

3 Newspaper publishing and the market for national newspapers

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Introduction

3.1. In order to provide an adequate basis for understanding and evaluating the distribution of national newspapers, which are considered in Chapters 4, 5 and 6, we examine in this chapter the publishing sector and the main features of market demand. We review newspaper products and market characteristics (paragraphs 3.2 to 3.8); the main publishers and associated titles (paragraph 3.9); and publishing facilities and the overall cost structure (paragraphs 3.10 to 3.15). We then go on to assess sales volumes, revenues and market shares (paragraphs 3.16 to 3.30); newspaper pricing, including the SOR system and the use of cover prices (paragraphs 3.31 to 3.48); the use and scale of advertising and promotional expenditure (paragraphs 3.49 to 3.51); and finally, entry conditions and what entry (and exit) has occurred in recent years (paragraphs 3.52 to 3.56). The views of publishers are contained in Chapter 9.

Newspaper products and market characteristics

3.2. In interpreting the terms of reference to this inquiry (see Appendix 1.1) we have taken as national newspapers those daily and Sunday newspapers of general interest which one might usually expect to find on sale at most retail outlets in England and Wales. We include, therefore, all the well-known titles, such as *The Sun*, *Daily Mirror*, *The Times*, *The Guardian* etc; a full list of titles covered and the associated publishers is given in paragraph 3.9. We are aware that there are also a number of newspapers dealing with special interests (eg *Lloyds List*, *The Sporting Life*) or representing minority groups (eg *Polish Daily*, *Daily Jang*) which can be obtained (perhaps requiring a regular order) from most outlets, but which are unlikely to be generally available to the casual buyer, since they are not normally taken by all outlets. For completeness, these titles are included in much of the data analysis in this chapter, but they are of limited quantitative significance since, taken together, they account for less than 1.5 per cent of total sales.

3.3. There are numerous published reports dealing directly or indirectly with this sector and the market for newspapers. The Sadler Report (see paragraph 2.1), for example, includes an analysis of the market definition for national newspapers and the structure of the publishing industry, though this deals with the UK rather than the more limited area of England and Wales which is the focus of our inquiry. As explained in that report, the market-including both daily and Sunday editions-is conventionally regarded as comprising three identifiable 'segments' (or groups of newspapers): the popular tabloids (eg *The Sun*, *Daily Mirror* etc), the mid-market titles (eg *Daily Mail*, *Daily Express*, *Today*), and the quality segment (eg *The Daily Telegraph*, *The Times*, *The Independent* etc). Within each segment, there are a number of similarities between different titles in terms of general content, presentation and advertising included, but there are significant differences between segments. In other words, there is a clear element of product differentiation as between different segments. As shown later in this chapter, there are also marked price differences between newspapers in different segments, whilst prices of newspapers within any given segment tend to be much the same. As evidenced in the Sadler Report, different types of reader, or consumer, in terms of socio-economic groupings (SEGs) are attracted to different segments. About 80 per cent of the quality titles' readers, for example, are in the A, B and C1 SEGs, compared with only about 20 per cent of the readers of the popular tabloids.

3.4. In evaluating this market, we were concerned in particular to examine whether these different segments might be regarded as distinct markets in themselves or whether all titles taken together should be seen as a unified market; and also whether, as some publishers suggested to us, the economic market of relevance was rather wider than national newspapers alone and should include regional newspapers, as well as other news media such as television and radio, since the latter two in particular now represent a major source of day-to-day news information for many consumers.

3.5. Looking at the wider market issue first, we note that regional newspapers and television/radio are themselves rather different types of products and they therefore compete with national newspapers in different ways. Television and radio stations, for example, often offer more rapid coverage of the day's major news events than can newspapers, though the latter generally provide a far wider range of news stories and each story is often dealt with in much greater depth. Although the decline in newspaper readership is sometimes blamed on television, this is likely to be only a slow and long-term change. By and large, therefore, we take television/radio more as a complement to newspapers than a substitute product, at least for the majority of consumers. Regional newspapers, particularly morning editions perhaps, represent more of a direct substitute and we are aware of both the competition for advertising between regional and national newspapers (see the Sadler Report), and also the publishers' moves to produce regionalized versions of national newspapers. For the most part, however, the regionalized elements of the content of national newspapers are limited to sports coverage and television listings. Moreover, regional newspapers by their nature focus on news which is primarily of local and regional interest and most consumers wanting national and international news will usually purchase a national newspaper. On parallel grounds of differing content, we would not regard magazines and periodicals as being in the same market. For these reasons, we do not believe that regional newspapers, magazines and television/radio are sufficiently close substitutes for national newspapers that many consumers would switch away from these and buy more national newspapers were the latter to decrease significantly in price.

3.6. Turning to the issue of whether or not national newspapers are segmented into distinct sub-markets, there are a number of aspects of consumer behaviour and product attributes that are of relevance. As noted in paragraph 3.3, different segments are characterized by a readership drawn from different SEGs. But against that, each segment includes readers from across a wide range of SEGs and, as shown by our consumer survey (see Chapter 5 and Appendix 5.1), consumers often buy papers at different times from different segments, particularly if they are making an impulse (or 'casual') purchase from a retail outlet rather than having a newspaper home-delivered. Some family households may also take more than a single title on any given day-*The Sun* and *The Times*, for example; and multiple purchases on a Sunday, we were told, used to be a common feature of the trade, though this is less usual nowadays, reflecting changes in consumers' use of leisure time and the large amount and range of reading matter in individual Sunday titles.

3.7. Product prices and content are also noticeably different between the popular tabloids and the quality broadsheets. Quality titles are almost twice the price of some popular titles, for example, the volume and depth of news coverage is undoubtedly greater, and the range of news items, particularly those dealing with international stories, is generally more extensive. As regards price differences, it is often the case that price differentials exist in what are generally regarded as unified markets, reflecting differences in product quality, as perceived by consumers, and we do not therefore consider the existence of price differences as a sufficient condition for there being distinct markets. We note that the price differentials are in any event rather modest between the mid-

market titles and those in both the popular and quality segments. We believe that this suggests there is likely to be a chain of substitution through popular, mid-market and quality titles which limits the scope for independent pricing by any one segment. Looking at this another way, each title in whatever segment has to an extent a unique character in terms of its product offering to consumers, ie in the same way as particular brands in other product markets may be seen as distinct from others. Additionally, of course, most of the existing publishers have two or more titles of different types but do not operate in all market segments and there is a potential, therefore, for supply side substitution between segments. We deal with this further in the section on entry conditions in paragraph 3.55.

3.8. For these reasons, whilst there is clearly a marked degree of product differentiation in this market, and we provide an analysis of its structure by segment, we do not believe that these different segments represent distinct economic markets.

Main publishers and associated titles

3.9. The ten main publishers of national newspapers and 22 associated titles within our terms of reference, and covered in this chapter, are listed below. At a late stage in our inquiry, the Observer was purchased by the Guardian: the transfer of ownership was formally completed on 1 June 1993.

Associated Newspapers Ltd (Mail)
Daily Mail and *The Mail on Sunday*.

Express Newspapers plc (Express)
Daily Star, *Daily Express* and *Sunday Express*.

Guardian Newspapers Ltd (Guardian)
The Guardian.

MGN Limited (MGN)
Daily Mirror, *Sunday Mirror* and *The People*.

News International plc (NI)
The Sun, *Today*, *The Times*, *News of the World* and *The Sunday Times*.

Newspaper Publishing plc (Independent)
The Independent and *The Independent on Sunday*.

Sport Newspapers Ltd (Sport)
Daily Sport and *Sunday Sport*.

The Financial Times Ltd (FT)
Financial Times.

The Observer Ltd (Observer)
The Observer.

The Telegraph plc (Telegraph)
The Daily Telegraph and *Sunday Telegraph*.

Publishing facilities and cost structure

3.10. The publishing of newspapers involves three main areas of activity: the preparation of news (or editorial) and advertising content, pre-press and page-setting work, and printing. Prior to the mid-1980s all three were characterized by high labour costs, restrictive union practices which limited production flexibility, and old 'hot metal' technology, with largely depreciated printing plant. Since then, all publishers have done away with restrictive labour practices, largely led by NI, and have introduced new technology which offers a high level of automation in all three areas.

Editorial and pre-press work, for example, is now done mainly with the use of computers and sophisticated software, which accepts the copy inputs direct from journalists' keyboards. Some page-setting is still done by traditional, manual methods, but this is rapidly being phased out and replaced by computer-based technology. Once fully made up, pages can be transmitted to printing plants anywhere in the country (or elsewhere) by facsimile.

3.11. Newspaper printing has seen the most dramatic changes, with the move out of Fleet Street, its traditional location, and the introduction by all publishers (or their contractors) of highly automated, fast-speed presses, which mostly use web-offset technology and are capable of producing good-quality monochrome and colour printing. Supplementary sections and advertising material can often be inserted on-line. Labour use, and its cost, has been drastically reduced in recent years. As explained in Chapter 7, these changes have arisen as a result of large-scale investment by publishers, amounting to over £1 billion since the mid-1980s.

3.12. As regards individual publisher facilities and printing arrangements, NI's main printing plant in England and Wales is now in Wapping, London, though it also has a plant at Knowsley, Manchester (see Chapter 9), and one in Kinning Park, Glasgow. These three plants were developed at a cost of over £600 million. NI now has the capacity to undertake all printing of all its own titles, though it occasionally uses contract printers on an *ad hoc* basis if technical difficulties arise with its own presses. MGN's main printing plant is at Watford, Hertfordshire, in which it invested over £400 million, and which provides comparable facilities to those at Wapping. MGN also prints at Oldham, Lancashire; its Stamford Street, London, plant has now closed. Like NI, MGN is able to undertake all printing of its own titles (it does not use contract printers for its requirements in England and Wales). MGN does some printing for certain small regional titles.

3.13. Express has its own printing plants in Manchester and Preston, Lancashire, and jointly owns a plant in London with the Telegraph. The Mail owns presses in London, but also uses a number of contract printers. The Telegraph jointly owns a plant in London with Express and one in Manchester with the Guardian, which also has its own printing capacity in London. The FT owns a plant in London, which also produces *The Observer*. *The Independent* and *Sport (Daily and Sunday)* are both produced by contract printers in various provincial centres.

3.14. With regard to direct publishing costs, editorial and pre-press facilities and printing plant represent major elements of fixed capital cost (in the short to medium term), and give rise to significant scale economies in production; there may also be economies of scope from publishing more than a single title. Labour used in the printing and handling of newspapers now constitutes a lower proportion of total costs than previously. Newsprint is the main component of variable costs and, although newsprint prices have been stable or declining in recent years, it accounts for some 75 to 85 per cent of incremental (or marginal) costs of production.

3.15. Although publishers do not incur costs from holding stocks of finished goods (newspapers last only for the day on which they are printed) or bad debts from wholesalers on any scale, they do face other types of costs. Trunked distribution of newspaper supplies to wholesalers, for example, is paid for by publishers, though the costs in practice are relatively modest (see paragraph 4.4). More significant are the costs of unsolds or wastage under the SOR system (see paragraphs 3.32 to 3.39), and the costs of advertising and promotional activities (see paragraphs 3.49 to 3.51). Costs faced by new entrants are considered in paragraphs 3.52 to 3.56.

Sales, revenues and market shares

3.16. This section sets out our analysis of sales volumes, sales and advertising revenues, market shares, and alternative measures of industry concentration at publisher level over the period 1988 to 1992. The data compiled are presented in Tables 3.1 to 3.10, whilst the text provides an account of the main features of relevance. As explained earlier in this chapter, there are some 22 newspaper titles and ten publishers within our terms of reference; the market is also partitioned into three segments: the popular tabloids, the mid-market titles, and the quality segment; and as explained below, nearly half of the publishers' total revenues arise from advertising, which therefore needs to be assessed separately.

Sales volumes and market shares by newspaper title, market segment and publisher

3.17. As indicated in both our earlier report on this industry (see paragraph 2.5) and more recently the Sadler Report, newspaper sales in volume terms appear to be in long-term decline. As regards sales in recent years, Table 3.1 shows that the total volume of copies sold in 1992 was over 500 million less than in 1988. Hence, sales of both daily titles and Sunday titles (and therefore the market overall) decreased by about 10 per cent over this period, giving an average rate of decline of about 2.5 per cent a year. Over two-thirds of the fall in sales volume occurred in the years 1990 and 1991, reflecting the effects of recession on consumer demand in England and Wales.

TABLE 3.1 Sales by copy volume of national newspapers in England and Wales and market shares, 1988 to 1992

	1988		1989		1990		1991		1992	
	Copies m	Market share %	Copies m	Market share %	Copies m	Market share %	Copies m	Market share %	Copies m	Market share %
Daily titles										
<i>The Sun</i>	1176.3	27.0	1139.8	26.7	1079.4	26.0	1011.4	25.6	982.7	25.1
<i>Daily Mirror</i>	916.7	21.1	933.2	21.9	920.1	22.2	863.3	21.8	831.5	21.3
<i>Daily Star</i>	268.4	6.2	235.2	5.5	236.8	5.7	221.4	5.6	205.1	5.2
<i>Daily Sport*</i>	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	57.4	1.5
Total popular	2,361.4	54.3	2,308.2	54.1	2,236.3	53.9	2,096.1	53.0	2,076.7	53.1
<i>Daily Mail</i>	559.5	12.9	544.9	12.8	523.7	12.6	528.7	13.4	525.0	13.4
<i>Daily Express</i>	463.0	10.6	432.0	10.1	429.5	10.4	420.0	10.6	418.1	10.7
<i>Today</i>	138.4	3.2	170.5	4.0	162.0	3.9	136.4	3.5	143.9	3.7
Total mid-market	1,160.9	26.7	1,147.4	26.9	1,115.2	26.9	1,085.1	27.51	1,087.0	27.8
<i>The Daily Telegraph</i>	326.4	7.5	318.1	7.5	311.2	7.5	307.7	7.8	299.4	7.7
<i>The Guardian</i>	137.6	3.2	128.6	3.0	127.8	3.1	123.9	3.1	123.4	3.2
<i>The Independent</i>	118.6	2.7	124.2	2.9	127.1	3.1	121.2	3.1	115.1	2.9
<i>The Times</i>	122.9	2.8	119.4	2.8	116.5	2.8	107.6	2.7	106.4	2.7
<i>Financial Times</i>	57.4	1.3	56.1	1.3	54.1	1.3	53.5	1.4	50.7	1.3
Total quality	762.9	17.5	746.4	17.5	736.7	17.8	713.9	18.1	695.0	17.8
Total other†	62.8	1.5	62.4	1.5	58.6	1.4	57.2	1.4	54.3	1.3
Total daily	4,348.0	100	4,264.4	100	4,146.8	100	3,952.3	100	3,913.0	100
Sunday titles										
<i>News of the World</i>	235.3	27.6	236.6	28.1	226.5	27.9	215.2	27.6	210.4	27.5
<i>Sunday Mirror</i>	138.6	16.2	143.5	17.0	140.0	17.3	135.0	17.3	129.9	17.0
<i>The People</i>	129.7	15.2	124.8	14.8	120.4	14.9	106.4	13.7	97.7	12.8
<i>Sunday Sport</i>	22.0	2.6	23.7	2.8	19.7	2.4	17.1	2.2	14.1	1.9
Total popular	525.6	61.6	528.6	62.7	506.6	62.5	473.7	60.8	452.1	59.2
<i>The Mail on Sunday</i>	99.5	11.6	100.9	12.0	100.3	12.4	99.7	12.8	102.5	13.4
<i>Sunday Express</i>	97.9	11.5	88.7	10.5	79.8	9.8	77.0	9.9	81.3	10.7
Total mid-market	197.4	23.1	189.6	22.5	180.1	22.2	176.7	22.7	183.8	24.0
<i>The Sunday Times</i>	59.7	7.0	57.5	6.8	52.0	6.4	51.3	6.6	52.9	6.9
<i>The Observer</i>	38.8	4.5	35.3	4.2	30.5	3.8	29.5	3.8	28.0	3.7
<i>Sunday Telegraph</i>	32.5	3.8	32.0	3.8	28.4	3.5	27.7	3.6	27.3	3.6
<i>The Independent on Sunday</i>	0.0	0.0	0.0	0.0	13.0	1.6	19.6	2.5	20.1	2.6
Total quality	131.0	15.3	124.8	14.8	123.9	15.3	128.1	16.5	128.3	16.8
Total Sunday‡	854.0	100	843.0	100	810.6	100	778.5	100	764.2	100
Total sales	5,202.0		5,107.4		4,957.4		4,730.8		4,677.2	

Source: Newspaper publishers and MMC estimates.

*1992 was the first complete year in which the *Daily Sport* was published Monday to Saturday.

†Low-volume and specialized titles, including *The Sporting Life*, *Racing Post*, *Morning Advertiser*, *Daily Jang*, *Lloyds List*, *Morning Star*, *Polish Daily* and *International Herald Tribune*. The *Daily Jang* began publishing a Sunday edition in November 1992. None of these other titles publish a Sunday edition.

‡Excluding sales of 2.5 million copies of the *Sunday Correspondent* which was launched in October 1989 but ceased publication the following year in August 1990.

3.18. During this period sales fell in all three market segments, for both daily and Sunday editions, though some segments and some individual titles fared slightly better or worse than the average. The popular titles (both

daily and Sunday editions), for example, declined most, by a total of nearly 360 million copies, ie some 68 per cent of the total, giving an average fall of about 3 per cent a year. This resulted in a modest reduction in the popular newspapers' share of total daily sales from 54 to 53 per cent and a 2.4 per cent fall in their share of sales on Sundays. There was a corresponding increase of 1 per cent in the share of mid-market daily and Sunday newspapers (to 27 per cent overall); whilst the quality titles saw only a modest fall in volumes, and their share was stable at nearly 18 per cent in the dailies' market and rose by 1.5 per cent in the Sundays' market to nearly 17 per cent.

3.19. As regards individual titles, *The Sun* (NI) and *The People* (MGN) experienced the biggest reductions in market share, though in each case the loss was only around 2 per cent. In part, these losses in market share may reflect the effects on sales of one of the two new entrants during this period, ie the *Daily Sport*. Overall, the shares for individual titles were relatively stable over the period 1988 to 1992. This seems consistent with the thesis that consumers have a strong buying commitment to particular titles, ie brand loyalty. It also seems consistent with the proposition that publishers' advertising and promotional activities either have minimal effects on sales, other than in the short term, and/or that rival titles' promotional campaigns tend to cancel each other out.

3.20. Table 3.2 shows market shares by copy volume within each market segment for daily and Sunday titles. A similar stability in market shares is evident. The table also shows that *The Sun* and the *Daily Mirror* enjoy the largest shares in the popular daily segment, and that the *Daily Mail* and *Daily Express* are similarly placed in the mid-market segment, both for daily and Sunday editions. In the quality segment, however, *The Daily Telegraph* and *The Sunday Times* are clear leaders in the daily and Sunday markets respectively, though in each case there are three other competing titles with market shares of 15 to 20 per cent.

TABLE 3.2 Market shares (by copy volume of national newspapers sold in England and Wales) in each market segment, 1988 to 1992

	Market share %				
	1988	1989	1990	1991	1992
Daily titles					
<i>The Sun</i>	49.8	49.4	48.3	48.2	47.3
<i>Daily Mirror</i>	38.8	40.4	41.1	41.2	40.0
<i>Daily Star</i>	11.4	10.2	10.6	10.6	9.9
<i>Daily Sport*</i>	N/A	N/A	N/A	N/A	2.8
Total popular	100.0	100.0	100.0	100.0	100.0
<i>Daily Mail</i>	48.2	47.5	47.0	48.7	48.3
<i>Daily Express</i>	39.9	37.6	38.5	38.7	38.5
<i>Today</i>	11.9	14.9	14.5	12.6	13.2
Total mid-market	100.0	100.0	100.0	100.0	100.0
<i>The Daily Telegraph</i>	42.8	42.6	42.2	43.1	43.1
<i>The Guardian</i>	18.0	17.2	17.4	17.3	17.7
<i>The Independent</i>	15.6	16.7	17.3	17.0	16.6
<i>The Times</i>	16.1	16.0	15.8	15.1	15.3
<i>Financial Times</i>	7.5	7.5	7.3	7.5	7.3
Total quality	100.0	100.0	100.0	100.0	100.0
Sunday titles					
<i>News of the World</i>	44.8	44.8	44.7	45.4	46.6
<i>Sunday Mirror</i>	26.3	27.1	27.6	28.5	28.7
<i>The People</i>	24.7	23.6	23.8	22.5	21.6
<i>Sunday Sport</i>	4.2	4.5	3.9	3.6	3.1
Total popular	100.0	100.0	100.0	100.0	100.0
<i>The Mail on Sunday</i>	50.4	53.2	55.7	56.4	55.8
<i>Sunday Express</i>	49.6	46.8	44.3	43.6	44.2
Total mid-market	100.0	100.0	100.0	100.0	100.0
<i>The Sunday Times</i>	45.6	46.1	42.0	40.1	41.2
<i>The Observer</i>	29.6	28.3	24.6	23.0	21.8
<i>Sunday Telegraph</i>	24.8	25.6	22.9	21.6	21.3
<i>The Independent on Sunday</i>	0.0	0.0	10.5	15.3	15.7
Total quality	100.0	100.0	100.0	100.0	100.0

Source: Newspaper publishers and MMC estimates.

*See footnote to Table 3.1.

3.21. In Table 3.3 the sales volume data are presented in a revised form to show the individual publishers' market shares. NI is the only publisher with a share greater than 25 per cent. For both daily and Sunday titles its share by volume is just over 30 per cent, and in the market as a whole (either with or without the minor titles) NI's share is 32 per cent. The two largest publishers, NI and MGN, account for 53 per cent of sales of daily titles, for 64 per cent in the Sunday market and 55 per cent of the market as a whole. The four largest account for 83 per cent of total sales by volume and the top five for 90 per cent.

TABLE 3.3 **Publisher market shares (by volume of copies sold in England and Wales), 1988 to 1992**

	<i>per cent</i>				
	1988	1989	1990	1991	1992
<i>Daily titles</i>					
NI	33.1	33.5	32.7	31.8	31.5
MGN	21.1	21.9	22.2	21.8	21.3
Express	16.8	15.6	16.1	16.2	15.9
Mail	12.9	12.8	12.6	13.4	13.4
Telegraph	7.5	7.5	7.5	7.8	7.6
Guardian	3.2	3.0	3.1	3.1	3.2
Independent	2.7	2.9	3.1	3.1	2.9
FT	1.3	1.3	1.3	1.4	1.3
Sport*	N/A	N/A	N/A	N/A	1.5
Others*	<u>1.4</u>	<u>1.5</u>	<u>1.4</u>	<u>1.4</u>	<u>1.4</u>
Total	100.0	100.0	100.0	100.0	100.0
<i>Sunday titles</i>					
NI	34.5	34.9	34.4	34.2	34.4
MGN	31.4	31.8	32.1	31.0	29.8
Mail	11.7	12.0	12.4	12.8	13.4
Express	11.5	10.5	9.8	9.9	10.6
Observer	4.5	4.2	3.8	3.8	3.7
Telegraph	3.8	3.8	3.5	3.6	3.6
Independent	0.0	0.0	1.6	2.5	2.6
Sport	<u>2.6</u>	<u>2.8</u>	<u>2.4</u>	<u>2.2</u>	<u>1.9</u>
Total	100.0	100.0	100.0	100.0	100.0
<i>Daily and Sunday titles combined</i>					
NI	33.3	33.8	33.0	32.2	32.0
MGN	22.8	23.5	23.8	23.3	22.6
Express	15.9	14.8	15.0	15.2	15.1
Mail	12.7	12.6	12.6	13.3	13.4
Telegraph	6.9	6.9	6.9	7.1	7.0
Guardian	2.7	2.5	2.6	2.6	2.6
Independent	2.3	2.4	2.8	3.0	2.9
FT	1.1	1.1	1.1	1.1	1.1
Observer	0.7	0.7	0.6	0.6	0.6
Sport	0.4	0.5	0.4	0.4	1.5
Others	<u>1.2</u>	<u>1.2</u>	<u>1.2</u>	<u>1.2</u>	<u>1.2</u>
Total	100.0	100.0	100.0	100.0	100.0

Source: Newspaper publishers and MMC estimates.

*See footnote to Table 3.1.

Sales values and shares by title and publisher

3.22. In Tables 3.4 and 3.5 we present figures on the value of copy sales by title, publisher and for the market as a whole. As shown in Table 3.4, total sales revenues rose from £851 million in 1988 to £1,071 million in 1992. Despite the 10 per cent fall in volume over this period, total sales value increased by 26 per cent in nominal (ie cash of the year) terms, giving an average rise of just over 6 per cent a year. Sunday titles did rather better than the overall market and the total sales value went up by some 32 per cent.

TABLE 3.4 Sales of national newspapers by value of copy receipts in England and Wales and market shares, 1988 to 1992

	1988		1989		1990		1991		1992	
	£m	%	£m	%	£m	%	£m	%	£m	%
Daily titles										
<i>The Sun</i>	[
<i>Daily Mirror</i>										
<i>Daily Star</i>										
<i>Daily Sport*</i>										
Total popular										
<i>Daily Mail</i>										
<i>Daily Express</i>										
<i>Today</i>										
Total mid-market										
<i>The Daily Telegraph</i>										
<i>The Guardian</i>										
<i>The Independent</i>										
<i>The Times</i>										
<i>Financial Times</i>										
Total quality										
Total other*										
Total daily										
Sunday titles										
<i>News of the World</i>										
<i>Sunday Mirror</i>										
<i>The People</i>										
<i>Sunday Sport</i>										
Total popular										
<i>The Mail on Sunday</i>										
<i>Sunday Express</i>										
Total mid-market										
<i>The Sunday Times</i>										
<i>The Observer</i>										
<i>Sunday Telegraph</i>										
<i>The Independent on Sunday</i>										
Total quality										
Total Sunday										
Total sales]

Figures omitted.
See note on page iv.

Source: Newspaper publishers and MMC estimates.

*See footnote to Table 3.1.

TABLE 3.5 **Publisher market shares (by value of copy receipts in England and Wales), 1988 to 1992**

	<i>per cent</i>				
	1988	1989	1990	1991	1992
<i>Daily titles</i>					
NI	[
MGN					
Express					
Mail					
Telegraph					
Guardian					
Independent					
FT					
Sport*					
Others*]
Total	100.0	100.0	100.0	100.0	100.0
<i>Sunday titles</i>					
NI	[
MGN					
Mail					
Express					
Observer					
Telegraph					
Independent					
Sport					
Total	100.0	100.0	100.0	100.0	100.0
<i>Daily and Sunday titles combined</i>					
NI	[
MGN					
Express					
Mail					
Telegraph					
Guardian					
Independent					
FT					
Observer					
Sport					
Others]
Total	100.0	100.0	100.0	100.0	100.0

Source: Newspaper publishers and MMC estimates.

*See footnote to Table 3.1.

3.23. As shown in Tables 3.4 and 3.5, market share figures based on sales value are not greatly different from those based on volume, though value shares are higher than on a volume basis for some of the smaller publishers. *The Observer's* share, for example, is 0.6 per cent by volume but 1.2 per cent when measured by value. Correspondingly, NI's share is slightly lower on a value basis than by volume, ie 29 per cent (by value) compared with 32 per cent (by volume), for the market as a whole. We note that, on both bases, NI's share fell slightly between 1988 and 1992.

Advertising revenues and shares by segment and publisher

3.24. Tables 3.6 and 3.7 deal with advertising revenues and market shares by segment and publisher. Having increased during the 1980s, advertising revenues in total reached a peak in 1989 at £996 million (see Table 3.6). They dropped in each of the following two years, but have turned up again in 1992 to £913 million, which is about 8 per cent less than the 1989 level. Daily and Sunday titles exhibit similar trends.

TABLE 3.6 Advertising revenue from sales of national newspapers in England and Wales and market shares, 1988 to 1992

	1988		1989		1990		1991		1992	
	£m	%	£m	%	£m	%	£m	%	£m	%
<i>Daily titles</i>										
Total popular	121.7	23.1	139.7	22.6	143.7	24.3	147.0	26.6	152.8	26.9
Total mid-market	114.1	21.6	129.0	20.9	121.4	20.5	121.2	21.9	129.3	22.7
Total quality	279.8	53.1	335.2	54.4	311.6	52.7	271.6	49.1	273.4	48.0
Total other*	11.7	2.2	12.8	2.1	14.7	2.5	13.5	2.4	13.8	2.4
Total daily	527.3	100.0	616.7	100.0	591.4	100.0	553.3	100.0	569.3	100.0
<i>Sunday titles</i>										
Total popular	73.7	20.3	89.2	23.6	90.8	24.8	91.9	27.4	97.0	28.2
Total mid-market	109.6	30.1	114.3	30.1	114.6	31.4	109.1	32.5	112.1	32.6
Total quality	180.3	49.6	175.7	46.3	160.1	43.8	134.6	40.1	134.8	39.2
Total Sunday	363.6	100.0	379.2	100.0	365.5	100.0	335.6	100.0	343.9	100.0
Total revenue	890.9		995.9		956.9		888.9		913.2	

Source: Newspaper publishers and MMC estimates.

*See footnote to Table 3.1.

TABLE 3.7 Publisher market shares by value of advertising revenue from the sale of national newspapers in England and Wales, 1988 to 1992

	per cent				
	1988	1989	1990	1991	1992
<i>Daily titles</i>					
NI	[
MGN					
Express					
Mail					
Telegraph					
Guardian					
Independent					
FT					
Sport*					
Others*]
Total	100.0	100.0	100.0	100.0	100.0
<i>Sunday titles</i>					
NI	[
MGN					
Mail					
Express					
Observer					
Telegraph					
Independent					
Sport					
Total	100.0	100.0	100.0	100.0	100.0
<i>Daily and Sunday titles combined</i>					
NI	[
MGN					
Express					
Mail					
Telegraph					
Guardian					
Independent					
FT					
Observer					
Sport					
Others]
Total	100.0	100.0	100.0	100.0	100.0

Source: Newspaper publishers and MMC estimates.

*See footnote to Table 3.1.

3.25. The shares of advertising revenues taken by individual titles, and also by market segment, are noticeably different from the corresponding shares based on copy volume and sales revenue.

Hence, the popular titles account for over half the market in volume terms but only attract a quarter of the advertising revenue available. In contrast, newspapers in the quality segment account for only 17 to 18 per cent of copy volume, but take 48 per cent of advertising revenues for daily titles and 39 per cent for Sunday titles. As regards individual titles, *The Daily Telegraph* and the *Financial Times* are the most successful dailies, and *The Sunday Times* and *The Mail on Sunday* come top of the Sunday titles. Shares of advertising by title appear to be reasonably stable over time, though they have fluctuated rather more than shares by copy volume.

3.26. At the publisher level (see Table 3.7), advertising revenues are distributed rather more evenly between publishers than are copy volumes or sales revenues. [

Details omitted. See note on page iv.

]

Sales and advertising revenues combined and shares by publisher

3.27. In Table 3.8 we have combined, by publisher, the revenues arising from both copy sales and advertising: market shares are also shown. The total value of the market at publisher level in 1992 was £1,984 million, of which £1,361 million (69 per cent) was accounted for by daily titles and £623 million (31 per cent) by Sunday titles. Notwithstanding the fall in advertising revenue in 1990 and 1991, and also the decline in copy volumes, total revenues (in cash of the year) have risen throughout the period considered and were some 14 per cent higher in 1992 than in 1988.

TABLE 3.8 Value of copy receipts for national newspapers and advertising revenue combined, by publisher and market shares, 1988 to 1992

	1988		1989		1990		1991		1992	
	£m	%	£m	%	£m	%	£m	%	£m	%
<i>Daily titles</i>										
NI	298.9	25.6	330.7	25.9	329.8	25.4	331.7	25.2	325.2	23.9
MGN	177.1	15.2	194.4	15.2	208.5	16.1	217.8	16.6	215.6	15.8
Express	157.2	13.5	151.2	11.9	159.2	12.3	169.9	12.9	175.5	12.9
Mail	137.2	11.7	145.5	11.4	144.6	11.2	157.3	12.0	174.1	12.8
Telegraph	163.3	14.0	187.0	14.6	179.3	13.8	177.7	13.5	190.5	14.0
Guardian	61.7	5.3	69.1	5.4	68.1	5.2	64.0	4.9	68.4	5.0
Independent	43.6	3.7	61.0	4.8	63.2	4.9	61.4	4.7	59.9	4.4
FT	95.4	8.2	102.1	8.0	103.9	8.0	93.3	7.1	93.8	6.9
Sport*	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	15.8	1.2
Others*	32.5	2.8	36.3	2.8	40.2	3.1	40.7	3.1	42.6	3.1
Total	1,166.9	100.0	1,277.3	100.0	1,296.8	100.0	1,313.8	100.0	1,361.4	100.0
<i>Sunday titles</i>										
NI	230.2	40.0	240.9	39.2	227.0	37.6	220.0	37.0	228.6	36.7
MGN	95.1	16.5	115.7	18.8	123.0	20.4	122.4	20.6	127.0	20.4
Mail	87.9	15.3	102.4	16.6	103.6	17.2	103.3	17.4	109.8	17.6
Express	71.1	12.4	68.7	11.2	64.7	10.7	64.7	10.9	67.7	10.9
Observer	50.0	8.7	47.0	7.6	39.0	6.4	35.0	5.9	37.0	5.9
Telegraph	33.0	5.7	30.7	5.0	26.7	4.4	24.6	4.1	25.3	4.1
Independent	0.0	0.0	0.0	0.0	12.2	2.0	16.4	2.8	20.1	3.2
Sport	8.1	1.4	9.6	1.6	8.0	1.3	8.1	1.3	7.2	1.2
Total	575.4	100.0	615.0	100.0	604.2	100.0	594.5	100.0	622.7	100.0
<i>Daily and Sunday titles combined</i>										
NI	529.1	30.4	571.6	30.2	556.8	29.3	551.7	28.9	553.8	27.9
MGN	272.2	15.6	310.1	16.4	331.5	17.4	340.2	17.8	342.6	17.3
Express	228.3	13.1	219.9	11.6	223.9	11.8	234.6	12.3	243.2	12.3
Mail	225.1	12.9	247.9	13.1	248.2	13.1	260.6	13.7	283.9	14.3
Telegraph	196.3	11.3	217.7	11.5	206.0	10.8	202.3	10.6	215.8	10.9
Guardian	61.7	3.5	69.1	3.7	68.1	3.6	64.0	3.4	68.4	3.4
Independent	43.6	2.5	61.0	3.2	75.4	4.0	77.8	4.1	80.0	4.0
FT	95.4	5.5	102.1	5.4	103.9	5.5	93.3	4.9	93.8	4.7
Observer	50.0	2.9	47.0	2.5	39.0	2.0	35.0	1.8	37.0	1.9
Sport	8.1	0.4	9.6	0.5	8.0	0.4	8.1	0.4	23.0	1.2
Others	32.5	1.9	36.3	1.9	40.2	2.1	40.7	2.1	42.6	2.1
Total	1,742.3	100.0	1,892.3	100.0	1,901.0	100.0	1,908.3	100.0	1,984.1	100.0

Source: Newspaper publishers and MMC estimates.

*See footnote to Table 3.1.

3.28. NI is shown to be the largest publisher, with 24 per cent by value of the market for daily titles and 37 per cent of that for Sunday editions. Overall, NI's total sales and advertising revenues were £554 million in 1992 and its market share overall was 28 per cent. The five largest publishers each had revenues in 1992 in excess of £200 million. None of the other publishers enjoyed revenues of more than £100 million. Market shares appear to have been reasonably stable over the period assessed, though NI's share has been eroded by some 2.5 per cent, whilst MGN's increased by 1.7 per cent.

3.29. Table 3.9 gives figures by market segment of the value of advertising as a percentage of total revenues. Each segment shows a distinctly different and fairly stable relationship between advertising and total revenue. Hence, for the popular dailies, advertising accounts for around 30 per cent of total revenues; for mid-market titles the proportion is around 40 per cent; and for quality titles the proportion is more variable, but on average is around 55 per cent. For daily newspapers as a whole, advertising was 42 per cent of total revenue in 1992; for Sunday titles it was 55 per cent. For the market as a whole, advertising accounted for 46 per cent of revenues in 1992, compared with just over 50 per cent in the late 1980s.

TABLE 3.9 Advertising revenue as a proportion of total revenue from the sale of national newspapers in England and Wales, 1988 to 1992

	<i>per cent</i>				
	1988	1989	1990	1991	1992
<i>Daily titles</i>					
Total popular	28.0	30.2	29.9	29.5	30.3
Total mid-market	41.8	44.4	40.8	38.6	38.2
Total quality	65.5	68.8	65.0	59.0	57.5
Total other*	36.0	35.3	36.6	33.2	32.4
Total daily	45.2	48.3	45.6	42.1	41.8
<i>Sunday titles</i>					
Total popular	37.8	40.0	39.4	38.5	38.9
Total mid-market	68.9	66.8	68.1	64.9	63.2
Total quality	81.5	79.6	78.0	71.7	68.7
Total Sunday	63.2	61.7	60.5	56.5	55.2
Total sales	51.1	52.6	50.3	46.6	46.0

Source: Newspaper publishers and MMC estimates.

*See footnote to Table 3.1.

Publisher market shares and alternative measures of concentration

3.30. In Table 3.10, publisher market shares are presented on four alternative measures, ie by volume, the value of copy sales, advertising revenues and total revenue. The first and last of these are probably the most meaningful. Shares by volume are the conventional measure used by the industry itself. However, shares by total revenue are a particularly useful measure where there are quality and/or attribute differences between products within the same market. Newspapers are by and large physically homogeneous, though the news and other content differs significantly between different titles. All four measures show NI to be the only scale monopolist in this industry. Concentration measures, however, give different values depending on which basis is used. Concentration ratios at the 2-firm (CR2), 4-firm (CR4) and 5-firm (CR5) levels are shown in the table. The CR4 measure on a volume basis is 83 per cent, whereas by total revenue it is 72 per cent. A Herfindahl Index, as used by the Federal Trade Commission (FTC) in the USA, has also been provided. A Herfindahl value of 1,611, as calculated on a total revenue basis, would normally be taken to be at the upper end of the moderate range of concentration levels. Anything above 1,800, as shown by the Herfindahl on a copy volume basis (ie 2,012), would conventionally be regarded as indicating high concentration.

TABLE 3.10 Publisher market shares in 1992 by sales volume, by value of copy receipts, by advertising revenue and by total revenue

	<i>per cent</i>			
	<i>Sales volume market share</i>	<i>Sales value market share</i>	<i>Advertising revenue market share</i>	<i>Total revenue market share</i>
<i>Daily titles</i>				
NI	31.5	[23.9
MGN	21.3			15.8
Express	15.9			12.9
Mail	13.4			12.8
Telegraph	7.6			
Guardian	3.2		<i>Figures omitted. 14.0 See note on page iv.5.0</i>	
Independent	2.9			4.4
FT	1.3			6.9
Sport*	1.5			1.2
Others*	<u>1.4</u>		<u> </u>]	<u>3.1</u>
Total	100.0	100.0	100.0	100.0
<i>Sunday titles</i>				
NI	34.4	[36.7
MGN	29.8			20.4
Mail	13.4			17.6
Express	10.6			
Observer	3.7		<i>Figures omitted. 10.9 See note on page iv.5.9</i>	
Telegraph	3.6			4.1
Independent	2.6			3.2
Sport	<u>1.9</u>		<u> </u>]	<u>1.2</u>
Total	100.0	100.0	100.0	100.0
<i>Daily and Sunday titles combined</i>				
NI	32.0	[27.9
MGN	22.6			17.3
Express	15.1			12.3
Mail	13.4			14.3
Telegraph	7.0			
Guardian	2.6		<i>Figures omitted. 10.9 See note on page iv.3.4</i>	
Independent	2.9			4.0
FT	1.1			4.7
Observer	0.6			1.9
Sport	1.5			1.2
Others	<u>1.2</u>		<u> </u>]	<u>2.1</u>
Total	100.0	100.0	100.0	100.0

Source: Newspaper publishers and MMC estimates.

*See footnote to Table 3.1.

Note: Concentration measures for total sales:

CR 2	54.6	50.2	42.4	45.2
CR 4	83.1	76.7	67.5	71.8
CR 5	90.1	86.2	78.5	82.7
Herfindahl index	2,012.0	1,769.0	1,507.0	1,611.0

Newspaper pricing

3.31. In this section we examine two of the main features of newspaper pricing, namely SOR trading (mainly at publisher level) and the level of cover prices within and between different market segments, as well as changes in prices over time. Wholesale and retail margins on newspaper sales are considered in Chapter 4, which also looks at certain aspects of SOR (mainly at wholesaler and retailer level).

Sale or return trading

3.32. As implied by the term itself, SOR trading means in this industry that publishers supply wholesalers, who in turn supply retailers, on the basis that they (ie wholesalers and retailers) pay only for the newspapers that are actually sold; unsold copies, including any damaged in transit and unfit for resale, are credited to their accounts with suppliers. In the remainder of the economy, most products are sold on a firm sale basis, particularly goods which have a reasonable shelf-life and for which stocking costs are modest, though a number of other products are also sold by producers (to wholesalers and retailers) on an SOR basis, including, for example, most magazines and periodicals, many books, greetings cards, and even ready-made sandwiches. We note, however, that there can be many variants of both SOR and firm sale, ie partial SOR and partial firm sale.

3.33. For retailers, and also wholesalers, the effect of SOR is virtually to eliminate the commercial risks of unsold and unsaleable stock arising in any given trading period; this is particularly important for highly perishable products such as newspapers and sandwiches. The gains from the lower risk borne by wholesalers and retailers under SOR may nonetheless be partly offset by reduced trading margins. One publisher told us, for example, that without SOR, retail margins might be around 1.5 per cent greater than at present. We also note that SOR weakens the incentives and prospects for active price competition at both wholesale and retail levels.

3.34. Most publishers told us, as mentioned in Chapter 4, that SOR enabled them, in conjunction with wholesalers, to optimize the availability of their titles at retail outlets, ie to limit the number of outlets that frequently sell out during the trading day, and thereby to maximize overall sales, subject to containing wastage costs. In part, this was because publishers had greater resources; they might therefore be less risk-averse than either wholesalers or retailers, who under firm-sale trading would attempt to limit their exposure to such risks by ordering fewer copies than they expected to sell. In part also, the publishers were best placed to, and could in effect, pool the risks of fluctuations in sales (of their own titles) at retail level. Moreover, as also mentioned in Chapter 4, the cost of unsolds as calculated at publisher level is lower than that for either wholesalers or retailers, who stand to lose the value at cover price less their discount for any given unsold newspaper. For publishers, on the other hand, the marginal costs of producing extra copies under SOR are relatively low, whilst they gain both additional sales revenue and also advertising revenue from any extra sales achieved. (The publishers will ultimately also foot the bill for the extra handling costs which SOR imposes on retailers and more especially wholesalers.)

3.35. Whilst all the publishers are, they told us, greatly in favour of the SOR system, it is not entirely unrestricted, since both publishers and wholesalers impose limits on the allowed rate of returns. In the early 1980s some publishers, eg MGN, were predominantly on firm sale and even where SOR was operated the permitted level of returns was generally lower than now. Since the introduction of new and more efficient technology and the sweeping away of restrictive trade practices in printing, the marginal costs of printing have been reduced and publishers have been able (on cost grounds) to increase the returns rate allowances to wholesalers. We note that the cost of newsprint-which accounts for a major part of publishing costs-has been relatively stable in real terms over the past five years. In 1992 newsprint costs on average were around £350 per tonne, which was some 8 per cent lower in real terms than in 1988.

3.36. In our evaluation of the SOR system we were concerned in particular to consider the resource costs involved in terms of the volume and value of wastage; the increase in overall sales that arose from SOR; the value of net benefits to publishers; and the sensitivity of the system to an increase in the rate of unsolds. In order to explore these issues we obtained data from all the main publishers, which taken together accounted for around 95 per cent of sales of both daily and Sunday editions in 1991. (We used 1991 because publishers told us that the data would be more reliable than for any later period.)

3.37. As regards the resource costs of wastage under SOR, the total volume of unsold copies in 1991 was around 550 million for the industry as a whole, which represented just under 12 per cent of total sales. Within that total, the rate of unsolds for the popular segment (daily and Sunday editions) was around 10 to 11 per cent, whilst for the mid-market and quality segments (daily and Sunday editions) it was around 11 to 13 and 14 to 15 per cent respectively. Inevitably, given their high volume of sales, the popular and mid-market dailies accounted for the majority of unsolds-indeed, nearly 70 per cent of the total volume. The proportion of copies home-delivered also has an effect on the rate of unsolds, since casual sales are more volatile and therefore give rise to a higher proportion of unsolds. Hence, because quality dailies are more often home-delivered than popular or mid-market titles, they tend, other things being equal, to have a lower rate of unsolds. Lower-volume titles, eg the *Financial Times*, necessarily have a higher than average rate of unsolds as a result of publishers' attempts to

maintain reasonable availability at up to 40,000 or so separate outlets. Taking unsolds for all titles as a proportion of casual sales only would imply an overall rate of unsolds of some 20 per cent.

3.38. Valued at marginal cost, of which newsprint typically accounted for between 75 and 85 per cent, these unsold copies cost publishers around £60 million in 1991. Overall, these costs were far outweighed, however, by the additional revenues (net of production costs) from extra sales and advertising, which were estimated by the publishers at over £125 million, ie just over twice the level of costs, of which around one-third was from extra advertising revenues. The estimated increase in sales from SOR compared with firm sale was about 7 per cent. The net benefits, as perceived and estimated by publishers, varied considerably between different titles and publishers, however. Both NI and Express, for example, considered that the net benefits were very substantial, whilst for most others the costs and benefits were seen to be more evenly balanced, and some felt that, as measured, there was a net loss on particular titles from operating the SOR system. One publisher commented, however, that SOR could also be seen at least partly as an element of advertising and promotion, and could be justified on that basis. We note that two of the smaller circulation titles in their particular segments, the *Daily Star* and *Today*, have especially high rates of unsolds. This appears to suggest that these titles are using availability as an important element of promotional activity. Advertising and promotional costs incurred by publishers are considered in paragraphs 3.49 to 3.51.

3.39. With regard to the sensitivity of the net benefits from SOR to an increase in the rate of returns/unsolds, most publishers thought that SOR was highly robust, in that there would need to be a very substantial increase in the rate of unsolds for full SOR to become not worthwhile, though at some stage partial SOR might be considered.

Cover prices

3.40. As explained in paragraphs 3.27 to 3.29, the total revenue to publishers from reference newspapers was nearly £2 billion in 1992 (and rising), of which around 55 per cent was from the direct sale of newspapers (ie 'copy sales revenue') and 45 per cent arose from advertising revenues. Somewhat unusually, therefore, there are two sets of prices in this market, ie cover prices and advertising rates, that determine two different revenue streams to publishers. To an extent, there is both an economic and a commercial linkage between advertising rates and cover prices and the consequent revenues. Higher-priced quality titles, for example, both dailies and Sundays, attract a higher proportion of their total revenues from advertising than do the popular, lower-priced titles. Moreover, because advertising rates are partly determined by the volume of sales achieved within a given market segment, there is a potential trade-off for publishers in setting cover prices between copy sales revenue and advertising revenues; higher cover prices will tend to boost the first but reduce the second. Nonetheless, we regard this linkage as modest in practical effect because the other influences on advertising rates and cover prices are largely independent of one another.

3.41. This section, therefore, focuses on cover pricing, and most particularly on, first, how cover prices are determined; secondly, on the extent to which both nominal and real prices (ie after adjusting for general price inflation) have increased over time; and thirdly, on the extent to which cover prices exhibit price parallelism, ie the degree to which publishers change cover prices of titles at the same time and to the same extent as their main competitors.

3.42. Cover prices are determined, for each title, by the publishers concerned and are in effect the publishers' recommended retail prices for their newspapers. Prior to the Resale Price Maintenance Act 1964, these would have been producer-maintained prices. Since then, cover prices have been no more than suggested or recommended by publishers, though, as explained in Chapter 5, they are almost always observed in this market—there is virtually no price competition at the retail level. With both wholesale and retail margins in this industry being conventionally set as a percentage discount off cover price, the cover price also determines the size of trading margins available to distributors.

3.43. By and large, the publishers stressed to us that the level of and increases in publishing costs, as well as the higher product quality now offered, were the chief determinants of newspaper cover prices. The main cost elements were seen to be the high capital expenses of new technology, the cost of newsprint, and the 'quality' costs of more colour, extra pagination, magazine supplements etc. The influence of competitors' prices was stated

to be of rather secondary importance, though some publishers, the Independent, Guardian and Express for example, said that they needed to 'take serious account of' the cover prices of rival titles, most particularly those within the same market segment. Overall, the publishers tended to argue that they had no market power to determine prices and that they were each 'price takers' in the market, setting prices only or mainly in relation to the level of their own costs. None of the publishers considered itself to be a 'price leader'. As regards price movements over time, NI told us that because of 'the intense competition' in newspaper markets and because different titles faced a common cost structure, it was inevitable that 'newspaper prices tend to move together over time'.

3.44. We believe the overall demand for newspapers to be fairly insensitive to the level of real prices, ie it is price inelastic, partly because newspapers are individually low-priced, everyday items of consumer expenditure; and partly because of consumer inertia in this market arising from consumers' general commitment to particular titles or brands, which is reinforced by the relatively high degree of home delivery which gives rise to 'committed' sales. The latter applies particularly to titles in the quality segment and to a lesser extent other segments. Demand for popular titles, especially the daily editions, may be rather more sensitive to price than others, but more important, we were told, was the effect of demographic factors, eg the declining proportion of 16- to 24-year-olds in the population as a whole. Advertising by publishers also has a positive, though rather modest, effect on increasing demand (see paragraph 3.50). Although overall demand appears to be price inelastic, rival titles within particular segments, particularly the popular and mid-market segments, may be sensitive to each other's prices, as is partly evidenced by the effect on sales of the price differential between *The Sun* and the *Daily Mirror* over the last year.

3.45. In order to evaluate pricing behaviour in this industry, we collected data on the prices of all titles for the period 1985 to 1992. These data have been used to calculate the figures in Table 3.11 which shows nominal (ie cash of the year) cover prices expressed as a monthly average for the year, over that period. This results in rather 'odd' prices in so far as they are often not in whole pence in any year in which there had been a change in cover price. Actual prices prevailing at the end of 1992 (December) are also given to show the spread of cover prices at that time as between daily and Sunday editions and also across different quality segments. Two main features of the data are apparent. First, cover prices for all titles have risen steadily over this period, with price increases occurring in most but not all years. Secondly, the end-1992 data show that within any given segment (eg the popular Sunday titles) prices of different titles are mostly identical. Some differences in price are also apparent. *The Sun* and the *Daily Star*, for example, chose not to follow the *Daily Mirror's* July 1992 price increase to 27p; and the *Sunday Telegraph* opted to keep its price some 10p below that of *The Sunday Times* and others, because, we were told, it does not offer a magazine supplement whereas other titles do. We also note that cover prices for *The Daily Telegraph* and most Sunday quality papers increased early in 1993, and that in July 1993 *The Sun* reduced its price to 20p as part of a summertime promotion.

TABLE 3.11 Average annual retail prices* and 1992 year-end prices of national newspapers sold in England and Wales, 1985 to 1992

	1985	1986	1987	1988	1989	1990	1991	1992	1992 † (December)
Daily titles									
<i>The Sun</i>	17.9	18.0	19.2	20.0	21.4	22.7	25.0	25.0	25.0
<i>Daily Mirror</i>	17.9	18.0	19.5	20.0	21.4	22.8	25.0	25.9	27.0
<i>Daily Star</i>	17.9	18.0	19.8	20.0	21.3	22.6	25.0	25.0	25.0
<i>Daily Sport</i> ‡	N/A	N/A	N/A	N/A	N/A	N/A	N/A	28.0	28.0
Total popular §	17.9	18.0	19.5	20.0	21.4	22.7	25.0	26.0	26.3
Mid-market titles									
<i>Daily Mail</i>	20.0	20.0	20.4	22.0	22.4	25.0	28.3	30.0	30.0
<i>Daily Express</i>	20.0	20.0	21.8	22.0	22.4	25.0	27.8	30.0	30.0
<i>Today</i>	N/A	19.4	20.0	20.0	21.4	23.2	25.0	25.0	25.0
Total mid-market	20.0	19.8	20.7	21.3	22.1	24.4	27.0	28.3	28.3
Quality titles									
<i>The Daily Telegraph</i>	22.9	25.0	25.0	29.6	32.3	35.0	40.0	46.1	45.0
<i>The Guardian</i>	24.7	25.0	25.0	27.5	30.0	34.2	39.2	40.8	40.0
<i>The Independent</i>	N/A	25.0	25.0	26.9	32.4	36.7	41.0	43.1	45.0
<i>The Times</i>	22.7	25.0	25.0	29.4	30.0	32.2	39.2	44.6	45.0
<i>Financial Times</i>	35.4	40.0	40.0	45.0	45.4	50.0	54.2	59.6	60.0
Total quality	26.4	28.0	28.0	31.7	34.0	37.6	42.7	46.8	47.0
Total daily	22.2	23.0	23.7	25.7	27.3	29.9	33.6	35.3	35.4
Sunday titles									
<i>News of the World</i>	28.0	28.0	31.1	35.0	38.4	41.4	46.5	50.0	50.0
<i>Sunday Mirror</i>	28.0	28.0	29.6	35.0	39.3	41.0	45.7	50.0	50.0
<i>The People</i>	28.0	28.0	29.2	35.0	35.9	40.3	45.0	49.8	50.0
<i>Sunday Sport</i>	35.0	35.0	35.0	35.0	37.9	40.4	45.0	49.2	50.0
Total popular	29.8	29.8	31.2	35.0	37.9	40.8	45.6	49.8	50.0
Mid-market Sunday titles									
<i>The Mail on Sunday</i>	36.4	40.0	41.1	45.0	49.9	51.1	55.0	58.9	60.0
<i>Sunday Express</i>	35.0	38.3	40.0	45.0	49.4	50.8	55.0	59.2	60.0
Total mid-market	35.7	39.2	40.6	45.0	49.7	51.0	55.0	59.1	60.0
Quality Sunday titles									
<i>The Sunday Times</i>	50.0	50.0	50.0	52.7	60.0	60.0	70.5	80.0	80.0
<i>The Observer</i>	46.7	50.0	50.0	52.5	60.0	60.0	70.0	80.0	80.0
<i>Sunday Telegraph</i>	36.0	40.0	41.5	45.0	47.5	50.0	58.8	65.0	70.0
<i>The Independent on Sunday</i>	N/A	N/A	N/A	N/A	N/A	60.0	68.0	80.0	80.0
Total quality	44.2	46.7	47.2	50.1	55.8	57.5	66.8	76.3	77.5
Total Sunday	35.9	37.5	38.6	42.2	46.5	49.5	56.0	62.2	63.0
Total combined	26.1	29.5	30.4	33.1	35.9	39.3	44.2	47.5	48.0

Source: Newspaper publishers and MMC estimates.

*Prices have been calculated as a monthly average within a given year in order to capture changes in price during that year. Similarly, where Saturday editions have a different price to Monday to Friday editions (eg *The Daily Telegraph*), the price shown is an average over the six days. In practice, cover prices are always in whole pence, ie 25p rather than 25.3p.

†Monday to Friday editions for daily titles. Saturday prices were as follows: *The Daily Telegraph* 60p, *The Guardian* 50p, *The Independent* 50p, *The Times* 50p.

‡1992 was the first complete year in which the *Daily Sport* was published Monday to Saturday.

§All totals are calculated as an unweighted average of the relevant column.

3.46. Table 3.12 shows these annual average prices in real terms, ie after adjusting for changes in the RPI, and expressed as an index with a base of 100 in 1985. The data therefore indicate the increases in cover prices over time in constant money terms. For example, the price of *The Times* in 1992 was some 34.7 per cent greater in real terms than in 1985; conversely, the price of *The Sun* in 1992 was some 4.3 per cent lower. More generally, the data show that the rate of increase in inflation-adjusted prices over this period varied between different market segments and also between daily and Sunday titles. For the popular dailies, for example, prices have been held some 3 per cent below the general inflation rate; the mid-market dailies remained fairly constant; and the quality dailies have risen in real price terms by about 23 per cent over this period. Increases in the real price of Sunday titles, at 19.4 per cent on average, were far higher than for daily editions (9.7 per cent on average). *News of the World*, the *Sunday Mirror* and *The People*, for example, went up in price by some 22 per cent over this period. Overall, newspapers have risen in price (in real terms) by about 14 per cent since 1985. We note also that, apart from the popular dailies, most titles increased in price throughout the recession years of 1990 to 1992.

TABLE 3.12 Indices of inflation-adjusted prices (annual average) of national newspapers sold in England and Wales, 1985 to 1992*

	1985	1986	1987	1988	1989	1990	1991	1992
Daily titles								
<i>The Sun</i>	100.0	98.1	100.3	100.0	98.7	95.5	99.4	95.7
<i>Daily Mirror</i>	100.0	98.2	102.3	100.0	98.8	95.9	99.4	99.4
<i>Daily Star</i>	100.0	98.2	103.5	100.1	98.7	95.1	99.5	95.8
<i>Daily Sport</i>								
Total popular	100.0	98.2	102.0	100.1	98.7	95.5	99.4	97.0
<i>Daily Mail</i>	100.0	97.6	95.5	98.3	92.6	94.1	99.1	103.5
<i>Daily Express</i>	100.0	97.6	102.2	98.4	92.5	94.1	98.7	102.8
<i>Today</i>	100.0	106.2	105.4	100.6	99.4	98.3	100.1	96.3
Total mid-market	100.0	100.5	101.0	99.1	94.8	95.5	99.3	100.9
<i>The Daily Telegraph</i>	100.0	106.4	102.3	115.5	116.4	115.1	124.2	137.9
<i>The Guardian</i>	100.0	98.9	94.9	99.7	100.6	104.3	108.7	113.1
<i>The Independent</i>	100.0	95.6	89.6	92.0	102.4	105.6	111.6	112.8
<i>The Times</i>	100.0	107.6	103.2	115.9	109.4	107.1	123.0	134.7
<i>Financial Times</i>	100.0	110.2	105.8	113.7	106.1	106.3	108.8	115.2
Total quality	100.0	103.7	99.2	107.4	107.0	107.7	115.3	122.7
Total daily	100.0	101.3	100.5	103.1	101.4	101.0	106.6	109.7
Sunday titles								
<i>News of the World</i>	100.0	97.6	104.1	111.8	113.3	111.2	118.1	122.3
<i>Sunday Mirror</i>	100.0	97.4	98.9	111.6	116.0	110.1	116.0	122.0
<i>The People</i>	100.0	97.4	97.4	111.9	106.0	108.2	114.2	121.6
<i>Sunday Sport</i>	100.0	97.8	92.9	88.6	96.3	93.7	93.7	98.3
Total popular	100.0	97.6	98.3	106.0	107.9	105.8	110.5	116.1
<i>The Mail on Sunday</i>	100.0	107.2	105.7	110.5	113.4	105.6	107.5	110.8
<i>Sunday Express</i>	100.0	106.9	107.0	115.0	116.8	109.4	111.8	115.8
Total mid-market	100.0	107.1	106.4	112.8	115.1	107.5	109.7	113.3
<i>The Sunday Times</i>	100.0	97.6	93.6	94.2	99.2	90.4	100.3	109.6
<i>The Observer</i>	100.0	104.5	100.3	100.6	106.3	96.8	106.7	117.4
<i>Sunday Telegraph</i>	100.0	108.3	107.7	111.7	109.0	104.5	116.0	123.5
<i>The Independent on Sunday</i>	100.0	106.5	110.9	117.4	126.1	139.1	145.7	152.2
Total quality	100.0	104.2	103.1	106.0	110.2	107.7	117.2	125.7
Total Sunday	100.0	102.1	101.9	107.3	110.2	106.9	113.0	119.4
Total combined	100.0	101.7	101.1	105.1	105.6	103.8	109.6	114.3

Source: Newspaper publishers and MMC estimates.

*See footnotes to Table 3.11. In the calculations made, the monthly average prices in Table 3.11 have been adjusted by the RPI value for June of each year, taking 1985 as the base year. All totals are calculated as an unweighted average of the relevant column.

3.47. As mentioned in paragraph 3.45, cover prices in any given quality segment were mostly identical at the end of 1992 (eg *The Times*, *The Daily Telegraph* and *The Independent*), though some differentials do exist between rival titles. As regards the coincidence of price changes over time, Tables 3.13 and 3.14 show the timing and magnitude of cover price changes since the beginning of 1980 for all the main newspaper titles. There are many examples of where different titles within the same quality segment have changed price by the same amount and/or to the same level, at the same time, and sometimes on precisely the same day. For example, both *The Daily Telegraph* and *The Guardian* went from 35p to 40p on the same day (18 February 1991). Similarly, the *Daily Express* and *Daily Mail* both moved from 22p to 25p on 13 November 1989, to 28p on 28 January 1991, and to 30p on 7 October 1991. In the popular dailies segment, both *The Sun* and the *Daily Mirror* went from 20p to 22p on 24 April 1989; and together with the *Daily Star*, they went to 25p in the first two weeks of October 1990.

TABLE 3.13 Dates when daily editions of national newspapers moved to a particular level of cover price, 1980 to 1992*

Cover price	Daily Star	The Sun	Daily Mirror	Today	Daily Mail	Daily Express	Financial Times	The Daily Telegraph	The Guardian	The Times	The Independent
9p	-	4. 2.80	-	-	-	-	-	-	-	-	-
10p	2. 6.80	<u>14. 4.80</u>	<u>14. 4.80</u>	-	-	-	-	-	-	-	-
12p	29. 6.81	<u>15. 9.80</u>	<u>15. 9.80</u>	-	2. 6.80	31. 3.80	-	17. 3.80	-	-	-
14p	<u>1. 2.82</u>	<u>1. 2.82</u>	7. 9.81	-	-	-	-	-	-	-	-
15p	<u>12. 7.82</u>	<u>12. 7.82</u>	-	-	<u>20. 7.81</u>	<u>20. 7.81</u>	-	6.10.80	-	-	-
16p	21.11.83	27. 2.84	28. 6.82	-	-	-	-	-	-	-	-
17p	<u>17. 9.84</u>	<u>17. 9.84</u>	5. 3.84	-	-	1. 3.82	15. 2.82	-	-	-	-
18p	11. 2.85	<u>4. 2.85</u>	<u>4. 2.85</u>	4. 3.86	<u>18.10.82</u>	<u>18.10.82</u>	-	24. 8.81	2. 6.80	-	-
20p	16. 2.87	1. 6.87	23. 3.87	9. 6.86	<u>12.11.84</u>	<u>12.11.84</u>	-	25.10.82	23. 2.81	24. 3.80	-
22p	1. 5.89	<u>24. 4.89</u>	<u>24. 4.89</u>	24. 4.89	19.10.87	2. 2.87	-	-	-	-	-
23p	-	-	-	-	-	-	-	<u>18. 2.85</u>	10. 5.82	<u>18. 2.85</u>	-
25p	15.10.90	8.10.90	3.10.90	6. 8.90	<u>13.11.89</u>	<u>13.11.89</u>	21. 7.80	14.10.85	11. 3.85	16.12.85	7.10.86
27p	-	-	20. 7.92	-	-	-	-	-	-	-	-
28p	-	-	-	-	<u>28. 1.91</u>	<u>28. 1.91</u>	-	-	-	-	-
30p	-	-	-	-	<u>7.10.91</u>	<u>7.10.91</u>	17. 8.81	15. 2.88	20. 6.88	15.12.88	22. 2.88
32p	-	-	-	-	-	-	-	30. 1.89	-	-	-
35p	-	-	-	-	-	-	9. 8.83	19. 3.90	5. 3.90	30. 7.90	30.10.89
40p	-	-	-	-	-	-	2.12.85	<u>18. 2.91</u>	<u>18. 2.91</u>	29. 4.91	29.10.90
45p	-	-	-	-	-	-	2. 1.88	3. 2.92	-	30. 3.92	17. 8.92
50p	-	-	-	-	-	-	27.11.89	-	-	-	-
55p	-	-	-	-	-	-	25. 2.91	-	-	-	-
60p	-	-	-	-	-	-	3. 2.92	-	-	-	-

Cover prices-Saturday newspapers

35p	-	-	-	-	-	-	-	4. 2.89	-	-	10. 9.88
40p	-	-	-	-	-	-	-	24. 3.90	-	3.11.90	8. 4.89
45p	-	-	-	-	-	-	-	23. 2.91	28. 3.92	4. 5.91	29.10.90
50p	-	-	-	-	-	-	-	8. 2.92	24.10.92	4. 4.92	5.10.91
60p	-	-	-	-	-	-	-	-	-	-	-

Source: MMC from data supplied by publishers.

*Underlinings indicate when two or more titles in the same market segment moved to the same cover price on the same day.

†From 3.9.84 to 22.10.84 the price reverted to 16p.

TABLE 3.14 Dates when Sunday editions of national newspapers moved to a particular level of cover price, 1980 to 1992*

Cover price	<i>News of the World</i>	<i>The People</i>	<i>Sunday Mirror</i>	<i>Sunday Express</i>	<i>The Mail on Sunday</i>	<i>Sunday Times</i>	<i>The Observer</i>	<i>Sunday Telegraph</i>	<i>The Independent on Sunday</i>
16p	20. 1.80	-	-	-	-	-	-	-	-
18p	<u>9. 3.80</u>	<u>9. 3.80</u>	<u>9. 3.80</u>	-	-	-	-	-	-
20p	<u>14. 9.80</u>	<u>14. 9.80</u>	<u>14. 9.80</u>	30. 3.80	-	-	-	1. 6.80	-
22p	31. 5.81	<u>26. 4.81</u>	<u>26. 4.81</u>	11. 1.81	-	-	-	12.10.80	-
24p	14. 2.82	6. 6.82	18. 4.82	-	-	-	-	-	-
25p	26. 9.82	<u>18. 9.83</u>	<u>18. 9.83</u>	3. 5.81	-	16. 3.80	14. 9.80	15. 2.81	-
28p	<u>9.12.84</u>	<u>9.12.84</u>	<u>9.12.84</u>	7. 2.82	2. 5.82	-	-	-	-
30p	<u>5. 4.87</u>	<u>5. 4.87</u>	29. 3.87	16.10.83	27. 2.83	7. 9.80	18. 1.81	21. 2.82	-
32p	-	-	-	29. 7.84	-	-	-	-	-
33p	-	-	-	-	29. 1.84	-	-	-	-
35p	<u>11.10.87</u>	1.11.87	<u>11.10.87</u>	25.11.84	14.10.84	22. 3.81	20. 9.81	9. 9.84	-
40p	28. 5.89	29.10.89	26. 2.89	27. 4.86	22. 9.85	21. 2.82	18. 9.83	13.10.85	-
45p	21.10.90	-	28.10.90	27.12.87	18.10.87	27. 5.84	4.11.84	20. 9.87	-
50p	15. 9.91	19. 1.92	17.11.91	12. 2.89	8. 1.89	25.11.84	1. 9.85	2. 7.89	-
55p	-	-	-	4.11.90	21.10.90	-	-	-	-
60p	-	-	-	<u>1. 3.92</u>	<u>1. 3.92</u>	25. 9.88	25. 8.88	17. 2.91	28. 1.90
70p	-	-	-	-	-	<u>7. 4.91</u>	<u>7. 4.91</u>	2. 7.92	21. 4.91
80p	-	-	-	-	-	8. 9.91	6.10.91	-	1.12.91

Source: MMC from data supplied by publishers.

*Underlinings indicate when two or more titles in the same market segment moved to the same cover price on the same day.

3.48. Nonetheless, there is no clear evidence of any publisher consistently initiating cover price changes, and there are many examples of lags in the timing of price changes as between rival titles in the same market segment. Publishers told us that because they faced common costs-particularly for newsprint-it was inevitable that comparable and often rival newspapers changed price at or about the same time and by a similar amount. It was also not possible, we were told, to introduce secret price cuts (or increases), because the cover price system made any price movements readily apparent to the market as a whole. Indeed, most titles published any proposed price changes in advance and rival titles faced no difficulty, therefore, in following such changes if they wished. On the other hand, a number of publishers told us that they were often reluctant to increase prices because of the risk that its competitors would not follow suit and that sales and market share might be lost as a result. We note, however, that there have been relatively few examples in recent years (the price differential between *The Sun* and the *Daily Mirror* appears to be an exceptional case) of titles not following price increases of their closest rivals. This may have contributed to a general upward drift in cover prices over time.

Advertising and promotional expenditure

3.49. Publishers undertake various types of advertising and promotional activities, including expenditure on television and radio advertising, posters, etc; promotion of sporting events; the use of games and give-aways; local promotions at retailers' outlets; and advertising in their own titles. Additionally, the costs of SOR could be seen, in part at least, as serving a promotional function, as could the costs of not following a rival's price increase for a period of time. Promotional campaigns often involve a combination of these different activities and cost allocation between them was regarded as impractical by most publishers.

3.50. Some of those who gave evidence to us, including one publisher, suggested that publishers' expenditure on these activities, particularly the games and give-aways, was excessive and represented wasteful competition because campaigns by rival titles were largely self-cancelling. Such expenditure also increased the launch costs of new titles. Other publishers told us that advertising and promotion was one of the means by which they were able to compete with rival titles for sales, and that the level of expenditure therefore reflected the intensity of competition within the industry. Although the volume of sales has continued to decline in recent years, publishers mostly felt that advertising had in general kept sales higher than they might otherwise have been, and that some campaigns had, on occasion, been successful in expanding the market share of particular titles.

3.51. As regards actual expenditures on advertising and promotion, the industry as a whole spent about £105 million, excluding publishers' advertising in their own titles, in 1988. In the years since then, expenditure has been around £120 to £125 million a year, apart from 1990 when it was £105 million. In 1992 advertising and promotional spend as a proportion of total revenue (ie sales plus advertising revenue) was on average 6.7 per cent across all titles. For some titles it was much higher and for others much lower. At the publisher level, advertising spend as a percentage of total revenue was about [*] per cent for three of the main publishers, NI, MGN and Express. It was [*] and [*] per cent for the Mail and Telegraph, respectively; and less than [*] per cent for all other publishers.

Entry conditions

3.52. As explained in paragraphs 3.10 to 3.15, publishing is now characterized by high capital costs in both editorial and printing activities and significant economies of scale overall; there may also be economies of scope from publishing more than a single title. According to the analysis in the Sadler Report, a new quality segment daily paper would need a circulation of around 330,000 a day (equivalent to 100 million a year) to cover its costs, and a new popular title would require daily sales of 1.5 million (equivalent to just over 460 million a year). However, a new entrant to publishing could largely avoid the capital investment costs in printing by using third party or contract printers, as has *The Independent*, with a current circulation of 115 million a year. For significantly greater volumes, own-facility printing would in most cases be more cost-effective. An entrant could less easily avoid the costs of establishing an editorial facility.

*Figures omitted. See note on page iv.

3.53. The other main costs faced by new entrants arise from the need to overcome consumer inertia and brand loyalty to existing, well-established titles. As explained earlier, this industry is characterized by relatively high advertising and promotional expenditures by incumbent publishers; total publisher spend on these activities in 1992 was around £125 million. According to the analysis in the Sadler Report, in 1991 the promotional spend necessary to launch a new title was probably a minimum of £4 to £5 million, which would be in addition to the costs of ongoing promotional support. Moreover, once launched, a new title might well face retaliatory responses by incumbent titles in the form of intensified promotional activity; to counter such attacks, a new entrant might need to incur additional advertising and promotional expenditure, though the amounts required are inevitably uncertain.

3.54. The Sadler Report suggested that, overall, the minimum launch costs in 1991 were probably around £10 million, plus working capital requirements to cover losses in the immediate post-launch period, as advertising revenues were built up, and to allow for contingency costs. That report concluded that whilst these estimates might have been on the low side, the initial capital requirements did not appear prohibitive. Nonetheless, they are largely sunk costs (ie they could not be recovered on exit from the industry) and as such they would act to discourage entry of a 'hit-and-run' nature and would significantly increase the commercial risk associated with market entry.

3.55. The analysis in the Sadler Report was couched mainly in terms of the costs and risks that would face an entirely new entrant to publishing. The report recognized that an existing publisher might face potentially fewer difficulties and somewhat lower costs. Existing publishers, for example, would probably have greater knowledge of newspaper markets than a complete newcomer and might have established business links with contract printers or possibly have excess printing capacity of its own. More generally, existing publishers are best placed to exploit any economies of scope arising from publishing more than a single title—a daily and a Sunday edition, for example. At present, only NI has titles in all three quality segments. Most other publishers have two or more titles but, apart from Express, operate in only one segment. There would appear to be the possibility, therefore, for some expansion into remaining segments should the commercial opportunities arise. As mentioned in paragraph 3.7, this could be seen either as new entry or as a potential for supply side substitution.

3.56. As regards the record of entry into and exit from this industry, there were only two new titles launched in the 25 years prior to the mid-1980s (ie the *Daily Star* and *The Mail on Sunday*), both of which were introduced by existing publishers. Since then, six new titles have been launched, in each case by new publishing organizations. Three of these proved to be unsuccessful and were closed down (ie the *News on Sunday*, *Daily Post* and *Sunday Correspondent*) and the three others have survived (ie *Today*, *The Independent* and *Sunday Sport*), though *Today* was failing and had to be rescued, first by Lonrho/Observer, and subsequently by NI. Moreover, two of these entrants have since extended their product range (ie *The Independent on Sunday* and the daily editions of the *Sport*). In recent months, however, *The Observer* has been sold to the Guardian, having been making losses for several years (see paragraph 3.9). We note that some other titles are loss-making and manage to continue only or mainly by virtue of being part of larger publishing groups which own other, profitable titles.