

Commerce Commission

Decision No. 329

Determination pursuant to the Commerce Act 1986 (the Act) in the matter of an application for clearance of a business acquisition involving:

INDEPENDENT NEWSPAPERS LIMITED

and

THE MARLBOROUGH EXPRESS NEWSPAPER COMPANY LIMITED

The Commission: P C Allport
E C A Harrison
E M Coutts

Summary of Proposed Acquisition: The acquisition by Independent Newspapers Limited of the assets comprising the newspaper business of The Marlborough Express Newspaper Company Limited including mastheads, printing and publishing properties, fixed assets and working capital.

Determination: Pursuant to s 66(3)(a) of the Act, the Commission determines to give a clearance for the proposed acquisition.

Date of Determination: 2 October 1998

CONFIDENTIAL MATERIAL IN THIS REPORT IS CONTAINED IN SQUARE BRACKETS

CONTENTS

THE PROPOSAL	4
THE PROCEDURES	4
THE INVESTIGATION	4
THE PARTICIPANTS	5
Independent Newspapers Limited (“INL”)	5
The Marlborough Express Newspaper Company Limited (“Marlborough Express”)....	5
THE RELEVANT MARKETS.....	6
Overview.....	6
Market Definition.....	6
Provision of News and Information Services in the Print Medium	8
Metropolitan Daily Newspapers.....	8
Provincial Daily Newspapers.....	9
Community Newspapers (not daily).....	9
Complementarity	9
Provision of Advertising Services in the Print Medium.....	10
Geographic Market.....	11
Provision of Commercial Printing Services	11
Conclusion on Market Definition.....	11
ASSESSMENT OF DOMINANCE IN THE MARKET FOR THE PROVISION OF LOCAL NEWS AND INFORMATION SERVICES IN THE PRINT MEDIUM IN THE MARLBOROUGH REGION	12
Existing Competition.....	12
Constraint from Entry or Expansion of Provincial Newspapers.....	14
Constraint from Entry or Expansion of Community Newspapers	14
Constraint from Other Media Outlets.....	15
Constraint from Conduct of Readers.....	15
Conclusion on Assessment of Dominance in the Market for the Provision of Local News and Information Services in the Print Medium in the Marlborough Region	15
ASSESSMENT OF DOMINANCE IN THE MARKET FOR THE PROVISION OF NATIONAL AND INTERNATIONAL NEWS AND INFORMATION SERVICES IN THE PRINT MEDIUM IN THE MARLBOROUGH REGION	16
Existing Competition.....	16
Constraint from Entry or Expansion of Metropolitan/Provincial Newspapers.....	17
Constraint from Other Media Outlets.....	17
Conclusion on Assessment of Dominance in the Market for the Provision of National and International News and Information Services in the Print Medium in the Marlborough Region	17

ASSESSMENT OF DOMINANCE IN THE MARKET FOR THE PROVISION OF ADVERTISING SERVICES IN THE PRINT MEDIUM IN THE MARLBOROUGH REGION	17
Existing Competition.....	17
Constraint from Community Newspapers	19
Constraint from Advertising Flyers.....	19
Constraint from Specialist Publications	20
Constraint from Other Media Outlets.....	21
Countervailing Power of Advertisers	21
Conclusion on Assessment of Dominance in the Market for the Provision of Advertising Services in the Print Medium in the Marlborough Region.....	22
ASSESSMENT OF DOMINANCE IN THE MARKET FOR THE PROVISION OF COMMERCIAL PRINTING SERVICES IN NEW ZEALAND	22
Conclusion on Assessment of Dominance in the Market for the Provision of Commercial Printing Services in New Zealand.....	22
OVERALL CONCLUSION	22
RECOMMENDATION	23

THE PROPOSAL

1. On 14 September 1998, the Commission registered a notice pursuant to s 66(1) of the Commerce Act 1986 (“the Act”) seeking clearance for the acquisition by Independent Newspapers Limited (“INL”) of the assets comprising the newspaper business of The Marlborough Express Newspaper Company Limited (“Marlborough Express”) including mastheads, printing and publishing properties, fixed assets and working capital.
2. This report concludes that Commission staff are satisfied that implementation of the proposed acquisition would not result, and would not be likely to result, in any person acquiring or strengthening a dominant position in a market. It is recommended that, in terms of s 66(3)(a) of the Act, the Commission gives clearance for the proposed acquisition.

THE PROCEDURES

3. Section 66(3) of the Act requires the Commission either to clear, or to decline to clear, a notice given under s 66(1) within 10 working days, unless the Commission and the person who gave the notice agree to a longer period. As a time extension of four working days was sought and agreed to, a decision on the application is required by Friday, 2 October 1998.
4. INL sought confidentiality for the fact of the proposed acquisition until notice was given to the New Zealand Stock Exchange in terms of the New Zealand Stock Exchange Listing Rules. The Commission granted confidentiality for the fact of the proposed acquisition on that basis. Notice was given to the Stock Exchange on 17 September 1998, at which time fact confidentiality was lifted.
5. INL also sought confidentiality for certain information contained in the notice seeking clearance, and a confidentiality order was made in respect of that information for a period of 20 working days from the Commission’s determination of the notice. When the confidentiality order expires, the provisions of the Official Information Act 1982 will apply to the information.

THE INVESTIGATION

6. Staff contacted the following parties in investigating the proposed acquisition:
 - Newspaper Publishers Association of New Zealand Inc;
 - New Zealand Community Newspapers Association Inc;

- Existing competitors including the publishers of *Sell Buy Swap* and *The Picton Gazette*;
 - Editor of *The Nelson Mail*;
 - Manager of *Radio Marlborough*;
 - Community newspaper publishers in other geographic locations;
 - Advertisers including supermarkets, real estate agents, garden centres, a pharmacy, appliance retailer, and hire centre;
 - Local printing companies including Knight Print and Blenheim Printing Company Ltd; and
 - A major print broker.
7. The parties to the proposed acquisition also provided additional information.

THE PARTICIPANTS

Independent Newspapers Limited (“INL”)

8. INL is a publicly listed media company with extensive interests in the publishing of newspapers and magazines, and in commercial printing. INL also has a 40.2% shareholding in Sky Network Television Ltd.
9. INL’s two major shareholders are News Limited (49.44%) and NZCSD Limited (32.85%). News Limited is an Australian listed company. NZCSD Limited is a Reserve Bank Nominee Company. Details of the company’s group structure and subsidiary companies are provided in Appendix 1.
10. Of particular relevance to this proposal is INL’s ownership of two metropolitan daily morning newspapers, *The Press* and *The Dominion*. These newspapers are circulated primarily in the Christchurch and Wellington areas respectively, but are also sold in Marlborough.

The Marlborough Express Newspaper Company Limited (“Marlborough Express”)

11. Marlborough Express, a private company based in Blenheim, is owned by the Rose family. The company prints and publishes *The Marlborough Express*, a provincial daily evening newspaper (Monday to Friday), *The Saturday Express*, a free Saturday supplement, and *The Kaikoura Star*, a free weekly community newspaper. These newspapers are circulated in the Marlborough region. Marlborough Express is also involved in commercial printing.

THE RELEVANT MARKETS

Overview

12. Newspapers commonly provide news, information, entertainment and advertising. Revenue is sourced from the cover price (if any) and advertising, with advertisers attracted by a newspaper's targeted audience and circulation. The proportion of revenue derived from advertising and from the cover price is normally around 70:30, although this may vary.
13. The majority of the daily newspapers in New Zealand are owned by two major publishers, INL and Wilson & Horton Ltd, with very few privately owned newspapers remaining in the country. The Official Yearbook states that INL and Wilson & Horton Ltd "now account for almost 90 percent of New Zealand's aggregate daily newspaper circulation of about 1 million copies daily."¹
14. In relation to the South Island specifically, newspaper publishers include INL, Wilson & Horton Ltd, Allied Press Ltd and The Ashburton Guardian Co Ltd.² For example, Wilson & Horton publishes the *Oamaru Mail*, Allied Press Ltd publishes the *Otago Daily Times*, *Greymouth Evening Star* and *Southland Express*, and The Ashburton Guardian Co Ltd publishes *The Ashburton Guardian*.
15. It is also noted that in relation to the newspaper industry in general, newspaper sales in most countries around the world, including New Zealand, are falling.³ In comparison, there has been a general increase in the number of community newspapers published in New Zealand.

Market Definition

16. A relevant market for the purpose of competition analysis is the smallest space, defined in terms of:
 - the products or services bought and sold;
 - the geographic area from which those goods or services are obtained and supplied;
 - the functional level at which the transactions take place; and, where appropriate;
 - the time period;

within which a hypothetical profit-maximising sole supplier of a good or service could impose at least a small yet significant and *non-transitory increase in price (ssnip)*,

¹ Refer New Zealand Official Yearbook 1998, pp257-258.

² Allied Press Ltd is owned by Fraser Smith Holdings Ltd, which is a privately owned company. The Ashburton Guardian Co Ltd is owned by Ashburton Guardian Holdings Ltd, which is also privately owned.

³ Above n1.

assuming all other terms of sale remain constant.⁴

17. Marlborough Express and INL are both involved in the publication and printing of newspapers circulated in the Marlborough region. Marlborough Express publishes *The Marlborough Express*, *The Saturday Express* and *The Kaikoura Star*, which are circulated in Blenheim, Picton, Kaikoura, and around the Marlborough region. *The Press*, and to a lesser extent *The Dominion*, both published by INL, are also circulated in the Marlborough region.
18. The Commission has considered business acquisition proposals relating to the newspaper industry on a number of previous occasions. See, for example:
 - Wilson & Horton Ltd/Northern Publishing Co Ltd, 25 May 1995, AUT/BA - W2/4, M2264;
 - Independent Newspapers Limited/Nelson Evening Mail Limited, 3 September 1993, AUT/BA - I2/2, M2231;
 - Wilson & Horton Limited/The Bay of Plenty Times Limited, 10 December 1992, AUT/BA - W2/3; and
 - New Zealand News Limited/New Plymouth Star Limited, 2 October 1986, Decision 176.
19. In Decision 176, the Commission defined the relevant product/function market as the provision of news and advertising services in the print medium. That definition was adopted in subsequent decisions involving the newspaper industry.
20. The Commission has assessed business acquisition proposals involving other media outlets also, the most recent of which are:
 - The Radio Network of New Zealand Ltd/C93FM (Christchurch) Ltd, 26 May 1997, Decision 294; and
 - The Radio Network of New Zealand Ltd/C93FM (Christchurch) Ltd, 27 March 1997, Decision 286.
21. In these (and earlier) decisions relating to radio broadcasting, the Commission separated the provision of news and information services and the provision of radio advertising services. The Commission has concluded that it is appropriate to define these services in separate markets in these instances, while noting that they are linked in a symbiotic relationship.
22. As stated above, in the Commission's consideration of previous newspaper acquisitions, it has defined the relevant market as that for the provision of news and advertising services in the print medium. However in the present instance, Commission staff consider that it is appropriate to view the provision of news and information in the print medium as being in separate but related markets. As noted, this definition is in line with the Commission's approach to business acquisition

⁴ Refer Commerce Commission's Business Acquisition Guidelines, 1996, p14.

proposals involving radio and other media outlets.

23. The Commission has also acknowledged a degree of competition at the fringes between newspapers and other media forms. For example, the Commission has stated that “... it has accepted the appropriateness of a wider perspective which recognises a wider range of advertising outlets.”⁵
24. In considering factors such as the fall in newspaper circulation in New Zealand (and around the world) and the growth in news and information services on television and the Internet, Commission staff note that there appears to be an increasing substitutability between print and electronic media forms (comprising radio, television and the Internet.) Nevertheless, Commission staff are of the view that it is appropriate to define the different media outlets as principally complementary forms, rather than as substitutes for each other in the same market.

Provision of News and Information Services in the Print Medium

Metropolitan Daily Newspapers

25. Metropolitan daily newspapers in New Zealand, the majority of which are owned by INL and Wilson & Horton Ltd, are characterised by their in-depth coverage of national and international news and information, and the daily frequency of their publication. There is a cover charge for these newspapers, and they are generally available from a variety of sources including supermarkets, dairies, petrol stations, as well as being offered for home delivery.
26. As stated above, of relevance to this proposal are two of INL’s metropolitan daily newspapers, *The Press* and *The Dominion*.
27. *The Press* is a Christchurch-based metropolitan daily morning newspaper with a circulation of approximately 97,000 - 98,000 throughout most of the South Island. *The Press* contains Christchurch, national, international and business news, and Christchurch and national advertising. *The Press*, which is offered for home delivery in the Marlborough region, has only a limited circulation in the area. Specifically, of its circulation of approximately 98,000, only 3,370 copies (3% of its South Island circulation) are sold in the Marlborough region.
28. *The Dominion*, is a Wellington-based metropolitan daily morning newspaper with a circulation of approximately 68,000. It is principally circulated in the Wellington/lower North Island region. It has a daily circulation in the Marlborough region of around 650 copies only. *The Dominion* carries Wellington, national, international and business news, and Wellington and national advertising.

⁵ Decision 176, p3.

Provincial Daily Newspapers

29. Provincial daily newspapers are characterised by their in-depth coverage of local news and advertising, and the daily frequency of their publication. These newspapers also contain some national and international news and information. As with metropolitan newspapers, provincial daily newspapers have a cover charge, are offered for home delivery, and are sold from a variety of retail outlets.
30. Marlborough Express prints and publishes *The Marlborough Express* which is a provincial daily evening newspaper (Mon-Fri) distributed throughout the Marlborough region (refer to map outlining circulation in Appendix 2). Approximately 60% of the newspaper's sales are made through home delivery. Marlborough Express also publishes *The Saturday Express*, which is the newspaper's Saturday supplement and is distributed direct to Marlborough households on Saturday morning.

Community Newspapers (not daily)

31. Community newspapers, the majority of which are free of charge and are home delivered, are published on a less frequent basis than daily newspapers, ie: weekly, fortnightly. These newspapers contain mostly local news, which is less time sensitive than national and international news. In general, community newspapers also have a high local advertising content, although the proportion of advertising varies depending on whether or not there is a cover charge for the newspaper.
32. Examples of community newspapers in the Marlborough region include *The Kaikoura Star*, published by Marlborough Express on a weekly basis, and *The Picton Gazette*, which is a privately owned fortnightly publication.
33. It is also of interest to note that the President of the New Zealand Community Newspapers Association informed Commission staff that the Association's membership is increasing, from approximately 100 members to 113 members over the last two years. It is also estimated that there would currently be a total of 120 or more community newspapers around the country.

Complementarity

34. While there may be some content overlap between metropolitan daily newspapers and provincial daily and community newspapers, and specifically between *The Press/The Dominion* and *The Marlborough Express*, Commission staff consider that they are complementary in nature. The newspapers have a different emphasis and perspective, which reflects the differing objectives and circulation areas of the publications.

35. The complementary nature of these newspapers is supported by survey results from an A C Nielsen 1998 Marlborough Region Readership Survey.⁶ Based on a population of 33,000 over the age of 15 years, an estimated 68% of the population read *The Marlborough Express* on a typical day, and 22% read *The Press*. A significant proportion of readers who purchase either *The Press* or *The Dominion* also buy *The Marlborough Express*. Specifically, it is estimated that 82% of those that read *The Press* also read *The Marlborough Express*. Readership statistics for the Marlborough region from the Newspaper Publishers Association of New Zealand (“NPA”) are consistent with the A C Nielsen survey.⁷ To a large extent therefore, the newspapers are complementary in terms of the news and information they provide.
36. Commission staff have been informed by newspaper industry participants that the most common reason for Marlborough readers purchasing newspapers from outside the region (eg, *The Press/The Dominion*), is for the extensive national, international and business news that these newspapers contain. Other reasons given are that these readers include ex-Cantabrians or ex-Wellingtonians, and/or are high “news consumers” purchasing morning and evening newspapers.
37. Given this complementarity, and the different foci and characteristics of the parties’ newspapers, it is considered appropriate in this instance to define two separate markets for news and information services in the print medium - local news and information, and national and international news and information.
38. Commission staff accept that there is a range of other news and information sources which complement and also compete with local, and national and international news and information services in the print medium. For example, local radio and the Internet provide alternative sources of local news and information services. In relation to the provision of national and international news and information, television (including teletext), radio, magazines of a general and specialist nature, national weekly newspapers such as the *National Business Review* and *The Independent*, and the Internet complement and compete with metropolitan/provincial newspapers.
39. Commission staff particularly note the increasing role of television and the Internet in the provision of national and international news and information. For example, there is an increasing number of television news programmes, news updates, and other current affairs programmes, breakfast television has recently been introduced, and there is growth in the number of on-line newspapers and other relevant web sites.

Provision of Advertising Services in the Print Medium

40. Advertising services in the print medium are available from metropolitan, provincial and community newspapers, advertising flyers, and general and specialist publications. Advertising flyers incorporate a wide range of printed material

⁶ Survey statistics provided by Marlborough Express.

⁷ Statistics sourced from A C Nielsen and the Audit Bureau of Circulation.

including pamphlets, circulars and brochures delivered direct to households, or as inserts in newspapers.

41. As previously outlined, there are also some competitive pressures at the fringes from alternative media outlets such as television and radio, although it is generally considered that these media forms are largely complementary. Each of the media forms has its own characteristics and strengths, and advertisers use a range of media forms to take advantage of these strengths. For example, newspapers and other print media are effective in providing often complex and lengthy advertising messages in a durable and readily available form. In comparison, radio and television develop awareness and image through the frequent playing of shorter and simpler advertisements. As such, there is only limited competition between media forms for the advertising of certain products and services.

Geographic Market

42. The geographic extent of the markets affected by the proposed acquisition is *The Marlborough Express/The Saturday Express* and *The Kaikoura Star* circulation areas, outlined on the map attached as Appendix 2. The three principal towns in this geographic area are Picton, Blenheim and Kaikoura (the “Marlborough region”).

Provision of Commercial Printing Services

43. Marlborough Express and INL are both involved in the provision of commercial printing services also, although INL does not have any printing operations based in Marlborough.
44. However, commercial printing services are not limited by geography. A major print broker confirmed that commercial printing should be regarded as a national market. While acknowledging that there may be some marginal convenience in having a client and a printing company in close geographic proximity, computer technology and an efficient transport network enable commercial printing services to be sourced from around the country.
45. Consequently, for the purposes of analysing the competition issues raised by this proposal, Commission staff propose to define a national market for commercial printing services.

Conclusion on Market Definition

46. In summary, it is proposed to define the relevant markets as follows:

- the market for the provision of local news and information services in the print medium in the Marlborough region;
- the market for the provision of national and international news and information services in the print medium in the Marlborough region;
- the market for the provision of advertising services in the print medium in the Marlborough region; and
- the market for the provision of commercial printing services in New Zealand.

ASSESSMENT OF DOMINANCE IN THE MARKET FOR THE PROVISION OF LOCAL NEWS AND INFORMATION SERVICES IN THE PRINT MEDIUM IN THE MARLBOROUGH REGION

Existing Competition

47. Existing competitors in the market for the provision of local news and information in the print medium in the Marlborough region are as follows:

- Marlborough Express which prints and publishes *The Marlborough Express/The Saturday Express* and *The Kaikoura Star*.
- *The Picton Gazette*, which is privately owned by M De Hamel and is a fortnightly community newspaper distributed in the Picton and north Blenheim areas. It contains local news and advertising for the Picton community. The paper is currently printed by The Ashburton Guardian Co Ltd. []].
- *The Nelson Mail*, published by INL, is a provincial daily evening newspaper with limited circulation in, and news and advertising from, the Marlborough region.⁸
- *The Sun* and *The Pulse* are college newspapers which are published each school term by Marlborough Boys' College and Marlborough Girls' College.

48. The following table outlines the characteristics of, and circulation numbers for, these relevant newspapers:

⁸ Commission staff note that implementation of this proposal removes *The Marlborough Express* as a potential entrant into the Nelson market, identified as a competitive constraint on INL in the Commission's decision relating to the business acquisition involving INL/Nelson Evening Mail Ltd, 3 September 1993, AUT/BA - I 2/2, M2231, pp9-11.

Newspaper	Owner	Characteristics	Circulation in Marlborough Region
<i>The Marlborough Express</i> <i>The Saturday Express</i>	Marlborough Express	Provincial newspaper Daily (Mon - Fri) Evening newspaper Cover charge: 70c Weekly (Sat) Morning newspaper Free	10,292
<i>The Kaikoura Star</i>	Marlborough Express	Community newspaper Weekly Free	1,338
<i>The Nelson Mail</i>	INL	Provincial newspaper Daily Evening newspaper Cover charge: 70c	44
<i>Picton Gazette</i>	Privately owned (M De Hamel)	Community newspaper Fortnightly Free	[]
<i>The Sun and The Pulse</i>	Marlborough Boys' College and Marlborough Girls' College	Community newspapers Quarterly Free	2,700

49. Implementation of the proposal will result in INL owning both of the provincial newspapers circulated in the Marlborough region (although it is noted that *The Nelson Mail* has only a very minor presence in Marlborough). INL will also own a weekly community newspaper.
50. The only other community newspapers circulated in the Marlborough region providing local news and information are the *Picton Gazette*, [], and two college publications. Given the limited circulation and frequency of these newspapers, [], Commission staff consider that these existing competitors would not constrain the merged entity from using its market power to increase the cover charge of its newspapers or decreasing services.

Constraint from Entry or Expansion of Provincial Newspapers

51. As analysed by the Commission previously, there are significant barriers to entry facing those contemplating *de novo* entry into metropolitan/provincial newspaper publishing. Significant costs are involved in establishing a daily newspaper, not least of which is the large capital investment required. Further, there is no recent example of a daily newspaper successfully entering a New Zealand provincial market. As such, Commission staff consider that entry into the market by a new provincial daily newspaper is unlikely.
52. Similarly, expansion into the Marlborough region by another newspaper publisher is considered unlikely, based on the history of the New Zealand newspaper industry and the worldwide decline in newspaper numbers.

Constraint from Entry or Expansion of Community Newspapers

53. While there is potential for an existing community newspaper such as *The Picton Gazette* to publish on a more frequent basis and increase its circulation, [
-]. However, Commission staff consider there is potential for entry into the market by a new community newspaper.
54. Industry participants have stated that the viability of community newspapers is often dependent on the respect for and services provided by the existing local publications. Where an existing local or community newspaper is not providing the local community and advertisers with a satisfactory service, there is a genuine opportunity for a new market participant to enter the market. It is also noted that while the number of daily metropolitan newspapers is decreasing, the same is not true for community newspapers.
55. As concluded by the Commission in the past, there are no significant barriers to entry and expansion for the publishing of a community newspaper. A number of industry participants currently involved in community newspaper publication agreed that a community newspaper could be set up with a relatively small capital investment, depending on the size and scope of the envisaged publication and its geographic location. For example, computer, scanning and camera equipment would be required, but premises could be rented. Access to a suitable printing press would also be required, but it would be possible to contract out printing and distribution requirements.
56. Industry participants also considered that, while not essential, the financial and technological backing of an established newspaper publishing company would considerably assist the successful entry into the market of any new community newspaper.

57. Having regard to the general increase in community newspaper numbers in New Zealand and the low entry barriers, Commission staff conclude that the merged entity will face adequate competitive constraint from the potential entry into the market or expansion of another community newspaper. If the merged entity was to significantly increase the cover charge for *The Marlborough Express*, or decrease its services, that would provide an opportunity for a new community newspaper, either with or without the backing of an existing newspaper publisher, to enter the market.

Constraint from Other Media Outlets

58. Commission staff also consider that there is limited competition at the fringes from local radio stations received in the Marlborough region such as *Radio Marlborough*, *Easy FM* and *Sounds FM*. For example, *Radio Marlborough* carries a limited amount of local news and information on the half hour over the three hour breakfast period. Local news stories are sourced from a contract journalist.

59. Commission staff also note the potential constraint from the Internet, as the number of on-line provincial and other newspapers increases.

Constraint from Conduct of Readers

60. Commission staff note the applicant's argument that an effective constraint on the conduct of the merged entity is the anticipated conduct of readers to an increase in the cover charge of *The Marlborough Express*. INL submits that a cover charge increase has an immediate effect on circulation, which in turn has a negative effect on advertising revenues. Consequently newspaper publishers are generally reluctant to increase cover charges.

61. However, the effect of a price increase does vary. For example, INL informed Commission staff that sales of the *Waikato Times* recover to their previous level after a price increase, whereas sales of *The Evening Post* show a permanent decline.

Conclusion on Assessment of Dominance in the Market for the Provision of Local News and Information Services in the Print Medium in the Marlborough Region

62. Having regard to the above factors, and in particular, the constraint from the potential market entry of community newspapers, Commission staff conclude that implementation of the proposed acquisition would not result in the merged entity acquiring or strengthening a dominant position in the market for the provision of local news and information services in the print medium in the Marlborough region.

ASSESSMENT OF DOMINANCE IN THE MARKET FOR THE PROVISION OF NATIONAL AND INTERNATIONAL NEWS AND INFORMATION SERVICES IN THE PRINT MEDIUM IN THE MARLBOROUGH REGION

Existing Competition

63. Existing competitors in the market for the provision of national and international news and information in the print medium in the Marlborough region include INL, through its publication of *The Press*, (and to a lesser extent, *The Dominion* and *The Evening Post*), and Marlborough Express through its publication of *The Marlborough Express/The Saturday Express*.

64. The characteristics and circulation numbers for the relevant newspapers are set out below:

Newspaper	Owner	Characteristics	Circulation in Marlborough Region
<i>The Marlborough Express</i> <i>The Saturday Express</i>	Marlborough Express	Provincial newspaper Daily (Mon - Fri) Evening newspaper Cover charge: 70c Weekly (Sat) Morning newspaper Free	10,292
<i>The Press</i>	INL	Metropolitan newspaper Daily Morning newspaper Cover charge: 80c	3,370
<i>The Dominion</i>	INL	Metropolitan newspaper Daily Morning newspaper Cover charge: 80c	650
<i>The Evening Post</i>	INL	Metropolitan newspaper Daily Evening newspaper Cover charge: 80c	Less than 100
<i>The Nelson Mail</i>	INL	Provincial newspaper Daily Evening newspaper Cover charge: 70c	44

65. Implementation of the proposed acquisition will result in INL owning the main provincial and metropolitan newspapers which provide national and international news and information services in the print medium to Marlborough readers.

Constraint from Entry or Expansion of Metropolitan/Provincial Newspapers

66. As stated above, there are significant barriers to entry facing those contemplating *de novo* entry into metropolitan/provincial newspaper publishing and Commission staff consider that new entry into the market by a metropolitan/provincial newspaper is highly unlikely. Similarly, expansion into the Marlborough region by another newspaper publisher is considered unlikely.
67. Consequently, Commission staff do not believe that the merged entity would be constrained from exercising its market power by the threat of new entry or expansion by another metropolitan/provincial newspaper.

Constraint from Other Media Outlets

68. Apart from the parties' newspapers, other sources of national and international news and information include national television and teletext (which, as previously stated, is playing an increasingly more prominent role in the provision of news and information), radio, national weekly newspapers, magazines of a general and specialist nature, and the Internet. The increasing role of the Internet, particularly in relation to the provision of international news, is also noted.
69. Commission staff consider that the significant constraint from these other media outlets would be sufficient to alleviate any dominance concerns in the market.

Conclusion on Assessment of Dominance in the Market for the Provision of National and International News and Information Services in the Print Medium in the Marlborough Region

70. Despite the aggregation of newspapers providing national and international news services in the Marlborough region that would result from implementation of the proposed merger, Commission staff conclude that the merged entity would not acquire or strengthen a dominant position in the market. Adequate constraint would be provided in the form of national and international news services provided by alternative media outlets.

ASSESSMENT OF DOMINANCE IN THE MARKET FOR THE PROVISION OF ADVERTISING SERVICES IN THE PRINT MEDIUM IN THE MARLBOROUGH REGION

Existing Competition

71. Advertising services in the print medium in Marlborough are provided by Marlborough Express, INL, *Sell Buy Swap*, other community newspapers, advertising

flyers, and newspaper inserts.

72. *Sell Buy Swap*, privately owned by the Searle family, is a weekly classified advertisements publication which is widely circulated in the Marlborough and Nelson areas, although the majority of newspaper sales are in Nelson and Motueka. It provides free classified advertising for non-commercial advertising and charges for commercial advertising. *Sell Buy Swap* is currently printed by Marlborough Express.

73. As previously described, *The Picton Gazette* is a fortnightly community newspaper distributed in the Picton and north Blenheim areas. It contains local news and advertising for the Picton community, with approximately 95% of its advertising from Picton businesses.

74. Base advertising rates for the various newspapers are listed below:

Newspaper	Display Rates \$/single column cm (excl GST)	Classified Rates \$/single column cm (excl GST)	Circulation	Advertising from Marlborough advertisers (monthly value) *average monthly value from annual total
<i>The Marlborough Express</i>	\$4.54	\$5.00 incl GST (10 words + 50c per extra word)	10,292	[]
<i>The Saturday Express</i>	Above rate + 10% (approx)	Above rate + 10% (approx)		
<i>The Kaikoura Star</i>	\$3.20	\$4.50 incl GST (10 words + 45c per extra word)	1,338	[]
<i>The Press</i>	\$7.40 (Mon – Fri) \$8.36 (Sat)	\$7.40 (Mon – Fri) \$8.36 (Sat)	3,370	[]
<i>The Dominion</i>	\$14.08	\$19.92	650	[]
<i>The Nelson Mail</i>	\$5.00	\$6.00	44	[]
<i>Sell Buy Swap</i>	\$1.75	\$3.00 (50 word max)	[]	[]

75. It is again important to note that the parties’ newspapers are largely complementary in terms of the advertising which they provide. Advertisers make their advertisement decisions based on the readership and circulation of the newspapers. As such, *The Marlborough Express*, with its high local news content and Marlborough circulation, attracts local advertisers. *The Press*, with its Christchurch, national and international news content and much wider circulation, attracts Christchurch and national advertisers.

76. In comparing circulation numbers and advertising rates for the various papers, it can be seen that *The Press* has considerably higher advertising rates and a much smaller Marlborough audience. As such, it is far more cost effective for advertisers wishing to target a Marlborough audience to advertise in *The Marlborough Express*. This is supported by the limited amount of advertising that *The Press* currently sources from

Marlborough advertisers. For example, INL's submits that in the last six months, the total monthly value of that advertising has not exceeded [].

77. Advertisers in the Marlborough region agreed that it was uneconomic to place advertising in *The Press*, and would only do so on an irregular basis or, in the case of real estate agents, if it was requested by a property vendor.
78. Given the cost differentials, and the views of advertisers, Commission staff consider that *The Press* (and *The Dominion*) do not provide any significant constraint on *The Marlborough Express* in terms of advertising services in the print medium. It is noted however, that implementation of the proposal may have some impact on the ability of *The Nelson Mail* to determine advertising rates, absent other competitive constraints in the relevant geographic market.
79. Further, given the comparatively small amount of advertising from Marlborough advertisers in *Sell Buy Swap*, it is considered that the competition from this publication would not be sufficient to constrain the merged entity from exercising its market power.

Constraint from Community Newspapers

80. As concluded by the Commission in the past, community newspapers provide a cost effective form of advertising for local advertisers. For example, [] *The Picton Gazette*, that community newspaper currently provides some competition in the market, particularly in relation to Picton advertising services. []].
81. However, given the development of community newspapers in New Zealand, and the low entry barriers, Commission staff consider that the constraint from potential competitors will constrain the merged entity from exercising its market power and significantly increasing advertising rates or decreasing services.

Constraint from Advertising Flyers

82. Advertising flyers include pamphlets, circulars and brochures delivered direct to households or as inserts in newspapers. For example, flyers are delivered with *The Marlborough Express*, and independently by other distributors such as Adpost (owned by New Zealand Post). Flyers provide a relatively inexpensive and increasingly popular form of advertising and, as such, provide an alternative to newspaper advertising for both national and local advertisers.
83. Flyers distributed in the Marlborough region are printed by Marlborough Express, local printing companies, and other newspaper publishers and printing companies

outside the region.

84. Larger retailers contacted by Commission staff viewed advertising flyers as a viable alternative and/or supplement to newspapers and other media outlets. Supermarkets in the region confirmed that they undertake a considerable amount of advertising in the print medium in the form of newspaper advertising, coupon books and flyers, and would increase their use of flyers should the merged entity increase advertising rates by a significant amount. Commission staff were also informed that many of national advertisers choose to distribute advertising flyers as it is cheaper to distribute flyers on a national basis than it is to place advertisements in multiple newspapers.
85. A number of smaller Marlborough businesses contacted by Commission staff viewed advertising flyers, and direct marketing using customer or “club” lists, as economically viable alternatives to newspaper advertising. Local radio advertising was seen as a further alternative. It was also considered that if *The Marlborough Express* was to increase its advertising rates by a significant amount, some of these smaller advertisers would reduce the frequency/amount of advertising.
86. It was generally considered that there was not any significant cost differential between newspaper and flyer advertising. For example, a local pharmacy noted that advertising flyers delivered to mail boxes had been used for a number of years. However, as a result of *The Marlborough Express* reducing its “inserts fee”, and because of problems with the reliability of the flyers’ distribution, it was decided to change to inserts in the local paper. Provided that reliable distribution was available, it was considered that advertising flyers were an economic and effective substitute. Similarly, a number of garden centres in the region believed that alternatives to advertising in *The Marlborough Express* included advertising flyers and local radio.
87. Commission staff also note that views of one local business which believed that advertising in *The Marlborough Express* was the most economically viable form of advertising available. Advertising flyers were not regarded as an appropriate or effective means of advertising.

Constraint from Specialist Publications

88. Should the merged entity increase advertising rates and/or reduce services, it is also viable for advertisers to group together to produce their own specialist advertising publications. Specialist real estate, motor vehicle and other trade publications are available elsewhere, and there is the potential for similar publications to be produced by Marlborough advertisers. For example, Commission staff were informed that a viable alternative for real estate agents in the region would be to collectively produce a “Property Press” or similar publication. At present, the majority of real estate advertising is carried in *The Marlborough Express*.

89. Further, national publications such as *Farm Equipment News*, *NZ Farmer* and *Rural News* provide limited competition for some types of advertising.

Constraint from Other Media Outlets

90. There is also competition at the margins from other media outlets, and particularly local radio, although it is commonly recognised that newspapers and radio tend to be complementary. Industry participants stated that there is increasing competition between local newspapers and local radio, with local businesses choosing to advertise on the radio rather than in the newspaper. Smaller Marlborough businesses agreed that local radio advertising provides an attractive and economic alternative to advertising in the local newspaper.
91. There are a number of local and national radio stations received in the Marlborough region including *Radio Marlborough* and *2ZB*, owned by The Radio Network, *Easy FM*, *Sounds FM*, *ZM*, *More FM*, *Radio Pacific* and *Radio Rhema*. As such, Commission staff consider that the merged entity will also be constrained by the provision of advertising services from radio stations.

Countervailing Power of Advertisers

92. The applicant submits that the wide range of advertising options (metropolitan/provincial newspapers, community newspapers, magazines, advertising flyers, newspaper inserts, radio, television) available to advertisers and advertising agencies means that these groups have a considerable amount of countervailing power in the market.
93. Commission staff agree that larger advertisers such as the supermarket chains have some countervailing power in the market through the volume of newspaper advertising that they purchase, and because of the potential for these advertisers to switch with relative ease from one media outlet to another. The supermarkets contacted by Commission staff agreed that they could increase their use of other printed advertising (flyers, coupon books) if the merged entity was to significantly increase advertising rates. Advertisers can also group together to produce their own advertising publications.
94. Smaller advertisers do not have the same countervailing power in the market, but do have the ability to switch to other media forms, particularly local radio.

Conclusion on Assessment of Dominance in the Market for the Provision of Advertising Services in the Print Medium in the Marlborough Region

95. Given the complementary nature of the parties' newspapers in terms of advertising services, the existing competition from *Sell, Buy, Swap*, advertising flyers and community newspapers, the views of large and small advertisers in the Marlborough region, and the countervailing power of major advertisers, Commission staff conclude that implementation of the proposed acquisition would not result in the merged entity acquiring or strengthening a dominant position in the market for the provision of advertising services in the print medium in the Marlborough region.

ASSESSMENT OF DOMINANCE IN THE MARKET FOR THE PROVISION OF COMMERCIAL PRINTING SERVICES IN NEW ZEALAND

96. From its Blenheim premises, Marlborough Express is engaged in commercial printing. INL is also involved in commercial printing, although not specifically in the Marlborough region. As such, the proposal does not result in any aggregation of market share in Marlborough.

97. Implementation of the proposed acquisition would result in some aggregation of market share to the extent that both parties provide commercial printing services to customers in New Zealand. However, it is not considered that this aggregation would be of a significant nature.

98. Further, access to commercial printing services is not limited by geography, so the merged entity would be constrained by existing local, regional and national commercial printers. For example, commercial printing services are available from other newspaper publishers including The Ashburton Guardian Company Ltd and Wilson & Horton Ltd, and from approximately 1,000 printing companies around the country.

Conclusion on Assessment of Dominance in the Market for the Provision of Commercial Printing Services in New Zealand

99. As a result of the minor aggregation of market share, and the extent of existing competition in the market, Commission staff conclude that the proposed acquisition would not result in the merged entity acquiring or strengthening a dominant position in the market for the provision of commercial printing services in New Zealand.

OVERALL CONCLUSION

100. Having regard to the factors outlined above, Commission staff conclude that implementation of the proposed acquisition would not result, or would not be likely to

result, in any person acquiring or strengthening a dominant position in the following markets:

- the market for the provision of local news and information services in the print medium in the Marlborough region;
- the market for the provision of national and international news and information services in the print medium in the Marlborough region;
- the market for the provision of advertising services in the print medium in the Marlborough region; and
- the market for the provision of commercial printing services in New Zealand.

RECOMMENDATION

101. It is recommended that, in terms of s 66(3)(a) of the Act, the Commission gives clearance for the proposed acquisition.

Jo Bransgrove
Manager

DETERMINATION ON NOTICE OF CLEARANCE:

**INDEPENDENT NEWSPAPERS LIMITED/THE MARLBOROUGH EXPRESS
NEWSPAPER COMPANY LIMITED**

We agree/disagree with the recommendation.

We are satisfied/not satisfied that implementation of the proposal would not result, and would not be likely to result, in any person acquiring or strengthening a dominant position in a market.

Accordingly, pursuant to s 66(3) of the Commerce Act 1986, we hereby give/decline to give clearance for the acquisition by Independent Newspapers Limited of the assets comprising the newspaper business of The Marlborough Express Newspaper Company Limited including mastheads, printing and publishing properties, fixed assets and working capital.

Dated this day of October 1998

P C Allport
Chairman

E C A Harrison
Member

E M Coutts
Member