

COMMERCE COMMISSION

Decision No. 561

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

FAIRFAX NEW ZEALAND LIMITED

and

TIMES MEDIA GROUP LIMITED

The Commission: Paula Rebstock
David Caygill
Gowan Pickering

Summary of Application: The acquisition by Fairfax New Zealand Limited of the Times Media Group Limited mastheads the Rodney Times, the Coaster and the Outlook and associated assets.

Determination: Pursuant to section 66(3) (a) of the Commerce Act 1986, the Commission determines to give clearance to the proposed acquisition.

Date of Determination: 14 October 2005

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EXECUTIVE SUMMARY

1. A notice pursuant to s 66(1) of the Commerce Act 1986 (the Act) was registered on 6 September 2005. Fairfax New Zealand Limited sought clearance to acquire from Times Media Group Limited: the Rodney Times, the Coaster and the Outlook (collectively the Rodney mastheads) and associated assets.
2. The Commission concludes that the relevant markets are the markets for provision of:
 - print advertising services in the Rodney region; and
 - local print news and information in the Rodney region.
3. The Commission also considers that community newspapers are two-sided platforms, meaning that the print news/information market and the advertising services are inextricably linked. ‘Two-sided platform’ is an economic descriptor designed to express the relationship between two aspects of a product. Two-sided platforms cater to two or more customer groups. Members of one customer group need the members of the other customer group. The platform assists them in coming together for mutually beneficial exchange or interaction. This also forms part of the market definition.
4. The Commission considers that in the factual scenario Fairfax would acquire the three publications and associated assets from Times Media. Consequently, the combined entity would continue to operate in each of the relevant markets.
5. The Commission considers that the relevant counterfactual is that the Rodney mastheads and their associated assets would be sold to a third party.
6. The Commission considers that the combination of existing competition (both inside and outside the market) and countervailing power of advertisers would be likely to constrain the combined entity in the print advertising market due to the following factors:
 - Advertising flyer distributors PMP and Deltarg’s capacity to expand their advertising flyers’ coverage in the region and increase competition;
 - constraint from other types of media suppliers, namely CanWest for radio advertising and internet site Trademe for classified advertising; and
 - the combined entities’ reliance on the revenue from advertisers and advertisers’ ability to switch to other credible alternatives.
7. The Commission considers that the combined entity would be constrained by existing competition in the print news/information market and by the constraints of the print advertising market.
8. Therefore, the Commission is of the view that the proposed acquisition is unlikely to give rise to a substantial lessening of competition in the print advertising and the print news/information markets in the Rodney region.
9. Accordingly, pursuant to section 66(3)(a) of the Commerce Act 1986, the Commission determines to give clearance of the proposed acquisition by Fairfax New Zealand Limited of the mastheads the Rodney Times, the Coaster and the Outlook and associated assets, owned by Times Media Group Limited.

THE PROPOSAL

1. A notice pursuant to section 66(1) of the Commerce Act was received on 6 September 2005 (the Application) for Fairfax New Zealand Limited (the Applicant) to acquire the Times Media Group Limited: 'the Rodney Times', 'the Coaster' and 'the Outlook' (collectively the Rodney mastheads) together with their associated assets. The proposed acquisition would result in an aggregation in community newspapers in the Rodney district, North of Auckland.

PROCEDURE

2. Section 66(3) of the Act requires the Commission either to clear or to decline to clear the acquisition referred to in a s 66(1) notice within 10 working days, unless the Commission and the person who gave notice agree to a longer period. An extension of time was agreed between the Commission and the Applicant. Accordingly, the Commission made a decision on the Application on 14 October 2005.
3. The Applicant sought confidentiality for specific aspects of the Application. A confidentiality order was made in respect of the information for up to 20 working days from the date of the Commission's determination notice. When that order expires, the provisions of the Official Information Act 1982 will apply.
4. The Commission's approach to analysing the proposed acquisition is based on principles set out in the Commission's *Mergers and Acquisitions Guidelines*.¹

STATUTORY FRAMEWORK

5. Under s 66 of the Act, the Commission is required to consider whether the proposal will have, or is likely to have, the effect of substantially lessening competition in a market. If the Commission is satisfied that the proposal is not likely to substantially lessen competition then it is required to grant clearance to the application. Conversely, if the Commission is not satisfied, it must decline. The standard of proof that the Commission must apply in making its determination is the civil standard of the balance of probabilities.²
6. The substantial lessening of competition test was considered in *Air New Zealand & Qantas v Commerce Commission*, where the Court held:

We accept that an absence of market power would suggest there had been no substantial lessening of competition in a market but do not see this as a reason to forsake an analysis of the counterfactual as well as the factual. A comparative judgment is implied by the statutory test which now focuses on a possible change along the spectrum of market power rather than on whether or not a particular position on that spectrum, i.e. dominance has been attained. We consider, therefore, that a study of likely outcomes, with and without the proposed Alliance, provides a more rigorous framework for the comparative analysis required and is likely to lead to a more informed assessment of competitive conditions than would be permitted if the inquiry were limited to the existence or otherwise of market power in the factual.³

¹ Commerce Commission, *Mergers and Acquisitions Guidelines*, January 2004.

² *Foodstuffs (Wellington) Cooperative Society Limited v Commerce Commission* (1992) 4 TCLR 713-722.

³ *Air New Zealand & Qantas Airways Ltd v Commerce Commission*, unreported HC Auckland, CIV 2003 404 6590, Hansen J and K M Vautier, Para 42.

7. In determining whether there is a change along the spectrum that is significant the Commission must identify a real lessening of competition that is not minimal.⁴ Competition must be lessened in a considerable and sustainable way. For the purposes of its analysis the Commission is of the view that a lessening of competition and creation, enhancement or facilitation of the exercise of market power may be taken as being equivalent.
8. When the impact of market power is expected to be predominantly upon price, for the lessening, or likely lessening, of competition to be regarded as substantial, the anticipated price increase relative to what would otherwise have occurred in the market has to be both material, and able to be sustained for a period of at least two years or some other timeframe as be appropriate in any given case.
9. Similarly, when the impact of market power is felt in terms of the non-price dimensions of competition such as reduced services, quality or innovation, for there to be a substantial lessening, or likely substantial lessening of competition, these also have to be both material and ordinarily sustainable for at least two years or such other time frame as may be appropriate.

ANALYTICAL FRAMEWORK

10. The Commission applies a consistent analytical framework to all its clearance decisions. The first step the Commission takes is to determine the relevant market or markets. As acquisitions considered under s 66 are prospective, the Commission uses a forward-looking type of analysis to assess whether a lessening of competition is likely in the defined market(s). Hence, an important subsequent step is to establish the appropriate hypothetical future with and without scenarios, defined as the situations expected:
 - with the acquisition in question (the factual) ; and
 - in the absence of the acquisition (the counterfactual).
11. The impact of the acquisition on competition is then viewed as the prospective difference in the extent of competition in the market between those two scenarios. The Commission analyses the extent of competition in each relevant market for both the factual and the counterfactual scenarios, in terms of:
 - existing competition;
 - potential competition; and
 - other competition factors, such as the countervailing market power of buyers or suppliers.

THE PARTIES

Fairfax New Zealand Limited (Fairfax)

12. Fairfax is a wholly-owned subsidiary of Australian company John Fairfax Holdings Limited (publisher of major metropolitan newspapers in Sydney and Melbourne along with the *Australian Financial Review*). Fairfax established its New Zealand operation in 2003 with the purchase of the publishing assets of Independent Newspapers Ltd. These assets currently include nine daily

⁴ *Fisher & Paykel Limited v Commerce Commission* (1996) 2 NZLR 731, 758 and also *Port Nelson Limited v Commerce Commission* (1996) 3 NZLR 554.

newspapers including The Dominion Post and The Press, two national Sunday papers, numerous lifestyle magazines, a magazine publishing business and an internet operation.

13. Fairfax also publishes over 60 community newspapers throughout the country. Fairfax has interests in two community newspapers in the Rodney District: the Nor-West News and the North Harbour News.

Times Media Group Limited (Times Media)

14. Times Media is a family company established in 1917 and is currently run by a descendent of the original founders Tony Cook. Times Media has both a media (Times Media Division) and print division (Times Colour Print). This Application relates to the Times Media Division, which is made up of the three publications and associated assets. These are the Rodney mastheads: the Outlook, the Rodney Times and the Coaster. The transaction also includes the Times Media stationary shop in Warkworth.
15. The print division, Times Colour Print, is a privately-owned printing company based in Warkworth. The Applicant has informed the Commission that it understands that the printing business is about to be sold to PMP New Zealand Limited. Fairfax has a contract with Times Media Print and with the acquisition Fairfax would become a PMP customer.
16. Times Media recently sold the only Rodney-based radio station Times FM to CanWest MediaWorks Limited.

OTHER RELEVANT PARTIES

APN News and Media Limited (APN)

17. APN is controlled by Independent News & Media Plc, a Dublin-based publicly listed company. APN has operations in newspaper publishing. It has nine daily newspapers and 32 free community papers; internet-based media; specialist publishing (including two weekly magazines); and commercial printing under its subsidiary's umbrella, W&H Print Ltd. The company also has a 50% shareholding in The Radio Network Limited, which operates 53 radio stations nationwide.
18. APN has a newspaper presence in Rodney with the following: the daily newspaper, the Northern Advocate, which is mainly in Whangarei but extends its distribution south; and two editions of The Aucklander: The North edition and The Shore edition.

Local Matters 2005 Limited (Local Matters)

19. Local Matters is a privately-owned publishing company that publishes two monthly community newspapers, Matakana and Mahurangi Local Matters and Wellsford Local Matters. The combined monthly readership is [] and its annual sales revenue is [].

PMP New Zealand Limited (PMP)

20. PMP Limited is Australia's largest commercial printer. It is a public company listed on the Australian Stock Exchange. PMP is also involved in marketing, publishing and magazine and advertising flyer distribution.

Trade Me Limited (Trademe)

21. Trademe is a privately owned internet website, www.trademe.co.nz. It operates an online auction facility. Trademe is one of New Zealand's most frequently accessed websites, and in 2004 was rated the fastest growing company in New Zealand's Deloitte/Unlimited Fast 50.

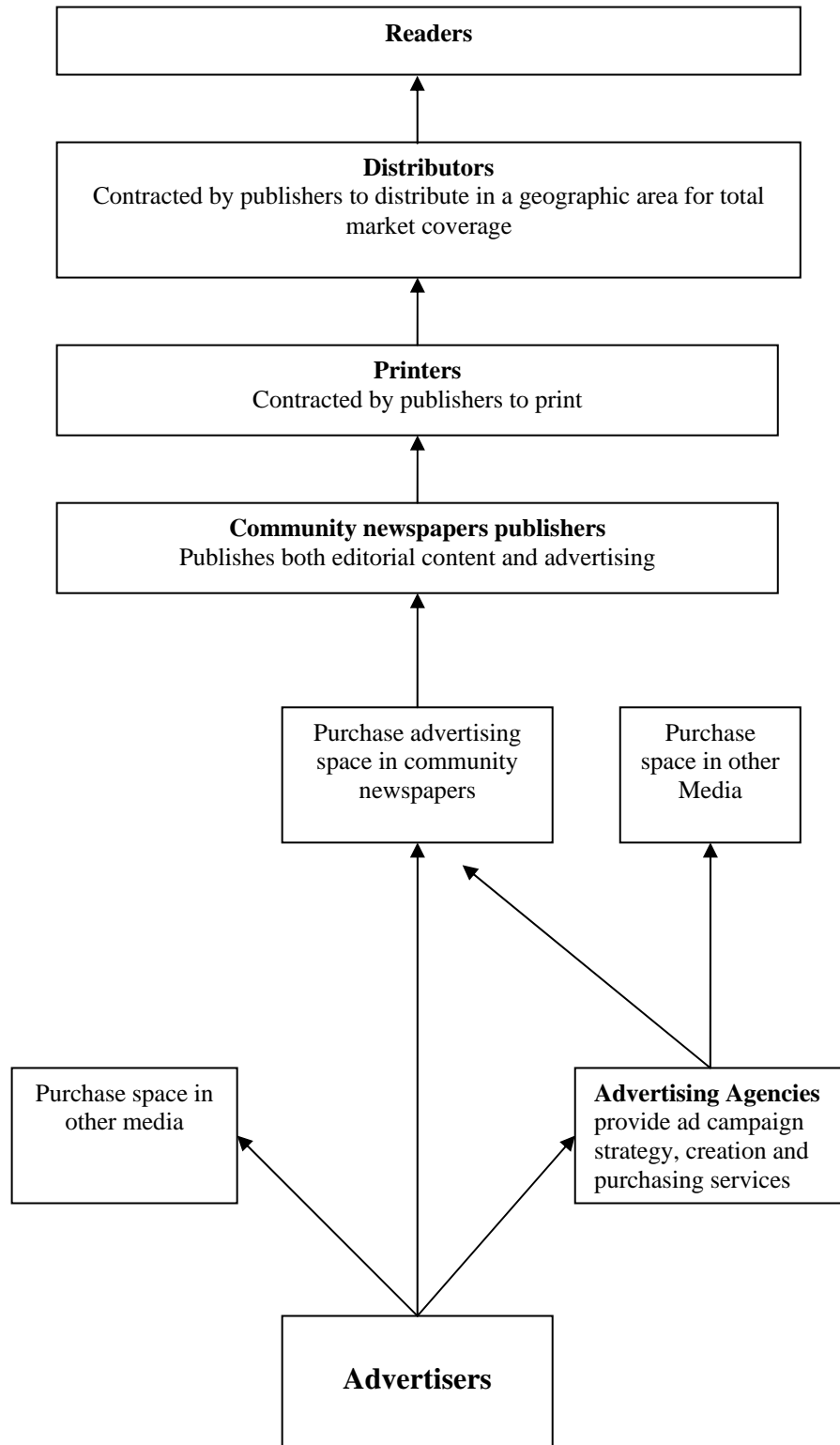
INDUSTRY BACKGROUND

22. Community newspapers commonly provide news, information, entertainment and advertising relating to a particular geographic region. They differ from daily newspapers as they are delivered free to every household, are published less frequently and give total coverage in the region. Most community newspapers are entirely funded by advertising - from direct advertising and/or classifieds.
23. The majority of daily and community newspapers are owned by the two major publishers, Fairfax and APN, with very few privately-owned newspapers remaining. Around [] of Fairfax's total revenue is from its community newspapers, of which it has 66 titles. Its newspapers in the Rodney district represent [] of its community newspapers revenue.
24. Post-acquisition, the combined entity would own four community newspaper in the Rodney region: the Rodney Times; the Coaster; the Nor-West News; and the North Harbour News. The combined entity would also own the property publication the Outlook. The titles currently owned by Fairfax cover different areas of the Rodney district, one to the southwest and the other to the south-east. Therefore this acquisition would give rise to a geographic overlap in the southern part of the Rodney district. See Appendix I.
25. A number of smaller community news and information periodicals are also being published by other publishers in the Rodney district.

Advertisers

26. Advertising in newspapers is divided into two kinds: display advertising and classified advertising.
27. Display advertising usually contains graphic information such as logos, photographs or other pictures, location maps, and similar items. It is generally used to advertise retail outlets. This form of advertising is commonly used in advertising flyers as well as newspapers.
28. Classified advertisements are usually located in the back of community newspapers, are usually presented as columns of text, and are normally submitted by private individuals.
29. Advertisers either go through an advertising agency or deal directly with the community newspaper. This is shown in Figure 1.

Figure 1: Community Newspaper Industry structure



PREVIOUS DECISIONS

New Zealand Commerce Commission (the Commission)

Print

30. The Commission has considered several acquisitions involving different media. The most relevant acquisitions, relating to community newspapers are:
- *Wilson and Horton Ltd & Power Plant Productions* Decision 445, (7 December 2001);
 - *Independent News Auckland & The Marlborough Express Newspaper Company Ltd*, Decision 329 (2 October 1998);
 - *Independent News Auckland Ltd & Review Publishing Co Ltd*, Decision 395 (16 June 2000); and
 - a section 47 investigation into the acquisition of the Ashburton Courier by Allied Press Limited.
31. In Decision 445 the Commission cleared Wilson and Horton Limited (now APN) to acquire a small community newspaper in Havelock, The Village Press. The Commission defined the markets as the supply of news services in Hawke's Bay and the supply of print media advertising in the Hawke's Bay region. The Commission determined that due to the degree of existing competition the market was highly competitive and the acquisition would not result in Wilson and Horton Limited acquiring a dominant position in either of the markets.
32. In Decision 395 the Commission cleared Independent News Auckland Ltd to acquire Review Publishing Co. Limited, an Auckland based magazine company, which published the 'New Zealand Fisherman'. The Commission defined the following markets:
- the national market for the provision of advertising services in the print medium in respect of recreational and boating activities; and
 - the national market for the provision of news, information and entertainment services in the print medium in respect of recreational fishing and boating activities.
- The Commission found that there were a number of existing competitors and market conditions such that potential competition was likely.
33. In Decision 329 the Commission cleared Independent Newspapers Ltd (now Fairfax) to acquire Marlborough Express Newspaper Company Ltd (Marlborough Express). The Marlborough Express published a daily regional paper, a free Saturday paper and a free weekly community paper. The Commission determined that the provision of print news and information was separate from the print advertising market. The Commission found that the high level of existing competition, in the form of other printed materials, and the advertisers' countervailing power would not result in the merged entity acquiring or strengthening market dominance.
34. In January 2004 the Commission became aware of the acquisition of the Timaru Courier and the Ashburton Courier by Allied Press Limited. Staff investigated and concluded that the acquisition did not result in a substantial lessening of

competition due to the degree of existing competition within the South Canterbury community newspaper market.

Radio

35. The Commission has considered a number of cases in the provision of radio services. The most recent acquisitions that are most relevant to this clearance are:
- CanWest acquisition of Northland radio spectrum, August 2005;
 - CanWest acquisition of Auckland radio spectrum, March 2004; and
 - The Radio Network acquisition of Auckland radio spectrum, March 2004.
36. In these acquisitions, the relevant markets were defined as the markets for:
- the regional market for the provision of radio advertising services to advertisers (the radio ad market); and
 - regional market for the provision of content services to listeners without charge (the radio content market).
37. In each of the investigations the Commission concluded that a substantial lessening of competition was unlikely to result, given the constraint of existing competition in the radio advertising market and a wide variety of content on both commercial and non-commercial stations in the radio content market.

Other Advertising

38. The Commission has considered one acquisition involving cinema advertising, involving Val Morgan Holdings Pty.⁵ In this acquisition, the relevant markets were defined as:
- the national market for cinema film advertising;
 - the national market for cinema film advertising agency services;
 - regional markets for cinema slide advertising; and
 - regional markets for cinema slide advertising agency services.

Australian Competition and Consumer Commission (ACCC)

39. The ACCC has also looked at community newspapers in merger cases, the most recent case being: West Australian Newspaper Holding's acquisition of Geraldton Newspapers Limited (May 2005). The relevant markets were considered to be the Geraldton/mid-west WA regional markets for publishing and supply of newspapers; and for the supply of newspaper advertising services.

MARKET DEFINITION

40. The Act defines a market as:
- “... a market in New Zealand for goods or services as well as other goods or services that as a matter of fact and commercial common sense, are substitutable for them.”⁶

⁵ *Val Morgan Holdings Pty Limited/Val Morgan & Co (Aust) Pty Limited & Media Entertainment Group Limited*, Decision 485 (December 2002).

⁶ s 3(1) of the Commerce Act 1986.

41. For competition purposes, market participants include all suppliers and all buyers between whom there is close competition, and exclude all other suppliers and buyers. The focus is upon those goods or services that are close substitutes in the eyes of buyers, and upon those suppliers who produce, or could easily switch to produce, those goods or services. Within that broad approach, the Commission defines relevant markets in a way that best assists the analysis of the competitive impact of the acquisition under consideration, bearing in mind the need for a commonsense, pragmatic approach to market definition.
42. The Commission defines relevant markets in terms of four characteristics or dimensions:
 - the goods or services supplied and purchased (the product dimension);
 - the level in the production or distribution chain (the functional level);
 - the geographic area from which the goods or services are obtained, or within which the goods or services are supplied (the geographic extent); and
 - the temporal dimension of the market.
43. Where markets are difficult to define precisely, the Commission initially takes a conservative approach. If the proposed acquisition can be cleared using a narrow market definition, it would also be cleared using a broader one. If the Commission is unable to clear the proposed acquisition using the narrower market, it will be necessary to review the arguments and evidence in relation to broader markets.
44. The Applicant submitted that the relevant product markets are:
 - the market for the national and international news and information services in the Rodney district;
 - the market for local news and information services in the Rodney district; and
 - the market for advertising services in the Rodney district.
45. There is no aggregation in supply of national and international news and information services in the Rodney district as a result of this Application. Therefore the Commission has not considered this market.

Product Market

46. The greater the extent to which one good or service is substitutable for another, on either the demand-side or supply-side, the greater the likelihood that they are bought and supplied in the same market.
47. Close substitute products on the demand-side are those between which at least a significant proportion of buyers would switch when given an incentive to do so by a small change in their relative prices.
48. Close substitute products on the supply-side are those between which suppliers can easily shift production, using largely unchanged production facilities and little or no additional investment in sunk costs, when they are given a profit incentive to do so by a small change to their relative prices.
49. The Applicant submitted that the provision of news and information in Rodney cannot be considered separately from advertising services, as the two are linked and that one cannot be provided without the other. However, the Applicant

submitted that there are separate news/information and advertising markets with a view for consistency with the Commission's previous decisions.

50. As discussed above, in previous decisions the Commission has determined that the provision of print news/information and print advertising are in different, but linked, markets. These markets are:⁷
 - the market for the local supply of news and information in print media; and
 - the market for local advertising in print media services.
51. Analogously in previous radio investigations and decisions the Commission defined separate markets for the provision of advertising services and for the provision of radio content.
52. These two markets were regarded as being separate, yet complementary and symbiotically-related markets. This position was reached on the basis of two considerations: first, the differences in customer base between the supply of news and information on the one hand, and of advertising services on the other; and secondly, the fact that newspapers are delivered free to all households in the circulation area, and revenues are derived entirely from advertising services.
53. Recently there have been advances in the economic literature that have shed new light upon how such related activities should be analysed. It has been suggested that community newspapers are an example of a business model called a "two-sided platform" or "multi-sided market"⁸. With advertising-supported media, the platform creates the news and information content to attract readers and the readership is then used as the basis to attract advertisers. There is a clear indirect network effect between the two sides of the business, since advertisers value platforms that have a large readership.
54. The Commission does not consider that a two-sided market analysis requires departure from the Commission's *Mergers and Acquisitions Guidelines*. In cases where the two-sided market theory applies,⁹ neither "side" of the two-sided market can be analysed in isolation from the other. That is, regard must be had to competitive conditions, barriers to entry, pricing, output and quality decisions, etc. on both sides of a two-sided market.
55. Community newspapers compete against other community newspapers, and they also compete against other news/information providers and other advertising providers. Community newspaper advertising services compete against other forms of advertising services. Similarly, community newspapers compete against other media in respect of the provision of news and

⁷ *Independent Newspapers Limited & Marlborough Newspaper Company Limited*, Decision 329 (2 October 1998); and *Wilson and Horton Ltd & Power Plant Productions Ltd*, Decision 445, (7 December 2001).

⁸ See Evans, David "The Antitrust Economics of Multi-Sided Platform Markets" (2003) 20 *Yale J on Regulation* 325-381; Rochet, Jean-Charles and Jean Tirole (2002) "Cooperation among Competitors: Some Economics of Payment Card Associations," *The RAND Journal of Economics*, 33(4): 1-22; Rochet, Jean-Charles and Jean Tirole (2003) "Platform Competition in Two-Sided Markets," *Journal of the European Economic Association*, 1(4): 990-1029; Schmalensee, Richard (2002) "Payment Systems and Interchange Fees," *Journal of Industrial Economics*, 50(2): 103-122; Evans, David S., and Richard Schmalensee (2005) "The Industrial Organization of Markets with Two-Sided Platforms," *NBER Working Paper Series*, No. 11603, September.

⁹ Evans defines three conditions necessary for two-sided markets: 1. Two distinct groups of customers; 2. The marginal utility or value of one group of customers increases as the number of the other group of customers increase; and 3. An intermediary is necessary to internalize the externalities of each group.

information. The sides of the platform operate in distinct markets. While community newspapers are a platform, the sides of the platform exhibit different, though linked, competitive dynamics.

56. Accordingly the Commission has analysed both sides of the platform, the print advertising market and the print news/information market.

Advertising

57. The Commission assessed the extent to which the different forms of print advertising are in the same market. The Applicant considered that daily newspapers, paid-for classified specialist papers and catalogues all compete vigorously with community newspapers and that there is broad demand-side substitutability between them.
58. Industry participants informed the Commission that print advertising includes:
- Community newspapers – advertising that has total market coverage via free newspapers delivered directly to households;
 - Property advertising – specialised advertising catalogues with only properties for sale, distributed by realtors and in news stands
 - Directory advertising – listings of businesses in a business specific publication;
 - Unaddressed advertising flyers – catalogues, circulars and flyers that are delivered directly to households;
 - Addressed mail - catalogues, circulars and flyers that individuals receive by joining a mailing list; and
 - Metro newspapers – paid-for daily papers based in a metropolitan area.
59. The majority of advertisers the Commission spoke to considered that advertising flyers (unaddressed or addressed) were a direct substitute for advertising in community newspapers. Advertising agency FCB Limited stated advertising flyers and community newspapers achieve the same purpose of reaching every household within a geographical area, usually referred to as total market coverage. Industry participants stated that if there was 5-10% increase in the price of advertising in a community newspaper then advertisers would switch to using advertising flyers as a substitute.
60. However, there some advertisers would not use advertising flyers. For instance Rodney clothing store ‘Dorothy’s’ expressed a preference for an addressed mail catalogue system and ‘Quarto Café’ stated that the service and convenience of community newspaper advertising services, even with a 5-10% price increase, outweighed any advertising flyer benefits. Another differentiating point between community newspapers’ advertising and flyers is the ‘nuisance aspect’ of flyers. ‘Beds’R’Us’ considered advertising flyers to be “junk-mail” and therefore an ineffective form of advertising.
61. The Commission acknowledges that community newspapers and advertising flyers have some distinct advantages and disadvantages. However, the Commission considers that advertising flyers are sufficiently close substitutes for enough advertisers to be considered part of the same market.
62. Rodney advertisers stated that the main differences between daily and Sunday papers (metropolitan papers) and community newspapers are price and

coverage. Industry participants stated that, for a small company, advertising in a major metropolitan newspaper was a “waste of money”. The Warehouse considered community newspapers as “secondary media” compared to the major metropolitan papers. However, FCB stated that larger companies or franchises of larger companies advertise in the metropolitan papers. ‘Beds’R’Us’ in Rodney is an example of a franchise that is part of a national advertising campaign via the parent company. The campaign uses a wide variety of media and includes metropolitan papers. By belonging to a large franchise the local retailer is able to benefit from national advertising.

63. Given these distinctions, the Commission considers that metropolitan newspapers are a separate market from community newspapers.
64. On the supply side, there is likely to be some substitution between the different print publications types, like community newspapers, directories and advertising flyers and catalogues. A publisher would already possess the staff, printing premises and machinery.
65. While publications may differ in colour and/or paper quality, it is likely a supplier of one type of publication could easily switch to another quickly and easily at little cost.

Print Advertising and Other Media

66. The Commission has considered the extent to which print advertising and other advertising forms are in the same market, namely radio, the internet, TV and billboards. The Applicant considered that the internet and radio are substitutable for print advertising. Previous Commission decisions have recognised that there is a degree of substitutability between print and other media advertising forms.¹⁰ Nevertheless, the Commission found the different media forms to be complementary, rather than substitutable. The Applicants stated that substitutability has grown, particularly with internet expansion, since the last Commission decision in 2001.
67. Advertisers informed the Commission that different types of advertisers have differing requirements depending on their size, location and target audience. FCB considered free media is very important for reaching lower-socio economic groups, especially free print which it sees in many instances, as a substitute for paid print.
68. The Commission found the following factors were taken into account by advertisers in the Rodney region when deciding to place an advertisement:
 - target audience (age, gender, socio-economic groups, geography);
 - message type (level of detail);
 - publication frequency;
 - perceived level of effectiveness; and
 - price.
69. Advertising agencies typically try to design campaigns using an appropriate media mix, APN described the industry as being divided into separate “pillars” that compete within each other and then against each other. These “pillars” were considered to be:

¹⁰ *Wilson and Horton Ltd & Power Plant Productions Ltd*, Decision 445, (7 December 2001), at pg.6

- print;
 - television;
 - the internet;
 - radio; and
 - billboards.
70. Industry participants informed the Commission that advertisers do not generally switch from print media to other media completely. Advertisers instead reduce the amount they spend on print and allocate this money to another media. APN informed the Commission that advertisers are constantly changing percentages around the different media. The Commission was also advised by advertising agencies Morton Media Services Limited and Horton Press that advertisers also are reluctant to leave a publication completely for fear of giving their competitors exclusive advertising reign in the publication.
71. The Applicant stated that there is broad substitutability between radio and print advertising. It cited Muldoon's Irish Bar and the Cancer Society as advertisers that had switched in the past two years from community newspapers to radio.
72. Industry participants FCB and Morton Media both stated that the purposes of radio and print advertising are different. Both cited that radio is about branding and cannot contain anything too complex. They also stated that print is generally used to communicate details or display various prices of different stock. FCB also stated that print allows readers to browse the products available.
73. The Gas and Heating Centre and Retravision informed the Commission that they have advertised in both the Rodney Times and on radio. However, both parties considered radio advertising to be ineffective. Another local advertiser, Mark Morgan-Kemp Financial Services Limited, considered that he might possibly test radio but preferred more direct marketing.
74. Overall, the Commission found that advertisers are more likely to switch advertising spend percentages between print and radio rather than substitute between the two completely. While this may not be a universal occurrence, it is the predominant market practice as the different advertising types have different purposes and act as complements rather than substitutes. Accordingly, the Commission considers that radio advertising is not in the same market as print advertising, however it is taken into account as a complement in the competition analysis.
75. The Commission also assessed the substitutability between internet advertising and print advertising. The Applicant submitted that the internet competes actively and aggressively with print, especially with regard to classified advertising.
76. The Commission found internet industry participant Trademe was competing vigorously with classified advertising. Industry participants, like FCB, highlighted that there are differences between internet and traditional newspaper classifieds, for instance the internet is not portable. However, print publishers considered Trademe's advertising services to be extremely competitive with their own.
77. The Applicant stated that classified advertising accounts for [] of the revenue derived from community newspapers. The Commission acknowledges

that the internet is a constraint on the classified advertising in newspapers, but notes that it only affects display advertising in a minor way.

78. Despite the increasing substitutability between print and the Internet, the Commission considers for the purposes of the considering this Application that it is appropriate to define print advertising and internet advertising as principally complementary forms, rather than substitutes. However, in doing so the Commission recognises that the internet constrains to an extent the classified sections of the print advertising market.
79. On the supply side, there is limited substitutability between the different media types. Print, radio, internet and television are delivered in different ways, hence their offering of advertising services differ.

News/information

80. The Applicant stated that the relevant market in respect of news and information services is wider than print and includes the internet and radio. The Applicant particularly emphasised the growth in news/information available on the internet.
81. Previous Commission decisions have determined that the print news and information market is separate from other forms, but that there was a range of news sources which complement and also compete to a limited degree with the print medium.¹¹ The Commission determined in the CanWest¹² decision that news and information content of radio was duplicated by other media forms, for instance print, but the delivery means was sufficiently unique to place radio content in its own product market.
82. The Commission notes the internet's increasing role in provision of news and information services. Websites like www.stuff.co.nz and www.nzherald.co.nz have 1,173,888 and 1,215, 488 hits per month, respectively.¹³ These websites principally concentrate on international and national news with some limited local news/information provision. In the Rodney region there are two websites that provide local news and information, namely www.hibiscuslink.co.nz and www.orewa-beach.co.nz. These sites either receive their news from the Rodney Times or operate a 'notice board' for local news and information. While there may be a trend towards the internet providing national and international news, it does not appear to have filtered down to a local level at this stage.
83. Despite the increasing substitutability between print and the internet, the Commission considers it is appropriate to define the different media outlets as principally complementary forms, rather than substitutes for each other in the same market. Although not treating them as falling within the same market, the Commission recognises that these other media outlets provide a degree of constraint in the market for the provision of news/information services in the print medium.
84. Non-print news/information suppliers include radio, television and the internet. There is virtually no substitution between radio, television and print in respect of news and information provision. The development of internet providers' development, like www.nzherald.co.nz, indicates that there is some

¹¹ *Independent Newspapers Ltd & The Marlborough Express Newspaper Company Ltd*, Decision 239, (2 October 1998), pg.10.

¹² *CanWest & Radio FM Licenses in Northland*, Decision 557, 31 August 2005.

¹³ Clearance Application, pg.8.

substitutability between print news/information and internet news/information provision. However, there has been no industry indication such a switch is possible by an internet provider wishing to create a print publication. Accordingly, the Commission considers that there is little supply side substitution between print news and information.

Conclusion on Product Market

85. The Commission considers that the relevant product markets to be:
- print advertising; and
 - news and information provision.

Geographic Market

86. The Applicant submitted that the relevant geographic market is the Rodney district. It stated that the mastheads' content is local. This is consistent with previous Commission decisions that the geographic region for print advertising and news/information is local.¹⁴
87. The Rodney District Council geographic boundaries are the Kaipara District, Waitakere City and North Shore City, as illustrated in Appendix II. The Rodney Times' geographic circulation is the same as the Rodney District Council boundaries. The District Council is divided into three separate wards: Western, Eastern and Northern. The Applicant also considers that each Council ward is a local news/information and advertising region.
88. The Rodney Times covers the entire Rodney District but there are some smaller publications, that cover a smaller catchment area, for instance 'Local Matters' in 'Wellsford', the 'Mangawhai Memo' in Mangawhai. The 'Nor-West News' and the 'North Harbour News' are almost entirely within the Rodney Times coverage zone and the Rodney District Council region. For the North Harbour News and the Nor-West News, each [] newspapers outside the Rodney District. The Commission was informed that "of the top 50 Rodney Times advertisers [] also advertise in the North Harbour News and [] in the Nor-West News".¹⁵ The figures that the Applicant provided the Commission regarding advertising spending in the publications based in these wards indicate that there is a large advertising spend cross-over between the publications.
89. Advertising industry participants also referred to the Rodney area as a distinct market and did not differentiate between its eastern, western and northern parts.
90. The majority of industry participants considered that there was a distinct local advertising market for Rodney separate from Auckland. However, Mathew Horton of Horton Media considered that Rodney is a part of the wider Auckland region. The Commission considers that this would be true for some advertisers from the Auckland region who wished to attract Rodney residents. However, the proportion of Auckland advertisers advertising in Rodney is likely to be small.
91. Market participants considered there is a distinct national market, but that national advertisers tend to add local 'flavour' to their advertisements. For instance FCB recounted that while Palmers Garden Centres buy extensive

¹⁴ *Wilson and Horton Ltd & Power Plant Productions Ltd*, Decision 445, (7 December 2001); and *Independent Newspapers Ltd & The Marlborough Express Newspaper Company Ltd*, Decision 239, (2 October 1998).

¹⁵ Clearance Application, pg. 13

advertising in the top half of the North Island, each region has its ‘national’ advertisements localised to reflect promotions at each local centre.

92. Industry participants also considered there would be no reason for small Rodney businesses to advertise in national newspapers, for instance the Herald or the Sunday papers as it would be a waste of money (Morton Media and the Hyde Group both made this comment) as these papers are expensive and cover a much wider area than the advertiser’s target audience.
93. The Commission concludes that the relevant geographic market is the Rodney district.

Functional Level

94. The Applicant submitted that that print news and information providers have entered the downstream market, through the use of on-line internet news. For example onenews.nzzoom.com, www.stuff.co.nz and www.nzherald.co.nz are all news providers’ downstream operations. However, the Commission found that this does not occur in local markets. In the Rodney region the two websites that provide local news and information (www.hibiscuslink.co.nz and www.orewa-beach.co.nz) either receive their news from the Rodney Times or operate a ‘notice board’ type information facilitator. It appears that the internet may be competing at a national level for the provision of news and information, this has not flowed down to local news providers. The Commission considers that print news, information and advertising in Rodney is a distinct functional level.
95. The Commission considers the relevant functional level is the provision of print news and information services and advertising services.

Conclusion on Market Definition

96. The Commission concludes that the relevant markets are the markets for:
 - print advertising services in the Rodney region (the print advertising market); and
 - local print news and information in the Rodney region (the print news/information market).

COUNTERFACTUAL AND FACTUAL

97. In reaching a conclusion about whether an acquisition is likely to lead to a substantial lessening of competition, the Commission makes a comparative judgment considering the likely outcomes between two hypothetical situations, one with the acquisition (the factual) and one without (the counterfactual).¹⁶ The difference in competition between these two scenarios is then able to be attributed to the impact of the acquisition.

Factual

98. The factual scenario is that Fairfax acquires three publications and associated assets from Times Media. Consequently, the combined entity would continue to operate in each of the relevant markets.
99. Fairfax stated that it considers the Rodney mastheads would complement its existing business being long established and locally- orientated community

¹⁶ *Air New Zealand & Qantas Airways Ltd v Commerce Commission (No 6)*, unreported HC Auckland, CIV 2003 404 6590, Hansen J and K M Vautier, Para 42.

newspapers. In addition, Fairfax considers that there are opportunities to operate the acquired business more profitably.

100. Fairfax said that it has two major initiatives for increased productivity, namely:

- [

]

Counterfactual

101. Times Media stated that it is keen to exit the market. It stated that competition was increasing and that there was a real threat from on-line advertising. Times Media also stated that it [] Times Media has also recently sold its radio station and is in the process of selling its printing business to PMP Limited. The Commission therefore considers the counterfactual is that the Times Media publishing business would be sold to a third party.

102. Further, the Commission found that there are other interested buyers in the Times Media publishing business. [

]

103. In the counterfactual, the Commission considers that Fairfax [

]

Times Media stated that [

].

Fairfax stated that it had some [

]

104. Fairfax stated that [

]

105. The Commission concludes that the relevant counterfactual is that the Rodney mastheads, and their associated assets, would be sold to a third party and that [

]

COMPETITION ANALYSIS

106. As mentioned earlier, community newspapers are an example of a “two-sided platform” business model. Newspapers provide services to the two interdependent customer groups of readers and advertisers. Evans and

Schmalensee describe advertising-supported media as one of the main types of two-sided platform:¹⁷

Advertising-supported media such as magazines, newspapers, free television, and web portals are based on a two-sided business model. The platform either creates content (newspapers) or buys content from others (free television). The content is used to attract viewers. The viewers are then used to attract advertisers. There is a clear indirect network effect between advertisers and viewers - advertisers value platforms that have more viewers; the extent to which viewers value advertisers is the subject of more debate.

107. They go on to point out that most advertising-supported media earn much—and sometimes all—of their revenues from advertisers, and the printed media itself is commonly supplied to readers close to, or below, the marginal cost of printing and distribution. As noted, they are only financially viable because of the advertising revenues that the readership attracts.
108. Therefore, it is relevant for the Commission to consider the competition effects on readers and advertisers and their interrelationship in order to form a view on the competitive effect of the acquisition.

Print Advertising Market

Existing Competition

109. Post acquisition, in the print advertising market, the combined entity would have a market share of [] by revenue and the three firm concentration ratio would be []. Both of these figures are outside the Commission's safe harbour guidelines.
110. The total value of annual print advertising in Rodney is just over []. Market shares are shown in Table 1.

¹⁷ Ibid., p. 9.

Table 1: Print Advertising Market Share Figures by advertising revenue

Print	Type of print	Revenue	Market Share
Times Media		[]	[]
<i>Rodney Times</i>	<i>community newspaper</i>	[]	[]
<i>Coaster</i>	<i>community newspaper</i>	[]	[]
<i>The Outlook</i>	<i>property advertising</i>	[]	
Fairfax		[]	[]
<i>Nor-West News</i>	<i>community newspaper</i>	[]	[]
<i>North Harbour News</i>	<i>community newspaper</i>	[]	[]
A-Z	<i>directory</i>	[]	[]
Combined Firm		[]	[]
NZPost	<i>advertising flyers</i>	[]	[]
Herald	<i>metro newspaper</i>	[]	[]
Property Press	<i>property advertising</i>	[]	[]
Deltarg	<i>advertising flyers</i>	[]	[]
Local Matters	<i>community newspaper</i>	[]	[]
PMP	<i>advertising flyers</i>	[]	[]
Yellow Pages	<i>directory</i>	[]	[]
Mangawhai Community	<i>community newspaper</i>	[]	[]
Maungaturoto Matters	<i>community newspaper</i>	[]	[]
Leigh Rag*	<i>community newspaper</i>	[]	[]
Kaiwaka Bugle	<i>community newspaper</i>	[]	[]
Total		[]	100.00%

* Based on estimates from distribution figures, advertising rates and circulation figures provided to the Commission

111. The Applicant submitted that considerable competition exists in this market, and cite a high amount of competition from advertising flyers. The Applicant also stated that ‘Local Matters’ is attracting advertisers from the Rodney Mastheads and could expand rapidly if prices or quality of the paper materially changed.
112. From revenue figures industry participants provided, the Commission found in the Rodney district advertising flyers are [] of advertising expenditure. NZPost is the main advertising flyer distributor in the Rodney region. Other advertising flyer distributors, Deltarg and PMP, have [] market shares in Rodney compared with other parts of the country. PMP distributes about [] of the advertising flyers nationally but in Rodney [] of the advertising flyers. The Commission considers that if community newspapers increased advertising rates, a likely commercial response would be for more emphasis to be placed on advertising flyers.
113. The Commission considers that the combined entity would be constrained by advertising flyers in the region. The Commission considers that in the event that community newspaper advertisers switched to advertising flyers, PMP and Deltarg would be keen to supply services to them and would have the capacity to do so.

114. The Commission concludes that in the print advertising market the suppliers of different types of advertising, like NZPost, PMP and Deltarg, would constrain the combined entity to a degree.
115. In addition to competition from advertising flyer, the Commission also considered competition from other community newspapers.
116. Local Matters considered that it has grown a competitive presence recently. 'Local Matters' has evolved recently from an advertising magazine to what it considers a good community newspaper. Local Matters estimate its advertising rates are [] of the Rodney masthead's prices. It considers that it is doing well because it fills a niche geographical market and has strength in its small size.
117. While Local Matters does have the potential to grow, even if it [] revenue, it would [] of the total print advertising market. Local Matters also only publishes monthly, as opposed to twice-weekly like the Rodney Times and it also only covers very limited geographical regions. The Commission considers that because of its monthly publication, small geographical coverage and [], 'Local Matters' would be a small constraint on the combined entity.
118. Overall, the Commission considers that existing competition would provide some constraint on the combined entity but on its own not sufficient to constrain the combined entity, therefore the Commission has considered other competition factors.

Other media constraints

119. The Applicant submitted that radio is a significant constraint on communities newspapers. They argued this was particularly true in a small community like Rodney. The Commission has previously found that radio and print advertising do constrain each other.¹⁸ The Commission acknowledges that although radio is a different advertising form, it nonetheless competes for advertising spend with the Rodney Mastheads to some degree.
120. Times FM has just been separated out from the Times Media Group and sold to CanWest. Advertising market participants informed the Commission that because Times FM and the Rodney Mastheads were previously owned by the same company, competition between the two was limited. Given the split in ownership it is anticipated that competition between the radio station and the Mastheads should increase.
121. The Commission recognises that some advertisers have switched from print to radio, for instance the Applicant cited the Cancer Society and Muldoon's Irish Bar. However, industry participants consistently informed the Commission that radio advertising has a different purpose to print advertising. Radio being short, sharp and about branding, while print is informative and lists stock price. Accordingly, the constraint that radio provides on print is somewhat limited. However, radio does provide some constraint and this constraint will vary from advertiser to advertiser.
122. The Applicant considered that the internet is the single biggest threat to advertising revenue in newspapers. The Applicant informed the Commission that [] of community newspapers' revenue is derived from classified advertising, which is in direct competition with the internet.

¹⁸ *Wilson and Horton Ltd & Power Plant Productions Ltd*, Decision 445, (7 December 2001), pg. 6.

123. As previously stated (in the market definition section¹⁹) the Commission considers that the internet sits outside of the relevant market. However, newspaper industry participants have identified internet growth as a major constraint on newspapers as a whole. The Applicant submitted that the success of Trademe illustrates the competitive effect of internet advertising.²⁰ Trademe considers that it has had a substantial impact on classified advertising in the last few years. The other community newspaper publishers the Commission interviewed also agreed that the internet has had a substantial impact on classified advertising.
124. The internet is also making inroads into the job vacancies section of traditional newspaper advertising. The Applicant informed the Commission that Vacancies advertising makes up [] of total revenue for Fairfax's community newspapers. Internet sites like www.seek.co.nz enable job seekers to be emailed jobs that fit what they are looking for. Job seekers are also able to advertise their profile for prospective employers to browse. There are also a range of internet job sites which cater for varying skills and requirements.
125. Substantial property advertising is also now done through the internet. Most real estate agents now have a website advertising their properties. Trademe has a real estate section and there are also numerous real estate search engines online, such as www.realenz.co.nz and www.allrealestate.co.nz.

Conclusion on Existing Competition

126. Overall, the Commission considers that existing competition would provide some constraint on the combined entity but on its own not sufficient to constrain the combined entity, therefore the Commission has considered other competition factors.
127. The Commission has continued to look at other relevant competition effects, including countervailing power.

Countervailing Power

128. In some circumstances the potential for the combined entity to exercise market power may be sufficiently constrained by a buyer or supplier to eliminate concerns that an acquisition may lead to a substantial lessening of competition.
129. The Commission investigated the extent to which the different types of advertisers, namely display advertisers, would constrain the combined entity, post acquisition.
130. The Commission notes that, post acquisition, the combined entity would continue to rely on the revenue obtained from advertisers, as it would be its only income source for publishing a free community newspaper.
131. Market participants informed the Commission that advertisers can influence community newspapers' publishers by:
- the individual advertiser's advertising spend;
 - threatening to leave or actually leaving a publication;

¹⁹ See paragraphs 75 to 78.

²⁰ The Applicant searched www.trademe.co.nz on 29 September 2005 and resulted in 40 hits for sellers in the Rodney area or the equivalent of \$643,000 in classified advertising spend. The Commission's independent research found very similar results.

- shuffling percentage spend; and
 - self-publishing.
132. Market participants informed the Commission that prices for advertising in community newspapers are standardised through rate cards (price lists), although some advertisers are able to obtain price discounts. The Number 1 Shoe Warehouse has a full page full colour insertion in all 10 of Fairfax's Auckland community newspapers. Fairfax gives the Number 1 Shoe Warehouse a [] Fairfax said that it decided to [] because:
- []
-]
133. The Commission considers that the Number 1 Shoe Warehouse example demonstrates a high level of countervailing power that very large advertisers have.
134. Industry participants informed the Commission that advertisers could influence publishers by threatening to leave or actually leaving a publication. Advertising agencies also informed the Commission that they advise clients to "drop" a publication if rates rise or to reduce their expenditure.
135. Community newspapers are particularly sensitive to losing advertising revenue as in most instances it is crucial to the viability of the newspaper. Accordingly, the Commission considers that there is limited opportunity for community newspapers to increase advertising rates due to the threat of advertisers switching publications, medium or simply reducing advertising spend.
136. Particularly large advertisers also have the ability to publish advertising 'in-house' in many instances. For example []
-]
137. The Commission considers that advertisers have a substantial degree of countervailing power. Advertisers are able to express this through a variety of ways, but underlying these different negotiation tactics is the knowledge that a community newspaper is dependent on advertisers for all its revenue.

Conclusion on print advertising market

138. The Commission concludes that, because of the degree of existing competition and countervailing power, it is satisfied that a substantial lessening of competition is unlikely.

Print News/Information Market

Existing Competition

139. In the print news/information market in the Rodney district, the combined entity would have a market share of []. Post acquisition, the combined entity market share in the print news/information market would be outside the Commission's safe harbours.

Table 2: Print news/information Market Share Figures by circulation

Print	Type of publication	Annual Circulation	Market Share
<i>Rodney Times</i>	<i>community newspaper</i>	[]	[]
<i>Coaster</i>	<i>community newspaper</i>	[]	[]
Times Media		[]	[]
<i>Nor-West News</i>	<i>community newspaper</i>	[]	[]
<i>North Harbour News</i>	<i>community newspaper</i>	[]	[]
Fairfax		[]	[]
Combined Firm		[]	[]
Local Matters	<i>community newspaper</i>	[]	[]
Mangawhai Community	<i>community newspaper</i>	[]	[]
Maungaturoto Matters	<i>community newspaper</i>	[]	[]
Leigh Rag	<i>community newspaper</i>	[]	[]
Kaiwaka Bugle	<i>community newspaper</i>	[]	[]
Total		[]	100.00%

140. The Applicant has acknowledged that there would not be a lot of competition post acquisition. The Applicant did suggest that ‘Local Matters’ could potentially expand in the face of quality decrease from the Rodney Mastheads. As identified above, the Commission agrees with the Applicant that ‘Local Matters’ could expand in the face of quality deterioration or advertising price increases. However if ‘Local Matters’ [] market shares in circulation. The Commission considers that even if Local Matters [], they would only be a [] constraint on the combined entity.
141. However, as noted above the news and information market is inextricably linked to the advertising market. As such, publishers of community newspapers have no opportunity or incentive to decrease the quality of the news/information provision or to charge for the newspaper as this would have a detrimental effect on the ability to attract advertising dollars. This conclusion is strengthened due to the fact that advertisers have a large degree of countervailing power in the advertising market and due to the fact that community newspapers are dependent on advertising revenue to remain viable.

Conclusion on print news/information market

142. The Commission is satisfied that due to the countervailing power of advertisers and the inextricable link between the advertising and news/information markets, the acquisition is unlikely to lead to a substantial lessening of competition in the news/information market.

OVERALL CONCLUSION

143. The Commission concludes that the acquisition is unlikely to lead to a substantial lessening of competition in the print advertising market or in the news/information market in the Rodney region. The combined entity is likely to be constrained to a degree by existing competition from fringe players of community newspapers, as well as from other forms of media like radio and the internet. The combined entity would also be constrained by the countervailing power of advertisers.

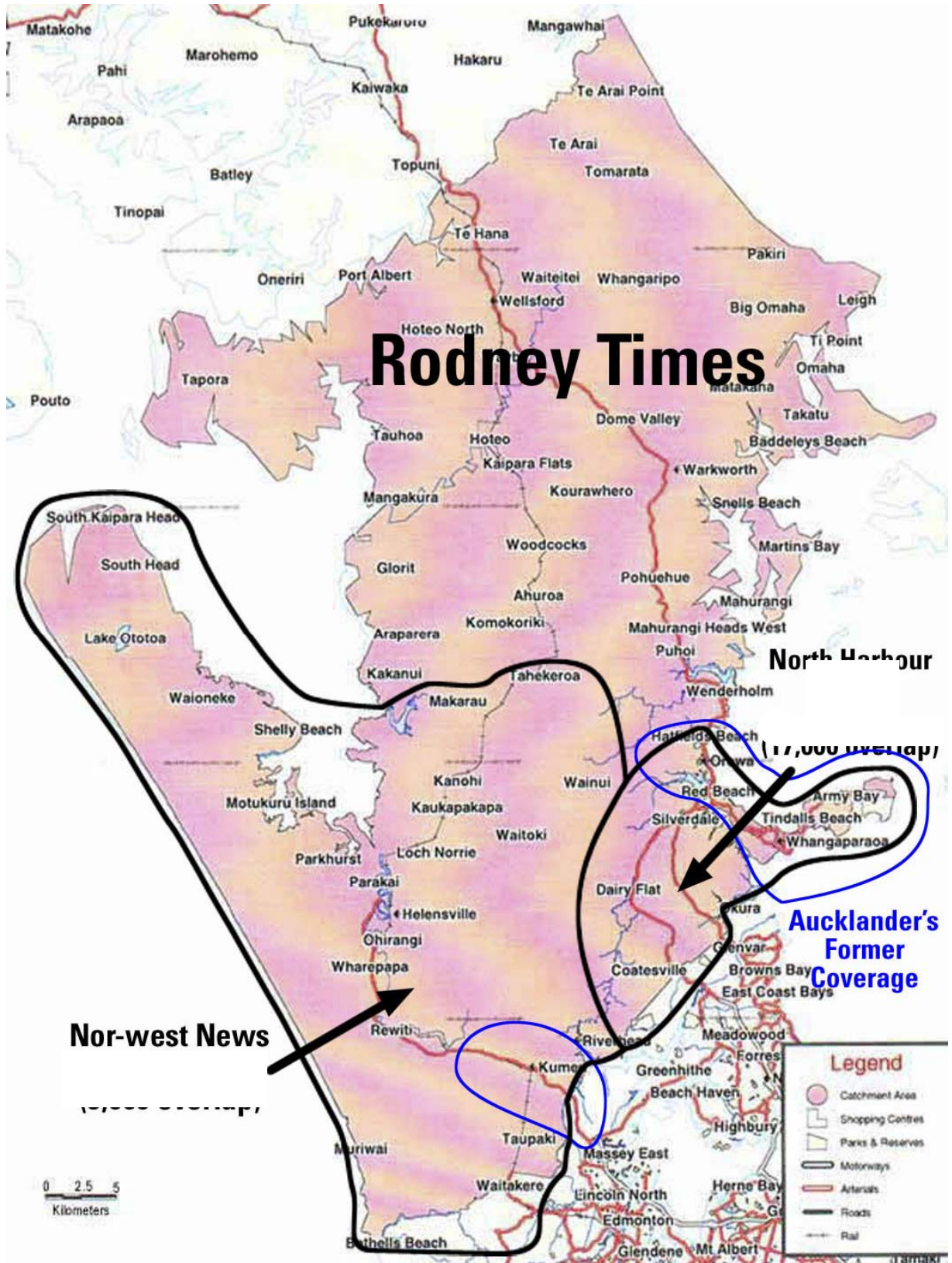
DETERMINATION ON NOTICE OF CLEARANCE

Pursuant to section 66(3) (a) of the Commerce Act 1986, the Commission determines to give clearance for Fairfax New Zealand Limited to acquire the Times Media Group Limited mastheads the Rodney Times, the Coaster and the Outlook and associated assets.

Dated this 14 October 2005


Paula Rebstock
Chair
Commerce Commission

APPENDIX I



APPENDIX II





Rodney
DISTRICT

This plan was prepared by the Land Information Section
RODNEY DISTRICT COUNCIL COPYRIGHT

Rodney District
Ward Boundaries
Effective 31 March 2001

DATE: April 2001
SCALE: 1:400000 @ A4
N RDC 15341 4 of 8