

**COMMERCE ACT 1986: BUSINESS ACQUISITION
SECTION 66: NOTICE SEEKING CLEARANCE**

Date: 6 September 2005

The Registrar
Business Acquisitions and Authorisations
Commerce Commission
P O Box 2351
WELLINGTON

Pursuant to section 66(1) of the Commerce Act 1986 notice is hereby given seeking **clearance** of a proposed business acquisition.

PART I: TRANSACTION DETAILS

The Business Acquisition

1. The business acquisition for which clearance is sought:

- 1.1 The business acquisition for which this clearance is sought is Fairfax New Zealand Limited's ("**Fairfax**") acquisition of the Times Media Group Limited ("**Times Media**") mastheads the Rodney Times, the Coaster and the Outlook ("**Rodney Mastheads**") and associated assets, including the stationery shop owned and operated by Times Media. The acquisition does not include any aspect of the Times Media printing or radio business. A copy of the Agreement for Sale and Purchase is attached as Appendix 1.
- 1.2 Fairfax and Times Media have agreed that, subject to Commerce Commission ("**Commission**") clearance, Fairfax will acquire Times Media's publishing business (including its stationery shop) but not its printing or radio businesses ("**the Transaction**").

Summary of application

- 1.3 Based on the markets previously identified by the Commission in relation to acquisitions involving similar businesses the affected markets are:
- (a) the market for local news and information services in the Rodney district; and
 - (b) the market for advertising services in the Rodney district.
- 1.4 Fairfax considers that the nature of local news and information services in the Rodney district (primarily the fact that all sources of local news/information are free and that the provision of local news is therefore driven by a desire to attract advertisers) means that it cannot be considered separately from the provision of advertising services. However, whether considered separately or together Fairfax is of the view that no substantial lessening of competition will occur in any market.
- 1.5 Fairfax considers that the relevant markets are not restricted to the print media alone. The significant rise in Internet usage and the availability of local news (for example through websites such as scoop.co.nz) and advertising (through websites such as trademe.co.nz) have significantly increased the competition and competitive constraint provides by the Internet. Radio also provides significant local news and information, as

well as advertising opportunities, in the Rodney district. Rodney has a specific community radio station as well as a variety of networked stations which can provide local news and advertising services.

- 1.6 There will be some aggregation of Fairfax's and Times Media's market share in relation to local news and information and local advertising services. However, there will be no substantial lessening of competition because market conditions, in particular the low barriers to entry and the presence of alternative media, will continue to provide significant constraint in the relevant markets.
- 1.7 In order to understand the dynamics of the market, it is necessary to examine:
- (a) the inter-relationship between content, circulation and advertising;
 - (b) the countervailing pressure from other providers of both news and advertising services;
 - (c) the immaturity of the market;
 - (d) the low barriers to entry; and
 - (e) the differentiation between the publications.

Content, circulation and advertising

- 1.8 Publishers are under constant pressure to ensure high standards of content and presentation because advertising (which relies on readership and distribution) is the main (or sole) source of revenue as the provision of local news and information to readers is free. As a result advertisers hold a significant degree of countervailing power. This has been illustrated in the Rodney area with an APN publication having been withdrawn from the area after it lost property advertisers to a rival ACP publication (Property Press).
- 1.9 Other forms of news services (such as radio and online providers) are easily accessible and increasing in popularity (especially amongst key demographic groups that advertisers seek to target). Other forms of print advertising (such as flyers and catalogues) are readily available to, and utilised by, advertisers. Research demonstrates that these are effective alternatives for advertisers.

Immaturity of the Market

- 1.10 The Rodney area is developing at a rapid rate. The market is immature in terms of the expected population (and therefore circulation) growth and the number of current suppliers. Given experiences in other developing markets where population is increasing, the likelihood of additional suppliers entering the market is enhanced by increasing population (and therefore potential readership).

Low barriers to entry

- 1.11 Establishing an alternative publication is not difficult as recent examples demonstrate. The barriers to beginning a community newspaper are, as the Commission has previously identified, very low. Costs are not significant and all necessary aspects (printing, distribution, etc) are easily available from a number of sources in and around the Rodney district.

Differentiation between products

- 1.12 Because the current Fairfax publications in the Rodney district focus on different local news and advertising sources from the Rodney Mastheads, there is a significant degree of product differentiation in the market. As a result any aggregation will have a very limited effect on competition.
- 1.13 These factors (developed throughout the rest of the application) demonstrate that the provision of local news, information and advertising services is very competitive and particularly so in the Rodney district.

2. Who is the person giving this notice?

- 2.1 This notice is given by:

Fairfax New Zealand Limited
 Level 2 110 Custom Street West
 Viaduct Harbour
AUCKLAND

Telephone: 09 970 4000
 Facsimile: 09 970 4059
 Attention: Joan Withers, CEO

- 2.2 All correspondence and notice in respect of the application should be directed in the first instance to:

Russell McVeagh
 Mobil on the Park
 157 Lambton Quay
 PO Box 10-214
WELLINGTON

Telephone: 04 499 9555
 Facsimile: 04 499 9556
 Attention: David Clarke/Judith Harper

CONFIDENTIALITY

3. Do you wish to request a Confidentiality Order for:

- 3.1 Confidentiality is sought in respect of all items deleted from the public copy of this application ("**confidential information**"). The items are either indicated in the non-public version in square brackets ("**[]**"), or contained in **Appendix 1**, the entire contents of which is confidential.
- 3.2 In respect of the confidential information, a confidentiality order is sought under section 100 of the Commerce Act 1986 ("**Act**"), and confidentiality is claimed under section 9(2)(b)(ii) of the Official Information Act 1982, on the grounds that the information is commercially sensitive and valuable information which is confidential to the participants,

and disclosure of it is likely to give unfair advantage to competitors of the participants and/or unreasonably to prejudice the commercial position of the persons involved.

- 3.3 Fairfax requests that it be notified of any request made to the Commission under the Official Information Act for release of the confidential information, and that the Commission seeks its views as to whether the information remains confidential and commercially sensitive, at the time responses to such requests are being considered.

DETAILS OF THE PARTICIPANTS

4. Who are the participants (ie the parties involved)?

- 4.1 Fairfax New Zealand Limited
Level 2 110 Custom Street West
Viaduct Harbour
AUCKLAND

Telephone: 09 970 4000
Facsimile: 09 970 4059
Attention: Joan Withers, CEO

- 4.2 Times Media Group Limited
16-24 Mill Loan
PO Box 91
WARKWORTH

Telephone: 09 425 8169
Facsimile: 09 425 7765
Attention: Anthony Cook, Managing Director

- 4.3 All correspondence and notice in respect of the application should be directed in the first instance to:

Russell McVeagh
Mobil on the Park
157 Lambton Quay
PO Box 10-214
WELLINGTON

Telephone: 04 499 9555
Facsimile: 04 499 9556
Attention: David Clarke/Judith Harper

Interconnected and Associated Parties

5. Who is interconnected to or associated with each participant?

- 5.1 Fairfax is a wholly owned subsidiary of Australian company John Fairfax Holdings Ltd (publisher of major metropolitan newspapers in Sydney and Melbourne along with the Australia's Financial Review). It also has interests in:

- (a) NZPA Investment Limited (47.05% interest);
- (b) NZ Press Association news agency and financial information service (49.18% interest); and
- (c) Newspaper House Limited Property Owner (45.52% interest).

5.2 Times Media has both a media (Times Media Division) and print division (Times Colour Print). The print division, Times Colour Print, is a privately owned printing company based in Warkworth.

6. Does any participant, or any interconnected body corporate thereof, already have a beneficial interest in, or is it beneficially entitled to, any shares or other pecuniary interest in another participant?

6.1 Neither Fairfax nor Times Media, or any of their interconnected bodies corporate, have a beneficial interest in, or beneficial entitlement to, any shares or other pecuniary interest in the other.

Links between participants

7. Identify any links, formal or informal, between any participant/s including interconnected bodies corporate and other persons identified at paragraph 5 and its/their existing competitors in each market. For example beneficial interests other than shares; common directorships; formal or informal contracts, arrangements or understandings relating, for example, to prices, terms and conditions of sale; territorial allocations; product or service distribution/production; use of technology.

7.1 Fairfax has a current contract with Times Colour Print for the printing of Fairfax's "Sunday" magazine which is an insert to its Sunday Star Times publication. This contract is an arm's length commercial contract which will remain in force with Times Colour Print following this sale.

7.2 In addition, periodically Fairfax has placed print orders with Times Colour Print for one off printing jobs. For example, Times Colour Print is to print a one-off magazine for Fairfax for inclusion in The Dominion Post.

7.3 Fairfax understand that Times Colour Print is about to be sold to PMP New Zealand, an organisation that offers printing and distribution services throughout New Zealand. Part of the purchase of the Rodney Mastheads includes an arms length commercial printing contract for the Rodney Mastheads in order to assure printing arrangements continue post-acquisition. That contract will, following acquisition of the Rodney Mastheads by Fairfax and acquisition of Times Colour Media by PMP, be between Fairfax and PMP. Fairfax and PMP have other printing and distribution agreements in relation to various publications and geographic areas. These agreements are all arms-length commercial arrangements and PMP offers the same services to any interested parties.

Cross Directorships

8. **Do any directors of the "acquirer" also hold directorships in any other companies which are involved in the markets in which the "target company/business" operates? please provide details of:**

- **directors' names;**
- **the other companies;**
- **the markets involved.**

8.1 No directors of Fairfax hold directorships in any other companies which are involved in

(a) the market for local news and information services in the print medium; or

(b) the market for advertising services in the print medium;

in New Zealand other than Joan Withers and Peter O'Hara who are directors of Fairfax and NZPA Ltd which disseminates news and information across New Zealand.

Participants' Business Activities

9. **What are the business activities of each participant?**

Please include a summary of all the business activities of each participant including all interconnected bodies corporate thereof and any other business identified in question 5. (Note the comments on relevancy in paragraph 5 above. It is sufficient to refer in general terms to activities in which there will be no aggregation.)

9.1 Fairfax has over 18 different businesses and divisions. Fairfax's operations include nine daily newspapers including The Dominion Post and The Press, two national Sunday papers, magazines, a magazine publishing business, an internet operation, and over 60 community newspapers throughout the country.

9.2 Times Media has both media and printing operations. It publishes the Rodney Times, the Coaster, and Outlook. From its Warkworth print facility in New Zealand, Times Colour Print prints newspapers, magazines and brochures. It also provides web printing services. Until recently Times Media also owned and operated the only local FM radio station (Times FM). The sale of this radio station to CanWest MediaWorks (NZ) Ltd was announced on 30 August 2005.

Reasons for the Proposal

10. **What are the reasons for the proposal and the intentions in respect of the acquired or merged business?**

10.1 Fairfax considers that the Rodney Mastheads would complement Fairfax's existing business being heritage Mastheads which reflect the nature of publications Fairfax has in other areas. In addition Fairfax considers that there are opportunities to make the acquired businesses operate more profitably by bringing expertise to their operations through the competencies Fairfax has developed in operating community newspapers in other areas.

PART II: IDENTIFICATION OF MARKETS AFFECTED

HORIZONTAL AGGREGATION

11. Are there any markets in which there would be an aggregation of business activities as a result of the proposed acquisition?

- Are there any markets in which the "acquirer" (and/or any interconnected or associated company as identified in question 5); and
- The business to which the assets relate; or
- The "target company" (and/or any interconnected or associated company identified in question 5)

are both engaged?

- Please identify for each market:
 - product(s), functional level, geographic area, and (where relevant) timeframe;
 - the specific parties involved;
 - the relationship of those parties to the acquirer or target company as the case may be.

Market definition

Product dimension and functional dimension

11.1 The Commission has previously considered the definition of the relevant markets in:

- (a) Independent Newspapers Limited/Marlborough Newspaper Company Limited (October 1998, Decision 329) ("**INL Decision**"); and
- (b) Wilson and Horton Limited/Power Plant Productions Limited Decision (December 2001, Decision 445) ("**W&H Decision**").

11.2 As recognised by the Commission in the W&H Decision, there is a degree of substitution between print and other forms of media, in particular the growth in news and information services available on the Internet. In the almost four years since that decision, that substitutability has increased and continues to grow. There is both increased awareness of and popularity in the use of on-line news sites. This has been matched by increasing penetration of access and ease of access to on-line services through broadband services such as Jetstream, replacing dial up connections. Internet-based news presents a complex and sophisticated layering of news, and its impact in news provision and the way people are now able to access news, cannot be underestimated.

11.3 The Internet provides a range of broad reach news sites aiming for a national catchment, but where people are able to drill down to specific news of interest, which can include regional interest. These can include print and broadcast news services which are uploaded to the Internet. Examples are APN's New Zealand Herald site and The Radio Network's NewstalkZB. Site options also include print services which have aggregated news, so they act as a hybrid on-line news provider (this means that the on-line news service is largely drawn from print, but is not available in this form in print). The prime example is Fairfax's stuff.co.nz. In addition to these sites are pure on-line

sites, which have no basis in a hard copy news environment and provide exclusive on-line news reporting (for example scoop.co.nz). Pure on-line sites can, as Scoop does, drill down to geographical regional pages.

- 11.4 Complementing these sites are region specific sites, which are focussed only on provision of news for a specific geographic area. Rodney has at least two such sites (<http://www.hibiscuslink.co.nz> and <http://www.Orewa-beach.co.nz>) as well as the Rodney District Council website (<http://www.Rodney.govt.nz>) all of which provide easy access to Rodney-specific information.

- 11.5 Unique user statistics show the significant penetration that on-line news services in New Zealand have obtained:

Stuff	1,173,888 (individual visits per month)
NZ Herald	1,215,488
Scoop	284,486

(Source: Netratings August 2005).

- 11.6 Radio also provides local news to listeners. All Auckland radio stations have penetration into the Rodney district and can provide local news. Rodney is also served specifically by its community radio station, Times FM, which has regular local Rodney news bulletins throughout the day.

- 11.7 In relation to advertising, Internet-based advertising is proving an aggressive competitor to print media. Classified advertising in particular is moving on-line. This is an international trend:

Papers, which relied on print classifieds for more than 35 percent of their revenue in 2004, are seeing the ads diminish. Free online competitors such as Craigslist.org have "destroyed" as much as 75 percent of classified ad pricing by forcing down rates, said London-based management consulting firm McKinsey & Co....Newspapers are scrambling to adjust their classified advertising to grab the attention of the 18-to-34-year-olds whom advertisers crave. Younger consumers especially are turning to the Internet instead of the local paper to find an apartment, new roommates, a used car or dating service. (Source: The Washington Times, 25 July 2005, Sarah Leshner)

- 11.8 The impact of this trend on the print media can be seen in the area of job advertising. The importance of classified advertising to print media is illustrated by the fact that **[Confidential]** The ANZ New Zealand gathers job advertisement data from selected newspapers and online employment sites and produces a Job Ads briefing. The following excerpt from its Job Ads monitor of 12 August 2005 shows the competitive pressure on-line classified sites are applying to print media:

Newspaper based job advertising resembled a badly baked cake in July. Firstly, the number of job ads failed to spring back, after being skewered on two previous occasions. And secondly, it fell in the middle. The level of newspaper based job advertising slipped 1.2 percent in July, the third successive decline in the series. The decline in newspaper advertising is symptomatic of a switch away from the traditional printed medium, towards internet-based job advertising - which surged another 13.2 percent in July. The latest rise in electronic based advertising reflects a one-off jump in advertising numbers by one of the agencies that we monitor, following a redesign of their website. Overall, the combined series of newspaper and internet-based advertising rose 4.2 percent, hitting a new all-time high in the process.

- 11.9 The ANZ Job Ads specifically monitors metropolitan and regional daily newspapers. However, community newspapers are facing the same challenges and effects as daily

papers. Nor is this trend of migration of classified volumes away from print to on-line limited to job advertising as the example of Trade Me demonstrates.

- 11.10 Trade Me has emerged as a significant player. Trade Me is a generalist site, built on the strength of providing a market for private party transactions. Users are able to list for sale by negotiation or auction. The overall Trade Me site has been profitable for at least the last 3 years. It posted a 1078% increase in revenues in 2003/04 compared with 2001/02 and won the Deloitte Fast 50 2004 competition. Based in Wellington it is majority owned by founder Sam Morgan and AMR holdings (a Wellington based venture capital fund). It has since moved from private party advertising (which was a core category of print classified) into automotive and real estate.
- 11.11 Automotive provides an illustration of the site's competitive power. Users began using its general market site for selling cars. Trade Me then launched a specialist Trade Me Motors page in August 2003. Trade Me Motors is now New Zealand's most visited motoring site with an independent audit by Red Sheriff showing 465,720 unique visitors for the month of March 2005. A similar trend is apparent in relation to property advertising which is the largest proportion of advertising spend in the Rodney district. Trade Me has launched an increasingly popular property advertising service in competition with the more traditional print media options.
- 11.12 Brand awareness of the master Trade Me site is amongst the highest in New Zealand. Trade Me had more than 2.3 million unique visitors in August 2005 who spent an average 12.41 minutes per visit on the site (Source: Netratings August 2005). Rodney specific usage is not available but it is clear that Trade Me has penetration within the Rodney district because, for example, in Trade Me's community section there are 275 postings of people trying to track down former students of Warkworth School and 296 for Wellsford Primary School.
- 11.13 Radio also provides a competitive alternative to print in relation to advertising. Again, as stated with local news, all Auckland radio stations have penetration into the Rodney District and actively compete for local retail advertising. Rodney is also served specifically by its community radio station Times FM which also competes for local advertising. Most segments of Times FM's programming are sponsored by local advertisers. For example:
- (a) national and international news (Harvey's Real Estate, Warkworth);
 - (b) national and international sport (Hart Pharmacy, Warkworth);
 - (c) local weather (The Warkworth Farm Centre);
 - (d) local news (Neptunes Restaurant & Café, Gulf Harbour);
 - (e) community notice board (Car Zone Whangaparoa);
 - (f) traffic reports (Gulf Realty);
 - (g) birthday calls (Pitt Stop, Warkworth);
 - (h) Times Top Ten (Highway Liquor, Orewa).
- 11.14 For the above reasons Fairfax considers that the relevant product dimension should be broader than the print specific markets previously identified by the Commission in order to reflect what has become the commercial reality of competition in the provision of news and advertising services. However, even on the previous print-specific markets identified by the Commission Fairfax considers that the acquisition does not substantially lessen competition in any market.

11.15 Further, in the circumstances of local news provision in Rodney where access from the only providers is free in the case of the community newspapers and local radio and effectively free in the case of internet-based access (the dial-up internet fees charged by providers of internet access are as low as \$10 per month and provide access to the Internet as a whole not just local news and advertising) the Commission's previous distinction between local news and advertising markets becomes very blurred. The two are inextricably linked and cannot be considered in isolation from one another. Because the news service is free, viability is dependent on advertising. The quality of local news is therefore driven to a significant degree by the need to ensure wide readership which in turn will attract advertisers. Therefore while Fairfax acknowledges the Commission's previous distinction in these markets, it considers they must be considered together and not in isolation.

11.16 The relevant markets at a product level are therefore:

- (a) the market for the national and international news and information services;
- (b) the market for the provision of local news and information; and
- (c) the market for the provision of advertising services.

Geographic Dimension

11.17 The content of both the news stories and advertisements in the Rodney Mastheads reflect local preferences consequently the geographical extent of the news and advertising services is, for the purposes of this application, the wider Rodney district.

11.18 Attached, as Appendix 2, is a map showing the geographic circulation of the Rodney Mastheads and Fairfax's current publications which are distributed within that area.

Market definition conclusion

11.19 In accordance with the Commission's approach in the INL Decision,¹ Fairfax adopts the following market definitions:

- (a) the market for the national and international news and information services in the Rodney district;
- (b) the market for local news and information services in the Rodney district; and
- (c) the market for advertising services in the Rodney district.

11.20 However, Fairfax reiterates that in the context of the Rodney area where local news services are provided without charge, the local news and advertising market are largely merged and cannot be considered in isolation.

Horizontal aggregation

11.21 There will be no horizontal aggregation in the market for international news and information services as the Rodney Mastheads do not provide coverage of national or international news or information except to the extent it specifically impacts the Rodney district. There will be horizontal aggregation on the basis that both Fairfax and Times Media publications are available in the Rodney district and provide local news and information and advertising services. However, such aggregation is limited as a result of the high level of product differentiation (discussed below) and will not affect the whole of

¹ Paragraph 46.

the geographic market. As shown by the map, at Appendix 2, there will be no aggregation in the Northern ward of Rodney as a result of the acquisition.

Product Differentiation

DIFFERENTIATED PRODUCTS MARKET

12. **Please indicate whether the products in each market identified in question 11 are standardised (buyers make their purchases largely on the basis of price) or differentiated (buyers make their purchases largely on the basis of product characteristics as well as price).**

12.1 There is differentiation of products in the relevant markets. The different publications service different areas within Rodney with varying degrees of community focus and source their advertising primarily from different areas.

12.2 In relation to local news, "buyers" do not make a decision in the Rodney district based on price as all significant sources are free (local papers, radio, Internet). Rather, the key is the relevance of the particular news to them and the quality of service. In relation to advertising services, buyers make purchase decisions based on price, readership by target audience and quality of service.

13. **For differentiated products markets:**

- **Please indicate the principal characteristics of products that cause them to be differentiated one from another.**
- **To what extent does product differentiation lead firms to tailor and market their products to particular buyer groups or market niches?**
- **Of the various products in the market, which are close substitutes for the products of the proposed combined entity? - which are more distant substitutes?**
- **Given the level of product differentiation, to what extent do you consider that the merged entity would be constrained in its actions by the presence of other suppliers in the market(s) affected?**
- **The Commission would be assisted in its analysis of the effects of the proposed transaction in a differentiated product market by evidence on product substitutability derived from marketing or consumer surveys, comparative product analyses and evidence of the effect of relative price changes on the demand for different product**

13.1 The principal areas of differentiation amongst local news/information and advertising services in the Rodney district is the targeted audience. The Rodney district is divided broadly into three Wards: Western, Northern, and Eastern. In relation to local news/information, each Ward has different issues which are of particular interest to its residents. Similarly in relation to advertising, advertisers will utilise the available options to target residents in particular areas.

13.2 By way of example in relation to print options in the market:

- (a) While the North Harbour News is distributed in the Eastern Ward of the Rodney district, it contains little if any Rodney specific news. It is a Takapuna based paper which focuses on news largely generated from within North Shore City. It is distributed to areas within the Eastern Ward of Rodney due to the number of residents of that area that work and spend significant time in the North Shore City environs. This area has become what is known as a "sleeper suburb" being an area from which a significant number of people commute. As this occurred the move to expand the distribution of the North Harbour News was an natural response. The Coaster and the Rodney Times by comparison focus on Rodney specific news and do not cover North Shore City specific news.
- (b) The Nor-West News is distributed in the Western Ward of Rodney as is the Rodney Times. However, the Rodney Times focus is on broad Rodney district news and it has very limited coverage of the local news that is of specific relevance to Western Ward residents. The Nor-West News focus is specifically on that local news and covers very little broader Rodney news.

13.3 This presents a print media market which is sophisticated in layering of available news for residents:

- (a) Hibiscus Coast residents can obtain international, national and Auckland regional news from APN's New Zealand Herald. They can obtain broad North Shore sub-regional news from the North Harbour News, broad Rodney District news from the Rodney Times, and highly localised news focused only on the Hibiscus Coast from the Coaster.
- (b) Western ward residents can obtain international, national and broad Auckland region wide news from APN's New Zealand Herald. They can obtain broad Rodney District news from the Rodney Times, and highly localised news focused on the western ward and a mix of sub-regional news focused down into Waitakere City from the Norwest News.
- (c) In addition the dominant print media company in Auckland, APN, is gearing to launch a ninth edition of its Auckland product into Rodney (further details are provided below).
- (d) In addition to the titles specified here, a range of smaller publications with very localised focus exists throughout Rodney, providing detailed community information. These operations vary from those staffed by volunteers producing a few hundred copies to those employing professional journalists and producing more than 7000 copies. The layering of news provides a complementary news service, rather than competing news service, for residents. The news is focused around communities of interest - for instance those in the Western ward of Rodney are able to access news relevant to Waitakere City which matches their lifestyle habits, for example many will chose to shop at the Westgate shopping centre which is within Waitakere City.

13.4 Rodney is home to a vibrant, vigorous local news market which serves its residents well. It also provides ample competitive tension in that any disaffected parties can seek news coverage from an existing complementary news service. In addition, current operations could easily respond to any reduction in the quality of service to directly compete.

13.5 The situation in the advertising services market mirrors that in the local news/information market: advertisers reflect the local news focus. The focus of advertising in the North Harbour News is on North Shore City based businesses while the Rodney Mastheads source primarily Rodney advertisers. There is some cross over indicating some advertisers consider the publications complementary. For example **[Confidential]**% of the North Harbour News' highest spending advertisers also advertise in the Rodney

Times but they spend proportionately less, accounting for **[Confidential]**% of the total advertising spend for all Rodney Times advertisers. Of the top 50 Rodney Times advertisers **[Confidential]**% also advertise in the North Harbour News and **[Confidential]**% in the Nor-West News.

- 13.6 As a result of the above, all participants in the print media distributed in the Rodney district tailor their products to reflect the locality in which they are based and the readership and advertisers they are targeting. The target of the various local news/information sources can be summarised as follows:

Participant	Target
Internet sites	New Zealand but with the ability to still draw regionally to focus on news from and around the Rodney district
Times FM	Entire Rodney region
Rodney Times	Entire Rodney region
Coaster	Eastern Ward - Hibiscus Coast
Nor-West News	Western Ward
North Harbour News	North Shore City
Various free monthly locals	Relevant locality, eg Mangawai, Matakana, Leigh, etc

- 13.7 Therefore the extent to which the Nor-West News and the North Harbour News compete with the Rodney Mastheads is very limited due to the high degree of product differentiation. As a result there would be very limited horizontal aggregation as a result of the acquisition.

Vertical Integration

VERTICAL INTEGRATION

14. **Will the proposal result in vertical integration between firms involved at different functional levels?**
- **Are the "acquirer" (or any interconnected or associated company as identified in section 5) and:**
 - **the business to which the assets relate; or**
 - **the "target company" (or any interconnected or associated company as identified in section 5)**
- engaged at different functional levels of the same product market(s)?**
- **Please identify for each market:**
 - **product(s), functional level(s), geographic area(s);**
 - **the specific parties involved;**
 - **the relationship of those persons to the "acquirer" or "the target company" as the case may be.**
 - **If so, in all subsequent questions about markets affected by the proposal, please give details of both (or all) the downstream/upstream markets concerned; and details of existing vertical links between the participants (and/or interconnected or associated companies) in each of these markets eg supply agreements, long-term supply contracts.**

14.1 There will be no vertical aggregation.

15. **In respect of each market identified in question 11 and/or 14, identify briefly:**
- **all proposed acquisitions of assets of a business or shares involving either participant (or any interconnected body corporate thereof) notified to the Commission in the last 3 years and, in each case:**
 - **the outcome of the notification (e.g. cleared, authorised, declined, withdrawn);**
 - **whether the proposed acquisition has occurred.**
 - **any other acquisition of assets of a business or shares which either participant (or any interconnected body corporate) has undertaken in the last 3 years.**

15.1 Neither Fairfax nor Times Media (as advised by Times Media to Fairfax) has undertaken any other acquisition of assets of a business or shares in any markets material to the Commission's present investigation in the last three years.

PART III: CONSTRAINTS ON MARKET POWER BY EXISTING COMPETITION

EXISTING COMPETITORS

16. In the market, who are the suppliers of competing products - including imports?
- Please identify their owners (including ultimate owner/s)
 - What are their estimated shares of productive capacity and of the market?
 - give the total size of the domestic market;
 - identify at least the four leading suppliers;
 - include participants to the proposal;
 - identify imports clearly (including the country of origin and the importers);
 - identify source(s) of estimates; and
 - note that competing goods may not be confined to identical or branded goods.
 - Identify source(s) of estimates.

Competitors

16.1 Competitors in the relevant markets other than Fairfax and Times Media include:

- (a) APN New Zealand Limited;
- (b) ACP;
- (c) the various independents (see paragraph 16.2 below);
- (d) the use of catalogue advertising; and
- (e) Internet news and advertising sites.

16.2 The approximate penetration of the key "newspaper" styled print media participants in the market are:

Publication	Owner	Detail	Rodney Audience
New Zealand Herald	APN	Metropolitan paid daily	[Confidential] (readership figure)
Northern Advocate	APN	Regional paid daily	[Confidential] circulation (below the level of recognition in readership surveys)

Publication	Owner	Detail	Rodney Audience
Rodney Times	Times Media	Free local twice weekly	35,500 (circulation figure)
Coaster	Times Media	Free local weekly	15,500 (circulation figure)
North Harbour News	Fairfax	Free local weekly	18,500 (circulation figure)
Nor-West News	Fairfax	Free local weekly	10,500 (circulation figure)
Matakana & Mahurangi Matters	Barry Wood (09 425 7188)	Free local monthly	7,300 (circulation figure)
Local Matters	Barry Wood (09 425 7188)	Free local monthly (Wellsford/Kaiwaka/Mangawai)	3,500 (circulation figure)
Leigh Rag	Unknown. Run by volunteers	Free local monthly	350 (circulation figure)
Mangawhai Memo	Mangawhai Community (09 432 4122)	Free local monthly	1,500 (circulation figure)
Maungaturoto Matters	Maungaturoto Business Association, Karen Smales (09 431 6829)	Free local monthly	500 (circulation figure)
Kaiwaka Bugle	Unknown (09 431 2045)	Free local fortnightly	700 (circulation figure)
Property Press	ACP	Free local property advertising weekly	73,790 (circulation figure)
Outlook (distributed with one edition of Rodney Times)	Times Media	Free local property advertising weekly	35,500 (circulation figure)
Sunday Star Times	Fairfax	National paid weekly	[Confidential] (estimate circulation figure)
Herald on Sunday	APN	National paid weekly	[Confidential] (estimate circulation figure)
Times FM	CanWest	Free radio	Unknown

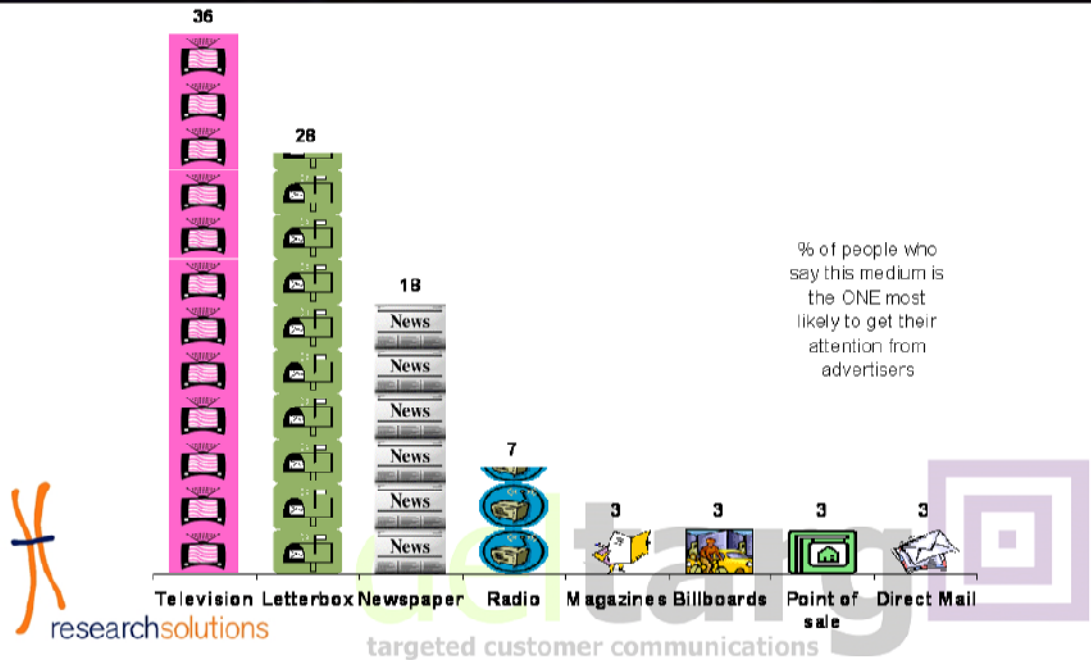
Competitive conditions in the market

16.3 Competition in the local news/information market is limited at present amongst print media due to product differentiation. However there is a vigorous local news market which provides ample competitive tension in that any disaffected party could seek news coverage from an existing complementary news service. Providers of complimentary news service could easily respond to any drop in the quality of service by entering the Markets directly. For example, the "Matakana & Mahurangi Matters" publication has recently changed ownership and has taken on new production staff and a new editorial writer. Amongst non print media the radio station Times FM and internet alternatives are also a source of local news.

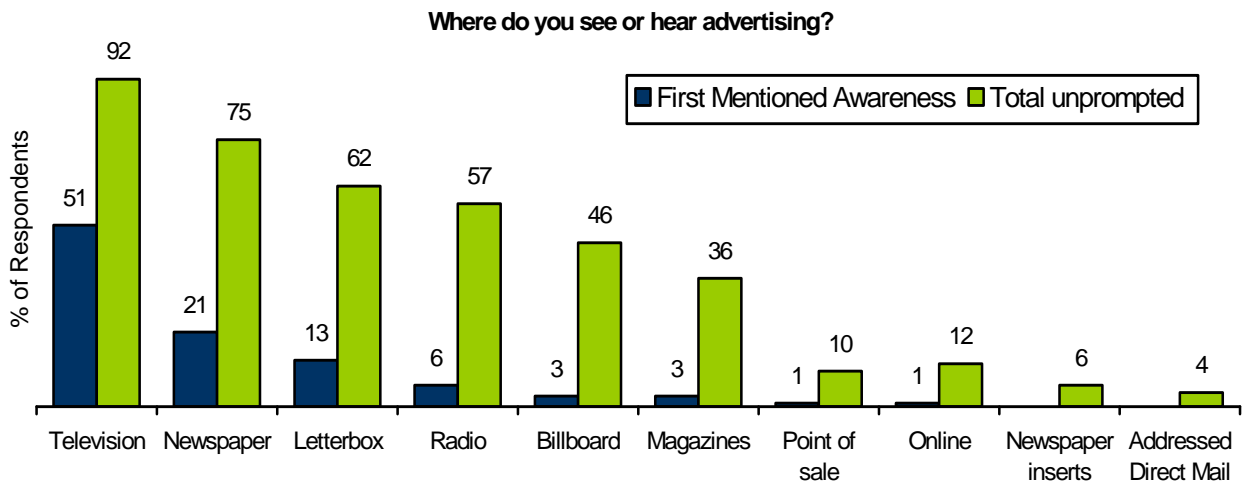
16.4 In the advertising market significant competition exists for advertisers wishing to target Rodney residents:

- (a) The "Matakana & Mahurangi Matters" publication is beginning to have an impact by attracting advertisers from the Rodney Mastheads who favour more targeted approach to local news and the lower advertising rates.
 - (b) Times FM radio station has significant local advertising both in the form of specific advertisements and through the association of advertisers with specific segments of the broadcasts (eg sponsorship of national and international news, local weather, community notice board, traffic reports, marine reports, etc).
 - (c) In one week Rodney residents receive up to a dozen or more advertising catalogues from local advertisers such as Mitre 10, New World, Pak n Save, Paper Plus, Hammer Hardware, Countdown, Harcourts, Domino's Pizza etc.
- 16.5 The format variability in size and gloss of catalogues is far greater than that offered by newspapers because catalogues are customised for clients and produced in one-off print runs. Looking purely from a business model, the editorial content of newspapers is simply an advertising environment hygiene factor providing a greater likelihood for the target audience to pick up the advertising medium and a greater chance for the advertisement to attract attention. The catalogue model sacrifices that environment for greater flexibility in costs, formats and distribution footprint.
- 16.6 Research has shown catalogues achieve a considerable audience cut through for some key categories, such as food advertising, succeeding in motivating recipients to make purchase decisions. This gives the catalogue channel a significant competitive advantage over newspapers and other media in such categories. Catalogues reach an ideal target market. Research shows 70% of household letter boxes are cleared by women (Deltarg: Research Solutions 2005) who are the main decision makers in groceries and household item purchases. While some may dismiss catalogues research shows the catalogue channel is acknowledged favourably by audience groups as a source of advertising and rates ahead of radio as a recognised channel for advertising alongside newspapers:

Medium most likely to get audience attention



(Source: Deltarg Research Solutions 2005)



(Source: Deltarg Research Solutions 2005)

OTHER CONSIDERATIONS

With respect to question 16 above:

- Please identify any firms that are not currently producing the product in the market, but could enter the market quickly (using essentially their existing productive capacity) in response to an attempt by suppliers to raise prices or reduce output or quality ('near entrants').
- Estimate the productive capacity that such near entrants potentially could bring to the market.
- Please indicate the extent to which imports provide a constraint on domestic suppliers. What costs are incurred by importers that are not incurred by domestic suppliers? How sensitive is the domestic price of imports to changes in the New Zealand dollar exchange rate?
- To what extent is the product exported?
- Please indicate whether the 'target company' could be described as a vigorous and effective competitor, taking into account its pricing behaviour, its record of innovation, its growth rate relative to the market, and its history of independent behaviour.

New Entrants

- 16.7 APN has previously published its Aucklander North edition in Rodney. It launched distribution into Rodney in September 2003. However, property advertisers in the region shifted to ACP's Property Press publication and the Aucklander was subsequently withdrawn from the Rodney district. Fairfax understands that APN is about to re-launch a new edition of the Aucklander into Rodney after revising its business model, so it is less dependent on a single category of advertisers like real estate agencies and instead it will try to service a broader local retailer base. It is Fairfax's understanding that the current Aucklander North will be split into two new editions. The northern edition would take in North Shore city areas down to Campbells Bay but also extend into Whangaparoa. **[Confidential]**
- 16.8 APN New Zealand Limited is wholly owned subsidiary of APN News & Media, which operates a broad portfolio of businesses across five countries. APN listed on the Australian Stock Exchange in 1992 and listed on the New Zealand Exchange in June 2004. APN has interests in publishing, radio and outdoor advertising. Publishing interests include 24 daily and more than 90 non-daily newspapers across Australia and New Zealand. In Australia, its newspapers service Queensland and northern New South Wales. In New Zealand, APN operates the country's largest metropolitan daily, The New Zealand Herald, as well as a number of regional and community newspapers and mass market magazines. APN also operates major printing businesses and a security plastics company. Radio interests include 12 metropolitan radio stations in Australia and 111 radio stations in New Zealand. Its radio division, Australian Radio Network (ARN), is owned in an equal joint venture with Clear Channel Communications (the most successful radio broadcaster in the United States). The New Zealand stations include the ratings leaders in each of the important markets of Auckland, Wellington and Christchurch. Outdoor advertising interests include Transit (Buspak and Taximedia), Supersites (Cody Outdoor, Look Outdoor (New Zealand), Rainbow (Indonesia) and Kurnia (Malaysia)), Posters (Tribe) and Street Furniture (Adshel).
- 16.9 APN is represented in Auckland by the New Zealand Herald, the country's largest daily newspaper with a circulation of 204,549, the Herald on Sunday, The Aucklander community newspaper, commercial printing operations and radio network ARN. APN

states that 68% of the readership of its products, excluding magazines, is in Auckland and its stated aim is to "own" Auckland. APN interim results show that its revenue rose by 10% and its margins continue to improve. APN describes itself as the largest operator of regional newspapers, radio broadcasting and outdoor advertising in Australasia. Given APN's resources it could expand rapidly and extensively into the Rodney district at anytime.

- 16.10 APN produces 568,974 individual copies of its newspapers per week in total, which is 186,000 more copies in the market than Fairfax.

Circulation (ABC 12 months to Mar 05)	
Publication	Circulation
Total Fairfax Suburban Newspapers	382,930
Total NZ Herald (APN)	204,549 (per issue)
Total Aucklander (APN)	364,425
Aucklander - North Edition	70,140
Aucklander West	57,561
Aucklander East	37,038
Aucklander Central	52,919
Aucklander City	67,409
Aucklander South	79,088

- 16.11 Other potential entrants include:

- (a) **Horton Media Limited:** Horton Media is a significant commercial printing and publishing business based in Auckland. More than 70 customers of Horton Media print their daily, weekly, monthly and other periodical newspapers with Horton Media. Horton Media itself already publishes one community newspaper; The Waiuku Districts Post. Horton Media therefore has the facilities and expertise to enter the markets in Rodney from its Auckland base. It also has experience distributing newspapers in the North Shore, having published a daily newspaper in 2000 which included circulation in the North Shore.
- (b) **Rural Press:** Rural Press is an Australian based listed newspaper publisher and commercial printer. The group controls over 140 rural and regional titles in Australia, New Zealand and the US along with the Canberra Times. Rural Press has continued to buy regional titles in Australia, most recently the Bendigo Advertiser and the Burnie Advocate. It has present interests in a number of New Zealand rural publications including: The Lifestyle Farmer; The Dairyman; Straight Furrow; and AgTrader. Rural Press also therefore has the expertise and ability to enter the Rodney markets and such entry would be consistent with its apparent current business approach.

Expansion

- 16.12 Any of the current smaller monthly locals could increase production frequency and distribution easily and rapidly if other participants raised prices or reduced quality. They have all the facilities in place and, as discussed below, expanding distribution would pose no difficulty.

- 16.13 The Matakana & Mahurangi Matters started life like many of the other small, volunteer third party publications. It has grown dramatically however compared to other smaller publications, printing 7000 plus copies and achieving 40 plus pages a month. Barry Wood has taken over relatively recently and the paper is hiring production and editorial staff and beginning to compete more vigorously with the Rodney Times for both local retail and classifieds. It should be noted that Mr Wood has also acquired the Wellsford/Kaiwaka/Mangawai and based local publication which distributes 3,500 copies. This illustrates how easily scalable the operations are of the existing third party participants in the market. As discussed above, the new ownership and business focus of the "Matakana & Mahurangi Matters" publication mean that it is well positioned to expand if it desired.
- 16.14 It would also be a simple matter for the Northern Advocate to expand its focus on the Rodney district if it saw an opportunity through a failure by the existing participants to service the needs of the readers and advertisers appropriately. Again it has all the facilities and expertise necessary to expand its presence in the Rodney district.

Effective/vigorous competition

- 16.15 Revenues and circulation of the Rodney Times Mastheads have maintained their market position over the last few years. They do not provide any innovative initiatives in the area.

CONDITIONS OF EXPANSION

17. **The following categories cover different types of market conditions that may affect the ability of firms to expand:**
- **Frontier entry conditions.** For example, tariffs, import licensing, quarantine requirements.
 - **Legislative/regulatory conditions.** For example, meat licensing, Resource Management Act requirements, health and safety standards.
 - **Industrial/business.** For example, access to raw materials, critical inputs; economies of scale; access to technical knowledge requirements; capital requirements (and capital market's perception of the risk and return); sunk costs i.e. irrecoverable or exit costs (e.g. because of plant specificity); influence of branding; technical specifications.
 - **Other.**
- Which, if any, of the entry conditions identified above do you consider could be likely to act as a "barrier" to expansion by existing competitors, where they have the incentive to do so in response to a sustained effort by the combined entity to raise price, or to lower service or product quality?**

- 17.1 There are few, if any, entry or expansion conditions. The Commission itself has accepted, in both the INL and the W&H Decisions,² that there are no significant barriers to entry for community newspapers and this, in Fairfax's view is also the case for expansion of existing community newspapers

² Paragraph 58 of the INL Decision and paragraphs 88-90 of the W&H Decision.

- 17.2 Each of the current participants in the relevant markets has established a distribution network which could be expanded if they wished to increase their circulation or advertising capacity in response to changes in the relevant markets. In addition, because of the non-exclusive nature of the arrangements of the Rodney Times distribution arrangements (utilising NZ Post and other Contractors to provide delivery) any new entrants could "piggy back" off the existing distribution network it has created in Rodney achieving savings from economies of scale, with very little lead in time required. In addition a range of third party distributors offer competitive distribution. For rural delivery NZ Post contractors are available to provide direct distribution to rural letterboxes. Contract drivers are also available and in urban areas street deliveries can be provided by casual labour (eg school children after school, etc).
- 17.3 Further expansion by Internet based competitors is also possible through the phenomenon of reverse publishing. This is an increasing trend where on-line competitors take their on-line content and publish and distribute it in printed form. Google has done this as has Property.com in Australia.

Increased Supply by Existing Participants

18. **Please name any businesses which already supply the market - including overseas firms - which you consider could increase supply of the product/service concerned in the geographic market identified by:**
- **diverting production;**
 - **increasing utilisation of existing capacity;**
 - **expansion of existing capacity.**

- 18.1 The owners/publishers of existing competitors are:
- (a) APN;
 - (b) CanWest (as new owner of Times FM);
 - (c) Barry Wood (09 425 7188); and
 - (d) Maungaturoto Business Association (Karen Smales, 09 431 6829).

Conditions of Expansion

19. **Of the conditions of expansion listed above which do you consider would influence the business decision to increase supply?**

- 19.1 Due to the very low barriers to entry, none of the conditions of expansion would be a significant influence on a current participant's decision to expand if the opportunity exists to target advertisers and readers who are dissatisfied with the price/quality of other participants in the market.

Time for Increased Supply

20. How long would you expect it to take for supply to increase in each case?

- 20.1 The time taken to increase supply would be minimal. All current participants in the market have access to all the resources required to expand production and to the extent additional printing and/or distribution arrangements would need to be made, as discussed below at section 27, a variety of readily available options exist. By way of example, APN launched the Aucklander in September 2003 and for the year August 2004 to July 2005 attracted total advertising spend of over \$[Confidential].

Competitive constraint on merged business

21. In your opinion, to what extent would the possible competitive response of existing suppliers constrain the merged entity?

- 21.1 Suppliers to the business place a degree of constraint in the markets but given the significant number of supply options available (which result in low barriers to entry) supplier constraint is not a focus of this application.

Constraint by existing competitors

22. Looked at overall, and bearing in mind the increase in market concentration that would be brought about by the acquisition, to what extent do you consider that the merged entity would be constrained in its actions by the conduct of existing competitors in the markets affected?

- 22.1 The viability of a publication depends on satisfying reader interest so as to sustain circulation numbers and the support of advertisers. Consequently, the competitive response of existing competitors would constrain Fairfax, ensuring continued publication standards and competitive pricing because of the ease for both customers and advertisers to change to other suppliers of the print medium or alternative services such as radio and internet.
- 22.2 In addition the ability of residents to source local news from other media sources (in particular, from the local radio station or from one of up to a dozen nationally networked radio stations that carry local advertising) provides a large degree of countervailing power. There is an incentive for Fairfax to maintain the price and quality of its advertising and publications because if these factors changed then readership would fall as readers switched to other mediums for local news services (and the inevitable consequence that advertisers would follow).
- 22.3 By way of example, as described below, APN previously had a publication in the Rodney district but withdrew that publication after losing real estate advertisers to a rival publication. As Fairfax understands it, pricing and relationship factors lead to those advertisers approaching ACP and shifting their advertising to ACP's Property Press publication. This dynamic also occurred in Waitakere City where the Aucklander lost property advertisers to the Property Press.

CO-ORDINATED MARKET POWER

23. Identify the various characteristics of the market that, post-acquisition, you consider would either facilitate or impede co-ordination effects.

23.1 Fairfax considers that the market has a number of characteristics which would impede co-ordination effects post-acquisition, including:

- (a) the high level of competition throughout New Zealand in all markets between Fairfax and APN;
- (b) the ease of expansion and new entry;
- (c) the number of independent participants in the Markets; and
- (d) competition is between diverse media with very different cost structures.

24. Identify the various characteristics of the market that, post-acquisition, you consider would facilitate or impede the monitoring and enforcement of coordinated behaviour by market participants.

24.1 Quality of local news/information and the quality and price of advertising is evident from the publications themselves and the rate cards provided to advertisers. The Markets are characterised by transparency of these matters.

25. Indicate whether the markets identified in paragraph 9 above show any evidence of price coordination, price matching or price following by market participants.

25.1 Fairfax is not aware of any price co-ordination in the market, nor of any factors present in either market, which might suggest any price co-ordination, price matching, or price following by market participants.

26. Please state the reasons why, in your opinion, the transaction will not increase the risk of coordinated behaviour in the relevant market(s).

26.1 The features currently present in the market, which make co-ordination unlikely (set out at paragraph 23.1 above), will not change as a result of the acquisition.

PART IV: CONDITIONS OF ENTRY

27. The following categories cover different types of market conditions that may affect the ability of new firms to enter the market:

- **Frontier entry conditions.** For example, tariffs, import licensing, quarantine requirements.
- **Legislative/regulatory conditions.** For example, meat licensing, Resource Management Act requirements, health and safety standards.
- **Industrial/business.** For example, access to raw materials, critical inputs; economies of scale; access to technical knowledge requirements; capital requirements (and capital market's perception of the risk and return); sunk costs i.e. irrecoverable or exit costs (e.g. because of plant specificity); influence of branding; technical specifications.
- **Other.**

Which, if any, of the entry conditions identified above do you consider could be likely to act as a "barrier" to the entry of new competitors, where they have the incentive to do so in response to a sustained effort by the combined entity to raise price or to lower service or product quality?

27.1 None of the conditions identified would act as a barrier to the market. As identified by the Commission in the INL and W&H Decisions, there are no significant barriers to entry for community newspapers.

27.2 Printing services are available from several independent sources, including:

- (a) Times Colour Media, Warkworth;
- (b) Business Media Press, Manukau;
- (c) PMP Print, Manukau;
- (d) Horton Media, Manukau;
- (e) First in Print, Penrose; and
- (f) APN Print, Manukau.

27.3 There are also significant numbers of other printers available both in Auckland and other parts of the North Island. Given the weekly nature of community newspapers printing at a distance from the area of distribution poses no barrier.

The Blenheim Sun - illustration of new entry

27.4 To illustrate the nature of the market, and to offer anecdotal support to the proposition that not only are the barriers to entry low, the likelihood of entry is real and ever present, the Commission may be interested in the situation in the relevant markets identified in the INL Decision following that acquisition.

- 27.5 The Blenheim Sun community newspaper (The Sun) was a start-up established in early November 2002 by an entrepreneur, Mr Les Whiteside who has had previous newspaper experience. The Sun is a weekly publication printed on contract by the Ashburton Guardian and distributed to approximately 17,000 homes every Wednesday in Blenheim and from time to time also in the outlying rural areas.
- 27.6 Over the last three years the publication has grown from 16 to 20 tabloid pages to a consistent 28 pages, with an advertising ratio assessed by Fairfax at **[Confidential]**%. Advertising support was won initially from **[Confidential]** Further support has been gained from the local Fresh Choice supermarket. Regular advertisers also include Power Boat Centre, Super Liquor, Couplands Bakery, World House Furniture, Plastic Box, Blenheim Toyota, \$2 Shop, Lynfords Furniture, Heberds Transport, Cresswells Shoes, Marlborough Lighting Specialists, Blenheim Carpet Court and Basics Auto Parts. The Sun has a good cross section of advertisers.
- 27.7 The Sun's market share is estimated at 6%, with annual revenues estimated at around \$1m, with likely expenses suggesting a profit of between \$300,000 to \$350,000 (enough in Fairfax's view to sustain a business on an on-going basis).
- 27.8 The staff has grown from the owner and his wife, in the first few months, to include a reporter (plus a number of regular contributors/columnists), two advertising staff, a production/graphic designer, reception list, and a circulation person. They have expanded/moved up into larger premises in the town centre.

Market maturity

- 27.9 In considering the likelihood of any new entry (or, for that matter, expansion) it is essential to recognise that the demographics of the Rodney district are changing significantly and rapidly. The population continues to rise rapidly. The Rodney district currently has a population of 81,100 (over 6% of the Auckland region's population). The population grew by 21,414 in the ten years from 1991 to 2001 giving a growth rate of approximately 3% which exceeds that of the rest of the Auckland region. Predictions put the population of the Rodney district at around 117,000 by 2021.
- 27.10 What this means is that the Rodney markets are in a state of immaturity. As the population increases further interest will develop as greater population means greater audience which means greater revenue. The opportunity for new competitors to enter the market will increase accordingly, as has occurred in Blenheim.
- 27.11 The present state of the market in Rodney, can be contrasted with other markets in the Auckland region. This contrast demonstrates that Rodney is currently an immature market and will likely develop as other similar markets have.

Comparison with Counties Manukau

- 27.12 Counties Manukau is similar to Rodney. The Clevedon, Drury and Karaka areas cover a broad swathe on the southern metropolitan urban limits of the Auckland region. Like Rodney they are Greenfield sites for expanding urban development. They have been developing however for a longer period than Rodney and the development cycle has cooled. They contain a mix of urban areas and lifestyle blocks.
- 27.13 The Manukau Courier is the heritage title in this area. It has existed in various formats and under various titles since the 1930s but has been called the Manukau Courier since 1977. Alongside it are sister publications the Eastern Courier and Papakura Courier and the Franklin County News. These titles are published in separate geographic areas and have minimal overlap.

27.14 APN has published a series of titles in the general south Auckland area including the Otahuhu Week, the Manurewa Week and Our Town which was focused on Papakura. In 2003 these titles were replaced by the Aucklander southern edition which dominates circulation in the area, but the following third party, privately owned newspapers also operate apparently with success:

- (a) the Pohutukawa Coast Times; and
- (b) the Franklin Life Newspaper.

Pohutukawa Coast Times

27.15 The Pohutukawa Coast Times circulates weekly, free to 5520 homes in Beachlands, Maraetai, Whitford, Flat Bush, Alfriston, Brookby, Ardmore, Clevedon, Hunua, Paparimu, Kawakawa Bay, Orere Pt and Kaiaua. It cuts across the circulation of the Manukau Courier, Eastern Courier and the Aucklander. It is a tabloid format, printed on newsprint and follows standard newspaper design. It is a small, but sophisticated operation. It has a web site which complements the paper. The publication has been in existence under various titles and formats for many years. It is presently owned by Fran and Duncan Pardon, both journalists with over 20 years of experience in the community newspaper industry. It is printed by Business Media Press in Howick (one of the printers identified as a potential printer for any new entrant to Rodney). It is distributed to every home in the district via the NZ Post Rural delivery network and through paper boys employed directly by the newspaper.

27.16 Its rate card is **[Confidential]** considering the smaller circulation and that it calculates rates by sqcm rather than col/cm. Its classified run on rate is \$7 per 25 words, where for instance the Papakura Courier with a circulation of **[Confidential]** charges a run on rate of **[Confidential]**

The Franklin Life Newspaper

27.17 This is a free weekly tabloid printed on newsprint in standard newspaper format. It circulates to 26,000 homes through Pukekohe, Tuakau, Waiuku, Awhitu, AkaAka, Glenbrook, Drury, Hunua, Karaka, Ararimu, Ramarama, Bombay, Pokeno, Maramarua, Mangatawhiri, Kaiaua, parts of Papakura, Takanini, Clevedon, Whitford, Kawakawa Bay, Orere Point, Pukekawa, Onewhero, Port Waikato, Glen Murray, and Te Kauwhata.

27.18 It is owned and operated locally. It is managed by Rex Warwood and has a sales team of four, an editorial team of two, and a production team of two. It averages 32 pages, which equals that achieved by Fairfax papers. It is published from Pukekohe and again uses Business Media Press to print it.

Analysis of Counties Manukau Market

27.19 Residents in pockets throughout the area can receive multiple papers. In Clevedon for instance they receive the Manukau Courier, Aucklander, Pohutukawa Coast Times and Franklin Life. In Drury, they receive the Papakura Courier, Aucklander, Franklin County News and Franklin Life.

27.20 This is a mature market. It has had incumbent heritage titles. However, APN has been able to leverage its Auckland market dominance from the Herald and launch the Aucklander. There are also a range of third party papers which compete vigorously and in fact have a "local owned and operated" advantage over both Fairfax and APN.

27.21 Indeed, the market is so healthy, the third party papers compete against each other. Franklin Life and Pohutukawa Coast Times compete in various markets such as Clevedon, Orere Pt and Kawakawa. Franklin Life also competes against the Waiuku

Post, another independently owned paper (published by Horton Media) in the Waiuku and surrounding area.

27.22 In comparison, Rodney is a relatively new area with rapid population growth. Its population growth is occurring at a greater rate than the south Auckland market and it will have a larger population market than fringe south Auckland. Therefore it will be able to sustain greater competition than exists in south Auckland.

27.23 There are already third parties in place in Rodney, whose business is scalable. Local Matakana & Mahurangi Matters started life like many of the other small, volunteer third party publications. It has already opened a significant lead, printing 7000 plus copies and achieving 40 plus pages a month. Barry Wood has taken over relatively recently and the paper is hiring production and editorial staff and beginning to compete more vigorously with the Rodney Times for both local retail and classified advertising.

28. **Please name any businesses - including overseas businesses - which do not currently supply the market but which you consider could supply the products/services concerned in the geographic markets identified by:**

- **investing in new production facilities to produce the product;**
- **overseas companies diverting production;**
- **domestic companies expanding, or changing utilisation of existing capacity.**

28.1 As discussed above, the following businesses or organisations could readily produce competing publications:

- (a) APN (Fairfax understands APN is currently planning to enter the Rodney district with a targeted publication and has signed advertisers for that publication);
- (b) Horton Media (which has the facilities, the local presence and current expertise); and
- (c) Rural Press (which has the expertise and market strategy consistent with such entry).

29. **What conditions of entry do you consider would most influence the business decision to do so in each case?**

29.1 Due to the low barriers to entry none of the conditions of entry would be a significant influence on new entry if the opportunity exists to target advertisers and readers who are dissatisfied with the price/quality of other participants in the market.

LIKELIHOOD, SUFFICIENCY AND TIMELINESS OF ENTRY

30. How long would you expect it to take for entry to occur, and for supply to increase in respect of each of the potential business entrants?

30.1 Very little time would be required. In the case of APN it is at the stage where it is signing advertisers and could therefore enter at any time. There would be no significant time delay between a decision by a participant to expand, or a new entrant to enter, and that actually occurring.

31. Given the assessed entry conditions, and the costs that these might impose upon an entrant, is it likely that a potential entrant would consider entry profitable at pre-acquisition prices?

31.1 The fact that APN is planning to enter the market clearly indicates that this is the case.

32. Would the threat of entry be at a level and spread of sales that it is likely to cause market participants to react in a significant manner?

32.1 The threat of entry is a significant constraint on participants.

33. What conditions of entry do you consider would influence the business decision to enter the market by setting up from scratch, i.e. de novo entry?

33.1 There are no significant entry conditions as illustrated by the example of the Blenheim Sun.

34. How long would you expect it to take for de novo entry to occur?

34.1 The time required for a new entrant to enter the market would be very short. By way of example, Fairfax bought INL in July 2003. By September 2003, in response, APN had launched the Aucklander throughout the Auckland market.

35. In your opinion, to what extent would the possibility of de novo entry constrain the merged entity?

35.1 De novo entry is a significant constraint as is the ease at which current competitors could increase circulation. The entry by ACP with its Property Press publication in 2004 demonstrates the extent of constraint de novo entry provides. APN has previously expanded distribution of The Aucklander into the Rodney district. Its business model was based on local real estate advertising. However many of its advertisers shifted to

the ACP Property Press publication for the Rodney district. This has been very successful for ACP and APN withdrew The Aucklander from distribution in the area (as noted above they are now re-entering but with a different business model). The Property Press now has a circulation of almost 74,000 in the Rodney district.

PART V: OTHER POTENTIAL CONSTRAINTS

CONSTRAINTS ON MARKET POWER BY THE CONDUCT OF SUPPLIERS

36. **Who would be the suppliers of goods or services to the merged entity in each market identified in questions 11 and/or 14?**

37. **Who owns them?**

37.1 As outlined above constraint by suppliers is not the focus of this application.

38. **In your opinion, to what extent would the conduct of suppliers of goods or services to the merged entity constrain the merged entity in each affected market?**

38.1 As outlined above constraint by suppliers is not the focus of this application.

CONSTRAINTS ON MARKET POWER BY THE CONDUCT OF ACQUIRERS

39. **Who would be the acquirers of goods or services supplied by the merged entity in each market identified in questions 11 and/or 14?**

40. **Who owns them?**

40.1 Fairfax's publications must be responsive to the needs of both residents (the readers) and advertisers. Advertisers are the life blood of community newspapers. Two aspects attract advertisers: the extent of readership and the cost of advertising. If quality of local news/information is reduced, readership will drop and advertisers will be less willing to advertise. Similarly, increased advertising costs will drive advertisers to different options (whether in print (including flyers and other distributed advertising) or radio). Major advertisers in the area include New World and Pak N Save (owned by Foodstuffs) along with Foodtown and Countdown (owned by Progressive). These advertisers spend significant amounts on advertising in the Rodney district and demand quality and keep significant pressure on rates. The example of property advertisers shifting from the Aucklander to the Property Press provides a stark example of the countervailing power of advertisers.

41. **In your opinion, to what extent would the conduct of acquirers of goods or services to the merged entity constrain the merged entity in each affected market? How would this happen?**

41.1 As set out above the ability of advertisers to switch to other participants (including other mediums) provides a significant degree of countervailing power and an incentive for Fairfax to maintain the price and quality of its advertising and publications because otherwise circulation might fall with the inevitable impact on advertisers.

THIS NOTICE is given by Fairfax New Zealand Limited.

I, Joan Withers, am authorised to make this application on Fairfax New Zealand Limited's behalf.

I hereby confirm that:

- (a) All information specified by the Commission has been supplied;
- (b) All information known to the applicant which is relevant to the consideration of this application has been supplied;
- (c) All information supplied is correct as at the date of this application.

I undertake to advise the Commission immediately of any material change in circumstances to the application.

Dated 6 September 2005

Joan Withers
Chief Executive Officer
Fairfax New Zealand Limited

I am a director/officer of the company and am duly authorised to make this application.

**APPENDIX 1
SALE AND PURCHASE AGREEMENT**

APPENDIX 2 MAP OF RODNEY TIMES DISTRIBUTION

