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

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

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

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

The conference notification and agenda was published on our website on 29
November and as you'll know from this, there will be a number of confidential sessions which are closed to the public. The Commission members have reviewed copies of all the submissions made on the application and the draft. I should add that we received two late cross-submissions yesterday which we will also consider and in due course these will be posted on our website.

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

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

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

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

As you'll see from the agenda, breaks have been scheduled throughout the day. Commissioners will not be available during the breaks. This room will remain open during the break so please secure any confidential information that you have. Any documents provided to the Commission for the first time at this conference should also be given to Gavin McNeill sitting over here so that we can put those on the record.
Turning to health and safety housekeeping matters which in this day and age are mandatory. Please wear your visitor pass at all times. On departure, please return to reception to sign out. If there's an emergency and there is a continuous siren, please evacuate the building using the stairs, do not use the lifts. Commission staff will accompany you to the nearest assembly point. If there is an earthquake, drop, cover and hold and stay indoors until the shaking stops and that you are sure it is safe to exit using the stairs. I should hasten to add we have had engineering reports relating to the structure of this building. It has recently had structural enhancement and before we re-entered the building we did have structural engineer certificates to certify the status of the building.

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

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

MR MELLSOP: James Mellsop from NERA.
PROF PICKER: Hi, I'm Randy Picker, Professor at the University of Chicago Law School.
MR JAGUSCH: Chris Jagusch, I'm with NZME as General Manager of Regional Print Operations.
MR HEADLAND: Matt Headland from NZME, General Manager Agency Markets.
MR CURRIE: Shayne Currie, the Managing Editor of NZME.
MS JUDKINS: Sarah Judkins, NZME Chief Strategy Officer.
MR BOGGS: Good morning, Michael Boggs, the CEO of NZME.
MR PILKINGTON: Troy Pilkington, Partner at Russell McVeagh.
MS KEENE: Sarah Keene, Partner at Russell McVeagh.
MR TONG: Simon Tong, I'm the Managing Director of Fairfax.
MS BOUCHER: Sinead Boucher, I'm the Executive Editor for Fairfax.
MR HUTCHINSON: Robert Hutchinson, I'm the Product Development Director at Fairfax.
MR BOYLE: Andrew Boyle, Chief Operating Officer, Fairfax.
MS NORRIS: And I'm Joanna Norris, I'm Fairfax Media South Island Editor-in-Chief.
CHAIR: Thank you. I'll do the introductions for the table over here. We have Robin Foster who has been engaged as an independent expert for the Commission and there's other staff members seated over on that side, many of whom will be known to you through this
process, no doubt, and variously through this conference. Following Commissioner
questions, we will typically ask them to think up or develop any further questions that
should be put.

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

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

SPEAKER: (Inaudible).

MR CROWLEY: John Crowley from Fairfax.

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

MR McNEILL: Not yet.

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

MR REES: Jeremy Rees from Fairfax as well.

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

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

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

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

COMPETITION ASSESSMENT - READER MARKETS

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

We considered that the applicants were each other's major competitors, the closest
competitors for New Zealand online news, and we thought it was unlikely that the other
existing competitors would have sufficient scale to act as a significant constraint
post-merger. We're not saying that they aren't a constraint, but not a significant constraint,
not sufficient constraint.

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

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

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

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

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

We also, in looking at the constraints imposed by different types of media like TV
and radio, considered that those, that TV and radio news, wasn't a close substitute. We
reached that conclusion in part because of the inability of consumers to switch to radio and
New Zealand for up to the minute news in a way that you can get online. We note that
different New Zealand news websites had different strengths. For example, Stuff and
Newzealandherald.co.nz are focused more on text-based news, the One News Now on
video, Newshub on video and audio and RNZ on audio content.

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

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

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

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

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

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

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

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

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

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

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

MS BOUCHER: Less of a competitor because there's very little overlap between the two companies in regional news. So, for example, in the South Island, which is a real strong-hold for Fairfax with a lot of local publications, I would estimate there would be a small handful of NZME journalists covering the whole South Island. They can obviously speak to that more. So our competitors in the South Island are Allied Press, a lot of the
local publishers in the local towns that we compete in every day, that we're in every day, and NZME isn't really part of that landscape at all for us.

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

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

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

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

COMMISSIONER BEGG: Have you got any thoughts, then, on why there are far fewer people going to the websites of TVNZ, MediaWorks and RNZ than to the two main websites, given you're sort of describing compelling content and so on, and the move to video, which they would have a strength in, you'd think, compared with yourself?
MR TONG: I'll tackle that to start with. I think in the case of MediaWorks, they've reset with
Newshub in an attempt to create a digital presence and it's very successful. They're going
very well with it, I think, something for Mr Weldon to be proud of in terms of the
rebranding. In the case of both of those organisations, they haven't faced anything like the
declines that we've seen in our core business.

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

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

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

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

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

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

Just to reiterate that, we had our largest days on our website in the last two weeks
and video has been the driver of that, so that content is absolutely what our audience is
looking for. I guess New Zealand On Air reiterated that to us just in the last six months. We partnered with a third party to produce video for regional news and what NZ On Air has said is those that can produce video, very important again, just reiterating that's what the audience wants and that's how people are wanting to access their news these days. So obviously we have a got some key competitors in that space, television networks of Television New Zealand and MediaWorks.

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

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

CHAIR: Can I just check for a moment that the volume is sufficient for the people on the phone.
Can we check to see that the listeners on the telephone are hearing the conversation?

MR CURRIE: Can you hear us, Rod?

MR ORAM: Yes, I can thank you.

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

I think it's really important to reiterate that none of the organisations now can be defined by just one flat form or one discipline. We're well beyond the text-based news or in the radio case, audio. We have created a new video platform, a new video brand called New Zealand Herald Focus which screens up to seven or eight pieces a day, one to two minutes each. That has driven a lot of our video growth.
But as well as that, we've now equipped all of our frontline reporters with iPhone 6s and an app called Videolicious. So they're not out in the field just collecting quotes and text stories but actually filming as well and filing that as part of their duty. So, you know, we're seeing this massively changing landscape in the New Zealand media and right to the core of how a journalist performs their duties. That's not just the case at NZME, and I'm sure Fairfax, but across the board as well.

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

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

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

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

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

Then it seems to me you've got questions of how does the content get produced, how do the stories get told, story-telling is really important, how does it get distributed. What's interesting there is, is the -- and just heard here, the way in which the presence of this online platform is, I think, revolutionising all of that. So what Shayne just said about
all of my reporters are now video because they've got iPhone 6s, of course, what else would you do? That's obviously the right way to organise it. The idea that Facebook, I think through their new Facebook Live, is in some sense in the business of making it possible for everyone who's got a smartphone -- and everyone's got a smartphone -- to create these videos and produce news and then to distribute those.

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

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

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

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

The New Zealand audience is very savvy and moves across multiple sites. It would be very rare to find anybody who's got one app on their phone. Yes, they'll have a favourite, but they will move across and consume. So that's the constraint that we face and
that's just talking about the New Zealand competition as opposed to, for instance, how Facebook might shift the goal posts in terms of what is served up.

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

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

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

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

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

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

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

That's not to say that we're not in a world of conversions and digital news, but just
to point out that from the consumers' point of view these things are different and have
different uses and are not always seen as being direct competitors of each other.

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

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

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

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

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

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

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

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

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

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

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

The Daily Mail has set up operation in Australia and has a team of people there creating New Zealand news for the domestic market in New Zealand. It's very easy now for these, you know, quite major news brands and others, other start-ups, to set up a market and create news and an audience that we traditionally haven't seen as recently as three years ago.
The other point I'd make about just first mover, while The Herald site's been around for more than 15 years, it's really only been in the last two or three years that we've moved to a truly digital first environment and that's not just in the way that we're producing our journalism, but the culture of the news room and pulling together, in our case, one integrated news room in the last 12 months where we've seen New Zealand Herald, Radio Sport and Newstalk ZB, all of the journalists moved from two buildings into one in Auckland.

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

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

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

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

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

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

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

**MR TONG:** So for Stuff, the trend is flattening, our growth has slowed quite dramatically over the last period. You will see spikes around things like the earthquake, the Prime Minister's announcement yesterday, you know, so you'll see some spikes out of that, but in general
MR CURRIE: And for us, our digital growth is around 20 per cent year-on-year, which as I say, it's only been in the last two or three years that we've moved to that truly digital first environment, but certainly -- and we can get you the real numbers for Radio New Zealand and One News, but they've got much higher percentages than that.

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

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

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

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

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

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

COMMISSIONER BEGG: Okay.

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

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

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

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

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

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

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

MR ORAM: Yes, I can thank you. Just very briefly on the question of new entrants, mention was made about Newshub at the moment. We don't see that, I mean, the idea that we might be able to catch up in a year's time; that's not something which is currently within our, you know -- we're not relying on that, that's for sure. I think that I'm probably not the best person in terms of an expert on that one, but we certainly wouldn't see that we have any chance of catching or you know, getting up that gap any time soon.

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

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

My own experience here in New Zealand was, in 2006, some colleagues and I had what we thought was a good proposition and raised some money, but not enough, to launch
a business news and events service so that didn’t work. Last year, I tried again and had
discussions with Penny Jones who was the head of international business development at
the Guardian and I continued those discussions this year with David Monk at the Guardian
who’s their international news editor Asia-Pacific based in Sydney.

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

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

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

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

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

And I was arguing, in my submission, that there was an opportunity to create that
kind of credibility in New Zealand, and indeed, perhaps the merged entity could. However,
the applicants, at least the heavily redacted public version we could see, failed to make the
case about how they would create that relationship, either journalistically and then feed
through into advertising and thus become new and better competitors than Facebook and
Google and thus therefore have a commercial future.
And so my concern was around the failure, and I stress this was at least in the heavily redacted public version of their application, they failed to make that case as to how they could do new, different and better and that would make them a very strong news organisation.

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

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

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

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

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

MS BOUCHER: Well, they obviously think so in terms of setting up major news rooms in Australia that have either staff there focused on New Zealand news or have teams here. I've read quite a few articles on the Guardian produced by their New Zealand journalists
here. So I think they can choose to compete in the areas that they think are the most
important and valuable to them.

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

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

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

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

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

You have to ask yourself is that the best use of resources when there's all these
different outfits, including our own, who are there. Would it not be better to have two or
three of your journalists of the five, say, who were there to be focusing on unique, planned,
exclusive news that could actually be a better sellable option on a specialist website?

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

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

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

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

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

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

MR HUTCHINSON: I think that actually is the critical point, is that curation is removed from
the editor because Facebook decided which news provider and which angles from each of those news providers got presented to you, and it did that. Essentially, if you imagine at the most massive amount of content, i.e. the entire world's content is being pumped into Facebook and then based on your personal preferences, the preferences of your friends, the way in which you consume content on Facebook, the way in which people who share traits with you everywhere in the world consume content on Facebook, it packaged and, you know, so completely unbundled and then rebundled your personal experience.

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

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

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

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

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

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

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

So it's literally being trained all the time to improve the experience of users, both me personally like my news feed is very good and it shows me news I want to read, including from the Guardian and Stuff and The Herald and Newshub, actually, but what it
also does is push to me a whole lot of other elements that increase my levels of engagement
so they have more opportunity to display advertising, they have more opportunity to
understand my behaviours with regards to types of content and things shared by my friends,
etc, and therefore again learn a little bit more about me.

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

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

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

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

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

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

FACEBOOK

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

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

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

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

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

COMMISSIONER BEGG: Their growth, 60 per cent growth.

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

So the model that Facebook allows is for -- and in the case of Huffington Post in Australia, they have seven journalists on the ground who produce seven to 10 stories a day each and that gives them enough local content to take some audience away, not enough to be the competitor, but it's about being chipped away at the edges which reduces your ability to monetise the audience on your own platforms because it's Facebook and Google that are essentially taking the lion's share. The data that we provided, I think our combined share in
that same market was around 11 per cent of the revenue and declining.

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

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

MR TONG: [Shakes head].

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

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

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

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

So the Facebook dynamic is complex but inescapable for us at every level of our business. So it provides a way for us to source news, to gauge the mood of what people are feeling, to pick up news tips and story ideas and all those sorts of things because it is really the place where people are living, living out their lives, and it certainly has a huge impact on us being able to be picked up if anything that we publish is wrong or off beat or off balance, and to be able to respond accordingly, compared to the old days where you had to wait 24 hours after you published a newspaper or someone might ring you or submit a letter or something like that.
MR BOGGS: Just with regard to quality and being able to maintain that quality using Facebook as a distribution channel, for example, at NZME we've got an internal target of having 25 per cent of our content being planned and unique. So it's not John Key announcing that he's stepping down, because we didn't know about it and it will never be unique to us. So from a content perspective, 25 per cent is the target that we're aiming to get to and we're moving towards that. We're currently at about half of that.

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

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

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

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

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

You and I and everybody in this room who is on Facebook, our news feeds are all different based on our previous reading habits. Facebook's big goal obviously is to keep
people within that environment rather than feeding it out to news organisations and media
websites like ourselves, and at last count I think 1.4 billion plus people on Facebook, it's a
phenomenal beast, and it is absolutely 100 per cent our major competitor and constraint.

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

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

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

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

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

**MR CURRIE:** Yes, even within our own news room, journalists are ultra-competitive. They
want that front page lead spot or the top spot on the home page, to have their story leading
the Newstalk ZB news on the hour. So there's both internal and external competitor sort of
positions going on, and certainly what we see coming out of Radio New Zealand,
Television New Zealand, Fairfax and MediaWorks certainly drive this, but not just them,
you know, The Spin Off and the style of writing that comes from there certainly makes us
strive to ensure that our writers are the best in the stable that we have in New Zealand.

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

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

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

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

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

They've specifically outlined measures to reduce the amount of click-bait that they
serve. There have been, internationally, businesses that have been set up, risen to
prominence on the back of Facebook's algorithm and then had their fortunes plummet when
the algorithm changed. A good example is Upworthy which existed to promote that sort of
cat video click-bait, and had a brief moment in the sun and then failed once that algorithm
changed because Facebook was looking for content that users would engage with more
deeply, rather than content that they would find superficially appealing but ultimately
unsatisfying.
So I think in that way, Facebook incentivises us, if we're attempting to reach an audience on Facebook, it incentivises us produce content that people are going to engage with in-depth either by if it's an article, consuming it, spending time on that page; if it's a video that we might produce directly on Facebook, via Facebook Live, by watching along a significant amount of that video, by sharing it, by commenting on it, by liking on it.

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

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

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

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

Adjournment from 11.05 am to 11.23 am

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

MR FOSTER: Thank you very much. I just wanted to pick up the point about Facebook and
indeed other intermediaries as competitors because while I would certainly not downplay
the importance of intermediaries in this marketplace, and indeed, have written extensively
about them and the impacts they will have on news, media, I think just using the word
"competitor" can oversimplify the issue, and it's important to think about what aspects of
competition we're talking about and indeed where those distributors may also be acting to
support the news media market as well as competing against it.

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

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

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

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

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

It seems this morning, if this is of any relevance to the more general usage of news,
six out of the ten stories that I Googled were from the mainstream New Zealand news
providers, the New Zealand Herald, Stuff, TVNZ. The other four are actually all overseas
stories, and looking at specifically stories about the resignation of the Prime Minister,
again, six out of the top ten were from the New Zealand mainstream providers.

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

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

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

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

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

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

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

And so I think that's the thing that I haven't heard really a discussion of and I just
want to make the fairly obvious point, is that one way to deal with or address the Facebook
problem as it relates to revenue, is post-merger, to implement some kind of a paywall and
we all know that there's lots of different styles of paywall, like the New York Times version
or the NBR version. So that's the only point I wanted to make, in a post-merger situation,
that is potentially an answer.

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

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

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

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

So I think it's all subtle, I think you have to go looking for it, but I think you see it in
the RNZ situation, I think you see it there and I think you see it in -- look at newspapers
like the New York Times with these fancy glossies. I'm not against that, they've got to pay
bills. So I do think that matters and I do think what's attractive about paywalls is precisely
in the way, if they would work, I'm told they wouldn't, maybe more specialised content,
that's what Shayne said, then that would be great.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

MS NORRIS: Yes. Look, I mean, these are scenarios that we face all of the time as editors.
I want to be very clear with the Commission that our mission as editors is to serve the public interest. It's not competition with Shayne's team that drives me and my team to do stories which we believe serves the public interest. If I think about the three major investigations we've done in the past few months, we've done investigations into the degradation of water quality across the South Island, we've looked at child abuse, we've looked at the illegal distribution of synthetic cannabis. We do those things because we believe it serves the public interest.

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

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

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

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

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

So there's no maths that I've seen after four or five years of the Australian example
and all the modelling we've done that suggests that a paywall for general news will work.

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

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

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

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

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

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

**MR BOGGS:** Michael Boggs. I wonder if I can add a couple of things to that. Firstly, just coming back to where people get their news from. We've heard it's very small, single percentages around a number of the countries that were talked about, but in fact people get them from many, many places. In fact, some of the stats say that, well, 25 per cent of people get their news from online. In fact, 21 per cent of them get it from television. So those are very much main sources of news.
We heard earlier today that it's difficult to people to transition from writing for television or for writing for radio to then be able to write for digital or newspapers. We've done that as part of bringing NZME together as a business over the last 18 months. People who were previously Newstalk ZB journalists in fact at that time were writing for Newstalk ZB website, and they also now write for the newspapers.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Obviously, a newspaper can't have video, it's just the format that it's in. But
wherever possible we prefer to give people a video format if it's a visual story and our consumers want that. Even in what might be, you know, traditionally called long form, you know, the types of big feature articles you would have read in a newspaper once upon a time, in the digital point of view, now we know people want to be able to have interactive elements with those, they want to be able to see a video of the person that you've interviewed at length, they want to be able to interact with a graph that might be dynamic, rather than just read about the kind of points that are in it.

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

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

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

MR IRVINE: Print is text-based.

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

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

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

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

MS CSORGO: Sorry, can I just ask a follow-up question on that, because I'd be interested in hearing both of your perspectives on this. You had indicated you are making these
investments in video interaction, high quality serious journalism. My question is just how
much is that costing you?

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

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

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

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

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

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

But unfortunately now it's actually not us doing the curation, it's actually coming
back to Facebook, and the content that's there is both written, it's audio, it's video, and there
are competitors everywhere who can produce that. And so the job of curation is getting
less and less important for us in some regards.
It's really important, because someone else is doing it by an algorithm and deciding how you're going to see it and in fact what content you're going to see and the way in which it's going to be delivered to you. So we might produce it all these different ways, but someone else is going to choose how you get to see it. So to reiterate some of the stats, over 50 per cent of the traffic coming to our sites today is from mobile phones and over 50 per cent of that is now coming from Facebook, and growing.

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

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

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

COMMISSIONER BEGG: Any other questions from staff?

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

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

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

PROF PICKER: Two data points on that, if we could. Just one is again the Google News Spain situation, I won't repeat what I said on that before but that's really an interesting exercise in brand and then more plurality tomorrow. Then the point about the fake news. Again in my
second filing I've got a description of a story there where on Facebook the story that the
Pope had endorsed Donald Trump that turns out not to be true received a million shares on
Facebook while the very detailed New York Times investigation into Donald Trump’s taxes
received 200,000 shares.

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

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

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

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

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

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

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

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

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

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

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

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

MR MELLSOP: I suppose I could repeat the comments that we've made a couple of times now.
I think I'm not sure how this is any different to if you get your house painted by a fixed contract versus time and materials, it's just a different way of allocating the risk. I don't think it's a general antitrust principle that it affects market definition.

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

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

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

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

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

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

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

They haven't adjusted their strategy because by its very nature their strategy over time is thought through and planned and they already know they have many, many ways to
reach those different audiences that they're seeking. And I think so there's a constant constraint from anyone who also has that audience, be it on a day basis or across a week or three days, because it totally depends on the buy side strategy, not really what we're putting out there.

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

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

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

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

COMMISSIONER BEGG: Staff, any follow ups on that?

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

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

MS CSORGO: So do you typically then offer up what the equivalent CPM is when you are
selling that, say, homepage takeover?

**MR HEADLAND:** Certainly in my world, which is the agency world, we're fulfilling the brief. So we're directed by the media agency to fulfil certain targets. So their engagement targets, CPM targets. So we respond to that brief, work through that brief with them and deliver the campaign.

**COMPETITION ASSESSMENT - SUNDAY NEWSPAPER ADVERTISING**

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

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

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

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

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

**MR TONG:** I'd agree with that. I think in sort of three of those key areas that a Sunday paper might have filled the need around travel, perhaps motoring and property, they're a very, very good online substitute. If you're sitting there in bed with your coffee, if you're lucky enough to do that with an iPad, you can surf the internet and you are get very high quality content in those key areas where that's where the Sundays have traditionally played their
COMMISSIONER BEGG: Any follow up? So we're going to have a confidential session, too, I think, which will have a few other questions. Just then on the final one, then, for the public session is on Community Newspapers where we note that there's overlap in ten areas and we're concerned about the loss of competition.

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

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

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

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

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

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

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

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

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

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

Open session adjourns from 12.22 pm to 1.48 pm

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

CURRENT STATE OF THE INDUSTRY AND FUTURE DEVELOPMENTS

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

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

MR CURRIE: I can start with that in terms of the trends that we've seen with print and certainly
all of our -- both the New Zealand Herald and the regional dailies, the five regional dailies that we operate in the North Island have seen circulation declines in the last 12 months of around 8 per cent on average. That fluctuates depending on the title, but it gives you an indication just of the speed of change I guess and speed of decline in the print market in New Zealand.

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

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

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

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

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

MS JUDKINS: With the community papers, those papers, what we describe as total market coverage, so the letterbox drop, so it's up to us to determine how many letterboxes we put those publications into. So we're obviously always revisiting the span of those publications to make sure we're getting the most cost-effective reach, but it's difficult to ascertain readership trends for those publications when you're simply looking at the fact we put them
COMMISSIONER WELSON: Just to pick up again on another point that you made, Shayne, so you began, I think we heard this this morning, about how only 13 per cent of people use print as their primary source of news. Obviously there's still quite a large print demographic. So I suppose what I'm wanting to just try and draw out is, are there different demographics and what is the sort of demand profile of the different demographics?

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

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

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

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

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

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

MR CURRIE: Yeah.

COMMISSIONER WELSON: But within that there's a whole, presumably a number of different
demographics who are consuming news in a different way. I'm just interested to explore
how you see those different demographics playing out.

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

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

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

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

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

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

**MR McKENZIE:** As long as I don't have to start singing, it's fine. For us, our picture is slightly
different. Our circulation decline is at about 2.8 per cent for the last year, or the last quarter
of the numbers coming out. I did some work recently and looked at our trend over the last
ten years. For us, we're down about 21 per cent. We're the fourth best of all the dailies in
New Zealand.
The closest of the majors on metropolitans is the Herald who are down about 34 per cent. So our decline is significant but not as fast. And we're definitely not getting double digit declines as some of the other newspapers are, which is not surprising because we don't necessarily have a digital first policy and I listen with interest. Everyone's saying our paper's declining, why wouldn't it decline when you're putting everything online for free and there's no incentive to buy a newspaper. So I know -- yeah.

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

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

COMMISSIONER WELSON: Thank you.

MR McKENZIE: Cheers.

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

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

So the most remarkable increases that we've seen in those recent surveys has been the increase in streaming and with the entry into the market of the likes of Netflix and other providers. So those are the quite clear changes happening in that sector that we can see. And also that rapid increase in online viewership of video from the likes of YouTube and Facebook and other online platforms. So very much a movement away from terrestrial television.
COMMISSIONER WELSON: Is that the same for us in consumption?

MS JUDKINS: On television?

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

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

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

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

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

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

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

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

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

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

The number that was actually in there was actually from the previous month, and it was a bit of an outlier because we had one clip which went viral with 10 million views. So
it really was an outlier but the average is less, actually a reach of less than 50 per cent is
through Facebook rather than the 70 per cent which is quoted.

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

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

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

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

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

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

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

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

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

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

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

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

So the news stories are a constant state of evolution and within that there are elements of it that are tailored specifically for different platforms and the way we think those different audiences might wish to consume it or relate to it. We Facebook live-stream all major news events now so the social audience can see news live. Yesterday obviously John Key was a big part of that. Our political editor, Tracey, was doing that from the Trump venue in the States a couple of weeks ago, and that has actually quite a broad demographic watching it from both a young group to an older group.
So we increasingly think about how do we create content that is specific and relevant to certain platforms and what we know about how people like to consume content on those platforms, which platforms are more likely to be video heavy or to have an audience that appreciates video and at the very end of the chain is, okay, out of this whole rich mix what thing could we put into the newspaper that we've already created for that audience who might want to see it the next day.

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

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

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

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

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

MR BOGGS: For NZME so print is 60 per cent of our revenues overall, and absolutely exactly
the same, we're very focused on maintaining those print revenues for as long as possible. Recent editions I guess to the print product are viva products, a newspaper inserted magazine is an example. So innovations, I'll call them, that we're really looking to add to the newspaper which has different content, maybe attracts a different audience to give us the lifeblood and the longevity for as long as possible as we can in that print media.

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

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

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

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

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

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

Our online revenue is miniscule, it's 1 per cent or just over 1 per cent of our total revenue. So for us it's not that significant. Yes, we want to grow it like everyone else because we do see the trend is moving that way, but we need to continue to protect our print product, or products, and actually grow them as well.
COMMISSIONER WELSON: Thank you. Can I invite either of the experts to comment, perhaps Robin, if you would go first.

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

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

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

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

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

So although there is clearly a strong case for thinking about the consolidation for cost cutting reasons in any market facing these sorts of pressures, I don't think we should give up on the sort of competitive process also being another way of finding an answer to some of these challenges.
MS BOUCHER: I would just make one comment on that, because obviously like anybody we are scouring the world for examples of success that we might be able to apply to our own business. And the big difference between us and say the UK market, or any of those European markets, is population for one. You know, the whole population of New Zealand is probably half the population of London, yet the sort of competitive -- that puts constraints on the size of the market that is there to be able to, you know, make money out of.

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

COMMISSIONER WELSON: Thank you.

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

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

COMMISSIONER WELSON: Professor Picker?

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

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

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

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

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

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

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

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

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

On top of that they have a better-funded public service broadcaster which also produces news on television and radio. Notwithstanding that, they do seem to have a more plural newsprint, newspaper market than currently exists here, with I think three or four
different news media organisations and a larger number of national daily newspapers. Even in Ireland they're having worries about plurality because there are occasional moves to try and consolidate amongst that slightly larger group of newspapers.

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

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

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

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

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

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

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

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

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

MS CSORGO: Thank you.

MR McNEILL: I just had a question regarding content at the community newspaper level. With the regional and the dailies and the Sundays you're able to track to a certain extent do
people want to consume this because they're buying their subscriber? For your community newspapers you determine what the distribution footprint is. It's difficult, I mean, I'm sure you can survey and that sort of thing as to how many people are actually reading it, but how do you determine what is that content that comes from your digital first news room that flows into your community newspapers?

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

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

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

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

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

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

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

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

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

In terms of extending the runway, I've been in the media industry for three years and the speed of change has just been something to behold. It's hard to really judge just how much time we have, because again, in this country with the roll-out of the ultra fast broadband being so successful and the cheap access to technology, it's difficult to see how -- it will only increase in speed. What we have proposed here is that there are -- frankly, there's two of us, two executive teams, two marketing teams, two IT groups, two everything, where there's an opportunity to make some reduction there that would allow us to stay in the communities for a lot longer, because the communities and the news that we create there is really the only thing we've got that creates some sort of edge, if you like, over how people are going to consume their news.
So we're very focused on how we can keep ourselves in those communities. But it's getting more difficult. And the Marlborough example is the one where we've had to bite the bullet on the daily and just start to have a conversation with the community about not being able to do that.

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

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

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

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

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

Because we know that as it gets harder and harder to fund big news rooms and inevitably we've taken out all the production sort of things in Fairfax to basically make our news force purely creators as much as possible, that it's not going to be Auckland and Wellington and Christchurch that suffer, it's going to be Marlborough, Nelson, Timaru, Manawatu, Taranaki, small places where unfortunately you haven't got as big a news room as TVNZ, Newshub, RNZ etc, but there's no way we can sort of, you know, move out of the big cities to let those guys cover that news so that we can still only focus on the small cities.
So our innovation has really been focused on how do we maintain our ability to
serve New Zealanders with local journalism and keep extending that runway as much as we
can, because that's -- you know, Joanna mentioned it before, that's our mission, that's what
we're here to do, and we talk about it and feel it very strongly every day.

MR BOGGS: Thank you. Maybe I can reiterate some of the things that Simon said. Tomorrow
obviously we've got a counterfactual and a quantified benefits confidential session, so we
can go into some more detail there. But I think the thing to remember is, there is no status
quo of the business that we have today. In the first half of this year our print revenues went
backwards 14 per cent, our digital grew 20 per cent, our revenue still went backwards.
That continues on and that will continue to result in us having to remove more cost
from the business which is going to impact on the quality that's available, it's going to
impact on the people that sit in this room and that is the status quo we're going to have to
compare to. Quite different to where we sit here today and the products that we produce
today. So we can talk more about that I think in tomorrow's sessions.

COMMISSIONER WELSON: Can I just check with staff.

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

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

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

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

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

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

MR TONG: Well, because in the end there's a -- it's a fair question -- in the end there is a fixed
cost to produce a newspaper. So, for instance, if we look at Marlborough as an example,
the cost to produce the newspaper is broadly the same. The distribution costs are the same.
If there are five people in the street to deliver a newspaper to and all five are getting the
paper, were getting the paper yesterday, but today there's two. We still have to drive down
that street and deliver that newspaper. So there is a fixed cost base that you have that you
get to a point where you can't really go any further without materially changing what you
offer. That's the first thing.

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

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

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

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

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

MR TONG: In Auckland? Because that's where 1.5 million New Zealanders live and the
advertisers want to talk to them.

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

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

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

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

Adjournment from 2.48 pm to 3.04 pm

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

**COUNTERFACTUAL**

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

So in the Draft Determination we posited two potential scenarios for the counterfactual, neither of which we considered to be in fact the likely counterfactual. They
were the status quo and the digital-only scenario. What we suggested was we thought that
the likely counterfactual was somewhere between those two but we couldn't predict with
any degree of certainty exactly where that might be, or what level of rationalisation would
occur without the merger.

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

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

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

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

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

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

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

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

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

**MR McKENZIE:** No pressure at all, is there? So I need to make a note now that I've been in the
role four months, so I wasn't there when we purchased The Oamaru Mail because it was a deal also to do with the Christchurch Star as well I believe. We've turned that into a once a week community newspaper and at the moment it's going very well, so it's actually significantly improved its financial performance and is actually delivering a good result for us at the moment, which is positive for us.

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

COMMISSIONER WELSON: Thank you. Fairfax.

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

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

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

So those aspects are just rolling through now. You know, my understanding is there's something like 25,000 new UFB connections a month, that's sort of the demand
that's being driven at the moment. So as we see those New Zealanders come on-stream
with that technology it will be fascinating to see how that changes their habits. So in our
mind that's something that we are watching carefully to see what that might do to, you
know, the sleepy hollow town that's always had that newspaper that's been the key for
them, because it could change very quickly into Jo's point before, in a town of 18,000 it
doesn't take too many to alter the situation.

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

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

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

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

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

So for each paper you can model that out reasonably quickly, running two or three
scenarios which is what we've done with Marlborough, but if you're looking for some lead
indicators, print advertising is in decline and as I mentioned before, we've looked at, for
instance, the States in the hope that if the New York Times can arrest that print decline, you
know, if they see a shallowing out that may follow into our market, but we're not seeing it.
So those indicators are there and we can see the same sorts of things going on.
Andrew talked earlier on about volume and readership and because of the nature of the
market what advertisers are willing to pay for it.
So we do have modelling in that regard and Marlborough is the first example of
that.

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

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

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

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

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

MR HUTCHINSON: The future is pretty much driven by consumers and they have chosen the
smartphone as their preferred mechanism for consuming content from all over the world. I
think on top of that there's an awful lot of international companies innovating on top of that
standardised technology platform, and so -- and part of how they disrupt businesses is they
unbundle them. So if you think the greatest minds of Silicon Valley are thinking about how
to unbundle lots of different models and markets around the world and then repackage it
themselves into a phone, the idea of a print and digital or online bundle just doesn't seem to be something that's going to be compelling when they're already, you know, introducing smart assistance on the phone that knows what you want to read and say, "Hey there's a breaking story, I know you love politics and here's something that's happened today".

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

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

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

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

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

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

So that would be the first thing, is the trends that you could observe today in terms of uptake of mobile devices, the power of those devices, and the richness and variety of
experiences those devices can present to you will accelerate. And what I mean by that is, thinking from a news perspective, so it seems silly to us now that you will strap your phone to your head for a virtual reality experience, but if you are under 24, 22, that seems like the most natural thing you could possibly do because you're already fully trained in kind of deep spaces because you've been playing console games your entire life.

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

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

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

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

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

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

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

**COMMISSIONER WELSON:** Sounds very interesting.

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

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

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

Huge growth in night-time audience now compared to morning. Traditionally, it was everyone on their phones in the morning, it still is, but the growth in the evening
audience is incredible. So we have to think about what's the best product and time of the
day, the type of journalism to be producing for that audience.

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

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

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

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

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

Maybe.

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

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

PROF PICKER: I don't have an idea. Look, these platform businesses having this kind of scale
really matters, so the ability to build that scale and to have something distinctive. Facebook
is so unbelievably locked down, right? I mean, honestly, I don't do that much with it but
occasionally I want to get something out of it, I can't figure out how. They've got very
distinctive content and it's a network business, so they get all the benefits of all of these users producing stuff for them for free.

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

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

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

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

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

But to do that you need potentially money to invest and also time, because you need to take on incumbents in other markets that are under just as much pressure. So you know, trust is critical and you can't put at risk at all. But then if you have that and you have the opportunity to talk to people you can ask them politely if they wouldn't mind paying for something and it may not necessarily be about content, it might be something else you can do for them and we've started to experiment in that way as have other people around the world.
So when we go back to the issue of runway, the runway is important in order to try and create ways to build some other businesses that will support the journalism.

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

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

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

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

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

MS JUDKINS: I think one of the other important factors is also around behavioural change, in the way that people, not to consume things, but the way they're prepared to try new things. The concept a few years ago of getting into a car with someone that you didn't know would be really quite a scary concept. And yet Uber has completely transformed the way people have trust in that platform, not necessarily that driver, but absolutely trust in using that.
The same with Airbnb. It's hard to imagine a world even a couple of years ago when we would have quite happy done that, now people are doing that as the norm. So it's being there at that point in time of behavioural change.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

**MS BOUCHER:** Just on the pure editorial point of view, there is an extreme amount of duplication happening at the moment of story coverage and stories which are essentially, you know -- they're not the type of work that requires a lot of different sort of views and
perspectives, like 20 people turning up at the same press conference to cover basically
something that was said.

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

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

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

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

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

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

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

MR TONG: My comment on that is along the same lines. I think the digital programmatic
exchange KPEX we created we should be rightly proud of. It's quite unique in many facets and it's working reasonably well and we've invited many other parties to join, and that's a good example of us working together.

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

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

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

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

MS BOUCHER: Would you mind repeating that?

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

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

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

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

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

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

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

Session concludes at 3.54 pm