

Submission from Johnston Press

11 May 2004

Archant/INM Merger Inquiry

Thank you for your letter of 6 May. You may be aware that Johnston Press provided the Competition Commission with extensive information in response to a specific questionnaire in relation to the recent Newsquest/INM newspaper inquiry. The views contained in that submission remain relevant to your current inquiry.

In addition, Johnston Press has on a number of previous occasions, presented its views to the Competition Commission both orally and in writing. You may be aware that, in general, we believe that previous Commission inquiries have taken too narrow a view of market definition and, as a result, have excluded various media competition which, in fact, does compete directly with local newspapers. I hope that in this inquiry the opportunity will be taken to re-examine the whole question of market definition.

In the last Competition Commission inquiry in which Johnston Press was a direct participant in respect of the proposed acquisition of titles from Trinity Mirror in the East Midlands and also in respect of the recent Newsquest/INM inquiry, the Competition Commission utilised market surveys in order to assess advertiser opinions. In this respect, I would refer you to the comments of Johnston Press as published in the Competition Commission inquiry into the Trinity Mirror titles which express concern over the inadequacies of the approach taken. Again, I hope that the current inquiry, if it relies on a market questionnaire, will take note of past reservations in the way in which it is constructed and conducted.

Yours sincerely

T J Bowdler
Chief Executive



Johnston Press plc

re COMPETITION COMMISSION INQUIRY INTO THE PROPOSED ACQUISITION OF INDEPENDENT NEWS' GREATER LONDON REGIONAL TITLES BY GANNETT

RESPONSE TO THE QUESTIONNAIRE

Johnston Press's products and businesses

1. *Please outline in general terms the current market position and strategy of Johnston in (a) the market for regional/local newspapers in the UK; and (b) any other products/services it supplies*

a) Johnston Press is currently the fourth largest publisher of local and regional newspapers in the UK. The company's core strategic aim is to serve its local communities by publishing quality newspapers that attract readers and provide an effective platform for advertisers to reach their target audience.

b) Additional products / services comprise:

- local news and information websites closely related to its newspapers (e.g. www.peterboroughtoday.co.uk)
- associated local publications (lifestyle magazines, directories)
- leaflet distribution
- specialist publications (Outbound, off-road biking, Days Out UK)
- exhibitions
- reader holidays
- contract printing

2. *Please give brief details of:*
(a) any acquisitions and/or sales of newspaper related businesses/assets by Johnston during the past five years; and
(b) new titles launched and/or old titles closed by Johnston during that period.

a) The following newspaper related businesses have been acquired or disposed of by Johnston Press during the past five years:

<i>Acquisition</i>	<i>Year</i>
Archant's Beds and Bucks newspapers	1998
Arbroath Herald, Angus County Advertisers and the Guide & Gazette	1999
Portsmouth & Sunderland Newspapers	1999
Lincolnshire Standard Group and Four Counties Newspapers	2000
Glasgow East News	2001
Mortons Media's Lincolnshire newspapers	2001
Regional Independent Media	2002

<i>Disposals</i>	<i>Year</i>
Wee County News	2002
Stornoway Gazette	2002
Galloway Gazette	2002
Carrick Gazette	2002

3. *Were you invited to express an interest in purchasing the INM titles/newspapers interests that are related to this inquiry; and did you do so?*

We were invited to express an interest in purchasing the INM titles but we declined to do so.

Linkages between publishers

4. *Please provide brief details of any current linkages within the UK between Johnston and other publishers of regional/local newspapers (particularly the larger publishers such as Trinity Mirror, DMGT and Gannett):*

- a) **Printing arrangements:**

The only formal arrangement is between the Sunderland Echo (Johnston Press) and the Newcastle Chronicle (Trinity Mirror) who have a reciprocal agreement to print each other's daily paper in the event of an emergency.

With the advance and standardisation of pre-press technology informal arrangements now work well, whereby outwork help is sourced as and when required, and page files sent via ISDN to the chosen printer. Over the last two years our press installations have placed business with Northcliffe at Derby, Leicester and Staverton, The Barnsley Chronicle, Cambridgeshire Newspapers and Newsquest. We have also carried out contract printing for a number of publishers.

- b) **Purchasing arrangements:** No linkages

- c) **Distribution / circulation arrangements:** No linkages

- d) **Sharing of press related resources:** No linkages

- e) **Joint venture arrangements:**

Metro: We have a licence agreement with Associated Newspapers (part of DMGT) whereby we co-produce the Yorkshire edition of Metro. In addition to generating local advertising revenue for the newspaper, we share national advertising revenues based on the distribution figures for each of the regional editions. We also print the Yorkshire edition.

Recruitment South: We have a joint venture with Newsquest to produce a weekly paid for recruitment publication which covers the Portsmouth, Chichester, Southampton and Winchester markets.

Free Admart: We have a four way joint venture between ourselves, Newsquest, Guardian Media Group and Tindle Newspapers to produce a 'private items for sale' weekly paid for publication circulating in Surrey, North Hants, Berks and the Southern Counties from Bournemouth to Brighton.

Northeast property: Residential properties worth over £100k that our advertised in our Northeast publications are also submitted to the Newcastle Chronicle (Trinity Mirror) who publish a weekly Properties for Sale publication.

- f) Advertising activities: No linkages
 - g) Other: No linkages
5. *What if any effects on competition (for readers or advertisers) within regional/local press markets arise from these arrangements both (a) in general; and (b) in the markets of relevance to this inquiry?*
- a) The joint venture publications increase competition by increasing the availability of advertising opportunities and number of publications in the market place.
 - b) Johnston Press does not operate in the markets of relevance to this inquiry.

The relevant markets

6. *As regards product markets, to what extent do you consider that local weekly newspapers (both paid-for titles and those distributed free) constitute a distinct economic product market (i.e. separate from the markets for other types of newspapers and other advertising media)?*

Johnston Press has long held a different view from the Commission with regard to product market definition. In our opinion, the following best describes the approach which should be taken to defining the product markets in which newspaper publishers operate:

- i) There needs to be a clear distinction between the market for readers and the market for advertisers. For example, a Shopper without any editorial content might well compete for advertising revenues with a free newspaper carrying local news, but it clearly does not compete for the provision of local news. Furthermore, the competition for advertisers differs dependent upon the category of advertising concerned. For example, it has been acknowledged by the Commission that there is more choice available to motors advertisers as opposed to the availability of publications carrying details of births, marriages and deaths.
- ii) Johnston Press has long held the view that local evening, weekly and free newspapers are essentially in the same market place since to a very large extent they compete for the same advertising revenues. The Commission's view that local evening and weekly newspapers operate in separate market places is totally flawed and the rationale of frequency being a differentiator has no basis in fact. Daily morning newspapers tend to be published over a wider geography, often carrying national as well as regional/local news. As a consequence, such publications provide advertisers with a wider but less deep geographic penetration. Whilst they do compete for the same advertisers as more local newspapers, it would be fair to say that they compete less directly than their more local counterparts because of their different pattern of sale.

iii) Johnston Press has long held the view that competition for advertising comes from a wider range of media than the immediate newspaper market. In particular, advertising-only publications compete directly and aggressively with local newspapers. The effect of this competition varies by advertising category, but exists to a marked extent across the board. The possible sole exception is for births, marriages and deaths, which in themselves constitute less than 2% of total advertising revenue, and anyway are important to readers, which in itself ensures that publishers do not discourage such advertisers. Other than advertising-only publications as we have demonstrated extensively in previous inquiries, competition comes from other media such as local niche publications, direct mail, leaflets, directories, local radio, local television and to a rapidly increasing extent, from the internet. This list should not be taken as exhaustive.

7. *Further to the above, to what extent in general (and in the areas of relevance to this inquiry) do such weekly titles face effective competition for readers and/or advertisers from:*

- (a) other regional/local newspapers (paid-for and free);*
- (b) national newspapers (i.e. Times, Guardian, Telegraph, Sun etc);*
- (c) other types of published matter (e.g. magazines, specialist advertising titles etc);*
- (d) other advertising media (e.g. local radio, Internet services etc)?*

It is not possible for Johnston Press to comment in detail on the competition faced by the titles in the areas of relevance to this inquiry, since Johnston Press does not operate in these areas and has no direct knowledge of them. See response to question 6 as to why in general, weekly titles face effective competition from other regional / local newspapers, national newspapers and other advertising media.

8. *To what extent do you consider the relevant economic market in this inquiry to be that for weekly titles (paid-for and free) in a particular geographic area or areas (please specify which area(s) and provide maps where appropriate)?*

See response to question 6. Given our incomplete knowledge of the detailed nature of the titles and markets concerned, we are not able to comment in further detail.

9. *Please provide:*

- (a) a national and regional analysis of the areas within the UK that Johnston operates in using illustrated maps; and*
- (b) a separate and detailed analysis (including maps and a separate list of titles) of your operations and circulation/distribution areas in London and the South East.*

a) Johnston Press owns newspapers in the following regions:

Region (principal offices)

Scotland (Falkirk, Kircaldy, Berwick upon Tweed)

Isle of Man

Northeast (Sunderland, South Shields, Hartlepool)

Yorkshire (Scarborough, Harrogate, Wakefield, Halifax, Leeds)

Northwest (Preston, Wigan, Lancaster, Morecambe, Blackpool, Burnley)
 North Midlands (Sheffield, Chesterfield, Mansfield)
 South Midlands (Northampton, Kettering, Milton Keynes, Aylesbury, Luton, Bedford, Banbury)
 East Midlands (Peterborough, Stamford, Boston, Bury St Edmunds)
 South (Portsmouth, Worthing, Chichester, Eastbourne, Horsham)

- b) Johnston Press does not operate newspapers in Greater London and there is no overlap with INM titles. Johnston's nearest newspaper centres to Greater London are Hemel Hempstead to the north of London and Crawley to the south.

10. *For each of the INM titles to be acquired, please provide details of any Johnston titles (free and paid-for) that operate in the same geographic areas of circulation / distribution, and provide an account of the nature and extent of competition between your titles and those of INM (and/or Gannett, as appropriate) with regard to both readers and advertisers.*

No Johnston Press titles operate in the same geographic areas as the INM titles.

11. *Which overlap areas do you consider to be 'core areas' for either your titles or those of INM and/or Gannett?*

No Johnston Press titles operate in the same geographic areas as the INM titles.

12. *Which other titles (supplied by other publishers) do you regard as significant competitors within each of the relevant local markets. What form does that competition take; and which titles do you consider to be in direct competition with each other?*

No Johnston Press titles operate in the same geographic areas as the INM titles and as such we are not qualified to comment.

13. *What importance do you attach to the principle of editorial independence in relation to (a) your paid-for titles (particularly weekly newspapers); and (b) free newspapers? What specific measures do you take to promote or uphold such editorial independence (e.g. in relation to organisational structures, issuing guidelines etc)?*

Johnston Press operates a rigorous policy of editorial independence with regard to both paid and free newspaper titles. This policy is enshrined in formal written guidelines that are circulated throughout the Group.

14. *To what extent do you consider editorial independence to be constrained by higher management control over (a) budgetary parameters (e.g. editorial staff levels and salaries); and (b) the editorial/advertising balance within a given newspaper? How much freedom of action do your editors have in this regard?*

We do not believe editorial independence to be constrained in any way by higher management control over a) budgetary parameters and b) the editorial / advertising

balance within our newspapers. Clearly, sensible budgets and editorial / advertising balances need to be set but these do not constrain editorial independence. The editors themselves are instrumental in the process of setting editorial budgets and editorial / advertising balances.

It is worth noting here that there is a simple but overwhelming commercial imperative for regional newspaper publishers to invest in quality, independent editorial: it drives readers to papers; and the bigger and better the audience newspapers deliver, the greater advertising revenues they can attract. Given that editorial independence and quality is central to successful regional newspapers, local publishers are rigorous in ensuring that their editors have the freedom to edit without interference from general management. This commercial imperative ensures that editorial diversity and independence is a golden rule for successful local newspaper groups.

It is also worth noting that there is no meaningful connection between editorial diversity and plurality of ownership. If anything, consolidation in the regional press industry has enhanced editorial diversity by ensuring that newspapers are run by regional press 'specialists', who have reinvested heavily in editorial and their core newspaper businesses.

15. *What procedures are in place in the event of disputes between individual editors and higher management?*

In the event of a dispute between individual editors and higher management, Johnston Press has in place specific written procedures and guidelines to ensure that the right to editorial freedom is maintained.

16. *Having regard to the local markets of relevance to this inquiry, please describe the process of establishing a business for the supply of (a) weekly titles; and (b) other local newspapers, including an account of the costs and time taken. Please distinguish between costs that can and cannot be recovered on exit from the market.*

Johnston Press does not operate in the markets relevant to this Inquiry and as such we are not in a position to provide detailed market specific comment. During the 2001 Inquiry into the Johnston Press/Trinity Mirror titles transfer however, Johnston Press provided extensive information on the ease of market entry into the regional newspaper market in general.

17. *Please provide such information as you can (e.g. on titles and volumes) of participants that have either entered or exited the markets of relevance to this inquiry during the last five years, together with dates of entry or exit, and reasons for it, if known. What impact has such entry/exit had; and how did incumbent publishers respond to these new entries or exits?*

Johnston Press does not operate in the markets relevant to this Inquiry and as such we are not in a position to provide detailed market specific comment. In general terms, clearly developments such as the launch of the Metro are of relevance in this Inquiry. Equally, developments in other competing media should also be taken into account such as, for example, the growth of specialist publications, local radio, local television and the internet.

18. *Please describe what you consider to be any barriers to entry of relevance to the defined markets and estimate the impact of such barriers.*

Johnston Press does not operate in the markets relevant to this Inquiry and as such we are not in a position to provide detailed comment. In terms of a general analysis however, Johnston Press has long held the view that the barriers to entry in newspaper markets are extremely low. There are numerous examples of newspaper launches, a number of which were included in the examples provided by Johnston Press to the Commission during the Trinity Mirror/Johnston titles transfer inquiry. As indicated by Johnston Press to the Commission at that time, Johnston Press disagrees totally with the Commission's conclusion on barriers to entry as expressed in its report on the Trinity Mirror/Johnston titles transfer.

19. *For each of the local markets of relevance here, which of the other significant suppliers/publishers (including Johnston itself) operating in contiguous or neighbouring areas would be most likely to enter the market with new titles (in a post-merger context); what would be their likely strategy; and what would be the expected effects, particularly in relation to advertising markets?*

Johnston Press does not operate in the markets relevant to this Inquiry and as such we are not in a position to provide detailed market specific comment. In general terms, we would expect significant competition in these advertising markets.

20. *In that context:*

- (a) *To what extent might the major publishers decide to limit possible forays (i.e. the launch of new entry titles) into territories/areas dominated by other major publishers for fear of 'tit-for-tat' retaliation?*
- (b) *Have you previously considered (or attempted) expanding your operations into or within the circulation/distribution areas of the INM titles to be acquired; and (as applicable) what came of that?*
- (c) *More generally, under what circumstances would Johnston be likely to expand its operations into or within those areas (e.g. in reaction to perceived increases in advertising rates/yields):*
- (d) *More generally still, how far does the decline in the volumes of weekly titles and the stagnation of advertising revenues in recent years suggest that future entry possibilities for such titles are in practice rather limited?*

- a) There can be no questioning the fact that major publishers are prepared to compete head on with each other. There are many instances where major publishers with little or no presence in a particular town have sought to challenge another publisher in an area where the latter has a strong market position.

Detailed evidence supporting this fact was provided in the Johnston's response to Commission's inquiry for the geographic areas concerning the Trinity Mirror/Johnston titles transfer. For example, in Market Harborough, Northcliffe launched an enhanced Harborough edition of the *Leicester Mercury* (where they had a market share of only 9%) against Trinity Mirror and Johnston Press (who collectively had a share of c. 85%). Another example concerned Johnston's acquisition of a number of titles in 2001 from Mortons Media, including the *Market Rasen Mail*. Prior to the acquisition,

the *Market Rasen Mail* had a household penetration rate of 82% (a market share of approximately 81%), with no other newspaper having a penetration rate of above 12%. However, since Johnston's acquisition, Northcliffe has launched a competing free newspaper, the *Market Rasen Target*.

One of the most striking developments in the newspaper industry in recent years has been the growth of daily free newspapers, in particular the *Metro* titles of Associated Newspapers. *Metro* titles now exist in London, Manchester, Leeds, Newcastle and Scotland. Associated has not hesitated to launch editions of *Metro* into areas where neither they nor their sister company, Northcliffe, have a significant presence.

Major publishers will not hesitate to launch or extend publications into new areas where they see a profitable opportunity to do so.

- b) No.
- c) It is unlikely that we would expand our operations into these areas either pre or post merger, as they are significantly far away from our existing operations and there are better ways for us to achieve a return on our investment.
- d) The premise behind this question is flawed. First, circulations of weekly paid for titles in the UK regional press have actually increased not decreased in recent years¹. Second, there have been numerous new launches in recent times.

Critically however, the key issue is not circulation trends, but rather the extent to which advertising revenues have developed and in that respect due to the continued growth of the UK economy, the regional press has experienced real growth for a sustained period. New entrants will principally be attracted by the advertising revenue potential. There is extensive evidence of entry to support this view.

Advertising

21. *Please describe:*
- (a) *how you classify/categorise different types of advertiser; and*
 - (b) *your arrangements and policy with regard to selling advertising space in the Johnston titles competing with INM titles to be acquired; and provide details of current rate cards and net advertising yields.*
- a) Johnston Press operates the following advertising categories:
 - Employment
 - Property
 - Motors
 - Other Classified
 - Display (Local & Features)
 - Display (National)
 - b) Johnston Press does not operate in the INM markets and as such does not compete with their titles.

¹ In 1997, the average circulation of a weekly paid for was 12,426; in 2002 the average circulation of a weekly paid for was 13,256. *Source: Newspaper Society.*

22. *To what extent do you 'package' advertising across the different titles operating in the same area (e.g. discounts for placing the same advert in more than one title)?*

Advertisers are offered the opportunity to package titles, although the vast majority of Johnston Press advertising is local in nature and placed in single or several locally concentrated titles. Johnston Press operates a rate card structure from which discounts are given to reflect advertising volumes and frequency.

23. *How price sensitive do you consider different types of advertiser to be; and to what extent are they influenced by other factors, including the qualitative attributes of different titles?*

Advertisers are universally price sensitive. Even in the case of births, marriages and deaths where there is less obvious competition, advertisers are sensitive to price and we are very conscious that it is easy for the consumer not to advertise thereby depriving the newspaper in question of revenue and also of valuable content. The qualitative attributes of different titles is certainly a factor which influences the price which an advertiser is willing to pay, just as they expect volume and frequency to be reflected in the price paid for advertising. Furthermore, advertisers are extremely conscious of alternatives and will use such information to ensure that the price paid to advertise in the local newspaper remains competitive.

24. *In that context, what are the average discounts off rate card charges granted to the main categories of advertiser (estate agents, motor traders etc)?*

Discounts to rate card reflect the volume and frequency that a particular advertiser advertises. In addition, adjustments are made to reflect such factors as premium positions in the newspaper and the use of colour. Given the substantial variability in these factors, it is not possible or meaningful to calculate an average discount off rate card.

Effects of the merger

25. *What in your view would be the likely effects of the merger (if any) on the public interest in relation to (a) the accurate presentation of news and free expression of opinion; and/or (b) the diversity of coverage of local news?*

It is inconceivable that the proposed merger would have any effect on the strength of editorial independence, accuracy and diversity. Gannett (Newsquest), have an impeccable record of maintaining editorial independence and there is no evidence to suggest that they would seek to interfere editorially.

26. *What impact (either positive or negative) do you expect the merger to have on the effectiveness of competition for readers between newspapers in the areas served by the titles to be acquired, with particular reference to readers' interests and any likely future changes in product quality and cover prices (for paid-for newspapers)?*

Gannett (Newsquest), are a competitive organisation and there is no doubt that they will compete actively for readers and advertisers. Given Gannett's long record of investing in newspapers, their ownership of the INM titles is likely to be good for

product quality. So far as cover prices are concerned, they will be restricted by market conditions and a desire to maintain and grow readership.

27. *What impact (either positive or negative) do you expect the merger to have on the effectiveness of competition for advertisers between newspapers in the areas served by the titles to be acquired?*

See response to question 26.

28. *To what extent might the merger result in an increase in the share of local newspaper markets in the London/South East area held by the leading publishers of regional / local newspapers in the UK (Trinity Mirror, DMGT, Gannett and Johnston) and thereby a lessening of competition between them within either the London/South East market or more generally the UK market?*

The merger will result in an increase in the share of the Greater London market held by the leading publishers in the UK, since Gannett is one of those and INM is not. The consequence will be to increase competition between the major players and between Gannett and Trinity Mirror in particular, since the INM titles are in many areas in direct competition with Trinity Mirror titles.

29. *How far (if at all) would the merger increase entry barriers (for all types of newspapers) in the local geographic markets served by the titles to be acquired?*

It will not increase entry barriers. See response to question 18.

30. *Do you have any other comments you wish to offer on the likely impacts of the proposed merger / transfer of titles?*

The proposed merger is fundamentally good news for local advertisers and readers alike. Local newspapers are under increasing pressure from competing media who are targeting their advertising revenues. The long-term survival of editorially strong local newspapers will be dependent upon continued investment and the achievement of ever-increasing operating efficiencies. The best hope for the long-term future of the INM titles is for them to be owned by a publisher such as Gannett (Newsquest) and therefore the proposed merger should be welcomed.