTER:** Thank you very much. I just wanted to pick up the point about Facebook and

1 indeed other intermediaries as competitors because while I would certainly not downplay  
2 the importance of intermediaries in this marketplace, and indeed, have written extensively  
3 about them and the impacts they will have on news, media, I think just using the word  
4 "competitor" can oversimplify the issue, and it's important to think about what aspects of  
5 competition we're talking about and indeed where those distributors may also be acting to  
6 support the news media market as well as competing against it.

7           Clearly, there are issues around advertising revenue, but if we're thinking about  
8 competition for content, I think it's more helpful to think of Facebook, Google and other  
9 intermediaries as distributors rather than as directly competition, directly competing content  
10 providers.

11           So what they don't do is produce a lot of news content themselves. They do provide  
12 access to the news content that news media providers supply, and of course they also,  
13 around the edges, increase the availability of news from other sources. So to that extent I  
14 think we probably all agree, in a social media world, there is more available, more news  
15 output of various types available through those platforms.

16           But I don't think we should get carried away by the assumption that everything is  
17 about social media. I always quite like to introduce the odd fact into the discussion, and  
18 every year, the Reuters Institute in Oxford, which I'm associated with, produces its surveys  
19 of news consumption around the world. And it's interesting that when you look at the data  
20 that they have compiled for 2016 and look at growth of social media as a main source of  
21 news across different countries, in fact there's quite a range in the lowest markets, so the  
22 Scandinavian markets like Finland where social media accounts for only 5 per cent of news  
23 consumption, main news consumption. The highest are in fact I think in Ireland, the US  
24 and Portugal where it rises to about 15 per cent.

25           So although if you ask about usage of news in general, you find that social media is  
26 used by many more than those figures would suggest, 40 to 45 per cent. As a main source  
27 of news it is still down in the single figures for many countries. That doesn't mean it's not  
28 going to grow but I just want to make the point that social media is not the only story.

29           Of course in the end, a lot of this is about what sort of content is available on those  
30 platforms. The other sort of, if you like, interesting factoid, if we turn to Google which was  
31 once thought to be the main threat to news supply, I did a search on Google News for this  
32 morning's top news stories, and the research shows most people don't get much far beyond  
33 the top ten stories when they do a news search.

34           It seems this morning, if this is of any relevance to the more general usage of news,

1 six out of the ten stories that I Googled were from the mainstream New Zealand news  
2 providers, the New Zealand Herald, Stuff, TVNZ. The other four are actually all overseas  
3 stories, and looking at specifically stories about the resignation of the Prime Minister,  
4 again, six out of the top ten were from the New Zealand mainstream providers.

5 So I guess the message is all is not lost because the brands which are attached to  
6 credibility and authority and the supply of local news can cut through in those social media  
7 and search environments, and the message that I would send as part of this discussion is  
8 that while clearly they are competitors in some ways, they are also potentially very valuable  
9 routes for getting content through to end-users. It's not as simple as just saying these are  
10 our competitors or our big main competitors.

11 **COMMISSIONER BEGG:** Thank you. I'll perhaps turn to the other experts, if they've got any  
12 comments that they'd like to make.

13 **PROF PICKER:** Well, so on that particular story about the role of the major brands, I think the  
14 Google Spain episode really cuts against that. So the Google Spain episode is governments  
15 in the EU, generally in the EU itself, Spain and Germany, have been looking for ways to  
16 figure out how to get money to their media organisations, so they've passed different  
17 legislation at the local level. Now the EU's got a new draft copyright directive.

18 What happens in Google Spain is, is there is a change in the underlying law.  
19 Google News stops operating as they were and then we've got sort of a nice natural  
20 experiment as to the role that they're playing. What happens is when Google Spain  
21 stopped, Google News stopped showing stories in Spain, the overall traffic going to media  
22 sites drops by, I think, roughly 16 per cent, so there's a meaningful number there.

23 But what's really interesting about it is, is that the actual traffic going to the brands  
24 goes up, because brands are powerful. But what it also tells you -- and I don't want to jump  
25 ahead, this is tomorrow -- it tells you that Google was doing a great job of distributing  
26 smaller voices and making those voices visible and that's the plurality point. I'll stop, that's  
27 tomorrow, but that's where we're going to go tomorrow.

28 **COMMISSIONER BEGG:** Okay, thank you. John Small, if you come to the microphone?

29 **DR SMALL:** It's long way to walk to make a small point, but I just wanted to pick up on the  
30 Facebook discussion which stemmed really as I heard it from the discussion about where's  
31 all our money going and how can we -- that's the problem that is being faced by the  
32 applicants, as Simon Tong put it.

33 And so I think that's the thing that I haven't heard really a discussion of and I just  
34 want to make the fairly obvious point, is that one way to deal with or address the Facebook



1 problem as it relates to revenue, is post-merger, to implement some kind of a paywall and  
2 we all know that there's lots of different styles of paywall, like the New York Times version  
3 or the NBR version. So that's the only point I wanted to make, in a post-merger situation,  
4 that is potentially an answer.

5 **COMMISSIONER BEGG:** I think that's an interesting point because, Professor Picker, I think  
6 you point out in both your papers that if content is driven by advertisers -- if advertisers are  
7 the only ones paying -- then the content is driven by their needs which might be more of  
8 click-bait and less of quality. So that also suggests that maybe the Facebook constraint  
9 might not necessarily drive you to what you want.

10 I think you said as an introduction that actually the exerts are in favour of paywalls.  
11 So I'd be a bit interested in your comments on that. And then the parties, I think, are  
12 arguing that they won't introduce paywalls or that certainly for commodity news, they  
13 wouldn't. But I'd be interested in their comments in terms of a paywall at providing -- and  
14 it might be trespassing into later sessions -- the incentives to provide the output that readers  
15 want as opposed to what advertisers want.

16 **PROF PICKER:** Okay, good. I wrote it and I wasn't sure anyone read it, so I don't know if  
17 anyone buys it, they don't buy it, so I'll just say that very clearly. But I think there's  
18 information in the Draft Determination which makes this point as well. So at some point in  
19 the Draft Determination, you talked about what RNZ does and the fact that they are not  
20 advertising supported in the kinds of stories that they're able to do because of that.  
21 I thought that matched the framework I was talking about in a pretty clear fashion. So I  
22 was comforted by that.

23 Look, I read the submissions by the journalists and it's such a powerful sense of  
24 professional pride in what they do, I just so admire that, and so the sense that they're not  
25 affected by these issues, but I also pick up my newspapers. I get three newspapers at home,  
26 one at the law school. There's all sorts of content in the Financial Times, how to spend it  
27 section, which is all obviously advertising-driven. I'm teaching a seminar next quarter on  
28 monetising content. There's a story about House of Cards in one of the books I'm reading,  
29 that they were able to put a story in an early episode of it where Kevin Spacey strangles a  
30 dog. They could not have done that if it had been advertising supported, but as soon as  
31 you're not having advertisers, then if that's story telling, that's the story you tell.

32 So I think it's all subtle, I think you have to go looking for it, but I think you see it in  
33 the RNZ situation, I think you see it there and I think you see it in -- look at newspapers  
34 like the New York Times with these fancy glossies. I'm not against that, they've got to pay

1 bills. So I do think that matters and I do think what's attractive about paywalls is precisely  
2 in the way, if they would work, I'm told they wouldn't, maybe more specialised content,  
3 that's what Shayne said, then that would be great.

4 The other piece of that, and I don't think I would say this, but I think that rebundles  
5 content, if someone's paying, you know, buying a lump sum amount, as it were. I think that  
6 rebundling of content solves some of the curation. Rebundling is another way of saying we  
7 get to curate what you see. Once I've bought in and I'm paying you \$10 a month, whatever  
8 it is, then I'm saying give me everything you've got.

9 **COMMISSIONER BEGG:** If advertising is driving the type of content that's being provided and  
10 we have concerns that that might not meet everybody's definition of quality, in those  
11 circumstances, do you think the competition between NZME and Fairfax is more important,  
12 in fact, than if you had a paywall, or it just as important -- if the model is advertiser funding  
13 before and after the merger, do you think that the loss of the competition between the  
14 parties, which could be driving this pride in journalism and so on, is actually a concern?

15 **PROF PICKER:** As an expert I shouldn't say I don't know but I'll say I don't know. So, I mean,  
16 we had a lively discussion yesterday about competition, because when they say they don't  
17 compete and that it's all driven by journalistic instincts, as competition people we sort of,  
18 "What? That can't be right". So not to say it doesn't matter, but I get that.

19 At the same time, the second half of what I wrote in my first submission was very  
20 much focused on the fact that this is a shared news ecosystem and it's not clear to me that --  
21 there are pathologies in competition sometimes in those situations, especially as soon as --  
22 now I'll sound like an economist -- especially as you're talking about public goods and the  
23 like.

24 I think there can be situations where, moving to monopoly structures solves some of  
25 the concerns about everyone rushing 20 people over to the Prime Minister resigning  
26 yesterday. It would have been better to have 12 of those people somewhere else, and  
27 someone who had a bigger market share might do better on that.

28 **CHAIR:** We just heard in that last session that one of the two main entities has a planned, unique  
29 attempt to produce 25 per cent of quality content. Does that sound like competition to you?

30 **PROF PICKER:** Well, that sounds like someone who's trying to find a market niche and maybe  
31 that's competition, yes. So maybe that's competition.

32 **COMMISSIONER BEGG:** I'll just go back to our expert and then I'll ask the parties to  
33 comment. Did you have any further thoughts on those?

34 **MR FOSTER:** This could be one of those very dangerous areas where your experts largely agree

1 with each other, so you should be very worried, I think. I don't have a dogmatic belief in  
2 paywalls, if that was what you were suggesting, but I think most media organisations would  
3 be looking at paywalls as one of their options for the future. It's easier the more valuable  
4 specialist content you have because people are prepared to pay for that. It's harder if you're  
5 providing so-called commodity news or general entertainment news of which there is a lot  
6 still free and that makes it very difficult. But it's not a bad thing in itself.

7 As far as advertising and what sort of quality that drives, my sense is that the more  
8 different media organisations you have in the market, even if they're dependent on  
9 advertising, the more likely you are to get more and varied responses to ways of serving  
10 readers and hence bringing readers to advertisers. So to that extent I think competition  
11 ought to be working.

12 From my own experience, just looking at the UK newspaper media market, every so  
13 often one of the big newspapers will spend a lot of money on a piece of investigative  
14 journalism or a big piece of celebrity exposure. Whether you think that's quality or not, it's  
15 about what readers want and they're investing money to get more readers and pull readers  
16 away from their competitors. That's the competitive process in action.

17 **MS BOUCHER:** Just to speak to the point about how advertisers might influence editorial  
18 choices or quality. The news room operates in complete oblivion to what's going on in the  
19 advertising side of the business. You could ask any journalist in the business to name our  
20 top ten advertisers and they might be able to hazard a guess at one and then we might have  
21 to tell them that person pulled out a year ago. It's just not a factor on how journalists cover  
22 news.

23 As editors, we often have to deal with complaints from advertisers who don't like  
24 the way that we've covered stories that relate to them or relate to their business. We have  
25 over the years had numerous threats to withdraw advertising money or sometimes actually  
26 carry through if we would not temper our editorial coverage to be sort of more favourable  
27 to them. That has never, ever happened and never will.

28 It's just completely anti to our charter, editorial charter, which protects journalists  
29 from any kind of commercial influence or political influence on us. We always listen and  
30 give people an ear, like we would any member of the community, but we would never alter  
31 the tone or substance of any story to be more favourable to advertisers in any way.

32 So I might just ask Joanna Norris who probably has some very close experience of  
33 how to deal with this.

34 **MS NORRIS:** Yes. Look, I mean, these are scenarios that we face all of the time as editors.

1 I want to be very clear with the Commission that our mission as editors is to serve the  
2 public interest. It's not competition with Shayne's team that drives me and my team to do  
3 stories which we believe serves the public interest. If I think about the three major  
4 investigations we've done in the past few months, we've done investigations into the  
5 degradation of water quality across the South Island, we've looked at child abuse, we've  
6 looked at the illegal distribution of synthetic cannabis. We do those things because we  
7 believe it serves the public interest.

8 In further supporting that role that we have as editors, it's enshrined in our training,  
9 it's enshrined in our code of conduct and it's enshrined in our day-to-day practice. So be  
10 very clear about this concept that somehow because Shayne's team up the road may or may  
11 not be doing these stories, that is absolutely not what drives us. It is the public interest and  
12 our mission is to serve the public interest for the people of New Zealand.

13 **MR TONG:** I'd maybe just like to bring us back to where we started which was the Facebook  
14 point and to the points Mr Foster raised. We have never suggested that we compete with  
15 Facebook on the creation of content. What we're saying is we compete with them for the  
16 advertising dollar which is the predominant revenue stream that we have and that's our  
17 definition of competition.

18 If you have someone that's taking 80 cents in the dollar of a market that you operate  
19 in, you would otherwise consider that organisation a competitor. So that would be the first  
20 point that I'd make.

21 The second thing is on the paywall. The Commission has seen the evidence from  
22 Fairfax over a number of years on the modelling that we've done around the paywall. We  
23 also have the experience of Australia and we've looked very wide, and it is very clear to us  
24 from our modelling that unless we were to charge a significant sum of money, we would  
25 lose far more on the advertising side than we would gain. And you've seen our material in  
26 this regard. That situation hasn't changed, it is the nature of a market of this size.

27 To the point that Michael made, and Shayne has made a couple of times, there may  
28 be specialist areas where there's an opportunity, but you need to understand the scale of  
29 New Zealand; it's two men and a dog in some cases that you're talking about that are in  
30 specialist areas where people are willing to pay. It's very clear that if we were to create a  
31 paywall for general news that that would create a fantastic opportunity for our competitors,  
32 Television New Zealand and MediaWorks, to generate larger audiences of what is  
33 essentially the core news that is provided.

34 So there's no maths that I've seen after four or five years of the Australian example

1 and all the modelling we've done that suggests that a paywall for general news will work.

2 **MS KEENE:** I should also just very briefly add, in relation to the Commission's interviews in its  
3 market investigation process that if the Commission were considering forming a view in its  
4 final decision that a paywall is likely, it does need to reflect that this is a New Zealand  
5 market and reflect the views that it received in that market investigation process of the  
6 likelihood of that happening.

7 **COMMISSIONER BEGG:** We'll consider that and also the submissions that have been made  
8 that a paywall actually delivers a net benefit, it's not actually a detriment. There have been  
9 arguments made along those lines. So NZME, any thoughts before I ask staff whether they  
10 have any particular questions they'd like to put on this reader side?

11 **MR CURRIE:** I'll back up completely Joanna's point about operating in the public interest. I  
12 think any journalist on the news room floor who talk about advertisers and not knowing any  
13 pressure that comes upon us or anything like that, they certainly don't, they don't know who  
14 our key advertisers are, but they also, I'd hazard a guess, wouldn't know who our owners  
15 are and the break-down of our shareholders.

16 They're there, they enter this profession, a lot of them, for their lives, to operate in  
17 the public interest, to fight for New Zealanders and the public good, and what we're trying  
18 to reiterate here and create, I guess, is a sustainable business model, to be able to continue  
19 to operate right down to the grassroots level in communities and regions and all parts of the  
20 country so that those journalists can continue in that profession.

21 The only other point I wanted to raise on the Reuters Institute report that was cited  
22 just briefly before around social media, this was a part of my studies when I was in  
23 Cambridge earlier this year. That same report shows that more than a quarter of 18 to  
24 24-year olds now say social media is their main source of news and that's out-stripped  
25 television for the first time.

26 So while we're talking about the here and now, we're actually looking five, ten years  
27 ahead in the future behaviour of audiences. I think that's a really critical point. We've seen  
28 a huge growth in social media traffic, but there is a torrent to come.

29 **MR BOGGS:** Michael Boggs. I wonder if I can add a couple of things to that. Firstly, just  
30 coming back to where people get their news from. We've heard it's very small, single  
31 percentages around a number of the countries that were talked about, but in fact people get  
32 them from many, many places. In fact, some of the stats say that, well, 25 per cent of  
33 people get their news from online. In fact, 21 per cent of them get it from television. So  
34 those are very much main sources of news.

1 We heard earlier today that it's difficult to people to transition from writing for  
2 television or for writing for radio to then be able to write for digital or newspapers. We've  
3 done that as part of bringing NZME together as a business over the last 18 months. People  
4 who were previously Newstalk ZB journalists in fact at that time were writing for Newstalk  
5 ZB website, and they also now write for the newspapers.

6 So if you focus on it, it can be done. So maybe some of the examples we're seeing  
7 are about organisations that are much, much bigger than us globally versus the size and the  
8 scale and the focus that we can put it on businesses here in New Zealand.

9 If I can also come back to on the point of that advertiser influence on stories.  
10 Personally, I've been called a number of times by advertisers, "We're pulling the money".  
11 There's only two questions I ever ask them. One, "is the story accurate?" And two, "did  
12 you get a chance to have your say?" If the answer is no to either of those, then that's the  
13 only time I would ever talk to Shayne around did we follow the appropriate process and our  
14 code of conduct? Other than that, it's the absolute stand-off from myself and the  
15 corporation to leave Shayne and his team to actually write what's best for the audience and  
16 what's best content that we can produce overall.

17 **COMMISSIONER BEGG:** Just intervening, I think Professor Picker's not suggesting that you're  
18 going to devise content just to not offend your advertisers, I think it's more what delivers  
19 the clicks and the viewings that is his point. But, I mean, that is a separate point, and  
20 I know Mark is going to be asking questions about that in the plurality.

21 **MS BOUCHER:** I come back to the point that what does drive our audience is hard, serious  
22 quality news, it is definitely not cat videos or the like. In fact, a lot of our advertisers want  
23 to advertise on us because we provide that high quality, independent, credible news. They  
24 like to be associated with that sort of -- and the audience that that brings. You could look at  
25 our sort of metrics on any given day and you would see that the top stories by audience  
26 consumption are all journalistic stories, not celebrity trashy stories at all.

27 So I actually think, if we went away from that, we would lose readers; therefore we  
28 would lose advertisers; therefore we would lose the ability to find the journalists that  
29 produce that work in the first place.

30 **COMMISSIONER BEGG:** Okay, can I just ask my colleagues if they've got any questions then  
31 I'll go to staff.

32 **MR IRVINE:** Just a couple of questions, one on content format, so moving away from the  
33 distribution layer and Facebook and whatever and getting upstream to the creation of news  
34 content, or journalistic content. In the Draft Determination, we talk about text-based

1 content versus video-based content versus audio content.

2 I was interested in any comments from either the merging parties or any other media  
3 organisations here about the relative strengths or weaknesses of the different formats in  
4 telling different stories or preference by consumers. So whether in some stories there may  
5 be a more of a preference for video or in other stories there's more of a preference for  
6 text-based content. Also looking historically, TV or video content has always been freely  
7 available in news, radio has always been available free, and yet at least until now you've  
8 always been able to charge for text-based print content, when arguably, there's some  
9 cross-over between what's been produced.

10 So is there something special or specific that's preferred by consumers in terms of  
11 reading news as opposed to watching video clips or listening to audio?

12 **MS BOUCHER:** We know that video is growing faster than any other kind of content format that  
13 we could produce. So there is a premium audience demand for video story telling. We are  
14 all trying to invest heavily in producing that. The news room, I would say all journalists in  
15 New Zealand are trained to produce all kinds of formats of news now and have been for  
16 several years.

17 They are probably quite different to, say, the UK market where I have worked  
18 myself. People tend to either specialise in TV or print or whatever. Here, everybody  
19 moves between the news organisations. We ourselves hired an investigative team who had  
20 come straight from a MediaWorks broadcast format. So the movement of journalists  
21 between the types of organisations does have an influence on the type of content they're  
22 each able to produce.

23 **MR IRVINE:** My question is perhaps more from the consumer side.

24 **MS BOUCHER:** From the consumer point of view, so we know that, basically, when something  
25 is a visual story, visual material goes really well. So if something is a dry -- you know, a  
26 report of a report or something, that there's no point trying to make a video out of  
27 something that doesn't look visually appealing.

28 So it really comes down to how the news room determines what is the most  
29 appropriate way to tell that story, that's going to be the most appealing way and informative  
30 and relevant way to the audience. And the Kaikoura earthquakes, we couldn't get enough  
31 video obviously because people wanted to see the massive land shifts and you know, the  
32 landslides and things. You can't convey that in the same way when you're trying to write  
33 about it.

34 Obviously, a newspaper can't have video, it's just the format that it's in. But

1           wherever possible we prefer to give people a video format if it's a visual story and our  
2 consumers want that. Even in what might be, you know, traditionally called long form, you  
3 know, the types of big feature articles you would have read in a newspaper once upon a  
4 time, in the digital point of view, now we know people want to be able to have interactive  
5 elements with those, they want to be able to see a video of the person that you've  
6 interviewed at length, they want to be able to interact with a graph that might be dynamic,  
7 rather than just read about the kind of points that are in it.

8           So we sort of judge that by each story, but I'd say the overall trend is far more  
9 towards video and visual consumption from the audience's point of view.

10 **MR IRVINE:** Sorry, I will let others answer that as well, but just following on that one point  
11 about videos growing, are you saying that text is falling? Are people switching from one to  
12 the other or is text-based stuff staying strong?

13 **MS BOUCHER:** Newspapers are falling, because people are switching to --

14 **MR IRVINE:** Print is text-based.

15 **MS BOUCHER:** Yeah, but print is text-based, largely. The digital medium that we all compete  
16 in is a dynamic mix of many types of content. You can't really just separate one out from  
17 the other because people expect to be able to consume stories in a whole lot of different  
18 ways. They want video, they want to be able to interact with it, do something with it, or get  
19 something personalised back, they want to be able to comment on it or share it.

20           So in the digital world now there is no market for specifically text news versus  
21 video news versus cartoons or whatever other sort of format you might want to say.  
22 Everything is sort of blended into how's the best way to tell the story depending on what it  
23 is and can we produce a visual video component of it if at all possible because that's where  
24 the audience demand is growing.

25 **MR TONG:** Reuben, if I could add something to that. Technology has created a situation where  
26 video, I mean, is expected and natural. Not only in terms of people videoing themselves, so  
27 their expectation of what you can do with a phone, but also things like for instance the UFB  
28 and the success of the roll-out creates the situation where the technology enables it.

29           So from my perspective it's very clear that video and mobile are the predominant  
30 ways in which people will consume content. I have children in their 20s, they don't look at  
31 anything else because that's the technology they've grown up and how they expect to  
32 consume content. It's very clear.

33 **MS CSORGO:** Sorry, can I just ask a follow-up question on that, because I'd be interested in  
34 hearing both of your perspectives on this. You had indicated you are making these



1 investments in video interaction, high quality serious journalism. My question is just how  
2 much is that costing you?

3 **MS BOUCHER:** Is the CFO here?

4 **MR CURRIE:** It's expensive, and it's not just expensive in terms of money but in terms of  
5 reporters and the time and the effort required. At NZME, on a lot of our assignments  
6 before the reporter or the journalist even walks out the door, we say what's the best way of  
7 telling this story? There's five or six great tools now available to a journalist at their  
8 fingertips, whether it's audio, video obviously. We've also created a data journalism team  
9 in the last 18 months.

10 Data journalism, through the interactive story telling, is a small but growing part of  
11 our portfolio that's a different and unique way of telling a story to the audience. I talked  
12 earlier about the creation of New Zealand Herald Focus, our new digital video bulletins  
13 which have peaked to a new high of 1.5 million views last week. That's a growing area of  
14 our story telling.

15 So I think it's not just -- and we're also seeing the rise of podcasts, by the way,  
16 podcasts coming back. They're coming much more into favour once again. That's  
17 obviously audio and people through their mobile phones especially listening to a new form  
18 of story telling. So it's just changing so much and that change is constant and we're always  
19 on our toes about different ways of telling stories and being prepared for the new ways of  
20 telling them.

21 And it's actually exciting, so traditionally a reporter would have gone out the door  
22 and been asked to file 600 words for a newspaper, maybe with a photograph, but now as  
23 I say, there's up to five or six different ways of telling a story.

24 **MR BOGGS:** If I could make just carry on with that. You talked there, Shayne, about a number  
25 of ways to produce the content, but remembering that's only one part of the news room, the  
26 actual curation and delivery of it is the next part. So you talked about newspapers, the role  
27 of an editor often was to how will this look the best, how will it tell the story the best.  
28 Obviously, we're doing that digitally as well. How can we get some interaction, whether it  
29 be some data. We did a robbery story and you could put in your address and see the  
30 burglaries around you and so on, so getting that interaction.

31 But unfortunately now it's actually not us doing the curation, it's actually coming  
32 back to Facebook, and the content that's there is both written, it's audio, it's video, and there  
33 are competitors everywhere who can produce that. And so the job of curation is getting  
34 less and less important for us in some regards.

1           It's really important, because someone else is doing it by an algorithm and deciding  
2           how you're going to see it and in fact what content you're going to see and the way in which  
3           it's going to be delivered to you. So we might produce it all these different ways, but  
4           someone else is going to choose how you get to see it. So to reiterate some of the stats,  
5           over 50 per cent of the traffic coming to our sites today is from mobile phones and over 50  
6           per cent of that is now coming from Facebook, and growing.

7           They're the people who are deciding how that content is curated and delivered to us  
8           and we're just out there delivering content. TVNZ can do that, it's much more video,  
9           MediaWorks can do that, they've got the video, they've got the audio, Radio New Zealand  
10          can do that, someone else is deciding.

11 **MR HEADLAND:** Just a point to raise around MediaWorks. I'm an ex-employee of  
12          MediaWorks and was there at the launch of Newshub and I was on the sales side of the  
13          company. The way that I represented MediaWorks within the market was certainly that we  
14          were a digital news company and that we were very focused on obviously driving  
15          Newshub, but driving Newshub digitally.

16          A small point I'd like to make is also when you watch Newshub at 6 o'clock on the  
17          television you'll see a little icon in the bottom of the screen pointing you to download the  
18          app. So it is clear from a strategic perspective that they are there to drive the digital side of  
19          the news business.

20 **COMMISSIONER BEGG:** Any other questions from staff?

21 **MR IRVINE:** Just one more about brand and the importance of brand in the news content market,  
22          if anyone has any comments on that.

23 **MS JUDKINS:** I think brand is a lot less important in a Facebook sort of social media  
24          environment. That's one of the key features. There's a number of stats that is available  
25          around people's memory of brand when they're reading social media sites that they don't  
26          actually recognise. They say "I read that on Facebook" as opposed to saying "I read that on  
27          the Washington Post on Facebook". The reference and the intention that people always say  
28          is "I read that on Facebook". So the relevance of the brand is diminishing in that respect.

29          I think that was true with some of the fake news stories. People didn't actually  
30          recognise that the brands producing those stories were not actually real news brands  
31          because they're not so familiar with those brands any more.

32 **PROF PICKER:** Two data points on that, if we could. Just one is again the Google News Spain  
33          situation, I won't repeat what I said on that before but that's really an interesting exercise in  
34          brand and then more plurality tomorrow. Then the point about the fake news. Again in my

1 second filing I've got a description of a story there where on Facebook the story that the  
2 Pope had endorsed Donald Trump that turns out not to be true received a million shares on  
3 Facebook while the very detailed New York Times investigation into Donald Trump's taxes  
4 received 200,000 shares.

5 **MR FOSTER:** Can I say a couple of words about brands as well, because it definitely isn't a  
6 simple area at all. Even this wonderful Reuters Institute report has contradictory  
7 assessments in it. So for instance one of the things I asked was about the continued  
8 importance of traditional media brands last year and 69 per cent across the countries  
9 surveyed said that a newspaper brand was important in accessing news in the last week,  
10 62 per cent said a broadcaster brand was important in accessing news in the last week and  
11 45 per cent said one of the new digital news brands was important in accessing news. But  
12 in the same report if they asked social media users as you were saying to recall what brands  
13 they had been accessing, many of them couldn't. So I think that highlights the challenge  
14 ahead.

15 But the challenge is about establishing, if you like, some connection with the  
16 content that news media providers are. In non-social media, in the non-social media  
17 environment the brand is still quite critical. In the social media world, the challenge is to  
18 find new ways of linking that content back to your reputation or your values. And it may  
19 be that it's not even the news provider brand but the journalist brand which is important in  
20 those earnings is. So I don't think there's a simple answer in this world with its rapid  
21 changes.

22 But if the brand disappears entirely then it makes things even harder for us in  
23 providers in if you like monetising and exploiting the content they're producing.

24 **COMMISSIONER BEGG:** Was there anyone else in the audience wanted to make any  
25 comments on reader markets before we move on to advertising? Any other questions staff  
26 would like to ask? I'm just conscious of the time. Okay, so let's --

27 **MS KEENE:** Sorry, could I make one small point in relation to the market definition on the  
28 reader side. I don't think it's actually an important point for the conference to take any time  
29 but I think we would say there is potentially a broader market than just the -- you put it in  
30 one of your summaries, I just wanted to make sure we didn't move on without that point  
31 being clarified.

32 **COMMISSIONER BEGG:** As you know, we've put less importance on market definition than  
33 we used to and it's more about what is the constraint. So yes, no, perfectly happy to bear  
34 that in mind. Thank you.

**COMPETITION ASSESSMENT - ADVERTISING MARKETS**

1  
2 **COMMISSIONER BEGG:** Turning then to the advertising markets. As again you'll be aware,  
3 we reached the preliminary conclusion that the merger would substantially lessen  
4 competition in the following advertising markets: premium digital advertising, Sunday  
5 newspaper advertising, and community newspaper advertising in ten areas of overlap.

6 So turning first to the premium digital advertising, the response from the applicants  
7 was that in the case of premium digital advertising, there isn't a separate market. In the  
8 event of a price increase, advertisers of premium digital advertising such as home page  
9 takeovers, etc, can switch to other forms of digital advertising, like video pre-rolls and  
10 programmatic approaches.

11 So I'd be interested in your comments on that, but one question I have is, why is the  
12 premium digital advertising, the home page take over, native advertising etc, why is that  
13 priced differently from other digital advertising being on a per day basis rather than cost  
14 purviews like other forms? Any thoughts? Is that significant, is that something that says to  
15 us that it's a different market?

16 **MR HUTCHINSON:** We don't believe it's significant in the sense that the buyers, so the  
17 purchasers of advertising, would calculate the CPM of the purchase they're making as part  
18 of their decision-making. And the concept of selling something by the day obviously has a  
19 long history in internet advertising, probably dating back when I think back to the 90s to  
20 there being one ad, you know, on the top of Yahoo, for example, and that was the banner ad  
21 on the internet.

22 But, realistically, it's priced by day because it is a helpful tool for the sales team.  
23 However, the buyer can calculate the value of what they're going to get from that cost per  
24 day buy-back into CPMs which is how they would calculate its efficiency versus any other  
25 buy they would do.

26 **MS JUDKINS:** Can I just add from an NZP perspective as well, one of the reasons we've moved  
27 back to advertising of that nature is largely in respect to some of our regional mastheads. If  
28 we have a local advertiser in say the Bay of Plenty who has a story which is very popular  
29 across the country, they don't want to pay on a cost per click basis if you're not actually  
30 based in the Bay of Plenty, you're not getting value for that, so moving to a per day basis  
31 enables the sales team to price it more effectively rather than them using up all of their  
32 clicks on people who might be coming in from Auckland or Christchurch to read that story  
33 because it's particularly interesting that day.

34 **MR MELLOP:** I suppose I could repeat the comments that we've made a couple of times now.

1 I think I'm not sure how this is any different to if you get your house painted by a fixed  
2 contract versus time and materials, it's just a different way of allocating the risk. I don't  
3 think it's a general antitrust principle that it affects market definition.

4 **COMMISSIONER BEGG:** No, but it's just a signal that it might be different, it's really just the  
5 question of -- yes.

6 **MR MELLISOP:** It's worth having a look at, but by itself, I don't think it's a -- yeah.

7 **COMMISSIONER BEGG:** No, fair enough. So when you open your app and you have a  
8 homepage takeover that seems like quite a different sort of an ad than if you're clicking on a  
9 page and there's something small in the corner. So what is the substitute for that sort of ad  
10 that means that it's not a separate market? Bearing in mind we're talking about -- I realise  
11 there's going to be constraints, it's a matter of the degree of the constraint.

12 **MS JUDKINS:** We're always looking for innovative new ways to created ad units and I think  
13 we're going to talk in a session later about some of the changes we're making in that space  
14 because obviously those types of ads have become a lot less -- you refer to homepage  
15 takeovers -- a lot less popular over the course of this year and their relevance is rather  
16 minor to our business going forward. But we're always looking at ways.

17 One of the challenges we face is simply with so much of our audience moving to  
18 mobile devices actually finding ad units that we can actually place to create value for  
19 advertisers on those platforms because they're obviously very small, and the other product  
20 you look at are those pop-up mobile ads which most people find quite annoying.

21 But those are simply I think -- we're going to be evolving as we go forward many,  
22 many more units to try and find ways to monetise those audiences because that's just such a  
23 challenge that we face. What we have today is not necessarily what we will have  
24 tomorrow.

25 **MR HUTCHINSON:** Just to follow up on that, if we put ourselves in the shoes of the buyers,  
26 they would have a strategy and a budget and that strategy would involve reaching a  
27 particular potential customer group or regular customer group around an offer or something  
28 similar, and they would already know they have many, many different ways of reaching  
29 that audience and convincing that audience to respond to that offer. So on a day where the  
30 strategy says two retailers, for example, are going to be running a sale, and one of them has  
31 already booked a homepage takeover, the other retailer has simply used other forms of  
32 media to achieve their goals.

33 They haven't adjusted their strategy because by its very nature their strategy over  
34 time is thought through and planned and they already know they have many, many ways to

1 reach those different audiences that they're seeking. And I think so there's a constant  
2 constraint from anyone who also has that audience, be it on a day basis or across a week or  
3 three days, because it totally depends on the buy side strategy, not really what we're putting  
4 out there.

5 And just to reinforce the point about innovation, in fact it's when we innovate and  
6 come up with another ad format that more effectively communicates the message to the  
7 audience that we do have that we become more attractive to advertisers. And so there's  
8 such a plethora of choice to reach audiences, and I know this is going back on ground we've  
9 covered, but the owners of the data of who those audiences are tend to be the ones who are  
10 most successful at consistently getting the ad spend that is associated with reaching that  
11 audience.

12 So a homepage buy-out is not necessarily a very targeted form of advertising, but it  
13 might simply hit enough people of a certain type for a type of advertiser that they're, like, "I  
14 can calculate the efficiency of that versus a data led by and I would like to buy that this  
15 time".

16 **MR TONG:** I think the submission that we had from CAANZ in support shows that from the  
17 agency side, where they are putting together the campaigns, they see benefit from what we  
18 may be able to do in merged entity in order to provide another viable network of  
19 opportunity for advertising using Robert's point on data to give them other channels to get  
20 to the customer.

21 So the homepage takeover is not a particularly sophisticated tool and it's just one of  
22 many that people have access to Robert's point.

23 **COMMISSIONER BEGG:** Staff, any follow ups on that?

24 **MS CSORGO:** I just had one follow-up question. If your advertisers are translating the price  
25 anyway into a CPM price and you sell most of your other advertising on a CPM basis, I  
26 don't understand why that would give you some sort of advantage to your sales staff I think  
27 was part of the answer as to why you would sell it on a daily basis.

28 **MR HEADLAND:** I'll try and answer that. Because of the engagement really, when you have a  
29 homepage takeover you've got mass reach but there's certain engagement levels that drive  
30 product sales or those daily sales are generally retailers are using those homepage takeovers  
31 for. So in the sense of converting that CPM there is an element of engagement that we sell  
32 around saying that you're sure it's this CPM, however it will deliver an X amount of  
33 engagement, or based on a competing campaign that we're selling against or planning.

34 **MS CSORGO:** So do you typically then offer up what the equivalent CPM is when you are

1 selling that, say, homepage takeover?

2 **MR HEADLAND:** Certainly in my world, which is the agency world, we're fulfilling the brief.

3 So we're directed by the media agency to fulfil certain targets. So their engagement targets,  
4 CPM targets. So we respond to that brief, work through that brief with them and deliver  
5 the campaign.

#### 6 **COMPETITION ASSESSMENT - SUNDAY NEWSPAPER ADVERTISING**

7 **COMMISSIONER BEGG:** Okay. Moving then on to Sunday newspaper advertising where we  
8 were concerned that there was a problem. I think your response is that there's no separate  
9 market for Sunday newspaper advertising and in the event of a price increase, advertising in  
10 Sunday newspapers can switch to some other form of advertising including online, and you  
11 provided also evidence of a decline in Sunday newspaper advertising over time.

12 So just a question that's a fairly general question, but that is, where you've been able  
13 to retain Sunday advertising customers, what have you needed to do to achieve that in terms  
14 of your price and your offerings and so on.

15 **MR BOYLE:** Andrew Boyle, Fairfax. Just from a rate perspective, it's fair to say that our rate  
16 yields in Sunday advertising have dropped quite substantially. So as that's reflective of the  
17 relative reach of those titles over certainly the last four to five years, and whilst we have  
18 made considerable effort to hold volume, the rate increase has translated into the revenue  
19 declines that the Commission has seen before it.

20 **MS JUDKINS:** I'd say from the comment, also I think we've provided a lot of information  
21 regarding the performance of our Sunday newspapers and you could see that similarly with  
22 the rest of our newspaper business, we've suffered quite significant drops in yield and  
23 advertising demand. Sunday is not a large retailer demand day so there's never -- it's not  
24 like the Saturday newspapers where there has traditionally been higher retailer spend in  
25 those publications.

26 I know you refer to travel advertising as being an interest, but we've also  
27 experienced quite significant decline in that space also. You would have seen that a lot of  
28 travel advertising is going online also. So I think it's just the performance of the Sunday  
29 newspapers is reflective of the performance of the rest of our newspaper portfolio.

30 **MR TONG:** I'd agree with that. I think in sort of three of those key areas that a Sunday paper  
31 might have filled the need around travel, perhaps motoring and property, they're a very,  
32 very good online substitute. If you're sitting there in bed with your coffee, if you're lucky  
33 enough to do that with an iPad, you can surf the internet and you are get very high quality  
34 content in those key areas where that's where the Sundays have traditionally played their

1           role.

2   **COMMISSIONER BEGG:** Any follow up? So we're going to have a confidential session, too, I  
3           think, which will have a few other questions. Just then on the final one, then, for the public  
4           session is on Community Newspapers where we note that there's overlap in ten areas and  
5           we're concerned about the loss of competition.

6                    Again, you've pointed to the decline, the year on year decline and the price of  
7           advertising in community newspapers, and from that we can infer that other forms of  
8           advertising are providing a constraint.

9                    So really I just would be interested in your comments on why the loss of  
10          competition between the community newspapers wouldn't result in a problem for  
11          advertisers. If you're able to make general comments, and if there's specific stuff that's  
12          commercially confidential we can look at that later.

13   **MR JAGUSCH:** I'll go first, Chris Jagusch of NZME. We've got 21 community newspapers  
14          throughout the North Island, significantly fewer than Fairfax but I would venture to suggest  
15          what we do have in common that the make up of those advertisers are very small business  
16          enterprises. I guess most are typified with having two or three big accounts, but the  
17          majority are ones that would spend in the vicinity of \$1,000 to \$1,500 a year.

18                    So I'd venture I guess the first constraint we experience is a small business looking  
19          to achieve a communication objective or a marketing, you know, a particular activity that  
20          they or promotion that they've put is how they're going to achieve that, preferably without  
21          spending anything on advertising at all. They will look to their observe websites, they will  
22          look to their point of purchase display, they will look to social media as to how they may  
23          activate that.

24                    So they'll look at numerous ways, leverage relationships they have in their  
25          communities to achieve. It's only about that point that they feel that the need for  
26          advertising that we get into sort of come par as to what's going to be the most effective for  
27          that particular promotion.

28                    And in that regard where we do have competition between Fairfax and NZME titles  
29          they tend to be in the bigger urban areas, in the case of the North Island in populations  
30          35,000 plus, and there are a multitude of advertising options available to those customers,  
31          other than just comparing the newspapers. There are ways in which you can use direct mail  
32          or radio or cinemas in addition to, you know, the social media options that I've already  
33          referred to.

34   **COMMISSIONER BEGG:** Any further comment?



1 **MR BOYLE:** I concur with Chris's view. It was interesting to note the observation about direct  
2 mail and the use of flyers I think the point to make there is they come in various degrees.  
3 There's the big 18 page catalogue or 20-page catalogue that might cost quite a lot to  
4 produce, but the opposite to that is there's number of small one page flyers that can be  
5 printed at any number of web-based printing services around the concern tree that are very  
6 cost-effective. We know that to be true because we see the rate of insert revenue in our  
7 own community titles, that is an equal mix of that that comes from national advertisers and  
8 local advertisers.

9 **COMMISSIONER BEGG:** Okay, so any further follow up questions? So the proposition from  
10 here is a closed session; is that correct? So we're going to have a closed session with just  
11 NZME, so other parties need to leave the room. Then we'll have a closed session with  
12 Fairfax. It's just going to be relatively brief. Have we got time before lunch or --

13 **MR McNEILL:** We're running about 10 minutes behind schedule.

14 **COMMISSIONER BEGG:** That's probably fine. Just for everybody else, we are reconvening at  
15 1.45, so if you'd like to be back then.

16 **Open session adjourns from 12.22 pm to 1.48 pm**

17 **CHAIR:** We're ready to start this afternoon's session. As the parties will know, given we ran out  
18 of time for the second confidential session, we're adding that at the end of today's session,  
19 so we will come to that. But the first item on the agenda for after lunch is the current of the  
20 industry and future development session, and Elisabeth Welson is going to lead that.

21 **CURRENT STATE OF THE INDUSTRY AND FUTURE DEVELOPMENTS**

22 **COMMISSIONER WELSON:** Thank you. We certainly heard a lot before lunch about the  
23 changes that were taking place in the industry and the very rapid pace of change. What  
24 I wanted to just talk through to start with is just have a bit of a conversation around  
25 consumption patterns and trends and then also how that leads into different -- how you  
26 might manage your content differently, so are the two key topics that I wanted to cover in  
27 this session.

28 So the first question is a high level question in terms of consumption trends. We  
29 know that print readership is declining. My question really is, have you observed or what  
30 are the equivalent consumption trends in other forms of traditional media? So whether it's  
31 in television or radio. So I thought if I could ask first NZME then Fairfax and we've got I  
32 understand grant McKenzie From Allied Press in the room and then I would ask him to  
33 comment after that.

34 **MR CURRIE:** I can start with that in terms of the trends that we've seen with print and certainly

1 all of our -- both the New Zealand Herald and the regional dailies, the five regional dailies  
2 that we operate in the North Island have seen circulation declines in the last 12 months of  
3 around 8 per cent on average. That fluctuates depending on the title, but it gives you an  
4 indication just of the speed of change I guess and speed of decline in the print market in  
5 New Zealand.

6 I read some stats last week around the television market in particular of the 18 to 49  
7 group similarly that the market there is starting to fall away. But I guess the -- if there's one  
8 heartening piece of news overall is that our total audience, if you take into account print,  
9 digital and the other channels, and I'll take The Herald as an example in this case, we're at  
10 good record levels because of that big, momentous shift to our digital channels. We've  
11 heard this morning about what's driving that and which particular platforms are driving  
12 that; three in particular, mobile, and associated with that social and video is where we've  
13 seen that dramatic increase at NZME.

14 Where our audience is coming from through Facebook predominantly in the mobile  
15 space, 50 per cent of our mobile traffic is now coming through Facebook, so that plays to  
16 just the strength of that particular platform. Only 13 per cent I think in the Fairfax survey  
17 that was recently conducted, only 13 per cent of New Zealanders now use the newspaper as  
18 a primary source of news, 25 per cent I think for online sites, including our own and others,  
19 and 21 per cent for social channels and Facebook accounts for 15 per cent of that and  
20 growing.

21 So that's the New Zealand context of some of the international numbers that we  
22 heard this morning.

23 **COMMISSIONER WELSON:** You talked about the print trends and the dailies. Can you  
24 expand on that in terms of the communities and the Sunday papers as well? Are you seeing  
25 any particular trends there?

26 **MR CURRIE:** Yeah, I know there was some commentary in the Draft Determination around the  
27 Sunday market and print numbers, but we are seeing similar declines in the Sunday, around  
28 7 to 8 per cent I believe for The Herald on Sunday, maybe slightly higher. Fairfax can talk  
29 about the Sunday Star Times.

30 **MS JUDKINS:** With the community papers, those papers, what we describe as total market  
31 coverage, so the letterbox drop, so it's up to us to determine how many letterboxes we put  
32 those publications into. So we're obviously always revisiting the span of those publications  
33 to make sure we're getting the most cost-effective reach, but it's difficult to ascertain  
34 readership trends for those publications when you're simply looking at the fact we put them

1 into everybody's letterboxes.

2 **COMMISSIONER WELSON:** Just to pick up again on another point that you made, Shayne, so  
3 you began, I think we heard this this morning, about how only 13 per cent of people use  
4 print as their primary source of news. Obviously there's still quite a large print  
5 demographic. So I suppose what I'm wanting to just try and draw out is, are there different  
6 demographics and what is the sort of demand profile of the different demographics?

7 **MR CURRIE:** Sure. I think if we take Monday, the full seven days of the week, certainly the  
8 weekend titles and in our case the Saturday title, is holding up much more strongly than the  
9 other days of the week. I think that plays to print's strength of being on a Saturday where  
10 we can have longer form features and journalism in that context is a really important part of  
11 our portfolio. And it's important in a revenue sense as well, but the revenues are declining  
12 and just taking The Herald as an example, you know, the whole basis I guess of why we're  
13 here today and what's driving our mind and our thoughts and the best brains in the business  
14 are trying to find that new business model in the digital sense where we're seeing that  
15 enormous shift in our audience moving to the digital channels, which are completely  
16 overwhelming the primary source of print.

17 **COMMISSIONER WELSON:** Are you continuing to see print to decline or are you starting to  
18 see that decline flatten out?

19 **MR CURRIE:** No, print circulation is still declining, sadly.

20 **COMMISSIONER WELSON:** A couple of things to come back on that but perhaps if I could  
21 just move over to Fairfax now.

22 **MR BOYLE:** Circulation, latest data on Fairfax dailies are they're all down double digit with two  
23 exceptions. When I'm saying double digit I'm talking 12, 13 per cent. That is true of both  
24 our metropolitan titles and our regional dailies. The Sunday Star Times is down 14 per cent  
25 and the Sunday News is down 19 per cent. At the point Sarah raised about the communities  
26 I think is also a valid one for us because we do manage the footprints of our community  
27 newspapers and I think that's probably most recently demonstrated by some contractions in  
28 the Auckland market over the last 18 months in particular.

29 **COMMISSIONER WELSON:** Do you have anything to add in terms of the different  
30 demographics that you're catering to? So what I'm hearing is that news isn't in decline, in  
31 fact obviously the audience for news is growing, it's just that how people are consuming  
32 news is changing, that's obviously the challenge.

33 **MR CURRIE:** Yeah.

34 **COMMISSIONER WELSON:** But within that there's a whole, presumably a number of different

1 demographics who are consuming news in a different way. I'm just interested to explore  
2 how you see those different demographics playing out.

3 **MS BOUCHER:** I can add something to that. So we know basically our average print subscriber  
4 is well into their 60s, so there are no new subscribers coming on at all. And conversely  
5 what we're seeing is even at that sort of age, people transferring out of newspapers tend to  
6 transfer straight onto social for their news consumption. And I can see that with my own  
7 parents that they would never come directly to Stuff.co.nz but they rely on Facebook a lot  
8 for their sort of exposure to news now that they've sort of -- you know, they're pensioners,  
9 they don't get a daily newspaper any more.

10 At the other end of the spectrum, the younger demographic, particularly of those  
11 teenage ones coming through, millennials, my own daughter's a perfect example, she only  
12 gets her news from social. So she's pretty up with the play, she could tell me all about John  
13 Key yesterday, but all of her access to news was coming through Facebook and Instagram  
14 for her.

15 And then in the middle, I guess it's a bit of a scaling kind of change, you know, the  
16 younger you are the more likely you are to be using social and mobile, then in the middle  
17 it's sort of mobile desktop, and then the older it's kind of perhaps still some print, but when  
18 I look at the total number of our print subscribers against the daily number of our digital  
19 users, it's a tiny fraction of the audience that's coming into digital every day.

20 So it's a sliding scale, but we have learned to not make complete judgments that  
21 older people only read newspapers because we can actually see them moving out of  
22 newspapers and on to social. And partly that is also as -- and we hear about this as editors  
23 every day, the number of pages in our newspaper is driven by the number of ads to fill  
24 those pages. As advertising has moved out of print and into digital, so the number of pages  
25 in the newspaper has had to shrink.

26 So the perceived sort of value to the reader and the overall product is diminished in  
27 their eyes as well. So that's definitely a factor in the transfer.

28 **COMMISSIONER WELSON:** If I could ask Grant McKenzie, if you'd like to -- there's a  
29 microphone over there.

30 **MR McKENZIE:** As long as I don't have to start singing, it's fine. For us, our picture is slightly  
31 different. Our circulation decline is at about 2.8 per cent for the last year, or the last quarter  
32 of the numbers coming out. I did some work recently and looked at our trend over the last  
33 ten years. For us, we're down about 21 per cent. We're the fourth best of all the dailies in  
34 New Zealand.

1           The closest of the majors on metropolitans is the Herald who are down about  
2           34 per cent. So our decline is significant but not as fast. And we're definitely not getting  
3           double digit declines as some of the other newspapers are, which is not surprising because  
4           we don't necessarily have a digital first policy and I listen with interest. Everyone's saying  
5           our paper's declining, why wouldn't it decline when you're putting everything online for  
6           free and there's no incentive to buy a newspaper. So I know -- yeah.

7           Our online numbers are reasonably steady. Facebook has grown a bit, which is no  
8           surprise there. Our readership is still very strong. Our daily readership is about 87,000  
9           people and for our market of about 160,000 that's actually quite high and our weekly  
10          readership is about 120. Our communities are growing and are strong and our readership in  
11          the communities is actually grown as well. So we've seen a bit of a trend from shift in the  
12          dailies in the communities and the communities are getting stronger for us anyway.

13          There was a point about readership. We have consistent readership across the week.  
14          Our biggest days are actually Tuesday and Saturday and the difference is a couple of  
15          thousand between the rest of the week. So actually we're reasonably consistent across the  
16          week.

17       **COMMISSIONER WELSON:** Thank you.

18       **MR McKENZIE:** Cheers.

19       **COMMISSIONER WELSON:** So just a couple of other questions to come back on. Just in  
20          terms of those trends, one of the other sort of aspects that I was interested in, you've  
21          mentioned overall readership up. Are you observing any similar trends in relation to either  
22          television or radio with this whole focus on digital? Is that something that you're observing  
23          or responding to?

24       **MS JUDKINS:** There is a recent New Zealand On Air paper which has probably been submitted  
25          in evidence indicating current trends and one of the quite clear dynamics in that survey was  
26          the decline in terrestrial television, I think the audience reach is now about 73 per cent, I  
27          think it was closer to 96 a couple of years ago. That has been replaced largely with sort of  
28          SBOD and that streaming television.

29          So the most remarkable increases that we've seen in those recent surveys has been  
30          the increase in streaming and with the entry into the market of the likes of Netflix and other  
31          providers. So those are the quite clear changes happening in that sector that we can see.  
32          And also that rapid increase in online viewership of video from the likes of YouTube and  
33          Facebook and other online platforms. So very much a movement away from terrestrial  
34          television.

1 **COMMISSIONER WELSON:** Is that the same for us in consumption?

2 **MS JUDKINS:** On television?

3 **COMMISSIONER WELSON:** Television, sorry, I should have mentioned my focus is on the  
4 news.

5 **MS JUDKINS:** I'd say if you look at the surveys that TVNZ and MediaWorks release on news,  
6 their 6 o'clock news bulletin audiences are declining and probably being replaced with their  
7 online viewership of those products.

8 **COMMISSIONER WELSON:** Did anyone else want to comment on those other media trends?

9 **MR HUTCHINSON:** I guess just looking at, from March 2016 when Newshub launched  
10 essentially the re-brand of 3 News, in terms of raw numbers they've added 187,000 unique  
11 viewers from launch -- from their March result to their October result, and Radio  
12 New Zealand in that same timescale has added 102,000, meanwhile Fairfax has added  
13 30,000.

14 So what we would say is you can see that move away from consuming broadcast  
15 news into digital news and it's flowing most strongly in terms of raw numbers, not just  
16 percentages, into the actual the brands like RNZ, Newshub etc, that are going very hard to  
17 drive into that digital space.

18 **COMMISSIONER WELSON:** I'm conscious that we also had some representatives from the  
19 television here. Is there anything that you would like to say or add at this point?

20 **MR PATTERSON:** We're just trying to get some numbers on news viewing over the free-to-air,  
21 so we'll come back to let you know shortly.

22 **MS JUDKINS:** Just in relation to one of the figures in our submission, it illustrated what TVNZ's  
23 online news viewership was for the month of October which indicated that on the One  
24 News Now website there was close to 5 million views, there were close to 2 million on the  
25 Stuff website and there were near to 18 million views of One News on Facebook, video  
26 views.

27 **MR PATTERSON:** We might want to explain those slides. Those figures are misleading.

28 **MS SLATER:** Sorry, that was picked up from our TVNZ sales website I think. It was actually  
29 incorrect. I've got the updated October report here which has now been updated online as  
30 well. The actual figures were -- because you might have noticed they didn't actually add up  
31 to the number of views overall. The 12.8 overall and then 17 for Facebook didn't really  
32 make sense. So 6.3 million for Facebook is the correct number.

33 The number that was actually in there was actually from the previous month, and it  
34 was a bit of an outlier because we had one clip which went viral with 10 million views. So

1 it really was an outlier but the average is less, actually a reach of less than 50 per cent is  
2 through Facebook rather than the 70 per cent which is quoted.

3 **MR CURRIE:** There was just one other point I wanted to raise about the millennials and backing  
4 up what Sinead said. It's a fallacy that they're not interested in news, the 18 to 24-year olds.  
5 That Reuters news report we were talking about earlier, 28 per cent now of the millennials  
6 now say they source their news directly from digital channels, from social channels, I  
7 should say, social alone.

8 That's over and above the 24 per cent who say they source it from television. That's  
9 the emerging trend we're seeing not just in that age group but others as well.

10 **COMMISSIONER WELSON:** Which probably leads very nicely actually to my next question  
11 where I sort of wanted to move then to, so how do these shifts and changes in consumption  
12 and number of quite distinct, if you like, demographics I think is what we're picking up,  
13 how does that then influence your decisions around the type of content that you are creating  
14 and what you're doing to attract those different demographics to your different product  
15 offerings?

16 Because obviously you do still have quite a significant print offering as well as your  
17 digital offering, and you talked this morning also about the fact that there's a shift also  
18 towards video. So I'm just interested to explore then what all this means for content  
19 creation and how you're managing that. So if we can focus first on perhaps the type of  
20 content that you're producing.

21 **MR CURRIE:** Sure, so if we took John Key's resignation yesterday as an example and at one  
22 point yesterday I think 12 of the top 14 stories on The Herald site were about John Key and  
23 related angles. So at the start of the day when that press conference was held and the initial  
24 news excitement was over, the news room does get together and talk about the different  
25 angles and the way that we can sell the story I guess across different platforms.

26 One of the very early things that we did was a motion graphic video that was native  
27 to Facebook, and it was a 2-minute piece that was designed with a link to then bring that  
28 viewer on Facebook, as many of them as possible, back to the Herald site, kind of trying to  
29 use Facebook as kind of a fishing rod with that particular piece of content.

30 But it also played to the fact that telling the story about John Key's resignation on  
31 the Herald website was different to the way we treated it on Facebook, and again different  
32 to this morning's front page where it took a bit of attitude and a brilliant photograph and a  
33 very brilliant headline. So at all times we're thinking about, okay, how will this play out to  
34 different audiences and what's the best way of snaring the audience as much as possible to

1 be deeply engaged in the story.

2 **COMMISSIONER WELSON:** Can I ask Fairfax if you wanted to comment.

3 **MS BOUCHER:** This is one of the challenges that news rooms face in this day and age where we  
4 have shrinking resources but a wider range of platforms and audiences to serve than ever  
5 before. So our news room, and again I guess the John Key example is a handy one to be  
6 able to use, but actually I'll mix up and use the Kaikoura earthquake where all of our  
7 content is created first for the most immediate platform, so the mobile phone. So primarily  
8 we're thinking about how people will want to and be able to consume it on a device of this  
9 size.

10 In terms of, you know, so 2 minutes after the earthquake struck we had started a live  
11 blog of all the sort of happenings and updates which ran for two weeks solid, you know,  
12 constantly updated. Within that were videos, social embeds, story embeds, all sorts of  
13 things like that.

14 So then we break out from that and start to produce sort of, I guess, fully formed  
15 stories that, you know, you might call a traditional story with a beginning, a middle, and an  
16 end which sits and doesn't change. Some of those stories end up in the print channel, but  
17 we do not create any story specifically for print any longer. Print is just a distribution  
18 mechanism of its own to get stories that we've created for the digital audience first and  
19 foremost.

20 We also have used, with great success, other social channels like Snapchat to reach  
21 millennial audience. So we have a young team in the news room who create news stories  
22 or tailor news stories in a very visual and graphic way to put on the Snapchat app, which  
23 actually in turn is one of our most highly engaged audiences. It's not our biggest audience,  
24 but in terms of reaction back, sharing visual comments back on what the story is, that sort  
25 of demographic, that younger demographic is one of our most highly engaged with the  
26 news story. Probably most of us looking at that would think that's not how I want to read  
27 about John Key or the earthquake or whatever it is, but for that kind of group it is.

28 So the news stories are a constant state of evolution and within that there are  
29 elements of it that are tailored specifically for different platforms and the way we think  
30 those different audiences might wish to consume it or relate to it. We Facebook live-stream  
31 all major news events now so the social audience can see news live. Yesterday obviously  
32 John Key was a big part of that. Our political editor, Tracey, was doing that from the  
33 Trump venue in the States a couple of weeks ago, and that has actually quite a broad  
34 demographic watching it from both a young group to an older group.



1           So we increasingly think about how do we create content that is specific and  
2 relevant to certain platforms and what we know about how people like to consume content  
3 on those platforms, which platforms are more likely to be video heavy or to have an  
4 audience that appreciates video and at the very end of the chain is, okay, out of this whole  
5 rich mix what thing could we put into the newspaper that we've already created for that  
6 audience who might want to see it the next day.

7 **COMMISSIONER WELSON:** And so within that, am I correct in picking up that you don't --  
8 I'll ask the question sorry; do you have a strategy which is within that mix of trying to arrest  
9 the decline in print, or is it simply as I thought I heard you say which is --

10 **MS BOUCHER:** We don't want our newspapers to disappear because we really rely on them for  
11 revenue.

12 **MR TONG:** If I can speak to that, so print's still 85 per cent of our revenue. So if we were to  
13 dismiss it out of hand that would be very irresponsible, and going back three years ago it  
14 was 95, 96 per cent. So, long in print, and so by necessity in continuation of our business  
15 we have to focus on providing print to those that want it. I think that's one of the key  
16 challenges that we are attempting to resolve is how do we maintain those print products in  
17 some sort of quality and volume for those that want them, and in fact to support the revenue  
18 that we need in order to make the transition. This is this point around extending the  
19 runway.

20           And that manifestly is one of the key reasons that the two parties have come  
21 together because essentially we share that problem, because this is a key part of the revenue  
22 mix. So, yes, absolutely we're focused on it. Really, the change we're talking about is  
23 driven -- it's a technological change. We can talk about these platforms, but it's essentially  
24 the technology and the speed of change with technology that is enabling new businesses,  
25 new business models, new ways of people consuming content.

26           In my thinking it's much like banking where you've ended up with nine or ten  
27 different ways that you can pay a bill, and you choose which one you want. There's a cost  
28 associated with doing that but there's also convenience and consuming content is very much  
29 like that in this day and age. You've seen the New York Times try things like augmented  
30 reality with Google glasses, virtual reality scenarios, testing things with their audience to  
31 see whether or not that's a platform that they would engage in in order to maintain some  
32 loyalty to their brand. But at the baseline level we look at -- if print gets a cold, we get  
33 influenza.

34 **MR BOGGS:** For NZME so print is 60 per cent of our revenues overall, and absolutely exactly

1 the same, we're very focused on maintaining those print revenues for as long as possible.  
2 Recent editions I guess to the print product are viva products, a newspaper inserted  
3 magazine is an example. So innovations, I'll call them, that we're really looking to add to  
4 the newspaper which has different content, maybe attracts a different audience to give us  
5 the lifeblood and the longevity for as long as possible as we can in that print media.

6 So we do see in those scenarios that we can get some readership growth in those  
7 NIMS. We can get a different type of advertiser because of the quality of the content or  
8 even the paper that it's on. So those are the areas where we continue to focus to ensure that  
9 we can get that longevity.

10 **COMMISSIONER WELSON:** Sorry, you were -- beg your pardon.

11 **MS NORRIS:** I'd just like to take the opportunity to answer that from a regional perspective  
12 because some of the greatest challenges we're facing are in our regional markets. And our  
13 greatest priority there is to ensure we shore up journalism as well as making sure we're able  
14 to offer print products in those markets. We've been very clear, for instance, in  
15 Marlborough that we're facing significant distress in that market and it is no longer  
16 sustainable for us to produce a daily newspaper in that market so we've started talking to  
17 the community about ways we could do that a little differently to ensure we can still offer a  
18 print product to that community who have told us that "that's important to us".

19 But what we really need the support to do is ensure we can actually deliver regional  
20 journalism in that market because regardless of the platform that's what we view as the  
21 priority.

22 **COMMISSIONER WELSON:** Can I invite Grant McKenzie if there's anything extra you'd like  
23 to add.

24 **MR McKENZIE:** What would I say? Our approach is slightly different from the two big groups,  
25 is that we still try and have unique content for the paper, so when we looking at stories, if  
26 it's breaking story, John Key's a very good example, yes, we'll put it up on our website like  
27 everyone else. If it's something that's exclusive and we've only got coverage we'll wait for  
28 our print product so that those people see that they actually get some perceived value in  
29 actually buying the print product. And for us that is working and, you know, long may it  
30 continue.

31 Our online revenue is miniscule, it's 1 per cent or just over 1 per cent of our total  
32 revenue. So for us it's not that significant. Yes, we want to grow it like everyone else  
33 because we do see the trend is moving that way, but we need to continue to protect our  
34 print product, or products, and actually grow them as well.

1 **COMMISSIONER WELSON:** Thank you. Can I invite either of the experts to comment,  
2 perhaps Robin, if you would go first.

3 **MR FOSTER:** Thank you for that. I was very interested to hear, by the way, about innovation in  
4 print, because I think that sometimes is the forgotten story in thinking about how we  
5 respond to all the challenges around us. So that was very interesting. I don't think anyone  
6 would disagree with the overall story that we've heard this afternoon and earlier on today as  
7 well with declining readership, declining advertising revenues, fragmentation of markets,  
8 they're all big challenges here and around the world.

9 My observation, if I may, is that there are -- looking around different markets there  
10 are a number of different ways of trying to deal with those challenges. And of course one  
11 of those which is central to the reason we're here is consolidation and I think it would be  
12 fair to say that in most newspaper news media markets consolidation is never very far away  
13 from discussion for obvious reasons. But also there are a number of other different  
14 approaches as well, which if I might just very quickly run through based on observations in  
15 the UK market.

16 I jotted down a list as I was listening. Top of the list naturally is one of the big  
17 success stories over the last few years has been free print newspapers, surprisingly enough.  
18 So in this increasingly online digital world actually if you live in any of the big cities in the  
19 UK, either in the morning or in the evening, you'll see the success of free print newspapers  
20 and they're being read by many different audiences. There's high quality glossy content in  
21 print products as was mentioned, the high physical quality let alone the editorial quality.

22 There's the strategy of having a very separate print from an online model, so I think  
23 the Daily Mail in Britain could be characterised as being an example that where the  
24 publishes have kept two rather different products rather than combining the two. There are  
25 hard paywalls for high quality specialist content. There's advertising funded online models  
26 with voluntary membership schemes.

27 I'm not saying that any of these is right, either in the UK or in New Zealand, but the  
28 more general comment I would like to make is that these emerged through competition in  
29 the marketplace with different bodies, different entities experimenting with the different  
30 models which might work and some of which might not work.

31 So although there is clearly a strong case for thinking about the consolidation for  
32 cost cutting reasons in any market facing these sorts of pressures, I don't think we should  
33 give up on the sort of competitive process also being another way of finding an answer to  
34 some of these challenges.

1 **MS BOUCHER:** I would just make one comment on that, because obviously like anybody we are  
2 scouring the world for examples of success that we might be able to apply to our own  
3 business. And the big difference between us and say the UK market, or any of those  
4 European markets, is population for one. You know, the whole population of New Zealand  
5 is probably half the population of London, yet the sort of competitive -- that puts  
6 constraints on the size of the market that is there to be able to, you know, make money out  
7 of.

8 Free print in London is largely a success because of the Tube and bus commuting  
9 market. It doesn't apply to the New Zealand scenario at all. So we are constantly looking  
10 for examples of success but often you bring them back and look at your own population  
11 size, the number of other significant competitors in the market. You know, it doesn't work  
12 out in terms of what we can manage in this small country.

13 **COMMISSIONER WELSON:** Thank you.

14 **MR BOGGS:** Just to carry that on from Sinead, I guess there's one other metric that can help with  
15 that of, you know, I guess many of us have probably had that free paper thrown at us as we  
16 try and hop on the Tube. The difference in New Zealand is it is people in cars, and in fact  
17 it's often a question we get asked about is why is radio such a big percentage of the  
18 advertising market over here compared to other markets; it's because people are sitting in  
19 their cars listening to the radio not reading a free newspaper. So that's a key market  
20 difference.

21 **MS NORRIS:** And to place that very firmly in a hyper-local context in terms of that regional  
22 piece. Marlborough, 18,000 households, a very small number when you start to play with  
23 figures of that scale.

24 **COMMISSIONER WELSON:** Professor Picker?

25 **PROF PICKER:** Sure. So I guess a couple of thoughts. So just on this last point, it seems to me  
26 the innovation market is a worldwide market. So business methods are being experimented  
27 with all over the world, they're perfectly visible and transparent. When you think about that  
28 market share, if you think this merger is important for that, you're talking about one over --  
29 I don't know what the denominator is -- a thousand? So I don't see that as an important  
30 dimension here.

31 It seems to me where you started was right in the sense that it seems to me the  
32 consumptive population is almost like, you know, sedimentary strata layers by age and the  
33 different people are consuming in different ways. And so the print business is a legacy  
34 business. They want to take care of it because it's essential to the revenue model of their

1 firms, and they need that for as long as possible.

2 But it is not where the competitive edge is, at least for these digital first firms.  
3 That's I think what you want to keep in mind, and what I heard, which I think is really  
4 interesting, is that the stories that are found are then told in different ways to different  
5 groups depending on how they like to consume their news.

6 That seems to me that's standard product versioning that makes perfect sense to me,  
7 but it doesn't change the idea that the locus of competition is really driven by online even  
8 though there are multiple ways of consuming that content.

9 **MR FOSTER:** Could I just respond on the market side point, because I think it is an important  
10 point and I do accept that the room for a large number of profitable enterprises in any  
11 market in New Zealand may be somewhat constrained. But if you took Professor Picker's  
12 view that you should rely on innovation from outside, in a way that would suggest you have  
13 no need for competition in any market in New Zealand.

14 I would argue that the very fact that you cannot directly replicate what goes on in  
15 international markets into a market which has highly local characteristics means that you do  
16 benefit from competition here as well as looking at international examples.

17 **COMMISSIONER WELSON:** Before I just ask staff if they've got any questions, I would just  
18 ask if there's anyone else in the room who would like to make a comment. I'm conscious of  
19 the other organisations who are here. No?

20 **CHAIR:** A number of the papers, I think it's yours, Robin, you've made reference to the Irish  
21 experience which is a similar population base to New Zealand. What is it about that  
22 country, because it's on the doorstep of a very much more competitive media market. So  
23 how do we get that pattern occurring in Ireland if scale is a really important factor? What is  
24 the Irish case study?

25 **MR FOSTER:** Well, Ireland is about the same size as here, but if you were to look at the  
26 characteristics of the Irish market you might think it would be even more difficult to have a  
27 sustainable and plural local media sector than here, because not only is Ireland a market for  
28 all of the British newspapers, but also for re-versioned versions of those, and Ireland also  
29 gets all of the BBC and the commercial TV stations from the UK with all of their TV news.  
30 So the starting point in Ireland is there is already a major supply of external English  
31 language news, much more so, I would argue, than here.

32 On top of that they have a better-funded public service broadcaster which also  
33 produces news on television and radio. Notwithstanding that, they do seem to have a more  
34 plural newsprint, newspaper market than currently exists here, with I think three or four

1 different news media organisations and a larger number of national daily newspapers. Even  
2 in Ireland they're having worries about plurality because there are occasional moves to try  
3 and consolidate amongst that slightly larger group of newspapers.

4 So I don't think Ireland has too many lessons in terms of what makes that work. But  
5 I think it's an interesting comparator which suggests that it is not necessarily the case that a  
6 4.5 million population country has to have only one major newspaper-based provider.

7 **MR TONG:** I think the point that we would make is that we agree there's plenty of competition.

8 **COMMISSIONER WELSON:** Can I check with any of the Commissioners. Staff? Are there  
9 any questions you'd like to ask?

10 **MS CSORGO:** I just had one question. It's often been referred to the younger demographic, the  
11 millennials, they're getting most of their news through social media. So how did it used to  
12 be? I guess just what is the relative comparison not in terms of where they get their news  
13 from, but how much news was that demographic consuming previously versus what they're  
14 consuming now that they're consuming it through social media?

15 **MR CURRIE:** It was legacy habits and in the case of newspapers if your parents are reading a  
16 newspaper around the table you would gradually, not necessarily if you're a teenager, but  
17 once you're in your 20s, that habit does kick in. That is what has happened in the past.  
18 And previously, many years ago, newspaper businesses like our own and other media  
19 businesses ran newspapers and education programmes and newspapers were delivered into  
20 schools, and the habit formed and there was newspapers, there was radio and there was  
21 television in three sections.

22 **MS CSORGO:** So how is their news consumption now compared to what it used to be prior to  
23 social media?

24 **MR CURRIE:** It's totally digitally driven through the cheap --

25 **MS CSORGO:** But in terms of their absolute consumption, are they consuming more news now  
26 than they used to or about the same, less?

27 **MR CURRIE:** I would say more. I would actually say more because of the easy access to cheap  
28 mobile phones and through the social channels. They're being exposed to more news, but  
29 they're not necessarily loyal to a brand or to, say, the New Zealand Herald. Whatever is  
30 appearing in their news feed is driven by that algorithm and they're interested, they'll click  
31 on it and it becomes that cycle.

32 **MS CSORGO:** Thank you.

33 **MR McNEILL:** I just had a question regarding content at the community newspaper level. With  
34 the regional and the dailies and the Sundays you're able to track to a certain extent do

1 people want to consume this because they're buying their subscriber? For your community  
2 newspapers you determine what the distribution footprint is. It's difficult, I mean, I'm sure  
3 you can survey and that sort of thing as to how many people are actually reading it, but how  
4 do you determine what is that content that comes from your digital first news room that  
5 flows into your community newspapers?

6 **MR JAGUSCH:** Look, I think it is a truism that for community newspapers we don't have  
7 evidence of people purchasing to indicate that they do or don't want to read those  
8 publications. I think to this regard I can sort of tip my hat to Fairfax who have been quite  
9 good in encouraging readers to move on to e-editions rather than necessarily printed copies,  
10 where we haven't been quite so successful in that area.

11 Look, Nielsen does conduct readership surveys on behalf of the industry which  
12 I guess is indicative of whether our community newspapers are sort of maintaining levels of  
13 readership. What we do tend to find is that those readership stats do tend to reflect our  
14 distribution numbers quite consistently.

15 **MS NORRIS:** If I could also respond, we survey our readers reasonably vigorously and obviously  
16 as we're looking for solutions to some of the problems we're facing we have looked at the  
17 brand positioning of our publications, and our readers are very clear with us in terms of  
18 what they want, the type of content that they want. That all feeds into how we continue to  
19 develop the products and the type of community newspaper that we produce. So we've got  
20 a very clear idea of what our readers want, simply because we survey them, and then we go  
21 back to them and talk to them again and the feedback is reasonably consistent across each  
22 survey period.

23 **MS JUDKINS:** Can I make another point to one of Jo's earlier points regarding some of the  
24 challenges in our regional markets. I think that's just in terms of the cost of running a daily  
25 newsroom is very high in the regions. We've been seeing declines in readership and  
26 circulation in those markets, and one of NZME's strategies has been to sort of I suppose  
27 dispose of our smaller regional publications as we've become aware of the cost of those  
28 newsrooms.

29 So earlier this year we sold the newspaper, a daily newspaper, in Wairarapa. But  
30 two or three years ago we also sold one of our South Island, our last South Island daily  
31 newspaper called The Oamaru Mail which was acquired by the ODT. This was by far and  
32 away our smallest daily newspaper and we were aware that it was obviously going to be  
33 challenging in light of trends to maintain that, and the ODT has subsequently moved that  
34 publication to a community paper. They've recognised that it's extremely difficult to

1 maintain a daily news brand in those very small markets.

2 **COMMISSIONER WELSON:** I think there's a couple of threads there that it will be quite useful  
3 to pick up. So Simon, you mentioned that the merger sort of -- I think you used the phrase  
4 "extend the runway" which we've heard. Robin also commented about how some of the  
5 innovations that we see overseas have sort of been driven through competition as people  
6 fight for a space, so just sort of pulling those threads together.

7 So the question for you, Simon, really is, and also for NZME, with the extending  
8 the runway, so how much longer is that going to extend the runway and what we're trading  
9 off in the meantime is we're losing that competition of coming up with a solution by that.  
10 So it's really how do we balance that out and why is extending the runway going to give us  
11 a better solution?

12 **MR TONG:** So there's two parts to that. The first point that I would make is that we genuinely  
13 don't believe that there isn't any competition. If you look at Auckland as an example and  
14 the ethnic make up of Auckland, they are a huge number of ethnic papers, radio stations,  
15 television that are meeting the needs of that community and I think it's by 2020, 30 per cent  
16 of Auckland will be of Asian or some ethnicity associated with Asia. So there's material  
17 changes. You'll see in the material that we've provided there are any number of community  
18 newspapers started up around the country.

19 Another example that I would give you there is most recently we sold some  
20 magazines back to the editors, in effect in funded them into their magazines, because as a  
21 large organisation it was very difficult for us to see a way for those to be profitable, but as  
22 small businesses actually they do quite well. So there is definitely still competition out  
23 there, and as a result of that there are people that are looking at ways to innovate in that  
24 area.

25 In terms of extending the runway, I've been in the media industry for three years  
26 and the speed of change has just been something to behold. It's hard to really judge just  
27 how much time we have, because again, in this country with the roll-out of the ultra fast  
28 broadband being so successful and the cheap access to technology, it's difficult to see how  
29 -- it will only increase in speed. What we have proposed here is that there are -- frankly,  
30 there's two of us, two executive teams, two marketing teams, two IT groups, two  
31 everything, where there's an opportunity to make some reduction there that would allow us  
32 to stay in the communities for a lot longer, because the communities and the news that we  
33 create there is really the only thing we've got that creates some sort of edge, if you like,  
34 over how people are going to consume their news.



1           So we're very focused on how we can keep ourselves in those communities. But it's  
2 getting more difficult. And the Marlborough example is the one where we've had to bite  
3 the bullet on the daily and just start to have a conversation with the community about not  
4 being able to do that.

5           So we can talk tomorrow, I think, in detail about two or three scenarios for Fairfax  
6 in regard to our print where we've modelled that out. I'd prefer not to talk about that right  
7 here, but.

8 **COMMISSIONER WELSON:** We've got some confidential session this afternoon.

9 **MR TONG:** It's not a fabulous picture. And the speed is increasing, not decreasing. If you look  
10 at the New York Times just as an example, in the previous quarter their print advertising  
11 was down minus 14, in their most recent quarter it was down minus 19. So I also don't see  
12 any abatement in those international markets that I can hang my hat on and say well, it's  
13 going to flatten out.

14           So we look at it with a view that it won't go to zero, but hands up those of you here  
15 that still use cheques. You know, cheques are still a valid form of payment but they're a  
16 very small portion of payments and they're very expensive. I think in print that's the sort of  
17 model that you get to at some point.

18 **MS BOUCHER:** I would just also say from Fairfax's point of view we are and have been for the  
19 last few years trying really hard to innovate in ways that makes us able to continue to  
20 deliver high quality print products as well as digital products to our audience. In fact,  
21 earlier this year we won three international awards for our innovation around print which  
22 included research and an approach to delivering community news to community audiences.  
23 And a lot of that innovation has been based around how do we streamline production, how  
24 do we take out cost and all the rest of it from the bits of our operation that the readers don't  
25 see or see the direct value of, so that we can protect and maintain frontline journalists in the  
26 communities all around New Zealand.

27           Because we know that as it gets harder and harder to fund big news rooms and  
28 inevitably we've taken out all the production sort of things in Fairfax to basically make our  
29 news force purely creators as much as possible, that it's not going to be Auckland and  
30 Wellington and Christchurch that suffer, it's going to be Marlborough, Nelson, Timaru,  
31 Manawatu, Taranaki, small places where unfortunately you haven't got as big a news room  
32 as TVNZ, Newshub, RNZ etc, but there's no way we can sort of, you know, move out of  
33 the big cities to let those guys cover that news so that we can still only focus on the small  
34 cities.

1           So our innovation has really been focused on how do we maintain our ability to  
2           serve New Zealanders with local journalism and keep extending that runway as much as we  
3           can, because that's -- you know, Joanna mentioned it before, that's our mission, that's what  
4           we're here to do, and we talk about it and feel it very strongly every day.

5 **MR BOGGS:** Thank you. Maybe I can reiterate some of the things that Simon said. Tomorrow  
6           obviously we've got a counterfactual and a quantified benefits confidential session, so we  
7           can go into some more detail there. But I think the thing to remember is, there is no status  
8           quo of the business that we have today. In the first half of this year our print revenues went  
9           backwards 14 per cent, our digital grew 20 per cent, our revenue still went backwards.

10           That continues on and that will continue to result in us having to remove more cost  
11           from the business which is going to impact on the quality that's available, it's going to  
12           impact on the people that sit in this room and that is the status quo we're going to have to  
13           compare to. Quite different to where we sit here today and the products that we produce  
14           today. So we can talk more about that I think in tomorrow's sessions.

15 **COMMISSIONER WELSON:** Can I just check with staff.

16 **MS RUSBATCH:** Both Fairfax and NZME, then, what are the advantages, if there are any, of  
17           having this traditional media in this sort of mix where you're moving into this digital  
18           world? Are there advantages of being placed where you are right now?

19 **MR TONG:** I think there's definitely advantages for the community, because we're there to tell  
20           the story. So we had a reporter in Kaikoura that we in the end choppered her out with her  
21           family but we had someone there and we've talked a little bit since then, you know, in 12  
22           months' time, would that be the case. So that's the opportunity that it creates for us, and  
23           really when you think about it at the end of the day as a New Zealand organisation, you've  
24           only got what you can do locally is the advantage that you have.

25           So hence the desire and the focus on maintaining that connection to the community  
26           for as long as possible. So I would say that's the thing that we have, tenuous as it is.

27 **MS CSORGO:** Just a follow-up, sorry, a question on that. So if that is your advantage, I mean at  
28           one point you had said that that's the thing that gives you your edge. Why would the thing  
29           that gives you your edge be the first thing that you would cut?

30 **MR TONG:** It's not the first thing. We've --

31 **MS CSORGO:** Sorry, I misspoke, why would it be the next thing that you cut, which seems to be  
32           what you're suggesting.

33 **MR TONG:** Well, because in the end there's a -- it's a fair question -- in the end there is a fixed  
34           cost to produce a newspaper. So, for instance, if we look at Marlborough as an example,

1 the cost to produce the newspaper is broadly the same. The distribution costs are the same.  
2 If there are five people in the street to deliver a newspaper to and all five are getting the  
3 paper, were getting the paper yesterday, but today there's two. We still have to drive down  
4 that street and deliver that newspaper. So there is a fixed cost base that you have that you  
5 get to a point where you can't really go any further without materially changing what you  
6 offer. That's the first thing.

7 The second thing is, that you also can't get to a point where you're so sub-scale in  
8 terms of your coverage that manifestly people in the community go, "Well, you're just not  
9 giving me what I want". Those are a couple of key constraints. So believe you me, this is  
10 something that we ponder a lot, and have made substantial cuts over many years in order to  
11 keep the business to where it is.

12 But the fact of the matter is, at the moment we are unable to out pace the change to  
13 the revenue model, the business model essentially. The business model has been disrupted  
14 significantly, you know, we're not the first industry or the last to suffer.

15 **MS BOUCHER:** The fact is, the bigger the population the more audience you get from that  
16 particular population. I'm talking about cities versus, say, small towns. And the bigger,  
17 I guess, the advertiser kind of pull towards those big cities. So it's more expensive for us to  
18 be in small towns and less profitable I guess just because they are small populations. So  
19 out of our editorial team in Fairfax, I would estimate roughly half, maybe a bit more, are  
20 outside the main centres of the country, but if you looked at it in a strict sort of where the  
21 impact of the audience is coming, it's Auckland, Wellington, Christchurch because they're  
22 where the populations are clustered.

23 So if we have to, you know, be forced to give up something, unfortunately it's going  
24 to have to be the areas that are the most expensive to maintain, and the least profitable in a  
25 standalone basis so that we've almost sort of retrenched back to the bigger population  
26 centres, which are where there is ample extensive competition for the same sort of news. If  
27 we were to decide we would give up Auckland instead of, you know, regional  
28 New Zealand, it's not the same, the population kind of mix and therefore the audience and  
29 advertising mix is not the same.

30 **MS CSORGO:** But you're also noting the intensity of competition in Auckland, which you  
31 wouldn't face -- I mean, I understand that you have a smaller population base in Kaikoura  
32 or wherever it may be, so why would you not potentially exit the market where you are  
33 facing what you've indicated to be this intense competition and --

34 **MR TONG:** In Auckland? Because that's where 1.5 million New Zealanders live and the

1 advertisers want to talk to them.

2 **MS KEENE:** We can pick this up in the confidential session, do you think.

3 **MR BOGGS:** We've talked a little bit too about innovation in newspapers and what can we do to  
4 give them longevity. We've got to remember newspapers are just one of the mediums  
5 today where people get their content and get their news. I'm not sure it's the ones that  
6 people are going to look at get the most innovation from what we see in the market today.

7 We just heard earlier that video is what's growing the quickest. I can't get a video  
8 on a newspaper. Can I get one? The best place is actually on Facebook at the moment.  
9 Yes, I can put one on my website. We heard that we had the best NZ Herald Focus video  
10 viewership last week. What were we doing? We were sharing a helicopter with Radio  
11 New Zealand, I think it was, because they were videoing it, we were videoing it, we were  
12 writing about it, we were trying to get it on radio as well. We're all trying to innovate to try  
13 and get the content, and it's not going to be all about newspapers.

14 **COMMISSIONER WELSON:** I'm just conscious of time and we're coming up for the afternoon  
15 tea break. In the session immediately after afternoon tea I think we'll touch on and have a  
16 discussion around the counterfactual and then we've got a confidential session to catch up,  
17 so I don't think we'll take the full hour that's allocated there, we'll probably just have half an  
18 hour on the counterfactual and pick up on the confidential session from this morning, so we  
19 can continue this discussion after the break.

20 **Adjournment from 2.48 pm to 3.04 pm**

21 **CHAIR:** Let's make a start for the session after lunch. This probably is not going to take the hour  
22 because I think it will be better to start getting into the confidentiality sessions where we'll  
23 get further conversation. So we'll start out with a continuation on the current state of the  
24 industry and then move after that into the TV New Zealand closed session and then there  
25 might just need to be a wee bit of time-tabling around the other sessions after that. So let's  
26 kick off.

27 **COUNTERFACTUAL**

28 **COMMISSIONER WELSON:** Thank you. So what I want to take just the next half hour or so  
29 to do is just talk through the counterfactual. Obviously there's a large part of that  
30 conversation will take place in the -- aspects of it will take place in the confidential sessions  
31 later on, and tomorrow. But what I wanted to talk through at this point is to understand at a  
32 higher, broader level of the likely market conditions that might exist.

33 So in the Draft Determination we posited two potential scenarios for the  
34 counterfactual, neither of which we considered to be in fact the likely counterfactual. They

1 were the status quo and the digital-only scenario. What we suggested was we thought that  
2 the likely counterfactual was somewhere between those two but we couldn't predict with  
3 any degree of certainty exactly where that might be, or what level of rationalisation would  
4 occur without the merger.

5 So for the purposes of this session it's really what are the market circumstances or  
6 likely conditions that we would see when print is likely to exit the market. I'm not asking  
7 for particular circumstances, but just what is it about the market that will drive the exit of  
8 print? So perhaps if I could start with NZME first and then move to Fairfax.

9 **MS JUDKINS:** I think one of the challenges which is what I spoke about earlier in terms of some  
10 of those smaller daily newspapers is just the point in time. Those daily newsrooms are very  
11 expensive, and a number of our regional newspapers have suffered quite a significant exit  
12 of agency advertisers. Those advertisers have significantly moved a lot of advertising  
13 revenue online, there's those large agency customers.

14 So as a result, it is much more challenging to see a long-term future and that's why  
15 we've seen the likes of some of those newspapers move to community titles. They've just  
16 been unable to continue to maintain a daily newspaper in some of those smaller markets. I  
17 think that's the challenges that Fairfax have referred to in Marlborough where that's a small  
18 market for them.

19 We've been able to see that coming in some of our smaller titles, which is one of the  
20 reasons why we sold the Wairarapa business because that was something we could see on  
21 the horizon and we'll obviously speak to a lot more of that later on.

22 **CHAIR:** I just have a follow-up question on that. We heard before that you sold The Oamaru  
23 Mail to the ODT.

24 **MS JUDKINS:** That's correct.

25 **CHAIR:** They are, I assume, distributing that as a free distribution paper. And so you have issues  
26 with profitability of that for the sale?

27 **MS JUDKINS:** This was roughly three years ago where we made the decision to exit from the  
28 South Island newspapers, so we had a left over few newspapers in the South Island. One of  
29 those was a daily newspaper being The Oamaru Mail and so that was obviously a six-day a  
30 week newspaper and it's subsequently been moved to a couple of days a week as a  
31 community title. So it was a paid daily.

32 **CHAIR:** Do we still have the Allied Press representative here? Can you tell us the story of what's  
33 happening now in Oamaru?

34 **MR McKENZIE:** No pressure at all, is there? So I need to make a note now that I've been in the

1 role four months, so I wasn't there when we purchased The Oamaru Mail because it was a  
2 deal also to do with the Christchurch Star as well I believe. We've turned that into a once a  
3 week community newspaper and at the moment it's going very well, so it's actually  
4 significantly improved its financial performance and is actually delivering a good result for  
5 us at the moment, which is positive for us.

6 I'll answer the question about when do you think you'll see the end of the  
7 newspaper, from my perspective, and I'm the finance guy in the room so this is a bit of a  
8 worry for probably most people. I think it will be when you have to make a big investment  
9 decision. So we've got a press that we installed in 1999. Last time I was at Allied Press,  
10 I remember the teething pains of going through new press installation. I think when you  
11 come to install a significant piece of equipment like that, which is probably 20, \$30 million,  
12 I don't know how much they are nowadays, that will be when you will say actually, hold  
13 on, we need to do this completely differently, and I don't know when that date will be. But  
14 that would be my gut feel.

15 **COMMISSIONER WELSON:** Thank you. Fairfax.

16 **MR TONG:** First of all, I'll agree with Grant on that point. Three years ago we had issues with  
17 the Petone plant here and invested \$23 million in that plant, which was a difficult decision  
18 for the board at the time to make, but a necessary one to stay in business. We had the same  
19 challenge in Auckland which actually led to the out-source deal with APN, as they were at  
20 the time. From my recollection, APN were running at around 20 to 25 per cent capacity at  
21 Ellerslie and we were, you know, in the situation of having to spend another 20  
22 something million. So that was a reasonably easy deal in the end to put together. So I do  
23 agree with that point.

24 In terms of what are the drivers around the speed of change; I think I mentioned it  
25 earlier on, technology is a very key driver here. I think that, you know, the government's  
26 push for the ultra fast broadband should not be underestimated. We have towns, small  
27 towns, Blenheim, places like Timaru which my understanding is are completely lit up with  
28 fibre. So a New Zealander can have a gigabit download, which actually I don't think you  
29 can get that in Sydney.

30 So that technology creates an opportunity for people to shift quite quickly. In order  
31 to leverage that technology, how do you do that? You consume content. That's what will  
32 drive it.

33 So those aspects are just rolling through now. You know, my understanding is  
34 there's something like 25,000 new UFB connections a month, that's sort of the demand

1 that's being driven at the moment. So as we see those New Zealanders come on-stream  
2 with that technology it will be fascinating to see how that changes their habits. So in our  
3 mind that's something that we are watching carefully to see what that might do to, you  
4 know, the sleepy hollow town that's always had that newspaper that's been the key for  
5 them, because it could change very quickly into Jo's point before, in a town of 18,000 it  
6 doesn't take too many to alter the situation.

7 I personally, as someone who's come into media and hadn't read a newspaper for a  
8 number of years prior to joining, believe it or not, I'm of the view that we won't ever  
9 necessarily get rid of them which is why I used that example of cheques earlier on. I think  
10 there'll always be a need for it. The question is who's going to be in a position to be able to  
11 provide it at the right niche and at the right price to meet the market.

12 I think that's why there'll always be organisations that can set up and compete in  
13 niches. You see it in that ethnic market in Auckland already. New Zealand is full of  
14 examples of that. The IT industry is another good example of that, where every time large  
15 organisations consolidate, you know, Gen-i being brought by Spark, smaller organisations  
16 come up underneath to meet that need in the New Zealand market because there's  
17 opportunity. I don't see this industry as being any different.

18 So I think there will always be some print in some way, but on the scale that we  
19 have produced or that we have operated for years, that model won't exist into the future and  
20 it's the daily papers in particular which is really under pressure because the value  
21 proposition is not there when you've already got it on your phone and it's been updated ten  
22 times before that paper is delivered to you.

23 **COMMISSIONER WELSON:** That sort of leads quite nicely into my next question which was  
24 going to be how can we be more certain about what the likely counterfactual scenario is, so  
25 where in between those two extremes are, and I'm hearing you say watch UFB, I've heard  
26 obviously the need for an investment. Is there anything else that you can help us with in  
27 terms of how can we be more certain where on that spectrum the most likely counterfactual  
28 could be sitting?

29 **MR TONG:** The trends in print advertising are quite consistent in terms of the decline year  
30 on year, and in our modelling we don't see any real reason to suggest that that will alter,  
31 and so in the modelling that we do on papers we can make some assumptions around where  
32 the revenue from subscribers, if I think about dailies for a moment, crosses over with the  
33 revenue from advertising and you're at a point where you can make a decision.

34 So for each paper you can model that out reasonably quickly, running two or three

1 scenarios which is what we've done with Marlborough, but if you're looking for some lead  
2 indicators, print advertising is in decline and as I mentioned before, we've looked at, for  
3 instance, the States in the hope that if the New York Times can arrest that print decline, you  
4 know, if they see a shallowing out that may follow into our market, but we're not seeing it.

5 So those indicators are there and we can see the same sorts of things going on.  
6 Andrew talked earlier on about volume and readership and because of the nature of the  
7 market what advertisers are willing to pay for it.

8 So we do have modelling in that regard and Marlborough is the first example of  
9 that.

10 **COMMISSIONER WELSON:** Was there anything else you wanted to add?

11 **MS JUDKINS:** I think it's fair to say from NZME's perspective that we've had, and as Michael  
12 mentioned earlier, this is a point in time, we have been continually trying to innovate and  
13 take cost out. Three years ago we had four print plants across the North Island. We have  
14 subsequently closed three of those print plants and we have consolidated the majority of our  
15 production back to Ellerslie because as Simon said, we had capacity in that print plant.

16 That has meant we've had to compromise in some respects the deadlines for those  
17 daily papers because obviously they need to close sooner for trucks to move down. We  
18 have one third-party out-source print provider. Other than that we are solely at Ellerslie.  
19 That's quite a significant change to the business to where it has been in the past. But it  
20 comes to those economic decisions about re-investing in those print plants. Had we not had  
21 those capacity at Ellerslie, we would have been looking at different decision points.

22 **MR BOYLE:** Perhaps for completeness, five years ago we had nine print plants, today we have  
23 three and we'll be going to two next year.

24 **COMMISSIONER WELSON:** My next question is whether you see that there's still likely in  
25 sort of the medium term future to see a bundle for a content which includes printed  
26 newspapers. So I think, Simon, you've said you see there's always a role for print but  
27 I suppose is there an online print bundle, is that something that you see as being part of the  
28 future?

29 **MR HUTCHINSON:** The future is pretty much driven by consumers and they have chosen the  
30 smartphone as their preferred mechanism for consuming content from all over the world. I  
31 think on top of that there's an awful lot of international companies innovating on top of that  
32 standardised technology platform, and so -- and part of how they disrupt businesses is they  
33 unbundle them. So if you think the greatest minds of Silicon Valley are thinking about how  
34 to unbundle lots of different models and markets around the world and then repackage it



1 themselves into a phone, the idea of a print and digital or online bundle just doesn't seem to  
2 be something that's going to be compelling when they're already, you know, introducing  
3 smart assistance on the phone that knows what you want to read and say, "Hey there's a  
4 breaking story, I know you love politics and here's something that's happened today".

5 So I think what will be happening really, really quickly is new bundles we hadn't  
6 imagined coming together and we will innovate as aggressively as we can afford to to  
7 participate in those new types of bundles.

8 **DR SMALL:** John Small, just a comment about the bundling and the potential for innovation in  
9 that space. The thing that struck me, listening to the conversation this morning, was that  
10 there was a lot of talk about how common resources are being used in different ways  
11 through different channels, so common news gathering resource was then being channelled  
12 out in different ways.

13 It did make me wonder about alliances, if you like, between the likes of the  
14 applicants and broadcasters. I don't know whether that's something that you've thought of  
15 or they've thought of. But it does seem somewhat natural. We had the example a couple of  
16 times about the ABC in Australia which is a broadcaster and the things this they could do  
17 with content. So I sort of wonder whether that's a way of leveraging the same content  
18 through different channels potentially in a counterfactual.

19 **COMMISSIONER WELSON:** Thank you. I had one other area of discussion to move on to and  
20 that was about looking forward in the online space. But before we move on to that can  
21 I just check if there's any other questions from staff. No? So we've heard an awful lot  
22 about the online digital space today and in particular how fast moving and dynamic it is and  
23 the difficulties of monetising that space compared to traditional media platforms.

24 My first question in that area is, what developments do you expect to see in that  
25 provision of online news over the next sort of up to five years, if that's not too long a time  
26 period in such a fast changing environment? Can I start with perhaps Fairfax this time.

27 **MR HUTCHINSON:** Maybe even just thinking about the next couple of years because five years  
28 feels impossible to imagine. I guess what we will see trends accelerating. So I guess one  
29 of the most significant things we've observed being an early industry to be disrupted is that  
30 it just gets faster and faster. And so what you do today to try and protect something, by the  
31 time you've shipped it, you know, there was no point, you might as well have just jumped  
32 two or three steps ahead.

33 So that would be the first thing, is the trends that you could observe today in terms  
34 of uptake of mobile devices, the power of those devices, and the richness and variety of

1 experiences those devices can present to you will accelerate. And what I mean by that is,  
2 thinking from a news perspective, so it seems silly to us now that you will strap your phone  
3 to your head for a virtual reality experience, but if you are under 24, 22, that seems like the  
4 most natural thing you could possibly do because you're already fully trained in kind of  
5 deep spaces because you've been playing console games your entire life.

6 So this is normal and the idea that I could consume news where the news was  
7 happening all around me it would be very logical. All that can actually be delivered just on  
8 the power of that phone. That same phone has sitting on it already, like Google's new  
9 assistant, a very rich, we'll call it an artificial intelligence, that understands everything you  
10 do with your phone. So who you call, what you read, actually absolutely everything, where  
11 you go, when you go there, when you put the phone down, when you hold it up, etc, and so  
12 is actually able to predict what you want next.

13 Therefore, in the news space we certainly will be feeding our content not just to  
14 Facebook but to artificial intelligences. That will be happening in the next couple of years.  
15 Both of those have been empowered by very, very powerful, very small devices that are in  
16 a standardised ecosystem, so they'll get cheaper, so more people around the world are going  
17 to have them and they're going to get more powerful.

18 Then on top of that I think that trend around video and what video is, it will  
19 accelerate as well, because the best way to describe it is our Snapchat videos. So if you  
20 install Snapchat on your phone and subscribe to Stuff you will see that it's not just a piece  
21 to camera, there's drawings on it and stickers on it and the actual depth of the story has been  
22 explained with a diagram, a couple of photos, a little piece of video and a drawing in  
23 real-time that explains how that happened. And so literally in the space of 30 seconds you  
24 do actually understand a reasonably sophisticated concept, but not only that, you can send  
25 your response straight back.

26 So that two-way conversation using video, I think, will become just the most normal  
27 thing to happen. And that the sophistication of what appears in video compared to what  
28 we're used to, not just a piece to a camera and swing over the scene and -- that's not what  
29 it's about any more. People -- I don't want to call it decorating, they're story telling visually  
30 in very, very sophisticated ways and video can be played everywhere, and then video starts  
31 to become virtual reality, if you know what I mean.

32 So it starts to blur. In other words, I can make a video and now you can come into  
33 my world with me and I can show you these charts. That sounds very boring. But I guess,  
34 so if you think all that will happen in the next two years and we will actively participate in

1 it as best as we possibly can, as will every news media organisation around the world.

2 Then I guess the last thing is that as we see it, the way we've been funded for the  
3 last 150 years, which was mostly advertising with a bit of revenue, that advertising just  
4 moves away and we will work as fast as we can to innovate to keep a portion of it. But,  
5 you know, I'm not going to mention Facebook now. The share price of Google right now  
6 imagines future profits that would require them to substantially take more advertising  
7 market share in every country in the world. As simple as that. So those shareholders are  
8 expecting it to happen. And investing in Google hasn't been a poor decision.

9 So that's another thing just to think is the place where you used to get money is like  
10 our share of the pool is definitely getting smaller and smaller and therefore it's harder to  
11 participate in the innovation race. And that's happening over the next two years.

12 **COMMISSIONER WELSON:** Sounds very interesting.

13 **MR CURRIE:** If I can answer just on behalf of NZME. The Washington Post, under Jeff Bezos  
14 since he's purchased it, has devoted at least 47 developers in the newsroom developing new  
15 products, working alongside the journalists, looking at new ways of telling stories. At the  
16 heart of it all, the journalism still counts and it still matters and it's all about the story. But  
17 these are actually product teams who are thinking up new ways of telling that story.

18 And 18 months ago I was at the Washington Post, at that particular point in time  
19 they were talking a lot about virtual reality and augmented reality, and things have ebbed  
20 and flowed since then and there's been some great examples of virtual reality, journalistic  
21 experiences. And the Guardian's 6 x 9 solitary confinement where you wear the mask and  
22 feel yourself in solitary confinement was a great example. But right now it's the experience  
23 of most media companies that the virtual reality thing is still in its infancy from a business  
24 model point of view.

25 Even only 12 months ago media companies were rushing to develop smart watch  
26 apps and so forth. We've seen that tide roll-out a little bit on the smart watch. It's still these  
27 incredible devices that we each have that are bringing the stories directly to us from all over  
28 the world in different forms that still matter. What we're seeing in Asia at the moment  
29 around the messenger apps, WhatsApp stories being told in different ways through short,  
30 sharp bites. But it's impossible to say what will be happening in two years, it's impossible  
31 to say in six months what's happening. We've noticed our own audience habits and  
32 demands in the last six months have changed dramatically.

33 Huge growth in night-time audience now compared to morning. Traditionally, it  
34 was everyone on their phones in the morning, it still is, but the growth in the evening

1 audience is incredible. So we have to think about what's the best product and time of the  
2 day, the type of journalism to be producing for that audience.

3 **COMMISSIONER WELSON:** Can I invite anyone else in the room who might like to  
4 comment?

5 **PROF PICKER:** I guess I'll just say how hard it is to forecast, that's not very interesting is it. I've  
6 been thinking about the original paper Brin and Page, Larry Page and Sergey Brin wrote for  
7 a conference in Brisbane I guess in '98, where they lay out the vision of Google. That  
8 paper, if you haven't read it, super fascinating. They lay out the technical vision.

9 But then they've got this appendix where they turn to the question of, well, how  
10 would you finance this kind of thing? They're very dismissive of the possibility of using  
11 advertising to do that because they see there would be an inherent conflict between the need  
12 to provide search results, at the same time there would be concern that advertisers wouldn't  
13 want to be matched with those results.

14 So they don't have a business vision at all for how they would monetise what they  
15 hope will be this great product, remembering of course that they were not the first mover in  
16 that space, that you had Lycos and Excite and Alta Vista and all of those guys, and Google  
17 comes in pretty late.

18 So the idea that when we looked at that paper in '98 and when we looked at Mark  
19 Zuckerberg sitting in a Harvard classroom as an undergraduate or Harvard dormitory, that  
20 that would revolutionise this business over here, I think impossible to have imagined that.  
21 So within I listen to the discussion of virtual reality, I focus on things like Pokemon Go, the  
22 explosion we saw there, you say okay, we're going to map that to the new business.  
23 Maybe.

24 But I guess the powerfully unpredictable nature of that -- I mean, look at our recent  
25 history and would you have predicted that Google and Facebook would be doing to this  
26 business what emerged from very -- I don't want to say simple beginnings, but very  
27 different beginnings.

28 **COMMISSIONER WELSON:** I suppose that leads quite nicely on to the next question, which is  
29 what are the characteristics of the companies that are best placed to succeed in this future  
30 world that we've just been talking about, which is not that far into the future?

31 **PROF PICKER:** I don't have an idea. Look, these platform businesses having this kind of scale  
32 really matters, so the ability to build that scale and to have something distinctive. Facebook  
33 is so unbelievably locked down, right? I mean, honestly, I don't do that much with it but  
34 occasionally I want to get something out of it, I can't figure out how. They've got very

1 distinctive content and it's a network business, so they get all the benefits of all of these  
2 users producing stuff for them for free.

3 So the point someone raised earlier about displacing Myspace, I don't think I  
4 understand that history, so how would you explain that, I don't know. Google's obviously  
5 an incredibly innovative company, the machine learning that's going on that Robert was  
6 talking about, that's all very powerful.

7 I do think having great content is really valuable, but I watch in my country, the  
8 New York Times, you pick up the New York Times each day, I don't want to say they're  
9 running bake sales, that's not fair, but it's close. They have a thing in there right now where  
10 they're trying get you to buy cooking stuff from them. These boxes of delivered food that  
11 they'll show you how to cook and then they'll sell very high-end vacations to you as well.  
12 This is the leading newspaper in the United States. It's depressing.

13 **MR TONG:** I must get hold of whatever it is they've got and we'll sell some of those. I think  
14 there's a key issue here around trust that is at the heart of the conversation. There's a lot of  
15 research that suggests that if people trust in an idea, they may trust in the platform and  
16 ultimately people.

17 There's good examples like BlaBlaCar in Europe which is ride sharing which is, I  
18 don't know the stats exactly, but it's had more trips across Europe, like 4 million trips more  
19 than Virgin carries people because people have started travelling with one another and it's  
20 about trust. So what we're focused on in our business is if we have a position of trust with  
21 our communities where we've been deeply embedded for a long time, how can we use that  
22 to be open with them about our situation and look to see what we can do to build a business  
23 back out of it?

24 And to be honest with you, whether it's baking or bathrooms or, you know, to  
25 attempt to get away from the dogma that advertising and journalism have to be together all  
26 the time, I mean, the fact of the matter is the business is broken, so we're looking at  
27 alternatives.

28 But to do that you need potentially money to invest and also time, because you need  
29 to take on incumbents in other markets that are under just as much pressure. So you know,  
30 trust is critical and you can't put at risk at all. But then if you have that and you have the  
31 opportunity to talk to people you can ask them politely if they wouldn't mind paying for  
32 something and it may not necessarily be about content, it might be something else you can  
33 do for them and we've started to experiment in that way as have other people around the  
34 world.

1           So when we go back to the issue of runway, the runway is important in order to try  
2           and create ways to build some other businesses that will support the journalism.

3   **COMMISSIONER WELSON:** Who are your competitors in this world that you've just been  
4           describing? Because it sounds to me like Facebook is as much challenged by the shift to  
5           this new way of delivering news as you have been in recent times. So again, I'm interested  
6           to understand how does that landscape then play out, if that's one scenario. Obviously  
7           nobody quite knows exactly what it's going to be, but if that's one scenario of what online  
8           news might look like.

9   **MR TONG:** The big guys, Google, Amazon, Facebook, Apple, Microsoft, in amongst that group  
10          is essentially where most of the activity is, if you think about artificial intelligence and  
11          those things. I think that most of the commentary is around who's got the best strategy to  
12          be effective there. You know, then around the edges you've got the Netflix, Spotify models  
13          which they get a lot of attention but actually they don't have necessarily the same capability  
14          as those other five brands.

15                 Linked In is owned by Microsoft, they paid \$26 billion for that, because it's a social  
16          platform in a business sense. Very effective for news distribution. YouTube. You know,  
17          WhatsApp in the messaging area I think was mentioned, messaging is a very key platform.  
18          In China, lots of commerce happens within the WeChat environment. And Zuckerberg has  
19          talked about whether it be a messenger or WhatsApp, that's the intent that they have.

20                 So those four or five big organisations are the ones that are driving a lot of the  
21          investment and it's almost like an arms race between them, and you know, our businesses  
22          are collateral damage really on the way through. As many others will be. It's not  
23          necessarily specific just to media.

24   **MS BOUCHER:** Not only are they leading the technological change but they also have the  
25          resources to buy anybody else who looks like they're growing. So Facebook buys  
26          Instagram, millennials' Instagram is one of their primary ways of consuming any kind of  
27          content and interacting back. They've also gone into the virtual reality space as well with  
28          the purchase of Oculus Rift. So Google bought YouTube, they've got the money to make  
29          big bold purchases of where someone else looks like they're going to be leading the charge.

30   **MS JUDKINS:** I think one of the other important factors is also around behavioural change, in  
31          the way that people, not to consume things, but the way they're prepared to try new things.  
32          The concept a few years ago of getting into a car with someone that you didn't know would  
33          be really quite a scary concept. And yet Uber has completely transformed the way people  
34          have trust in that platform, not necessarily that driver, but absolutely trust in using that.

1 The same with Airbnb. It's hard to imagine a world even a couple of years ago when we  
2 would have quite happy done that, now people are doing that as the norm. So it's being  
3 there at that point in time of behavioural change.

4 The same with the amount of information that people share on Facebook seems  
5 quite unusual to some people that you'd share that when previously you wouldn't. But that  
6 has become much more of a social norm in behaviour. So it's those behavioural changes as  
7 much as anything which drive. And I don't know, it's chicken and egg as to which one  
8 comes first in terms of are you there at the right time, or do those platforms change people's  
9 behaviours.

10 **COMMISSIONER WELSON:** Robin, is there anything you wanted to add to that discussion?

11 **MR FOSTER:** I agree it's incredibly difficult to predict. I don't think I can add anything to the  
12 discussion so far.

13 **COMMISSIONER WELSON:** Can I check with anyone else. No? Staff, is there anything  
14 you'd like to expand on that?

15 **MS RUSBATCH:** I'd like to ask one question of both Fairfax and NZME. So there's obviously  
16 that big picture and we get back, but drilling back down, how is that impacting on your  
17 creation of New Zealand news?

18 **MS BOUCHER:** At the most fundamental level our ability to fund the creation of New Zealand  
19 news has been severely compromised by these big international companies which is where  
20 all the revenue that previously funded our journalism is going. So that's the most basic kind  
21 of part of it. But it also impacts on our creation of news and the ways that we have to, you  
22 know, create news and the platforms we have to engage on, the immediacy of news, the  
23 way people want to engage back with us.

24 So it has definitely shifted the way that news rooms operate substantially, well, out  
25 of all recognition from even five years ago. I think anyone who was in the business and left  
26 sort of five or six years ago, if they came back in now, they would not recognise how news  
27 rooms operate and sort of are forced to operate by creating distributing news within the  
28 social environment and in new formats compared to what we did even that short amount of  
29 time ago.

30 **MR CURRIE:** Again, it just comes back to all those new tools and still to be invented tools that  
31 journalists and reporters have at their fingertips now, whereas in the past, very easy  
32 assignment, go out, create 600, 700 words, come back, file it for the next day's paper.  
33 That's totally gone and there's a much stronger planning kind of culture I guess in news  
34 rooms now, not just about what the story is but how you tell that story, and that starts

1 before anyone disappears out the door.

2 **MS JUDKINS:** I think another point to add to that is simply in relation to the cost models that we  
3 have, we are very geared up to print newspapers and to distribute those newspapers. And  
4 as Shayne mentioned earlier at the Washington Post, they have 50 different developers  
5 constantly developing and creating. They're not creating content, they're just creating ways  
6 to distribute content and share that content.

7 That is a massive cost that didn't exist previously within a traditional printed  
8 newspaper business. We have the cost structures for that, but we need to be able to invest  
9 in new ways of connecting with audiences in the new skill sets and things that we need in  
10 order to develop those products.

11 **MR CURRIE:** Sorry, I should also add just the new roles in news rooms now. I talked about  
12 Bezos having 47 developers in the Washington Post, we've got three, and social teams are  
13 being created. So every reporter now is expected to obviously socialise their own stories  
14 through Facebook and Twitter and so forth, but there is actually a dedicated team who don't  
15 just train and develop journalists in those areas but also are there thinking about how they're  
16 going to tell the John Key story in a substantial way on Facebook that's completely  
17 different to The Herald website.

18 So there's a whole lot of new roles, audience analytics roles, looking at the  
19 behavioural patterns of our audience. So they've had to be created and hired within the  
20 business model that is, in the print case, slowly dying.

21 **MS CSORGO:** This might be to the confidential session, but I'll ask it anyway in case there's  
22 something that can be said about it publicly. So you've talked about this merger extending  
23 the runway. So are there specific things that you want to do that you can't do currently in  
24 terms of better positioning yourself to compete in this ever evolving marketplace?

25 **MS JUDKINS:** I think obviously we'd like to have more resources to be able to apply to create  
26 some of that new content, to be able to be innovating in the ways which people want to  
27 consume content and we have limited ability to do that right now, unless we can take some  
28 costs out of our shared back offices and things like that to free up some money to invest in  
29 future revenue streams.

30 **MS CSORGO:** Can you be a bit more specific?

31 **MS JUDKINS:** Happy to be more specific in the counterfactual sessions.

32 **MS BOUCHER:** Just on the pure editorial point of view, there is an extreme amount of  
33 duplication happening at the moment of story coverage and stories which are essentially,  
34 you know -- they're not the type of work that requires a lot of different sort of views and



1 perspectives, like 20 people turning up at the same press conference to cover basically  
2 something that was said.

3 We would like to be able to spend more time experimenting and innovating in new  
4 platforms, new ways of reaching our audience and the green shoots of things that we think  
5 could grow. It's very difficult to do that when you are essentially forced to keep running in  
6 the hamster wheel with everybody else doing the same things.

7 **CHAIR:** Can I pick up on the slightly related question, and it follows on from John Small's  
8 suggestion, to what extent you can answer it in open session, I'm not sure. But, you know,  
9 you had the suggestion put to you and we heard this morning about the importance of  
10 video, but what about alliances with other broadcasters rather than horizontal aggregation?  
11 What about integrating with other broadcasting sectors?

12 **MR CURRIE:** Of course, NZME owns six entertainment radio stations and Newstalk ZB, Radio  
13 Sport. Newstalk ZB and Radio Sport are now fully integrated with the Herald team. So the  
14 news room is 240-odd journalists across all of those different disciplines in Auckland. And  
15 we've seen great advantages in that in the way that the journalists have been developed in  
16 terms of their skills.

17 Previously, radio-only journalists who are now writing for The Herald website and  
18 producing video, and vice versa; we've had some informal partnerships with the likes of  
19 Canterbury Television. Because NZME has five or six reporters in the South Island, four  
20 of them in Christchurch and one in Dunedin; we're very thin on the ground.

21 So those alliances are happening and the third point is we've received some  
22 New Zealand On Air funding in the last 12 months to be able to produce local focus. That's  
23 enabled to us team up with a third party to hire four journalists in four different regions of  
24 the North Island to be able to produce video news on a constant daily basis with the help of  
25 the taxpayer.

26 **MR BOGGS:** I don't see it as an either/or, it may well happen anyway and in fact it will be a great  
27 thing to happen. It's a bit like Back to the Future, there used to be the NZPA where the  
28 organisations represented in this room worked together on commodity news. The  
29 businesses, I'm sure all of us are being driven, even those not sitting at this front table, are  
30 being driven to look to deliver commodity news for a cheaper price.

31 So I'll be there tomorrow when they want to have that conversation, and the day  
32 after, because I think it will be things we have to do, whether we're one organisation or  
33 whether we're multiple organisations.

34 **MR TONG:** My comment on that is along the same lines. I think the digital programmatic

1 exchange KPEX we created we should be rightly proud of. It's quite unique in many facets  
2 and it's working reasonably well and we've invited many other parties to join, and that's a  
3 good example of us working together.

4 For our businesses the fact is, though, we still have a quite substantial fixed cost  
5 base that does inhibit our ability to compete in some of these new areas and the proposed  
6 merger would allow us to remove a substantial amount of that and that would be extremely  
7 beneficial in terms of what we could do from there, and I agree with Michael, we're always  
8 having conversations with the other New Zealand organisations around how we might work  
9 more effectively together because in the end the enemy is similar because the issues are the  
10 same, really.

11 But it doesn't get away from that fundamental issue we have around the fixed costs.

12 **CHAIR:** If I can just ask one last question and it follows on from Sinead's comment. As I'm  
13 hearing it, you're wanting to rationalise to achieve significant cost savings, and then as part  
14 of that, you're not duplicating journalistic and other resources, so you can think about  
15 innovations and doing things in other ways in the hope you would generate further revenue  
16 and so on.

17 But is there a solution, if you don't sort out the solution to the free-rider, the  
18 advertising problem that sounds to be at the heart of your problems?

19 **MS BOUCHER:** Would you mind repeating that?

20 **CHAIR:** The key problem that I'm hearing is it's this dramatic shift of advertising revenue away  
21 from the merged entity parties and all of these other innovations and what you're planning  
22 to do for the future, are they going to arrest that trend? Is there something in this with all of  
23 these innovations that you might achieve that's going to actually resolve what I'm hearing is  
24 the key problem?

25 Because we're hearing you're not going to put a paywall up and advertising is the  
26 crucial form of revenue. And even the New York Times and other places still haven't got  
27 to a flat line on that, so that really is what's impacting and driving the pressure. But are you  
28 suggesting that with the merger and the ability to do further innovations and so on that you  
29 would solve that problem of the declining advertising revenue?

30 **MR TONG:** No, no, I think it's another chapter in the story, Dr Berry, I don't think that -- we  
31 wouldn't be alone on a global stage in not really having an answer to what that future model  
32 might be. I was at a conference in New York in May, a data conference with all of the  
33 senior, and most you know, largest publishers in the world, and everybody is struggling  
34 with the same issue, which is how to create a new business model from where we are. And

1 the predominant issue with it really is the data, and the quality of the targeting that come  
2 out of those platforms that we've talked about.

3 So we don't propose that it necessarily solves the problem, but it gives us a chance  
4 to find ways to create a business that is sustainable. I think the key thing for me, again, as  
5 someone who's relatively new to the industry, is to see what we can do to ensure that we  
6 keep the journalists in and around New Zealand as long as possible. So it's no silver bullet  
7 by any stretch.

8 **MS JUDKINS:** I think we're also quite aware, we look at the model that Facebook has in  
9 New Zealand with only a handful, one to three employees, but the amount of data that they  
10 have on us has given them quite an advantage over us. And one of the benefits of the  
11 merger that we talk about in our solutions is the aim to have better data that will enable us  
12 to compete more effectively with them.

13 So by having more data, more access to more video content, those types of things  
14 are the things that we hope will start to move that. But it's -- as Simon says, there's no  
15 silver bullets and no guarantees.

16 **CHAIR:** If there's nothing further on that, that brings to an end the end of the open public sessions  
17 for today. So the remaining sessions for TVNZ, Radio New Zealand, NZME and Fairfax  
18 are all closed sessions. The first one that is scheduled is for TVNZ. So the participants in  
19 this room will simply be TVNZ and counsel and experts for other parties who have signed  
20 confidentiality undertakings.

21 **Session concludes at 3.54 pm**

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