APPENDIX 6.1

(referred to in paragraphs 6.71, 6.84, 6.87 and 6.90)

Executive summary of an analysis carried out by Andersen on behalf of Johnston of the CC-sponsored advertiser survey

1. Executive summary

The Competition Commission ('the Commission') is currently investigating the proposed acquisition by Johnston of a number of free weekly titles in the East Midlands from Trinity Mirror. Johnston has commissioned Andersen to provide its view on key trends in the advertising industry, with specific reference to three advertising categories, namely, motors, recruitment and retail.

1.1 Broad trends in the media and communications industry

There has been moderate compound annual growth rate (CAGR) of 4.3% in the UK advertising industry between 1985 and 2001 (*Advertising Statistic Yearbook,* 2001 and Office of National Statistics). However, certain media have performed significantly better than others in recent years, thereby increasingly their share of the overall market. The growth media are those which deliver value for money, highly targeted advertising to specific groups at a local and/or individual level. Media can now be defined and categorised by its ability to address a target audience of many, few or one, with the highest growth and value ascribed to media which can best target a specific audience with a specific message, for example 'narrowcast' media such as the Internet (66% CAGR between 1985 and 2003), or 'localcast' media such as cinema (8.7%) and direct mail (6.7%). We consider that the growth in market share for these media will continue to outstrip the more traditional forms of communication, such as TV and regional/local newspapers (2.8%), which adopt a 'broadcast' approach at a local level.

In short, the regional/local press has been losing relative market share for the past 10 years, and is projected to continue to do so at an increasing rate. The regional/local press is increasingly perceived by both advertisers and consumers as a blunt tool when compared to the increasingly sophisticated, data driven and target specific 'localcast' and 'narrowcast' new media alternatives. In addition, even in the traditional print media arena, the regional/local press is under significant pressure from focused, specialist publications which are better able to deliver target audiences.

1.11 Localcast media

- Radio: a popular, highly effective 'sit-back' medium allowing targeted content/delivery at the local level, with 'narrowcast' capabilities possible with the advent of digital audio broadcasting;
- Cinema: high impact medium, involving media experience, with a targeting capability through the selection of film, time and venue;
- Outdoor: low-cost, local and targeted content/delivery (targeted through the selection of location and placement); and
- Direct Marketing: highly targeted delivery (at the individual level) with opportunities for personalised, tailored content using direct mail, leafleting, mobile phone text messaging, telemarketing or email.

1.12 Narrowcast media

- Internet/iDTV: highly comprehensive, personalised and tailored content/delivery, with transaction and customer data capture capabilities.

1.13 *Technology as an enabler*

Technology is playing a key role in the evolution of advertising media:

- New media channels which allow greater targeting (e.g. one-to-one real time marketing) and interactivity so that a return path of information may be established with customers; and

- More sophisticated tools for customer management and data mining which may be used to segment and target audiences or individuals and monitor the efficiency and effectiveness of the campaign.

We have considered each of the strong growth media outstripping regional/local press and outline the key market dynamics which are driving this growth. In each case the characteristics of the medium relative to the evolving demands of customers have created a product which is a more compelling alternative to newspaper advertising.

These broad trends provide an important context for our findings in relation to motors, recruitment and retail. The media which compete most strongly in these sectors are the Internet (for each sector), direct marketing (for retail), iDTV (for recruitment) and focused advertising only specialist publications and business magazines (for motors and recruitment).

1.2 Motors

Motor advertisers are moving away from local/regional classified advertising media, towards greater use of display advertising. Moreover, other media offer increasingly compelling benefits to advertisers over local/regional press, particularly the Internet and specialist car publications.

The total UK motor advertising is worth £1.2 billion and £81 million in the East Midlands. Growth in the market has been modest with a CAGR of 1% between 1998 and 2000. The classified regional press market accounts for 25% of the total motor advertising market, but regional display accounts for only 4% of the total motor advertising market (*Advertising Statistics Yearbook,* 2001; The Newspaper Society). However developments in the industry, in particular consolidation of dealers, direct selling by manufacturers, changes to the block exemption and the growth of car supermarkets are driving changes in the demand for advertising. Motor advertisers are moving away from local/regional press and are now seeking more display advertising, with wider coverage, using more creative and data-driven marketing techniques which are able to demonstrate better returns on advertising investment.

Local/regional press is still an important source of information for used car buyers (41%, Newspaper Society, 1999). However, car buyers are increasingly turning to other local/regional information sources including specialist/advertising only/magazine print media (33%) and non-print media, primarily the Internet (7%).

The growth of non-newspaper media is being driven on the demand side by the desire for wide choice, ‘rich’ information, ease of access and value added services. Equally, suppliers of advertising are seeking low cost access to a target audience with opportunities to cross-sell. Specialist publications and the Internet both score highly against these criteria and therefore present a major and fast growing threat to regional/local press.

1.21 *The rise of online motors advertising*

- The Internet threat to regional/local press is often understated since they generate revenue in different ways. A more meaningful measure of impact suggests that by 2003, £4bn worth of cars will be bought online and over £13bn worth of car purchases will be browsed online (*Gartner Group, 1999*). The total UK market is worth £65bn (*Retail Motor Industry Federation (2001*)).

- The strength of the online proposition is illustrated at the local level by *Auto Trader*’s Internet offering, namely, autotrader.co.uk which has a 54.2% market share of the total online classifieds motoring traffic. The site has over 1 million people running 8 million vehicle searches on the site per month across the UK (*autotrader.co.uk*). The site is used by approximately 66,000 people in the East Midlands alone. It has a strong brand and provides cross selling opportunities in insurance and other goods and services—so although Internet advertising revenue is currently low, it is growing rapidly and is a serious threat for regional/local press.

1.22 The increase in competitive pressure from specialist publications

- Off-line specialist car titles, ad-only publications and car magazines also deliver strong advertising propositions with a singular focus on car sales and detailed listings.

- *Auto Trader*, with its free pick-up sister publication *Autofreeway*, has become a formidable niche publication in the motors category. It has 13 regional editions across the UK, lists approximately 160,000 vehicles, has an estimated 35% dealer penetration, published 1.2 million private photo ads in 2000, and claims to have over 2 million readers every week when both its print media and online products are combined (*Newspaper Society*).

- Specialist car magazines are far more targeted to the car buying public than a regional/local newspaper, and therefore although they account for a lower level of circulation, they represent better value for money to the motors advertising community. A survey for the Commission as part of the review of the car market indicated that 22% of respondents used car magazines. Of these respondents, 34% said that they normally read these magazines and 63% said that they looked at them because they were thinking of buying a new car. (Competition Commission - Review of the UK Car Market, 2000).

1.3 Recruitment

Increasingly recruitment advertising budgets are shifting from traditional to new media such as the Internet and iDTV. Meanwhile additional specialist recruitment magazines in traditional print media enter an already crowded and competitive marketplace.

Total recruitment advertising is worth £1.1 billion and £74 million in the East Midlands (*Advertising Association*). Growth in the market has been high with a CAGR of 11% between 1996 and 2000 reflecting the economic cycle. However regional press is losing share fast—its share of the recruitment advertising market decreased from 57.2% in the first half of 2000 to 55.9% in the second half of 2000 (*Advertising Statistics Yearbook 2001*). This trend is set to continue. ‘The reliance of the regional press on situations vacant advertising is frightening. The Internet is the greatest source of potential threat that we have ever seen.’ (Marketing Director—Cambridge Newspapers; The Newspaper Society)

As in the case of motors, new media offer a compelling proposition for both buyers and sellers. For job seekers there is ease of access to voluminous and detailed information about jobs with options of career advice, tips on CVs, etc. Applicants can also set up e-mail alerts or text messages when new jobs are posted. For advertisers there is cost-effective access to a target audience with the potential for more detailed information about the applicant. The regional/local press are unable to compete with this level of detail, the level of interaction, or the breadth of services and are set to continue to lose market share.

1.31 The rise of online recruitment

- Successful online sites now act as ‘career networks’ which aggregate training, self-assessment and placement services. These are underpinned by technologies which allow job profiling, jobs databases and matching engines.

- 9.3 million people looked for jobs online in 2001 (*Consumer Use of the Internet;* Oftel Residential Survey). Therefore an estimated 575,000 people in the East Midlands used the net to search for a new job.

- The proportion of advertising budget devoted to the Internet grew from 1.6% to 4% during 2000 (Newspaper Society & Reed).

- There are a number of online recruiters who operate on a national level and who offer the chance to search jobs specifically by local region. For example, Reed.co.uk has over 90,000 listings of which an estimated 5% lie in the East Midlands. These sites represent a broad spectrum of job categories: Reed.co.uk includes financial (20%), IT (14%), professional/managerial (36%) and engineering (10%).

1.32 The increase in business and specialist magazines

- Despite business and trade magazines operating in a low growth sector, business magazines, free ad publications and other specialist recruitment only publications are a major threat to newspaper publishers in the recruitment category and account for around 10% of the total recruitment advertising market (*Advertising Association*). They are able to bundle industry content with industry jobs to form an attractive proposition for both job seekers and recruiters that cannot be met by the regional/local press.

1.33 The development of iDTV

- The penetration of iDTV has risen to approximately 25% in the UK which equates to around 6.8million households (Forrester). It is predicted to grow strongly and because of its functionality, it is increasingly seen as an attractive proposition for advertisers. iDTV developments such as jobchannel.tv, will therefore increasingly have a major impact on newspaper recruitment advertising as local advertisers are offered wider access to the local community in a digital environment.

1.4 Retail

Retailers are becoming more sophisticated in using data capture and analysis to target specific local audiences and customer types. They are therefore turning increasingly to media such as the Internet and direct marketing which can specifically deliver their chosen message on a value for money basis.

Total UK retail advertising is worth £1.7 billion and £112 million in the East Midlands (Advertising Association). The UK retail advertising market is fragmented amongst different media and will continue to be so as the Internet and direct mail, together with cinema and outdoor advertising eat into the revenues of the press, radio, and TV.

A number of industry developments are driving the use of new technologies and media. In particular the move towards customer focus and segmentation, loyalty schemes, online retailing and new value added services for customers (e.g. financing and extended warranties), the need to foster local knowledge of new out-of-town developments and brand overhauls. Regional/local newspapers are simply not able to operate at this level of segmentation or sophistication of targeting. Conversely, direct mail is better suited and has embraced new media technologies and the opportunities that they offer.

In a local context, advertisers place emphasis on the ability to convey local, targeted messages about location, sales and special offers. Evidence from an Andersen mini-survey indicate the use of a wide range of local media and a high degree of willingness to switch media sources in response to local press price rises.

1.41 The rise of online retail advertising

- Between 2002 and 2006 the UK online retail market is expected to rise by 250% from £4bn to over £14bn (*Electronic Shopping 2002,* Verdict Research).

- Online retail advertising reached 8% of the retail advertising total by 2000 (Advertising Association).

- As the market grows, and individuals are willing to spend more online, offline promotion of websites will move online. Consistently high traffic levels on retail websites will also allow retailers to host their own advertising, on a local and national basis.

- Browsers can now be targeted to the nearest postcode area from the searches they undertake, as is illustrated for example, by Tradepiper.com.

- All of these trends will divert local advertising away from traditional channels, including the regional/ local press, to the Internet.

1.42 The increase in direct mail retail advertising

- Direct marketing includes direct mail, leafleting, mobile phone text messaging, telemarketing, e-mail. Our mini-survey shows direct mail to be a fast growing and significant threat to the regional/local press.

- Direct mail is one of the most targeted advertising medium for advertisers, aligning it with industry trends showing the need for and success of personalised marketing in several retail sub-sectors. In 2000, several large retailers (B&Q, Asda and Tesco) each sent 110m or more leaflets and flyers to customers, an average of four for each household in the country (*Door to Door Market,* Mediaforce, Nov 2001).

- Because of the targeted nature of direct mail, it represents good value for money to advertisers. Direct mail therefore becomes increasingly important as a 'below the line' marketing medium in times of a market downturn when advertising budgets are under pressure.

- Direct mail is not only the preserve of large multiples. Small retailers are increasingly turning to this media, with local distribution increasingly being bundled to reduce the cost e.g direct mail adverts for local trades people, fast food outlets and taxi firms delivered door-to-door by one agent.