ADVOCATE
COMMUNICATIONS

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To whom it may concern,

RE: NZME/Fairfax merger

We, the directors of Advocate Communications Ltd (trading as Advocate South), register this submission against Wilson and Horton Ltd (trading as NZME.) and Fairfax NZ Ltd's application for authorisation to merge their media operations in New Zealand.

Advocate Communications Ltd has been named in the application as an existing competitor (weekly and regional print publications).

About us

Advocate Communications Ltd is one of the newest entrants to the New Zealand newspaper publishing industry and, as such, is in a unique position to offer observations on the current state of competition, barriers to entry etc. We publish a free, weekly community newspaper (tabloid format) called Advocate South (previously Fiordland Advocate). Our first edition was published on 9th January 2009 with a print run of 4500 copies. Today we publish around 15,000 copies a week circulating throughout the Southland district (as generally defined by local territorial authority boundaries).

Our market

We operate in what can currently be described as a vibrant and competitive market. Operating within the area we service are two regional daily newspapers (The Southland Times and Otago Daily Times) and six other community titles – Newslink, the Ensign, the Eye, Southland Express (incl Property Press), The Western Star and Mountain Scene. Additionally, there are rural publications: Otago Southland Farmer, AgTrader, NZ Farmer, NZ Dairy Farmer and Southern Rural Life.

There is also a myriad of community-run newsletters of various sizes which sell advertising space but do not operate a commercial news model. Both NZME and Mediaworks operate commercial radio stations in the same market, competing for the same advertising dollar, along with Rhema Media and community radio station Radio Southland 96.4.

As illustrated by the colour coding above, the local media landscape in Southland is already dominated by two major players – Allied Press and Fairfax NZ Ltd. The presence of Allied Press in the Southland market ensures significant competition would continue to exist here after a Fairfax/NZME merger. However, we are mindful that this is not the case in almost every other region of the country where the two dominant players would become one. There are therefore wider implications for our industry which we must be mindful of.

Advocate Communications Ltd is now the only* locally owned and operated news media organisation in Southland. *(*the exception is The Western Star which is a monthly publication produced by an incorporated society therefore not operating a commercial model).* In our short history we have already witnessed the demise of two independently owned community newspapers that operated in the Southland market – Fiordland Focus and The Record.

Despite the apparent strength of competition in the Southland market that would, on the surface, survive a Fairfax/NZME merger, we hold significant concerns about the influence such a huge corporation would pose to the future of our industry.

Predatory pricing

The impact of radio as a competitor for advertising should not be underestimated. A merger would immediately enable predatory pricing through bundled media advertising packages (print, online, radio) that don't represent the true value (or indeed cost) of any of the individual media components – a significant challenge to those of us specialising in single medium products.

Monopoly status

A single national multi-media company with a presence in every region would have the capacity to secure exclusive contracts on national advertising that previously has been contestable.

Reduced talent pool

A merger of the major players would also result in fewer journalism jobs in an already very tight skilled labour market. This would result in a reduction in training opportunities through established and approved ITOs, further reducing the talent pool available. At this point we also note that Southland has already lost the Peter Arnett School of Journalism offered through the Southern Institute of Technology.

Reduced scrutiny

Fewer journalists also means a further erosion in the quality and quantity of editorial scrutiny across the country – a dumbing down of the 'Fourth Estate". Consumers will have less choice and the decision makers, who journalists have traditionally been entrusted to hold to account, will be asked fewer questions.

Reduced independents

Small independent publishers have a crucial role to play in connecting their communities. A merged NZME/Fairfax NZ will have the capacity to engage in price wars that small independent companies cannot sustain, thereby robbing local communities of news agencies who understand their markets and understand their audiences because they have 100% skin in the game – they live here and they do business here. Displays of strength do not always come in the form of price undercutting. Other examples that large competitors already engage in are through sponsorship of community events that is conditional upon exclusive advertising rights. On an editorial front, regions could be starved of the advocacy traditionally offered by their local paper because editorial decisions are being made without the benefit of local knowledge.

We now address the core arguments in the submission.

> *a) The Parties compete in the crowded, converged print/digital advertising market, with a large number of other providers of advertising services. The merger will enable the merged business to deliver advertisers a better product at a competitive price point.*

There is no evidence to suggest that bigger is better or that a merged business will deliver advertisers a better product. The crux of the issue here is the "competitive price point" which to us indicates a clear intention to engage in a monopolistic approach to advertising sales through predatory pricing using bundled media advertising packages (print, online, radio) – achieved through the centralisation of services, reduction of overheads and bulk buying power enabled by a merger that small independent media organisations can never hope to match.

> *(b) Looking only at print publications, there will be no material change to the constraints on subscription prices. There is limited "head-on" competition for subscription dailies today.*

We concur with this point.

> *(c) The quality of news/information content will be improved by the ability of the merged entity to invest in quality editorial content. The merged entity will be incentivised to invest because the creation of quality local news/information and the editing of quality international news/information will continue to be the way it differentiates its digital offering from other media and from the multitude of consumer and other third-party generated content available online.*

There is no evidence to suggest any incentive to invest in quality or improved editorial content. Indeed, the business decisions of both companies in recent years have resulted in an overall reduction in editorial staff, most notably in the area of sub-editing which has traditionally been the quality control aspect of news production. To suggest that a merger is the path to maintaining quality journalism is like saying the best hamburgers can only be made by a merger of McDonalds and Burger King – there would be no guarantee they would make better burgers than the independent takeaway shop down the road, but they could certainly make them a lot cheaper!

Suppliers of content will also be squeezed. Merged publications will lead to more syndicated content – the same material replicated in multiple markets, regardless of regional relevance or interest. A merger will not necessarily make way for a more diversified stable of contributors because editorial space is dictated by advertising ratios.

> *(d) The print channel will benefit from the creation of a strong, print- invested entity that will be motivated to continue to improve the print offering to differentiate print from digital, in order to continue to attract the maximum number of consumers who may prefer that format. It will also benefit more broadly from the merged entity's investment in quality journalism for digital audiences.*

This stated commitment to a "strong, print-invested entity" seems to be at odds with the policies of both NZME and Fairfax NZ which have consistently promoted a "digital first" policy, both internally and externally. In the Southland market, Fairfax NZ representatives have openly predicted the printed product will cease to exist in the foreseeable future.

In summary

Budget 2016 allowed for $94.4 million of new funding over the next four years for regional economic development initiatives. This is a clear indication of the Government's desire to boost economic growth and benefit communities across regional New Zealand. Economic Development Minister Steven Joyce has said *the key to achieving success in each region is to help it build on its own unique mix of economic opportunities and competitive advantages*. We believe a NZME/Fairfax NZ merger would deprive the regions of this in the news media sense.

Of all the newspapers circulating in Southland, ours is the only one still produced by a locally owned and operated company. The law of averages would suggest that a new entrant like ourselves should not be able to establish in such a saturated market, especially against the economic clout and journalistic resources of our competitors. It has not been easy, yet our own growth proves that there is a public appetite for "home grown" news and opinions and a platform for advertising local goods and services provided by people who live and do business in the same environment. In short, we offer *a unique mix of economic opportunities and competitive advantages*.

If the industry is dominated by a $802 million giant (dwarfing all of the remaining independent publishers combined!) the barriers to entry will be far greater and the challenges for existing operators will be, in many cases, insurmountable.

K A Pickett

Kirsty (Macnicol) Pickett and David Pickett
Directors
Advocate Communications Ltd