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Mainland Print Limited

Notice seeking clearance to acquire the assets of Inkwise Limited

To: registrar@comcom.govt.nz

Executive summary

Mainland Print seeks clearance to acquire the Inkwise assets

Mainland Print Limited (**Mainland Print**) seeks clearance to acquire Inkwise Limited's (**Inkwise**) heatset and coldset web offset printing assets located at Inkwise's plant in Rolleston, Christchurch (the **Inkwise assets**).

Inkwise uses the Inkwise assets to provide heatset web offset printing services to magazine publishers and retail catalogue customers, and to provide coldset web offset printing services to newspaper publishers.

Mainland Print is a joint venture between Blue Star and Allied Press

Mainland Print is a joint venture company owned in equal shares by Blue Star Group (New Zealand) Limited (**Blue Star**) and Allied Press Limited (**Allied Press**).

Blue Star is a supplier of all types of commercial printing services in New Zealand. Of most relevance to this application, Webstar (a Blue Star business division) supplies heatset offset printing from its plants in Auckland and Masterton.

Allied Press is a South Island owned media company with interests in daily and community newspapers and commercial printing operations. Of most relevance to this application, Allied Press prints newspapers from its Dunedin coldset web offset printing operation, operates a sheet-fed printing operation in Alexandra, and owns 56% of the Greymouth Evening Star, which prints newspapers from its press in Greymouth (the **Greymouth press**). Allied Press is also an Inkwise customer, as Inkwise prints Allied Press' Christchurch Star and Selwyn Times community newspapers.

Acquisition will lead to aggregation in heatset and coldset web offset printing

The New Zealand printing industry is diffuse, with total printing industry sales being approximately \$1.5 billion in the 12 months to September 2018. This acquisition will result in aggregation in only a part (about 15%) of that broader industry, by aggregating:

- Inkwise's and Allied Press' coldset web offset printing operations (and, to a negligible extent, Inkwise's and Webstar's) – these assets are used to supply printing services for newspapers; and
- Inkwise's and Webstar's heatset web printing operations – these assets are used to supply printing services for retail catalogues and magazines.

This acquisition will not result in either Blue Star or Allied Press having 100% control of the Inkwise assets via Mainland Print. As a result, Blue Star and Allied Press will each constrain the other's ability to control Mainland Print.

However, the parties do not consider they need to rely on that constraint to support clearance. Therefore, unless otherwise specified, the parties have presented the competition analysis in this application as

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if each of Blue Star and Allied Press was to become a 100% owner of Inkwise. This will overstate any concerns that could be suggested to arise from the acquisition.

Blue Star's and Allied Press' rationales for the transaction

Blue Star and Allied Press each has their own complimentary rationale for the acquisition and their cooperation to make the acquisition.

For Blue Star, Webstar wants to establish a heatset web offset printing presence in the South Island so that it can deliver print capabilities in both Islands to current and potential customers. Ovato NZ (until recently, PMP NZ Limited) is Webstar's closest competitor and is currently the only printer with heatset web print capabilities in both Islands. Webstar believes that this acquisition will improve its ability to compete with Ovato NZ to win customers who value a printing presence in both Islands.

For Allied Press, the acquisition allows it to diversify its offering into heatset web printing. Increasingly in recent times, Allied Press has found that coldset customers are demanding heatset printing from it. Allied Press' partnership with Blue Star enables Allied Press to access Webstar's heatset printing expertise to assist Allied Press to diversify into heatset web printing.

No lessening of competition in South Island coldset printing market

The acquisition will not lead to any lessening of competition for any coldset printing customers.

There are four providers of coldset web offset printing services in the South Island: Allied Press (Dunedin), Inkwise (Rolleston), Stuff (Christchurch), and the Greymouth press. The acquisition will combine Allied Press' Dunedin press and 56% ownership in the Greymouth press with Allied Press' 50% ownership in Inkwise's coldset press.

Allied Press' and Stuff's newspapers account for around 85% of coldset printing in the South Island and there is no plausible scenario in which they will be adversely affected by the acquisition.

Nor is there any likelihood that any independent newspaper publishers in the South Island would be harmed by the acquisition. There is only a minor overlap between Allied Press' community newspapers and independent community newspapers, and all community newspapers will retain the option of using Stuff. They will also retain the option to use Allied Press, or Mainland Print or the Greymouth press, in circumstances where the non-Allied Press shareholders will have an ability to prevent Allied Press' from operating these presses as one.

All South Island presses will have a strong incentive to win independent newspaper contracts. The significant decline in newspaper circulation has meant that printing presses are underutilised. Winning these contracts would enable the successful printer to increase throughput and press utilisation, and benefit from the efficiencies that flow from increased utilisation.

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In addition to these traditional coldset constraints, there is nothing to prevent Ovato NZ from competing to supply these customers by printing newsprint on its Christchurch heatset web press.

Differing competitive options for catalogue and magazine customers

As described above, web offset heatset printing is used in two major applications – the printing of magazines and the printing of national retail catalogues – with some differences in the printing options available to magazine and catalogue customers.

The retail catalogues printed by major national retailers typically require over 1.3 million copies (on average) to be heatset printed on paper that has a weight of (usually) 51 gsm. By way of comparison, office A4 paper is generally 80 gsm. Web offset printers are the only printers currently capable of printing on 51 gsm paper; sheet-fed printers typically cannot print on paper that has a weight less than 70 gsm.

In contrast, magazines use heavier paper for a higher quality finish and have smaller run sizes. Sheet-fed printers can and do compete to print magazines, although run size is the key determinant of the degree of constraint sheet-fed printers provide to web printers. As the Commission has recognised in an earlier decision, for magazines with print runs below 20,000-25,000 copies, web printing competes with sheet-fed printing, while for magazines with print runs above 20,000-25,000 copies web printing is the most economic option and sheet-fed printing exerts less of a constraint.

However, regardless of the differing options available to differing heatset printing customers, the acquisition will not substantially lessen competition for the supply to any of these customers.

No lessening of competition for retail catalogue printing

Webstar and Ovato NZ are the two main printers of retail catalogues and are each other's closest competitors. **[INKWISE CONFIDENTIAL]**

Customers in this market are large and sophisticated and can and do exert pressure by testing the market through tenders, switching suppliers, and switching advertising spend to other media either in part or in whole.

Indeed, customers switching spend to other media has led to catalogue volumes declining significantly. While no New Zealand figures are available, catalogue circulation in Australia has fallen by 20% since 2012, a scale of decline that is likely to be indicative of what is happening in New Zealand. There is no reason to believe this decline will reverse and every reason to believe that this decline will continue if not accelerate. This decline is exerting significant constraint on the merged firm and the industry more generally and will continue to do so.

In fact, the parties believe that the acquisition will increase rather than lessen competition. Webstar's entry into the South Island through the acquisition can be expected to increase competitive tension between

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Ovato NZ and Webstar as they seek to win or retain volume to maintain utilisation of their presses in the face of declining catalogue volumes.

No lessening of competition for magazine printing

While sheet-fed printers may be less of a constraint on web printers for magazines with runs above 20,000-25,000 copies than they are for magazines with runs below 20,000-25,000 copies, the acquisition is not likely to substantially lessen competition in either of those segments.

Like catalogues and newspapers, magazine circulation is decreasing, falling nearly 40% since 2012. This not only places a constraint on printers as they seek to ensure that magazine publishers are best placed to maintain their circulation, but also means that there are increasingly more magazines that fall below a 20,000-25,000 run size.

Below 20,000-25,000 copies, web printers such as Webstar, Inkwise, and Ovato NZ compete with many sheet-fed printers from both New Zealand and offshore.

Competition for larger run magazines will remain as strong if the acquisition proceeds as if it does not proceed. Webstar and Ovato NZ are the major participants in the above 20,000-25,000 copy segment and are each other's closest competitor. **[INKWISE CONFIDENTIAL]**.

Moreover, customers in the over 20,000-25,000 segment are large and sophisticated and can test the market with large volume contracts. In doing so, these customers can also exert pressure through their ability to switch printing of magazines that require less than 20,000-25,000 copies.

Mainland requests Commission grants clearance

For all these reasons, and without relying on the ability of Blue Star and Allied Press to constrain the other's ability to control Mainland Print, the acquisition of the Inkwise assets will not substantially lessen competition in any market.

Mainland Print, therefore, requests that the Commission grant clearance for its acquisition of the Inkwise assets.

Confidentiality

1. This application contains information that is confidential to one or more of Blue Star, Allied Press, Inkwise, and Mainland Print. The confidential information is commercially sensitive, and disclosure of it would be likely to unreasonably prejudice the commercial position of the party providing that information.
2. Confidential information in this application is contained in bolded square brackets with highlighting to reflect who the information is confidential to.
 - 2.1 Information that is confidential to the parties as against third parties is highlighted in yellow (i.e., **[CONFIDENTIAL]**) and listed in Attachment A.
 - 2.2 Information that is confidential to Mainland Print (i.e., Blue Star and Allied Press) as against all parties is highlighted in grey (i.e., **[MAINLAND PRINT CONFIDENTIAL]**) and listed in Attachment A.
 - 2.3 Information that is confidential to Blue Star as against all parties is highlighted in green (i.e., **[BLUE STAR CONFIDENTIAL]**) and listed in Attachment A.
 - 2.4 Information that is confidential to Allied Press as against all parties is highlighted in pink (i.e., **[ALLIED PRESS CONFIDENTIAL]**) and listed in Attachment A.
 - 2.5 Information that is confidential to Inkwise as against all parties is highlighted in blue (i.e., **[INKWISE CONFIDENTIAL]**) and listed in Attachment A.

The parties

Mainland Print Limited – the Applicant

3. The applicant for clearance is Mainland Print Limited (**Mainland Print**). Mainland Print is a joint venture company that has been established to purchase and operate the Inkwise assets that are the subject of this clearance application. Mainland Print is owned in equal shares by Blue Star and Allied Press. A copy of the joint venture agreement between Blue Star and Allied Press establishing Mainland Print is attached as **Attachment D**.
4. Mainland Print has no other assets and operates in no other markets. Each of Blue Star and Allied Press is active in various print markets throughout New Zealand as described below.

Blue Star Group (New Zealand) Limited

5. Blue Star is a privately-owned diversified print communications group, operating under several brands from 9 production locations. Blue Star is ultimately owned by Mercury Capital, Tom Sturgess and management. A copy of Blue Star's structure is included as **Attachment E**.
6. Blue Star is organised into two broad divisions: Blue Star Print Group and Webstar. Blue Star Print Group is the Group's general commercial print operation offering sheet-fed printing, digital printing, print management, packaging, marketing automation, and logistics services. Blue Star Print Group operates under the following brands: Blue Star Works, Brebner Print, Format Print, McCollams Print, Nicholson Print Solutions, Printlink, Spectrum Print, Blue Star Engage, and Blue Star Promote.

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7. Webstar is Blue Star's web printing operation. Webstar offers coldset and heatset offset web printing services from its presses in Henderson in Auckland, and in Masterton.

Allied Press

8. Allied Press is a South Island owned media company with interests in daily and community newspapers, regional television stations, internet websites, and commercial printing operations.
9. Allied Press's commercial printing operations include a coldset web offset printing operation in Dunedin from which it prints the Otago Daily Times, 17 community newspapers, two rural publications, and newspapers for third parties such as Stuff's Southland Times. Allied Press also operates a general sheet-fed commercial printing operation in Alexandra.
10. Allied Press is also a customer of Inkwise. Inkwise prints Allied Press' Christchurch Star and Selwyn Times community newspapers.
11. Finally, Fraser Smith Holdings Limited (which owns Allied Press) also owns 56% of The Greymouth Evening Star, which in turn publishes and prints The Greymouth Evening Star from the Greymouth press.

Blue Star and Allied Press will constrain each other

12. Blue Star and Allied Press will each constrain the other's ability to control Mainland Print. For example, Allied Press would not benefit if Blue Star sought to harm Mainland Print to the benefit of Webstar; similarly, Blue Star would not benefit if Allied Press sought to harm Mainland Print to the benefit of Allied Press.
13. Nevertheless, the parties do not consider they need to rely on this constraint to support clearance. Therefore, unless otherwise stated, the parties have presented the competition analysis in this application as if each of Blue Star and Allied Press was to become a 100% owner of Inkwise. Doing so will tend to overstate any concerns that could be suggested to arise from the acquisition.

Contact details

14. The contact details for the parties are:

Mainland Print c/- Webstar	Blue Star Group c/- Webstar	Allied Press Limited
114 Swanson Road, Henderson Auckland, 0653	114 Swanson Road, Henderson Auckland, 0653	52 Stuart Street Dunedin, 9016
PO Box 95 144 Swanson Auckland, 0653	PO Box 95 144 Swanson Auckland, 0653	PO Box 517 Dunedin 9054
Attention: Bernie Roberts, Chief Executive	Attention: Bernie Roberts, Chief Executive	Attention: Grant McKenzie, Chief Executive

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15. The parties request that the Commission sends all correspondence regarding this application to David Blacktop (david@blacktoplawyers.com).

The Vendors – shareholders of Inkwise Limited

16. Inkwise Limited is the company that owns the Inkwise assets that Mainland Print is acquiring.
17. Inkwise is a privately-owned company, owned 50% by Ashburton Guardian Limited (ultimately owned by interests associated with Bruce Bell), 25% by Ross Mains and 25% by Gallop Inc Limited (ultimately owned by interests associated with Steve Gallop).
18. Ashburton Guardian Company Limited owns and operates the Ashburton Guardian newspaper, which is published daily. The Ashburton Guardian is printed at Stuff (formerly Fairfax) under contract and there are no plans to change this at this stage.¹
19. Inkwise was previously named Guardian Print Limited. Guardian Print was established in 1992, primarily to print the Ashburton Guardian. Over time, Guardian Print grew as it provided coldset web offset printing services for other independent newspapers in the South Island.
20. In 2008, Inkwise commissioned a heatset web offset printing press – the DGM press. The DGM press enabled Inkwise to print catalogues and other advertising collateral that required heatset technology.
21. In 2014, Inkwise commissioned a second, higher quality, heatset web offset press – the M600 press. At the same time, Inkwise shifted its operations from Ashburton to Rolleston. The M600 press enabled Inkwise to compete in the magazine segment of the heatset market. [INKWISE CONFIDENTIAL]. Inkwise has been [INKWISE CONFIDENTIAL].
22. Inkwise’s contact details are:

79 Izone Drive
Christchurch

Attention: Steve Gallop, Chief Executive
23. Inkwise requests that the Commission sends all correspondence regarding this application to David Blacktop (david@blacktoplawyers.com).

The acquisition

Mainland Print to acquire Inkwise’s assets

24. Mainland Print is acquiring all Inkwise’s assets except certain excluded assets. A **copy** of the sale and purchase agreement is attached as **Attachment C**. The sale and purchase agreement is confidential.

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25. The sale and purchase agreement was signed on 14 March 2019. The sale and purchase agreement is conditional on several matters, including receipt of clearance from the Commission.
26. Clause 6.5 of the sale and purchase agreement details some steps the parties intend to take to improve the efficiency of their respective businesses during the period up until completion of the acquisition.
27. The parties expect that similar agreements will be established post completion between Mainland Print and each of Webstar and Allied Press respectively. These agreements will enable the parties to realise the commercial benefits of the acquisition.

Blue Star's and Allied Press' respective rationales for the transaction

28. [MAINLAND PRINT CONFIDENTIAL]

Blue Star's rationale

29. From Blue Star's perspective, its web printing operation Webstar is motivated to establish a truly nationwide heatset production footprint. Webstar competes with Ovato NZ, which markets itself as having a unique selling proposition arising from a national printing footprint and its ability to bundle together printing and distribution. Ovato NZ says this delivers freight efficiencies and greater speed to market for its customers.
30. Blue Star does not have a distribution offering and while Webstar can and does supply customers with catalogues in the South Island, some customers require – or, at least, have a strong preference for – suppliers to have print production in both Islands.
31. For example, in its 2017 RFP for the Printing and Distribution of Mailers and Circulars, [CONFIDENTIAL] required that suppliers have “printing capabilities in both the North and South Islands”.² A copy of that RFP is attached as Attachment F. Webstar responded to this tender in partnership with Inkwise but was unsuccessful. [MAINLAND PRINT CONFIDENTIAL]
32. The [CONFIDENTIAL] contract was retained by Ovato NZ given its web printing capabilities in both the North and South Islands.
33. As another example, Webstar has [MAINLAND PRINT CONFIDENTIAL].
34. For similar reasons, Stuff requires its South Island TV Guide to be printed in the South Island due to tight timeframes and Stuff's unwillingness to risk delays due to shipping across the Cook Strait. Webstar prints the North Island TV Guide.
35. For these reasons, Webstar's lack of print production facilities in the South Island has [CONFIDENTIAL]. Webstar sees establishing a presence in the South Island through the acquisition as being important to improve its competitive offering. It will improve Webstar's speed to market in the South Island, improve cost efficiencies, and reduce Webstar's environmental impacts and costs (e.g., through reduced freight and fuel consumption).

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36. Set out below are examples of the cost efficiencies obtainable by splitting production for a major catalogue customer between the North and South Islands, which mainly arise through reductions in freight costs.

Table 1: Example using [BLUE STAR CONFIDENTIAL]

Current production cost per run	Costs in split production model	Cost differential per run
[BLUE STAR CONFIDENTIAL]	[BLUE STAR CONFIDENTIAL]	[BLUE STAR CONFIDENTIAL]

37. [MAINLAND PRINT CONFIDENTIAL]. Webstar believes, therefore, that its entry into the South Island through the acquisition will enhance competition, rather than lessen it.
38. It is also Webstar's view that [MAINLAND PRINT CONFIDENTIAL]. Webstar has recently commenced printing newspapers for independent publishers in the lower North Island. Partnering with Allied Press is seen by Webstar as an important part of improving its coldset capabilities and establishing a viable position in the South Island.

Allied Press' rationale

39. From Allied Press' perspective, its web operations have been confined to coldset web printing in Dunedin. Allied Press has increasingly seen its newsprint customers starting to switch to heatset web printing for inserts and lower quality catalogues etc. [MAINLAND PRINT CONFIDENTIAL]
40. Moreover, [CONFIDENTIAL].

[MAINLAND PRINT CONFIDENTIAL]

41. [MAINLAND PRINT CONFIDENTIAL]
42. [MAINLAND PRINT CONFIDENTIAL]

Inkwise transaction

43. [MAINLAND PRINT CONFIDENTIAL], they commenced discussions with Inkwise. The rationale for the Inkwise transaction was that it would provide:
- 43.1 Webstar with the ability to offer its national retailer client base with contingency and greater speed to market; and
- 43.2 Allied Press with heatset capability and coldset operations in the north of the South Island.
44. [CONFIDENTIAL]

[MAINLAND PRINT CONFIDENTIAL]

45. [MAINLAND PRINT CONFIDENTIAL]
46. [MAINLAND PRINT CONFIDENTIAL]

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47. [MAINLAND PRINT CONFIDENTIAL]

The vendor's rationale

48. Inkwise's vendors were not actively looking to sell its business. Inkwise was approached by Allied Press and Blue Star to see whether they were interested in selling the business to them. [CONFIDENTIAL]

49. The vendors view the acquisition as being the best option for its staff, the company, and the shareholders. [INKWISE CONFIDENTIAL] Inkwise's position has seen it take a series of strategic decisions that saw the loss of 17 jobs in 2018.

50. The acquisition will secure the jobs of Inkwise's staff and mean that the Inkwise assets are owned by shareholders with the necessary capital behind them to invest for the future.

What is likely to happen absent the transaction

Mainland Print

51. [MAINLAND PRINT CONFIDENTIAL]

Inkwise

52. As already described, Inkwise operates a coldset web offset press, a DGM heatset web offset press focussed on the catalogue segment, and a M600 heatset web offset press focussed on the magazine segment.

[INKWISE CONFIDENTIAL]

53. [INKWISE CONFIDENTIAL]

54. [INKWISE CONFIDENTIAL]

55. [INKWISE CONFIDENTIAL]

56. [INKWISE CONFIDENTIAL]

57. [INKWISE CONFIDENTIAL]

57.1 [INKWISE CONFIDENTIAL]

57.2 [INKWISE CONFIDENTIAL]

58. [INKWISE CONFIDENTIAL]

59. [INKWISE CONFIDENTIAL]

[INKWISE CONFIDENTIAL]

60. [INKWISE CONFIDENTIAL]

61. [INKWISE CONFIDENTIAL]

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62. [INKWISE CONFIDENTIAL]³

63. [INKWISE CONFIDENTIAL]

64. [INKWISE CONFIDENTIAL]

[INKWISE CONFIDENTIAL]

65. [INKWISE CONFIDENTIAL]

66. [INKWISE CONFIDENTIAL]

67. [INKWISE CONFIDENTIAL]

Why the acquisition will not substantially lessen competition

Printing industry

68. There is a range of different types of printing available to produce all different types of printed material. Each different type of printing has different advantages and different disadvantages that make these different types of printing more or less effective for certain printing jobs. These advantages and disadvantages include cost, the size of the output, the type of material being printed, the ability to customise output, timeliness, and quality of finish.

69. Broadly speaking, the different types of printing options available include the following distinctions: digital versus offset printing, web versus sheet fed printing, and heatset and coldset printing.

Digital printing v offset printing

- In simple terms, digital printing is a scaled-up version of a home printer. Digital printing allows personalisation and customisation of information on each page or output. As such, it is the best solution for personalised printing such as personalised direct marketing or mail-outs.
- Offset printing involves the transfer of an image from a plate to paper. Because the image is on a plate, information cannot be customised in the same way that digital printing can. However, the advantage of offset printing is that it allows faster processing than digital printing.

Web printing v sheet fed printing

- Sheet fed printing, as the name suggests, involves printing onto individual sheets of paper.
- Web printing, in contrast, involves printing on a continuous roll of paper, which is then cut and folded by the press.

³ See [INKWISE CONFIDENTIAL].

- It is faster to set up a job on a sheet-fed press than on a web press, however a web press offers faster run speeds. What this means is that web printing becomes more cost effective compared to sheet fed printing as the run size increases.
- Heatset v coldset printing**
- Heatset and coldset refers to the way in which the ink used in printing is dried.
 - In coldset printing the ink is dried by absorption and evaporation. Newsprint is the archetypal coldset printed product. The uncoated newsprint allows the ink to absorb into the paper.
 - Heatset printing involves kerosene-based ink being dried with hot air onto coated, higher quality, paper.
70. These different methods are combined to print products for various applications within the commercial print industry. For example, newspapers are offset printed using a coldset web press. In contrast, general commercial printing is largely printed by sheet fed printers, while transactional printing (e.g., personalised bank statements, invoices etc) is printed by digital printers.
71. Statistics New Zealand figures record that total sales in the printing industry were approximately \$1.5 billion in the 12 months to September 2018. Sales in this period were 10% below the approximately \$1.67 billion of sales recorded in the 12 months to September 2014.⁴ The acquisition involves horizontal aggregation in only a part (about 15%) of the broader industry, by aggregating:
- 71.1 Inkwise’s coldset web printing assets with the coldset assets of Allied Press (based in Dunedin and its 56% ownership of the Greymouth press); and
- 71.2 Inkwise’s heatset web printing assets with the web heatset assets of Webstar (in Auckland and Masterton) (and Blue Star’s and Allied Press’ sheet-fed operations).
72. The acquisition will result in some vertical integration as the acquisition will remove Inkwise as a (nearly)⁵ 100% independent printer of community newspapers in the South Island. Allied Press operates numerous community newspapers throughout the South Island and a small number of these compete with independent community newspapers printed by Inkwise.

Relevant markets

73. Mainland Print submits that adopting the following markets will best isolate the competitive effects of the acquisition:
- 73.1 the market for the supply of coldset web offset printing in the South Island (the **South Island coldset printing market**); and

⁴ <https://www.stats.govt.nz/information-releases/economic-survey-of-manufacturing-september-2018-quarter>

⁵ Ashburton Guardian Limited is, currently, a shareholder of Inkwise.

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73.2 either:

73.2.1 the national market for the supply of printing for national retail catalogues (**the national retail catalogue printing market**);

73.2.2 the national market for the supply of heatset printing to magazine customers with print runs less than 20,000-25,000 copies (**the short run magazine market**); and

73.2.3 the national market for the supply of heatset web printing to magazine customers with print runs greater than 20,000-25,000 copies (**the long run magazine market**),

or, in the alternative, the national market for heatset offset printing services (**the national heatset printing market**).

Previous decisions

74. The Commission last considered these markets in Decision 708 (PMP Limited and APN Print NZ Limited). The Applicant in that case submitted that the relevant market was for the provision of heatset printing services to publishers of magazines and catalogues throughout New Zealand.

75. The Decision records that the Commission adopted a “national market for the provision of heat set printing”.⁶ On its face, this market did not draw a distinction between sheet fed and web heatset printing. The Commission appears to have focussed on the difference between coldset and heatset printing, rather than on the difference between sheet fed and web printing. The Decision records the Commission’s finding that:

Heat set printing is the predominant form used for the printing of magazines and higher specification retail cataloguesCold set printing is mainly used for the printing of newspapers and lower quality catalogues.⁷

76. While not apparently drawing a distinction between sheet fed and web heatset printing, the Decision records that a “web fed press is used for higher volume print runs as sheet-fed printing is uneconomic in runs of greater than 20,000 – 25,000 copies”.⁸

77. In 2017, the ACCC did not object to the merger of PMP (now Ovato Australia) and IMPG Group. In its Public Competition Assessment, the ACCC explicitly drew a distinction between web and sheet fed printing, adopting a national market for the supply of heatset web offset printing services.⁹ In doing so, the ACCC found that there was minimal potential for substitution between web and sheet fed printing for, particularly, larger catalogue and magazine customers.¹⁰ The ACCC also found there was not sufficient supply side substitution from non-heatset web offset printers to define a broader market.¹¹

⁶ Decision 708, at [25].

⁷ Decision 708, at [20].

⁸ Decision 708, at [21].

⁹ ACCC *Public Competition Assessment: PMP Limited – proposed merger with IPMG Group*, 28 March 2017, at [35].

¹⁰ ACCC *Public Competition Assessment: PMP Limited – proposed merger with IPMG Group*, 28 March 2017, at [36].

¹¹ ACCC *Public Competition Assessment: PMP Limited – proposed merger with IPMG Group*, 28 March 2017, at [37].

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78. The ACCC included catalogues and magazines in the same market. The ACCC found that heatset printers can switch production between catalogues and magazines reasonably quickly and without significant investment.¹²

Appropriate to adopt separate coldset and heatset markets

79. Mainland Print agrees with the Commission's view in Decision 708 and the ACCC's view that it is appropriate to define a separate coldset market for the purposes of isolating the competitive impact of this acquisition.
80. There is a more limited ability to substitute on the demand or the supply side from heatset printing to coldset printing due to differences in quality etc. However, that is not to say there is no substitution. Indeed, there is a degree of substitution either way.
81. For example, [CONFIDENTIAL].
82. Similarly going the other way, Webstar's experience is that when its retail customers' advertising budgets have been under pressure, they have switched from producing higher quality catalogues, to lower quality catalogues printed by coldset printers on newsprint. The Warehouse, for example, has done this in the past when paper prices have risen.
83. [CONFIDENTIAL] NZME also regularly switches Herald Homes between heatset and coldset.
84. The prospect of both types of switching will remain an ongoing constraint for both heatset and coldset operators and should be considered as part of the competition analysis, even if it does not, by itself, justify a single market.
85. The geographic scope of the coldset printing market is described below, before the various customer dimensions of the heatset market are explained.

Appropriate geographic scope of the coldset web offset printing market is the South Island

86. The major coldset printing customers are newspapers (community and daily). For these customers, speed to market is critical meaning that customers are attracted to presses that are more closely located to their area of circulation. It is for this reason that there has historically been coldset presses located in various regions throughout New Zealand. [CONFIDENTIAL]
87. Notwithstanding the regional advantages enjoyed by various coldset presses, Mainland Print submits it is sufficient for the purposes of assessing the competitive effects of the acquisition to adopt a South Island market.¹³ However, Mainland Print submits that the Commission should recognise that the location of the customer can influence the ability of a press to offer a competitive offering.

Customer dimensions of heatset market

88. Heatset web offset printing is used in two major applications: the printing of magazines, and the printing of national retail catalogues. While similar in some respects, there are differences between the competitive conditions for national retail catalogues on one hand,

¹² ACCC *Public Competition Assessment: PMP Limited – proposed merger with IPMG Group*, 28 March 2017, at [38].

¹³ If the market were wider and included North Island coldset presses, then there would be several additional competitors, including Webstar, NZME, Horton Media, and Beacon Print.

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and for magazines on the other, that mean that separate customer markets may be appropriate.

Catalogues compared to flyers and pamphlets

89. Major national retailers like Countdown, Foodstuffs, The Warehouse, Bunnings, Harvey Norman, Kmart, Supercheap Auto, Repco, Spotlight, Farmers and Mitre 10 publish catalogues that are distributed to customers via letterbox drops.
90. What distinguishes these catalogues from flyers and pamphlets distributed to letterboxes, and what might be described as product catalogues, is the weight of the paper used. National retail catalogue customers predominantly print their catalogues on 51 gsm weight paper.¹⁴ This weight of paper is cheaper and can be used on a web printer but cannot be used by sheet fed printers. Sheet fed printers cannot, generally, use paper below 70 gsm in weight.
91. Moreover, web presses can produce greater paginations in one pass through the press compared to a sheet fed press. A typical sheet fed press can do a maximum of 16 A4 pages in one pass. Webstar understands that Ovato NZ can do up to 48 A4 pages and Webstar itself can do up to 64 small A4s (American quarto) pages in one pass.
92. There is a plethora of printing options available to printers of pamphlets and flyers and web printing is not a strong competitive constraint in that segment. Therefore, competition to print pamphlets and flyers is not considered further as the acquisition will have no impact.

National retail catalogues compared to magazines

93. The distinction between national retail catalogues printed for major national retailers and magazines is the weight of paper and the quality of the finish.
94. While that distinction is easy to see when considering traditional magazines and national retail catalogues, some retailers also print catalogues on paper that is heavier than 70gsm to provide a higher quality finish. Product catalogues produced by **[MAINLAND PRINT CONFIDENTIAL]** are examples of this. For the purposes of this application, references to 'magazines' should be taken to include these types of product catalogues.
95. Unlike magazines, run size is of less importance in determining the competitive options open to national retail catalogue customers; what determines the options is the weight of the paper being used (albeit that national retail catalogue print runs are generally over 1.3 million copies on average and seldom, if ever, fall below 100,000 copies). Therefore, Mainland Print accepts that national retail catalogue customers require the services of web printers and accepts that it may be appropriate to assess the competitive effects of the acquisition in the national retail catalogue segment separately from the magazine segment.

Options for magazine customers depends on run size

96. Unlike catalogues, paper weight is not a determinative factor in what printing options a magazine publisher has available to them. Rather, it is run size that is a key determinant of the competitive options open to a magazine publisher.

¹⁴ There are some exceptions, but those exceptions do not affect the general point that national retail catalogue customers require the services of web printers. For example, **[CONFIDENTIAL]**.

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97. Mainland Print accepts the Commission’s finding in Decision 708 that, in general terms, sheet-fed printing becomes uneconomic in runs of greater than 20,000-25,000 copies. This means that for magazines requiring more than 20,000-25,000 copies, web printing is usually the most economic option. The table below shows an illustrative example of the production costs of a typical magazine format (4 cover pages printed on 200gsm weight paper, and then 64 pages printed on 80gsm glossy paper).

Table 2: Example for web and sheet fed production costs

Copies	Web Production	Sheet Production
2,500	[BLUE STAR CONFIDENTIAL]	[BLUE STAR CONFIDENTIAL]
5,000	[BLUE STAR CONFIDENTIAL]	[BLUE STAR CONFIDENTIAL]
10,000	[BLUE STAR CONFIDENTIAL]	[BLUE STAR CONFIDENTIAL]
15,000	[BLUE STAR CONFIDENTIAL]	[BLUE STAR CONFIDENTIAL]
20,000	[BLUE STAR CONFIDENTIAL]	[BLUE STAR CONFIDENTIAL]

98. However, this 20,000-25,000 figure should not be seen as a hard line. [CONFIDENTIAL]
99. Certainly, below 20,000-25,000 copies, customers can and do use both web and sheet fed heatset printing. The ability for customers to switch is [INKWISE CONFIDENTIAL], and by Webstar losing magazine jobs to sheet-fed printers such as Image Centre, Crucial Colour, Soar Print, Ovato NZ’s sheet-fed operations, Kale Print, Centurion Print, Wickliffe Press, Caxton and Alliance Print among others.
100. Mainland Print submits that this difference in customer options depending on the size of a magazine’s print run should be reflected in the competitive effects analysis whether through adopting separate markets or otherwise. Mainland Print also submits that the 20,000-25,000 previously identified by the Commission is an appropriate initial guide as a cut-off point.

Proposed market definitions for heatset printing

101. Mainland Print submits that the market definitions that best isolate the various competitive constraints for the purposes of this clearance application are to define separate markets for:
- 101.1 heatset printing for national retail catalogues (the **retail catalogue market**);

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- 101.2 heatset printing for magazines with runs less than 20,000-25,000 copies (the **short-run magazine market**); and
- 101.3 heatset web printing services for print runs over 20,000-25,000 (the **long-run magazine market**).
102. However, Mainland Print submits that it does not matter whether the Commission adopts the separate markets suggested above or adopts a general heatset printing market recognising the differing competitive constraints in various segments of that broader market.

Geographic scope of heatset printing markets

103. Mainland Print agrees with the Commission's view in Decision 708 that the heatset markets, however defined, are national.
104. That said, [MAINLAND PRINT CONFIDENTIAL].

Competition in the South Island coldset printing market

Providers of coldset printing in the South Island

105. There are three providers of coldset web offset printing services in the South Island: Allied Press from its Dunedin press and its 56% share in the Greymouth press, Inkwise from its Rolleston Press, and Stuff from its Christchurch press.
106. The revenues and capacity utilisation of each of Allied Press and Inkwise are set out below.

Table 3: South Island coldset revenue and utilisation

		2016	2017	2018
Allied Press	Revenue	[ALLIED PRESS CONFIDENTIAL]	[ALLIED PRESS CONFIDENTIAL]	[ALLIED PRESS CONFIDENTIAL]
	Utilisation ¹⁵	[ALLIED PRESS CONFIDENTIAL]	[ALLIED PRESS CONFIDENTIAL]	[ALLIED PRESS CONFIDENTIAL]
Inkwise	Revenue	[INKWISE CONFIDENTIAL]	[INKWISE CONFIDENTIAL]	[INKWISE CONFIDENTIAL]
	Utilisation	[INKWISE CONFIDENTIAL]	[INKWISE CONFIDENTIAL]	[INKWISE CONFIDENTIAL]

Stuff and Allied Press are the major customers for coldset printing in the South Island

107. The two major South Island coldset customers are Stuff and Allied Press. Together, Stuff and Allied Press account for around 85% of coldset printing in the South Island. Stuff publishes

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The Press, The Southland Times, Marlborough Express, Nelson Mail, Timaru Herald, Marlborough Midweek, The Nelson Leader, Northern Outlook, and The Tasman Leader.

108. Allied Press publishes the Otago Daily Times, The Star (Christchurch), The Oamaru Mail, The Ashburton Courier, The Courier (South Canterbury), North Canterbury News, The News (Central Otago), The Southland Express, The Ensign (Gore), Mountain Scene (Queenstown), Central Rural Life (Canterbury), Southern Rural Life (Otago and Southland), Pegasus Post, Nor'West News, Selwyn Times, Southern View, Western News, and the Clutha Leader, and owns 56% of the Greymouth Evening Star.
109. There is no scenario in which Stuff (or Allied Press) will be harmed by the removal of Inkwise as an independent coldset printer.

Other community newspaper publishers will retain sufficient options

110. Other community newspapers in the South Island include The Westport News, Wanaka Sun, Golden Bay Weekly, Fiordland Advocate, Malvern Record, Motueka Guardian, Blenheim Sun, Nelson Weekly, West Coast Messenger, East Otago Review, Waimea Weekly, and Advocate South. The Ashburton Guardian will also be fully independent post acquisition.
111. Other than the Wanaka Sun and the Ashburton Guardian, which are printed by Stuff, most of these community papers are printed by Inkwise.
112. So, while the acquisition will remove Inkwise as a 100% independent coldset printer, not much will change for independent newspapers as they would retain the ability to have their newspapers printed by Stuff as they do today. Moreover, the non-Allied Press 44% shareholders of the Greymouth press can be expected to have the incentive to seek to compete strongly to win these contracts should an opportunity arise. Similarly, Blue Star, as a 50% owner of Mainland Print, would not benefit from Mainland Print not competing to print these newspapers in the way it does today.
113. As a result, the competition between these printers can be expected to remain substantially the same as it would be absent the acquisition. These customers can tender their printing requirements and, given the decline in newspaper circulation and capacity utilisation, there is every incentive to compete as strongly as they would absent the acquisition to secure these coldset volumes.
114. Moreover, there is nothing to prevent Ovato NZ from printing for these clients using newsprint on its Christchurch heatset web press. **[INKWISE CONFIDENTIAL]**

No prospect of a foreclosure strategy

115. The acquisition does not increase the prospects of Allied Press being able to foreclose any of the independent community newspapers by withholding printing services.
116. First, there is very limited overlap between Allied Press' community newspapers and those operated by independent publishers.

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- 116.1 The Wanaka Sun (approximately 7,500 copies delivered weekly) competes with Allied Press' The News. However, The Wanaka Sun is printed by Stuff.¹⁶
- 116.2 The Record (approximately [INKWISE CONFIDENTIAL] copies delivered weekly) competes with Allied Press' Selwyn Times. Both are printed by Inkwise.
- 116.3 The East Otago Review (approximately [INKWISE CONFIDENTIAL] copies delivered monthly) is printed by Inkwise and competes with Allied Press' Oamaru Mail.
117. Second, and in any event, Allied Press is unlikely to be able to implement such a strategy given Blue Star would be disadvantaged by any foreclosure strategy and so can be expected to prevent such a strategy. Moreover, the continued existence of Stuff (and Ovato NZ) as a source of printing would prevent any such outcome.

Acquisition does not change the prospect of coordinated effects

118. While the acquisition removes Inkwise as an independent cold set printer in the South Island, the acquisition will not change the prospects of coordination in relation to the 15% of coldset printing that is provided to publishers other than Stuff or Allied Press.
119. Nearly all of this printing is done by Stuff or Inkwise today and there is no evidence to suggest coordination is occurring.
120. Furthermore, there are features of the coldset market that would make it difficult if not impossible for Allied Press/Mainland Print and Stuff to engineer a coordinated outcome. Allied Press/Mainland Print and Stuff compete by bidding for customers and the terms on which those customers are won are not transparent. To the extent that coordination took the form of tacitly allocating customers, excess press capacity and the benefit from economies of scale as utilisation increases would provide a strong incentive to continue to compete strongly to win these contracts. That is even putting aside the fringe competition provided by Ovato NZ.

Competition in the national retail catalogue market

Summary

121. The two major suppliers in the national retail catalogue market are Ovato NZ and Webstar. Ovato NZ and Webstar are each other's closest competitors and will remain so post-acquisition. Inkwise, in contrast, is a minor participant in this market and is not a particularly disruptive competitive force. [INKWISE CONFIDENTIAL]
122. The customers in this market are large and sophisticated and can and do exert pressure by testing the market through tenders, switching suppliers, and switching advertising spend to other media either in part or in whole. Customers switching to other media has led to catalogue volumes declining, which has increased competitive tension between Ovato NZ and Webstar as they seek to win or retain volume to maintain utilisation of their presses.

¹⁶ 7,500 copies of The Wanaka Sun are delivered free every week. (See <https://www.thewanakasun.co.nz/promote-your-brand.html>).

Public version

123. For these reasons, the acquisition is unlikely to substantially lessen competition in this market. Mainland Print and Webstar will continue to be constrained by Ovato NZ and the ability for customers to switch spend away from catalogues.

Main providers of national retail catalogue printing

124. There are three providers of heatset printing services for catalogue customers, Ovato NZ, Webstar, and Inkwise. Webstar estimates that the market shares are: Ovato NZ [CONFIDENTIAL]%, Webstar, [CONFIDENTIAL]%, and Inkwise [CONFIDENTIAL]%.

125. Webstar’s customers [MAINLAND PRINT CONFIDENTIAL]:

125.1 [MAINLAND PRINT CONFIDENTIAL]

125.2 [MAINLAND PRINT CONFIDENTIAL]

125.3 [MAINLAND PRINT CONFIDENTIAL]

125.4 [MAINLAND PRINT CONFIDENTIAL]

125.5 [MAINLAND PRINT CONFIDENTIAL]

125.6 [MAINLAND PRINT CONFIDENTIAL]

125.7 [MAINLAND PRINT CONFIDENTIAL]

125.8 [MAINLAND PRINT CONFIDENTIAL]

125.9 [MAINLAND PRINT CONFIDENTIAL]

126. Inkwise’s major catalogue [INKWISE CONFIDENTIAL].

127. The catalogue revenues and capacity utilisation of each of Webstar and Inkwise are set out below.

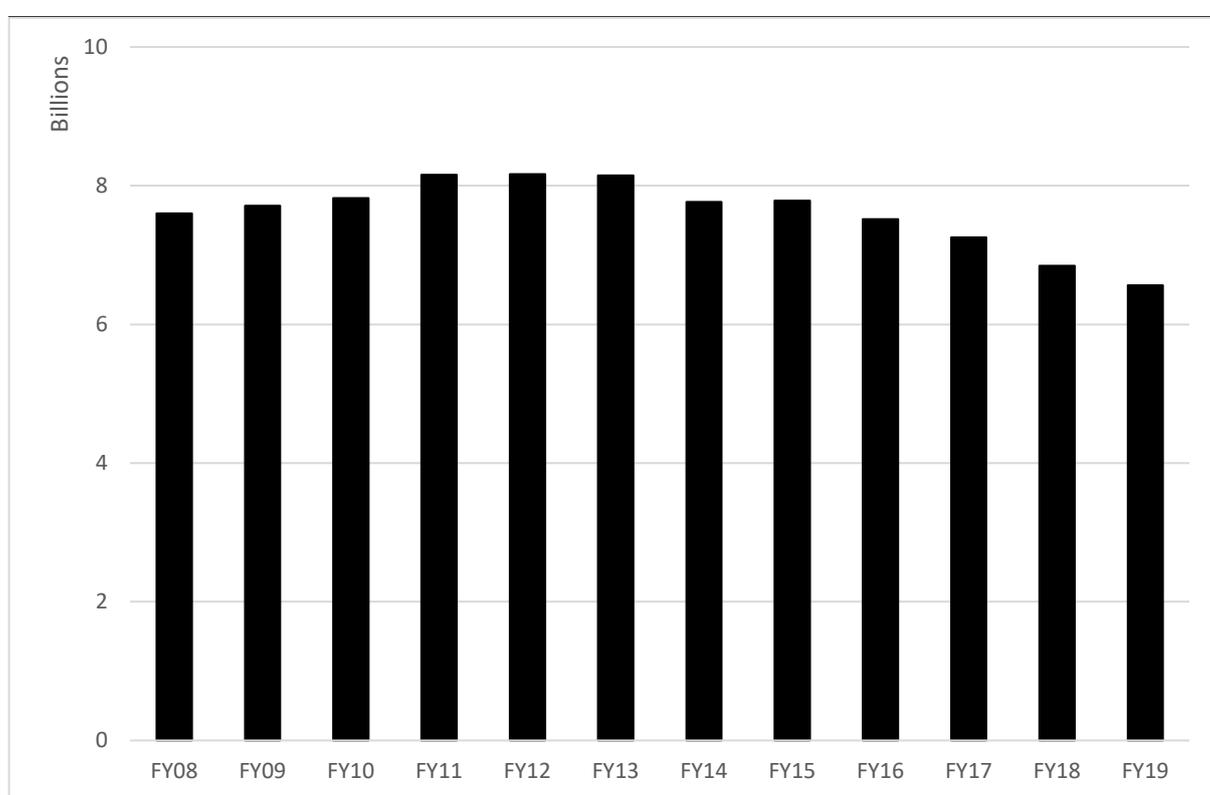
Table 4: Catalogue revenue and utilisation

		2016	2017	2018
Webstar ¹⁷	Revenue	[BLUE STAR CONFIDENTIAL]	[BLUE STAR CONFIDENTIAL]	[BLUE STAR CONFIDENTIAL]
	Utilisation	[BLUE STAR CONFIDENTIAL]	[BLUE STAR CONFIDENTIAL]	[BLUE STAR CONFIDENTIAL]
Inkwise	Revenue	[INKWISE CONFIDENTIAL]	[INKWISE CONFIDENTIAL]	[INKWISE CONFIDENTIAL]
	Utilisation	[INKWISE CONFIDENTIAL]	[INKWISE CONFIDENTIAL]	[INKWISE CONFIDENTIAL]

Decline in catalogue volumes and its impact on competition

128. As described above, the major longer run catalogue customers in New Zealand are large retailers like Countdown, Foodstuffs, The Warehouse, Bunnings, Harvey Norman, Kmart, Supercheap Auto, Repco, Spotlight, Farmers and Mitre 10. A national presence and speed to market are key requirements for these customers.
129. Webstar’s best estimate is that total sales in the catalogue market are approximately \$90 million. However, catalogue sales have declined over the last five years. While Webstar has no New Zealand aggregate data, Webstar believes that the New Zealand trend is consistent with trends in Australia. As illustrated in the graph below, the volume of catalogues delivered in Australia has declined from a peak in 2012 to the point where 2018 volumes are below 2008 volumes.

Figure 1: Australasian Catalogue Association, Letterbox delivered volumes, 12 months to October



130. There are several reasons for this reduction in volumes, but the root cause is the same: the increasing use of digital media to communicate with consumers. Customers are increasingly switching their media spend to other forms of advertising to communicate with consumers, including personalised electronic communications via email. An example of this is the supermarkets using cardholder data to communicate in a more personalised way with existing customers.
131. Furthermore, customers are publishing catalogues online via a store’s own website and app. These catalogues are then picked up by catalogue aggregator sites and apps such as SaleFinder, Lasoo NZ, CatalogueNZ.com and my-catalogue.nz. By publishing the catalogues electronically, customers avoid the printing and distribution costs associated with letterbox dropped catalogues.

Public version

132. The reduction in printed catalogue volumes can be seen in Webstar's sales to some of its larger customers. For example, [MAINLAND PRINT CONFIDENTIAL]. Other examples include:
- 132.1 Big Save switching out of catalogues completely in 2017 and placing all marketing spend online, and in TV/ Radio and newspapers; and
 - 132.2 Furniture City switching out of catalogues completely in 2016 and moving to newspapers only.
133. The decrease in catalogue volumes means Webstar, Ovato NZ, and Inkwise are increasingly competing with other forms of media to retain volumes. Webstar expects this trend to continue if not accelerate into the future.
134. Moreover, the decrease in volumes has resulted in there being excess capacity in relation to catalogues. Catalogue presses were, for the most part, established at a time when catalogue volumes were higher. This excess capacity has increased the importance of competing to win volumes to maintain press utilisation and the associated efficiencies that come from greater utilisation.

Ovato NZ is, and will remain, a strong competitor

135. Ovato NZ is part of Ovato Limited, an Australian listed company. Ovato NZ is a very strong competitor in the catalogue market with a share of [CONFIDENTIAL]%. Its major catalogue customers include:
- 135.1 Woolworths;
 - 135.2 Foodstuffs;
 - 135.3 Supercheap Auto;
 - 135.4 Michael Hill;¹⁸
 - 135.5 Ezibuy (which it has recently won from Webstar);
 - 135.6 Kmart;
 - 135.7 Repco; and
 - 135.8 Sky TV.
136. Ovato NZ will continue to be a strong competitive force regardless of whether the acquisition proceeds or not.
137. While Ovato NZ has a [CONFIDENTIAL]% share, Webstar is not aware of any reason why Ovato NZ would not be able to expand its catalogue volumes further, nor any reason why it would not compete strongly for any contract that comes up for renewal. Webstar understands that in January 2018 Ovato NZ decommissioned a 24-page press and installed a 48-page press in its place. Webstar understands that the 48-page press has more than

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doubled the productive capacity of the 24-page press. This is because the 48-page press runs faster and has the capacity to print a wider range of formats.

138. Webstar believes that **[CONFIDENTIAL]**.
139. Moreover, Webstar believes Ovato NZ's print capabilities in both Islands **[CONFIDENTIAL]** particularly when combined with Ovato NZ's ability to bundle printing and distribution. Ovato NZ markets these capabilities as providing it with an ability to offer speed to market and freight efficiencies **[CONFIDENTIAL]**. Webstar believes Ovato NZ's ability to print in both Islands **[CONFIDENTIAL]**.
140. From Webstar's perspective, the rationale for the acquisition is to immediately increase its competitiveness by having printing capabilities in both Islands. **[MAINLAND PRINT CONFIDENTIAL]**

Inkwise is a more distant competitor for Webstar and Ovato NZ

141. Inkwise is a more distant competitor for Webstar and Ovato NZ than Ovato NZ and Webstar are for each other. Inkwise has a much smaller share of the market (estimated by Webstar at **[CONFIDENTIAL]**%) and is not perceived by Webstar as a particularly vigorous competitor in the catalogue market.
142. **[INKWISE CONFIDENTIAL]**
143. **[INKWISE CONFIDENTIAL]**
144. Indeed, if anything, the acquisition will enhance competition between Webstar and Ovato NZ as Webstar will have an interest in Mainland Print enabling it to compete more strongly with Ovato NZ.

Likelihood of entry

145. Given the current excess capacity in the industry and declining catalogue and magazine volumes, Mainland Print believes that new greenfields entry into New Zealand is unlikely. That said, there is nothing to prevent greenfields entry other than the availability of capital and a business case. Webstar estimates that the costs of greenfields entry would be in the order of **[MAINLAND PRINT CONFIDENTIAL]**.
146. The more likely source of entry would be by an existing coldset printer converting a coldset press into a hybrid heatset press. Fairfax in Australia has been producing heat set catalogues out of its Richmond newspaper plant following a coldset conversion. A coldset conversion may become attractive as the volume of newspapers being printed continues to decline. Webstar estimates that it would cost in the order of **[MAINLAND PRINT CONFIDENTIAL]** to convert a coldset press to a heatset press and could be done **[MAINLAND PRINT CONFIDENTIAL]**.
147. The ACCC recently found that there was a credible threat of entry in Australia by coldset printers in the event of an exercise of market power:
 - ... if opportunities arose, due to a reduction in excess capacity or higher printing prices, new entry or expansion by existing smaller heatset web offset industry participants would act as a competitive constraint on the merger parties. The ACCC considered that such expansion could be achieved relatively quickly by newspaper publishers given: they already participate

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in the market; they already possess some of the equipment; they have suitable facilities, often in locations attractive to customers; and they have an established reputation in the market.¹⁹

148. Like the ACCC, Mainland Print does not believe entry is likely in the current market conditions. However, if the level of excess capacity were to fall or prices were to rise, coldset presses could enter the heatset market for catalogues. Candidates for entry include Horton Media, NZME, Beacon Print, and Stuff (whether under existing ownership or new ownership).
149. Moreover, the prospect of further expansion by overseas printers who would print catalogues offshore and then deliver them into New Zealand exists. Some overseas printers have in the past, or are now doing, this and there are a range of other offshore printers who could do likewise should a commercial opportunity present itself. For example, **[MAINLAND PRINT CONFIDENTIAL]**.

Major customers have several options to constrain a price increase/quality decrease

150. Post-acquisition, in addition to simply switching to Ovato NZ, catalogue customers will have several options available to them to constrain a price increase from Mainland Print/Webstar. **[INKWISE CONFIDENTIAL]**
151. The most obvious form of constraint other than switching to Ovato NZ is the one customers are already exercising independent of this acquisition, i.e., switching catalogue spend to other forms of advertising and publishing catalogues online. In some cases, this may mean ceasing to print catalogues altogether.
152. Depending on the customer, a customer may also have options to remove printing volumes from Mainland Print/Blue Star in other areas, e.g., magazines, any sheet fed printing, printing offshore etc. These options are also available for agencies acting on behalf of clients.
153. Finally, many of these customers are large enough to sponsor entry into the market, or at least credibly threaten to do so.

Competition in the magazine market

Summary

154. While the competitive constraints differ depending on whether a magazine run is above or below 20,000-25,000 copies, the acquisition is not likely to substantially lessen competition in either of those segments.
155. As with catalogues and newspapers, magazine circulation is decreasing, having fallen nearly 40% since 2012. This places a constraint on magazine printers, as they seek to ensure that magazine publishers are best placed to maintain their circulation. This constraint applies regardless of the size of the magazine print run and will continue to apply with or without the acquisition.
156. It also means that individual magazine runs are themselves decreasing. As a result, there are increasingly more magazines that fall below a 20,000-25,000 run-size. Below 20,000-25,000

¹⁹ ACCC Public Competition Assessment: PMP Limited – proposed merger with IPMG Group, 28 March 2017, at [57].

Public version

copies, sheet fed printers are a strong substitute for web printers and will continue to provide a constraint in addition to the constraint Ovato NZ will provide.

157. Mainland Print accepts that above 20,000-25,000 copies, sheet-fed printers are less of an economic substitute for web printers like Webstar and Ovato NZ. While the acquisition would remove Inkwise as an independent printer of magazines, Ovato NZ and Webstar are each other's closest competitors in this segment and will remain so post-acquisition. Inkwise, in contrast, is a minor participant in this market and is not a particularly disruptive force for competition. For these reasons, the acquisition will not lead to a substantial lessening of competition.

Main providers of magazine printing

158. The main providers of printing services for magazines are set out below.

Public version

Table 5: Magazines by printer

Printer		Magazines printed > 20,000	Examples of magazines printed < 20,000	Approximate market share
Webstar	Web	• [MAINLAND PRINT CONFIDENTIAL]	• [MAINLAND PRINT CONFIDENTIAL]	[MAINLAND PRINT CONFIDENTIAL]
Blue Star	Sheet-fed	• [MAINLAND PRINT CONFIDENTIAL]	• [MAINLAND PRINT CONFIDENTIAL]	[MAINLAND PRINT CONFIDENTIAL]
Ovato NZ	Web and sheet-fed	<p>Weekly</p> <ul style="list-style-type: none"> • NZ Listener (Bauer) • NZ Womans Weekly (Bauer) • NZ Farmers Weekly <p>Monthly</p> <ul style="list-style-type: none"> • Healthy Food Guide • Dairy Farmer <p>Annual</p> <ul style="list-style-type: none"> • Bounty Your Pregnancy • Bounty Your Baby 	<p>Monthly</p> <ul style="list-style-type: none"> • NZ Fishing News • Wilderness • Boating New Zealand • M2 Magazine <p>Alternate month</p> <ul style="list-style-type: none"> • M2woman Magazine • Education Review • Nursing Review <p>Quarterly</p> <ul style="list-style-type: none"> • Simply You (Bauer) • OHBaby! 	[MAINLAND PRINT CONFIDENTIAL]
Image Centre Group	Sheet-fed	• [CONFIDENTIAL]	• [CONFIDENTIAL]	[MAINLAND PRINT CONFIDENTIAL]

Public version

Printer		Magazines printed > 20,000	Examples of magazines printed < 20,000	Approximate market share
Inkwise	Web	• [INKWISE CONFIDENTIAL]	• [INKWISE CONFIDENTIAL]	[MAINLAND PRINT CONFIDENTIAL]
Other Sheet-fed printers			Various	5%

Public version

159. In addition, the Bauer published Property Press can be classified as a magazine. Webstar prints [CONFIDENTIAL]. Moreover, and as described above, there are magazine style product catalogues that are best considered as part of the magazine market. Neither are included in the table above.
160. The revenues and capacity utilisation of each of Webstar and Inkwise is set out below.

Table 6: Magazine revenue and utilisation

		2016	2017	2018
Webstar ²⁰	Revenue	[BLUE STAR CONFIDENTIAL]	[BLUE STAR CONFIDENTIAL]	[BLUE STAR CONFIDENTIAL]
	Utilisation	[BLUE STAR CONFIDENTIAL]	[BLUE STAR CONFIDENTIAL]	[BLUE STAR CONFIDENTIAL]
BlueStar sheetfed ²¹	Revenue	[BLUE STAR CONFIDENTIAL]		
	Utilisation	[BLUE STAR CONFIDENTIAL]		
Inkwise	Revenue	[INKWISE CONFIDENTIAL]	[INKWISE CONFIDENTIAL]	[INKWISE CONFIDENTIAL]
	Utilisation	[INKWISE CONFIDENTIAL]	[INKWISE CONFIDENTIAL]	[INKWISE CONFIDENTIAL]

Decline in magazine circulation volumes and its impact on competition

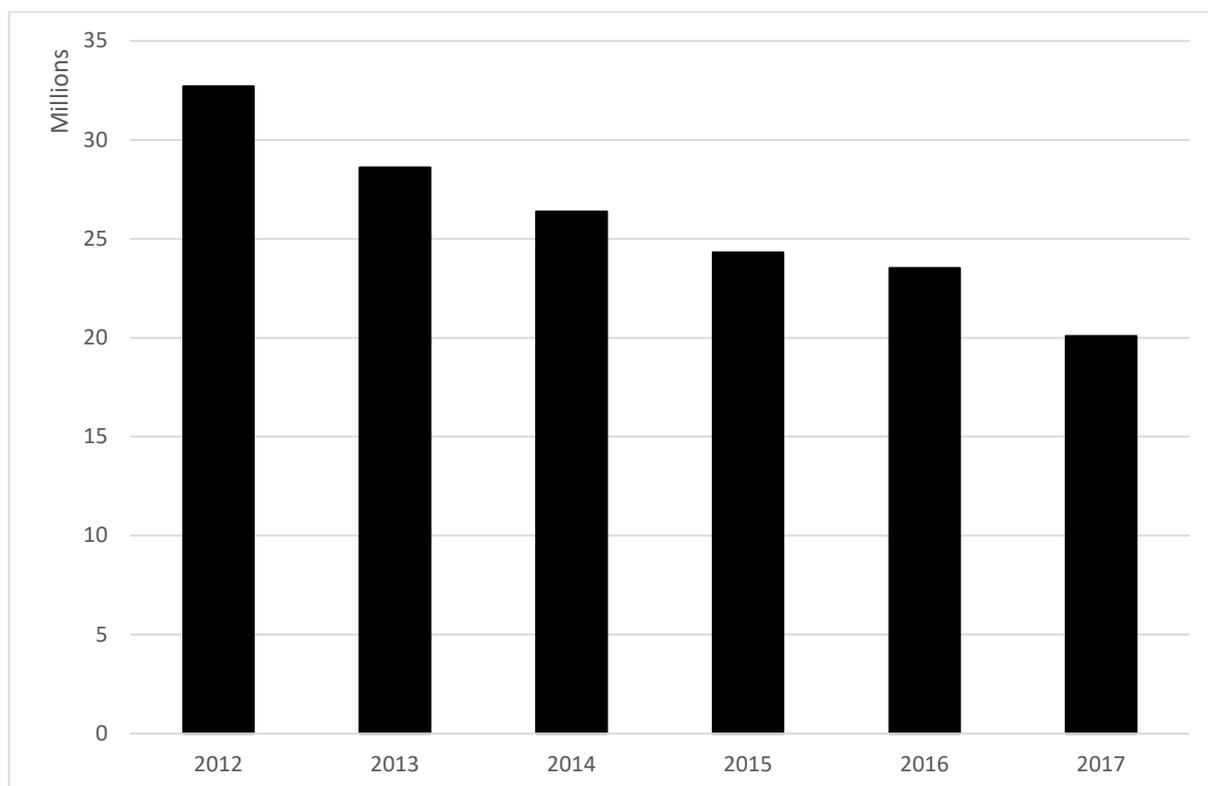
161. Like catalogues and newspapers, the circulation and readership of magazines is declining. The number of magazine titles has declined by approximately 19% from 2,657 titles in 2012 to 2,157 titles in 2017.²² Furthermore, Figure 2 below illustrates that the number of magazines sold in New Zealand has fallen from 32.7 million in 2012 to 20.1 million in 2017, a 39% reduction. While Webstar does not have figures for 2018, it expects this trend will have continued.

²⁰ [BLUE STAR CONFIDENTIAL]

²¹ [BLUE STAR CONFIDENTIAL]

²² Data from the Magazine Publishers Association.

Figure 2: Magazine copies sold 2012-2017 (Magazine Publishers Association)



162. The reduction in magazine circulation has had three impacts.

162.1 First, it has led to the exit from the New Zealand market of some titles or at least the printing of those titles (e.g., Time Magazine (now printed in Australia), New Weekly/Recipes Magazine (now printed by Ovato Australia in Australia), and AA Tourism Holiday Guide titles (printed in Asia)).

162.2 Second, it has decreased the volume and throughput of web printers thereby reducing their efficiency.

162.3 Third, it has reduced the run size of many magazines into a range where they are contestable as between web and sheet fed printers.

163. This reduction in magazine circulation is expected to continue and will significantly constrain all competitors competing to print the magazines that remain in the market.

Ovato NZ is, and will remain, a strong competitor

164. As described above, Ovato NZ is a strong competitor in relation to magazine printing. Ovato NZ is Webstar's closest competitor and would continue to be a strong competitive force regardless of whether the acquisition proceeds. Webstar is not aware of any reason why Ovato NZ would not be able to expand its magazine volumes, nor any reason why it would not compete strongly for any contract that comes up for renewal. As highlighted earlier, Webstar understands that Ovato NZ has recently installed a 48-page press to replace a 24-page press, increasing its capacity.

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165. Ovato NZ can compete using its New Zealand presses and its Australian presses and relationships. For example, Ovato Australia prints 100% of Bauer's magazine requirements in Australia, a contract Webstar believes would be in excess of A\$100 million per year.
166. This has two impacts. First, it provides a forceful incentive for Ovato NZ to compete strongly for Bauer titles in New Zealand to protect Ovato Australia's position with Bauer. Second, Ovato Australia provides a direct constraint on Webstar. For example, in the last three years Webstar has lost Bauer titles New Weekly and Recipes to Ovato Australia. Those magazines are now printed in Australia and flown to New Zealand.

Inkwise is not Webstar's closest competitor in the magazine segment

167. Inkwise has a smaller presence in the magazine market compared to Webstar and Ovato NZ. Inkwise prints:
 - 167.1 [INKWISE CONFIDENTIAL] magazines with runs over 20,000-25,000 copies, with [INKWISE CONFIDENTIAL]; and
 - 167.2 [INKWISE CONFIDENTIAL] magazines with runs under 20,000-25,000 copies.
168. [INKWISE CONFIDENTIAL]
169. [INKWISE CONFIDENTIAL]
170. [INKWISE CONFIDENTIAL]

Competition from sheet-fed printers will remain for short run magazines

171. There are a range of sheet-fed printers who will continue to constrain Webstar/Mainland Print in the under 20,000-25,000 copy magazine segment.
172. Image Centre Group describes itself as New Zealand's largest independent communications group. ICG Print is the Group's print operation, which includes sheet-fed printing suitable for magazines. As illustrated above, Image Centre prints a significant number of magazines, including Dish which has a print run over 20,000 copies. Webstar does not believe Image Centre to be capacity constrained and there is nothing to prevent it from printing additional magazine titles.
173. There are also many other sheet-fed printers that compete in the magazine segment, including:
 - 173.1 Crucial Colour: www.crucialcolour.com
 - 173.2 Wickliffe NZ Limited: www.wickliffe.co.nz/offset-printing
 - 173.3 Fisher Print: www.fisherprint.co.nz/printing/offset-printing
 - 173.4 Caxton: www.caxton.co.nz
 - 173.5 PWA Griffin: www.pwagriffin.co.nz
174. There is nothing to prevent any one of these, or the many other New Zealand sheet-fed printers, from expanding their presence in the magazine segment for print runs under

Public version

20,000 copies. No capital investment would be required; sheet-fed printers already have the necessary equipment to produce magazines today.

Competition from overseas printers will remain

175. A material number of New Zealand magazines are printed overseas and delivered into New Zealand. These magazines include both sheet-fed and web printed magazines. There is nothing to prevent this trend continuing.
176. As already explained, Bauer prints New Zealand titles in Australia and delivers them into New Zealand. Webstar also lost the printing of Time magazine to IPMG Australia (now Ovato Australia); Time magazine is now printed in Australia and flown to New Zealand. Similarly, the AA Group has regularly sourced their printing requirements from Asia.
177. Australian web printers include Access Print and Spotpress, while Fairfax Media, News Corporation, and West Australian Newspapers, could also supply heatset web offset printing, using heatset and hybrid presses, should the commercial opportunity arise.²³
178. Times Printing and KHL Printing in Singapore tend to be the major Asian printers who have supplied magazines into New Zealand, and there are many printers throughout South East Asia that could provide printing services if required.

Likelihood of entry

179. Given the reduction in magazine circulation, it is unlikely that a new greenfields New Zealand based web printer will enter the magazine market. That said, there is nothing to prevent greenfields entry other than the availability of capital and a business case. As already described, Webstar estimates that the costs of greenfield entry would be in the order of **[MAINLAND PRINT CONFIDENTIAL]**.
180. The more likely source of entry would be by an existing coldset printer converting a coldset press into a heatset press for catalogues and then extending into magazines. Fairfax in Australia has been heatset printing catalogues out of its Richmond newspaper plant following a coldset conversion. This could extend to magazines. A coldset conversion in New Zealand may become attractive as the volume of newspapers being printed continues to decline. Webstar estimates that it would cost in the order of **[MAINLAND PRINT CONFIDENTIAL]** to convert a coldset press to a heatset press and could be **[MAINLAND PRINT CONFIDENTIAL]**.
181. However, the most likely entry is a continuation of entry by overseas web and sheet-fed printers who would print magazines offshore and then deliver them into New Zealand. As described above, some overseas printers are already doing this and there are a range of other offshore printers who could do likewise should a commercial opportunity present itself.

Customers have several options to constrain a price increase/quality decrease

182. For all the reasons described above, customers would retain sufficient options to constrain Mainland Print/Webstar. Post-acquisition, in addition to simply switching to Ovato NZ or another provider (for runs below 20,000-25,000 copies), a customer may also have options

²³ ACCC Decision at [28]-[29].

Public version

to remove printing volumes from Blue Star in other areas, e.g., any sheet-fed printing, printing in Australia etc.

183. Moreover, like national retail catalogue customers, customers seeking magazine style product catalogues can switch catalogue spend to other forms of advertising.

Acquisition does not change the prospect of coordinated effects in any heatset market

184. The acquisition will not change the prospects of coordination in any of the relevant markets. The relevant markets do not have characteristics which make them vulnerable to coordination and there is no evidence that coordination is already occurring. Furthermore, the removal of Inkwise from these markets will not change conditions so that coordination is more likely, more complete, or more sustainable.²⁴

185. The Commission has previously recognised that:²⁵

... there are a range of characteristics that are commonly accepted as making a market vulnerable to coordination, the existence of these features on their own point only to a market being vulnerable to coordination. They do not indicate whether coordination is occurring, will occur in the future, or whether the merger makes any difference to the likelihood of coordination.

186. There is no evidence of existing coordination in any heatset market. This is unsurprising as there are features of the heatset markets that would make it difficult if not impossible for Webstar and Ovato NZ to engineer a coordinated outcome.

187. As described above, Webstar and Ovato NZ compete by bidding for relatively large and lumpy contracts and the terms on which those contracts are won are not transparent.

188. Furthermore, Webstar and Ovato NZ's presses have different strengths, which when combined with different volume and capacity utilisation means that Webstar and Ovato NZ are likely to have different costs to serve different customers.

189. Nor is this a static market. It is a market undergoing disruption from the increasing digitisation of advertising and communications, which has led to a reduction in demand for web printing services, and, in the magazine market, an increase in the number of contracts sheet-fed printers can compete for as magazine run sizes decline.

190. Finally, Inkwise is not an atypically vigorous or strong competitor playing a disruptive role for coordination in this market [INKWISE CONFIDENTIAL]. Moreover, there are a range of other competitors that will continue to act as a constraint on the parties, in the form of overseas printers and independent sheet-fed printers.

191. So, while Mainland Print acknowledges that the market will remove one independent source of heatset printing, this does not change any of the conditions such that coordination is more likely, or more likely to be more complete or more sustainable.

²⁴ Mergers and Acquisitions Guidelines at [3.86].

²⁵ See, for example, Z Energy Limited and Chevron New Zealand [2016] NZCC 10, at [159].

Summary and conclusion

192. For the reasons explained, Mainland Print's acquisition of the Inkwise assets will not substantially lessen competition in any market (however the markets are defined). Post-acquisition, Mainland Print and its shareholders will continue to be constrained by Ovato NZ and the range of other printing options open to customers, plus their customers' ability to switch away from printed media altogether.
193. Mainland Print, therefore, requests that the Commission grant clearance for its acquisition of the Inkwise assets.

We, Bernie Roberts and Grant McKenzie, have prepared, or supervised the preparation, of this notice seeking clearance insofar as it relates to the operations of Blue Star and Allied Press respectively.

To the best of our knowledge, we confirm that:

- all information specified by the Commission has been supplied;
- if information has not been supplied, reasons have been included as to why the information has not been supplied;
- all information known to me that is relevant to the consideration of this notice has been supplied; and
- all information supplied is correct as at the date of this notice.

We undertake to advise the Commission immediately of any material change in circumstances relating to the notice.

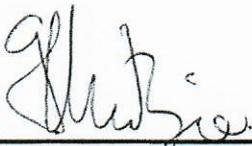
We understand that it is an offence under the Commerce Act to attempt to deceive or knowingly mislead the Commission in respect of any matter before the Commission, including in these documents.

I, Bernie Roberts, am the CEO of Webstar and a director of Mainland Print. I, Grant McKenzie, am the CEO of Allied Press Limited and a director of Mainland Print. We are each duly authorised to submit this notice.



Bernie Roberts, Director

Date: 15/3/19



Grant McKenzie, Director

Date: 15/3/19

Attachment A: Schedule of confidential information

Information that is confidential to the parties as against third parties (highlighted in yellow)

- The name of the person in the first sentence of paragraph 31.
- All of footnote 2.
- The name of the person in the first sentence of paragraph 32.
- All of the first sentence of paragraph 35 after the words “South Island has”.
- All of paragraph 40 after the words “Moreover,”.
- All of paragraph 44.
- The last sentence of paragraph 48.
- All of paragraph 81 after the words “For example,”.
- All of paragraph 83 except the last sentence.
- All of the last sentence of paragraph 86.
- All of the second sentence of footnote 14 after the words “For example,”.
- All of paragraph 98 after the first sentence.
- The figures in paragraph 124.
- The figure in paragraph 135.
- The figure in paragraph 137.
- All of paragraph 138 after the words “believes that”.
- The words between the words “both Islands” and “particularly” in the first sentence of paragraph 139.
- All of the second sentence of paragraph 139 after the words “freight efficiencies” .
- All of the third sentence of paragraph 139 after the words “both Islands”.
- The figure in paragraph 141.
- The Image Centre Group Magazine titles in Table 5.
- All of the second sentence of paragraph 159 after the words “Webstar prints”.
- The names and contact details of the persons listed in Attachment B.
- Attachment C.

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- Attachment D.
- Attachment G.
- The second paragraph in Attachment H.

Information that is confidential to Mainland Print (highlighted in grey)

- All of paragraph 28.
- All of paragraph 31 after the third sentence.
- All of paragraph 33 after the words “As another example, Webstar has”.
- All of paragraph 37 except the last sentence.
- All of the first sentence of paragraph 38 after the words “Webstar’s view that”.
- All of paragraph 39 after the second sentence.
- The heading after paragraph 40, and all of paragraphs 41 and 42.
- The first clause of the first sentence in paragraph 43.
- The heading after paragraph 44, and all of paragraphs 45, 46 and 47.
- All of paragraph 51.
- The names of the persons in the second sentence of paragraph 94.
- All of paragraph 104 after the words “That said,”.
- All of paragraph 125 after the words “Webstar’s customers”.
- The second sentence of paragraph 132 after the words “For example,”.
- All of paragraph 140 after the first sentence.
- The dollar amounts in paragraphs 145 and 146, and all of the last sentence of paragraph 146 after the words “could be done”.
- All of paragraph 149 after the words “For example,” in the third sentence.
- The Webstar and Blue Star magazine titles and all market shares in Table 5.
- The dollar figure in paragraph 179.
- The dollar figures in paragraph 180.
- Attachment F.

Public version

Information that is confidential to Blue Star (highlighted in green)

- The name of the person in the heading of Table 1, and all the dollar figures in Table 1.
- The dollar figures in Table 2.
- The revenue and utilisation figures for Webstar in Table 3.
- All of footnote 17.
- The revenue and utilisation figures for Webstar and Blue Star sheetfed in Table 6.
- All of footnotes 20 and 21.

Information that is confidential to Allied press (highlighted in pink)

- The revenue and utilisation figures for Allied Press in Table 3.
- All of footnote 15.

Information that is confidential to Inkwise (highlighted in blue)

- On page 3 of the Executive Summary, the second sentence of the paragraph adjacent to the heading “No lessening of competition for retail catalogue printing”.
- On page 4 of the Executive Summary, the third and fourth sentences of the paragraph that begins beginning with the words “Competition for larger run magazines will remain as strong if the acquisition proceeds as if it does not proceed”.
- All of paragraph 21 after the first three sentences, with the exception of the words “Inkwise has been” at the start of the fifth sentence.
- All of footnote 1.
- All of paragraph 49 except the first and last sentences.
- The heading after paragraph 53 and all of paragraphs 53 to 59.
- The heading after paragraph 59 and all of paragraphs 60 to 64.
- The heading after paragraph 64 and all of paragraphs 65 to 67.
- The words between the words “is” and “, and by” in the second sentence of paragraph 99.
- The revenue and utilisation figures for Inkwise in Table 3.
- The last sentence of paragraph 114.
- The figures in paragraphs 116.2 and 116.3.
- The last sentence of paragraph 121.
- All of paragraph 126 after the words “major catalogue”.

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- The revenue and utilisation figures for Inkwise in Table 4.
- All of paragraphs 142 and 143.
- All of the second sentence of paragraph 150.
- The Inkwise magazine titles in Table 5.
- The revenue and utilisation figures for Inkwise in Table 6.
- The figure in paragraph 167.1 and all of paragraph 167.1 after the word “with”.
- The figure in paragraph 167.2.
- All of paragraphs 168, 169, and 170.
- All the words in paragraph 190 between the word “market” and the word “Moreover”.

Attachment B: Schedule of industry contacts

Party	Contact
Printers	
Ovato NZ Limited	[CONFIDENTIAL]
Stuff	[CONFIDENTIAL]
Image Centre Group	[CONFIDENTIAL]
Soar Print	[CONFIDENTIAL]
Horton Media	[CONFIDENTIAL]
Beacon	[CONFIDENTIAL]
Wickliffe NZ Limited	[CONFIDENTIAL]
Caxton	[CONFIDENTIAL]
PWA Griffin	[CONFIDENTIAL]
South Island independent newspaper customers	
The Westport News	[CONFIDENTIAL]
Wanaka Sun	[CONFIDENTIAL]
Golden Bay Weekly	[CONFIDENTIAL]
Fiordland Advocate	[CONFIDENTIAL]
Nelson Weekly	[CONFIDENTIAL]
East Otago Review	[CONFIDENTIAL]
Advocate South	[CONFIDENTIAL]
Motueka Guardian	[CONFIDENTIAL]
Blenheim Sun	[CONFIDENTIAL]
Retail catalogue customers	
Mitre 10	[CONFIDENTIAL]
The Brand Agency - Bunnings	[CONFIDENTIAL]
Foodstuffs	[CONFIDENTIAL]
Woolworths	[CONFIDENTIAL]
Print Management Australia (for Michael Hill)	[CONFIDENTIAL]
Supercheap Auto	[CONFIDENTIAL]
Ezibuy	[CONFIDENTIAL]
Magazine customers	
Bauer	[CONFIDENTIAL]
Slick and Sassy Media (Cuisine)	[CONFIDENTIAL]
Mindfood Media	[CONFIDENTIAL]

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Attachment C: Sale and Purchase Agreement

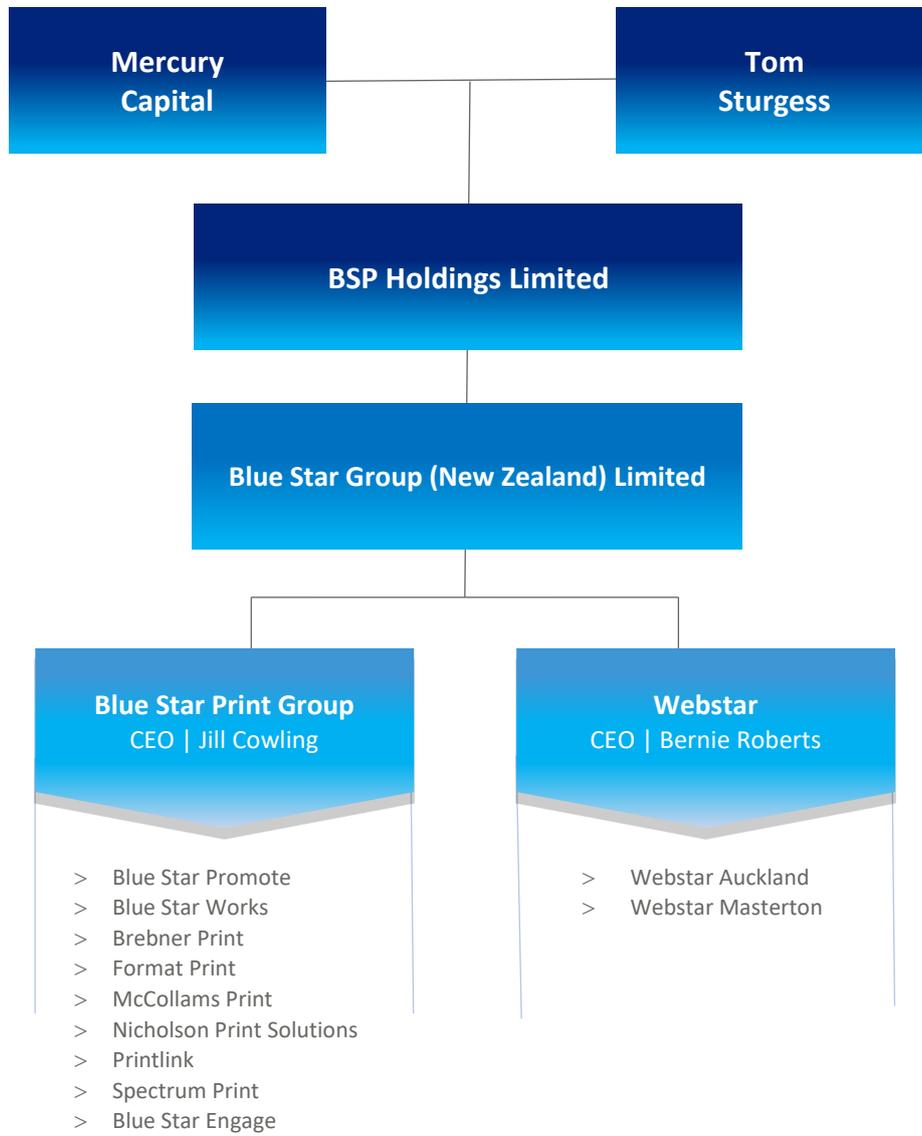
[CONFIDENTIAL]

Public version

Attachment D: Joint Venture Agreement

[MAINLAND PRINT CONFIDENTIAL]

Attachment E: Blue Star Group structure chart



Public version

Attachment F: [MAINLAND PRINT CONFIDENTIAL]

Public version

Attachment G: Financial accounts

[CONFIDENTIAL]

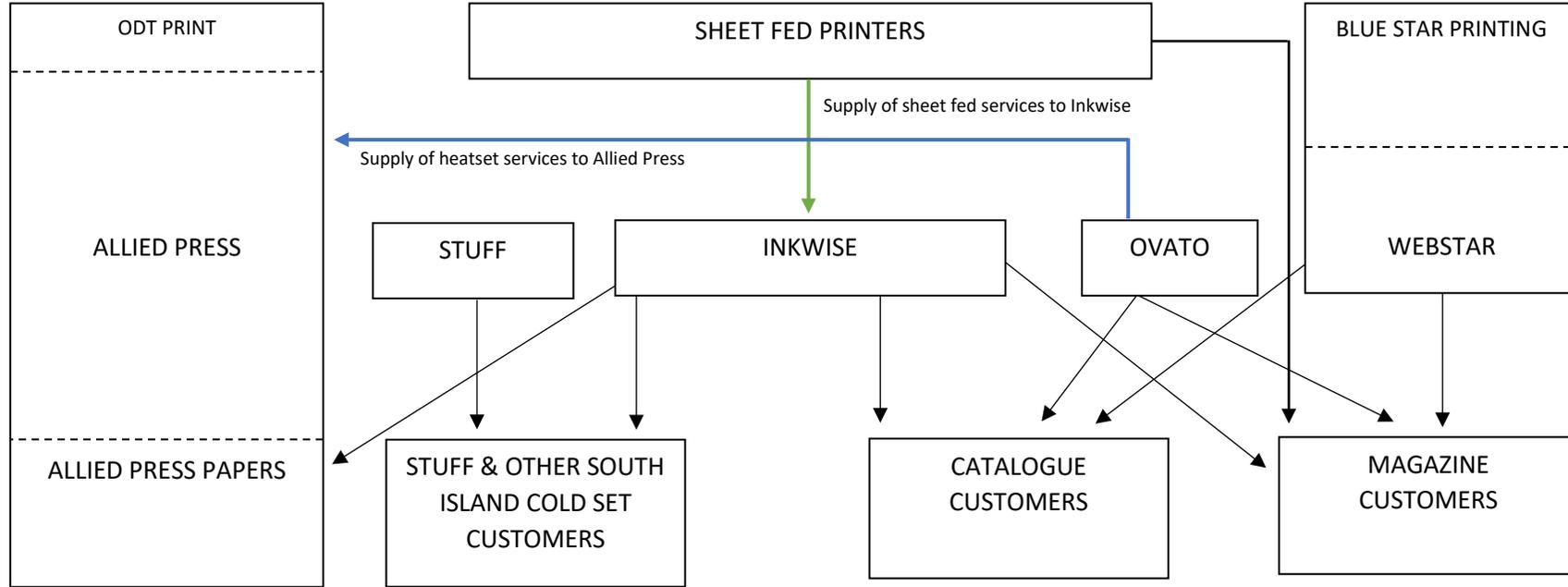
Attachment H: Before and after diagram

The diagrams below show, at a high level, the current arrangements between the parties and the proposed relationships. Currently, there is no involvement between the parties. However, Allied Press has a supply relationship with Ovato NZ for heatset services (the blue line in the first diagram), and Inkwise has a supply relationship with Toltech and Phoenix Print for sheetfed services (the green line in the first diagram).

[CONFIDENTIAL]

Once the acquisition is complete, Mainland Print will own the Inkwise assets and Allied Press and Blue Star will each own 50% of Mainland Print (the orange lines in the second diagram). Mainland Print will continue to operate as a competitor in the relevant markets but will identify opportunities to work with each of Allied Press and Webstar – within the confines of Part 2 of the Commerce Act – to improve their individual offers to customers.

Public version



Public version

