

# 7 Views of the main parties

## Contents

	<i>Page</i>
Introduction.....	126
Views of Newsquest .....	126
Background and rationale for the proposed transfer .....	126
The relevant market .....	126
Competition .....	127
Substitutes for Newsquest's local London newspapers .....	127
Links with other publishers.....	129
Pricing and buyer power .....	130
Prospects for entry .....	131
Effects of the proposed merger on competition .....	133
Areas of overlap between INM's and Newsquest's titles .....	134
Market shares.....	135
Clustering.....	135
Effects on prospects for entry .....	136
Newsquest's views on the CC's quantitative and qualitative assessment of advertisers.....	136
The results of Newsquest's own surveys .....	137
Editorial diversity .....	139
Benefits of the proposed acquisition.....	139
The relevance of previous inquiries .....	139
Potential conditions.....	141
Kent Division.....	141
North London Division .....	141
Views of INM.....	142
Background to the transfer.....	142
Rationale for the transfer .....	142
The market.....	143
The relevant geographic market.....	143
Characteristics of the market.....	144
Substitutes .....	145
Threat of entry.....	145
Effects of the transfers on competition .....	146
Local markets.....	146
Regional markets .....	147
INM's response to the CC's survey of advertisers.....	147
Editorial issues.....	148
Benefits.....	148
Potential conditions.....	148
The Kentish Times division .....	149
North London Division .....	150
Post Newspapers .....	150
Assets necessary to the continuation of newspapers.....	150

## **Introduction**

7.1. This chapter summarizes the views of Newsquest and INM. The CC sought evidence from both parties on the proposed transaction and the effects that the merger could be expected to have on the public interest. The parties also submitted their views on the benefits that could be expected from the transfer of titles and possible conditions for any adverse effects that we might identify.

## **Views of Newsquest**

### ***Background and rationale for the proposed transfer***

7.2. Newsquest told us that it reached agreement with INM for the purchase of the titles on 25 March 2003. Newsquest said its understanding was that the reason that it was the sole bidder for the titles was principally because INM had certain conditions attached to the transaction including certainty of execution, good financial covenant and most importantly, absolute confidentiality.

7.3. Newsquest said that the acquisition was in line with its business strategy which was twofold. First, it intended to pursue organic revenue and profit growth by seeking to improve the range and appeal of its titles to its readership (including by launching new titles and non-newspaper products where appropriate), thereby increasing advertising sales, and by managing costs. Second, Newsquest intended, subject to securing any necessary regulatory approvals, to make acquisitions of newspapers and/or niche products, both in its existing markets or in contiguous areas where it expected to be able to manage such products effectively.

7.4. Newsquest told us that the principal driver for the proposed acquisition was that it wanted to extend its existing portfolio within the Greater London area. Newsquest expected to benefit from economies of scale by expanding its ownership of titles in London. Newsquest considered that its presence in the London area was important as it was an attractive centre by virtue of its overall prosperity, likely prospects, as well as its size which afforded a number of opportunities. The Greater London area provided regional/local titles with a challenge to meet the requirements of the diverse communities and to service the varied demands for news at many different levels. Newsquest said that there was a need for different types of publications to serve the broad range of socio-economic groups within localities.

7.5. [ *Details omitted. See note on page iv.* ] Newsquest told us that it intended to undertake a detailed review of the titles after the acquisition to identify areas requiring improvement which would benefit their readers and advertisers. Newsquest told us that its primary aim was to develop and improve the titles it proposed to acquire.

### ***The relevant market***

7.6. Newsquest argued that local newspapers could not be regarded as a separate market but should be regarded as part of a wider advertising market. Newsquest believed that local newspapers competed with other forms of printed and non-printed media including local radio, television, the Internet, posters, and direct marketing. Newsquest submitted that the London area was highly competitive for advertising due to the proliferation of various forms of media.

7.7. Newsquest noted that the titles involved in the reference remained local titles serving fundamentally local markets. Newsquest, however, considered that the market for local information, whether for news or commercial opportunity, was not defined by products. The products existed to serve a market. Newsquest believed that whether weekly titles could constitute a distinct economic market would depend upon a number of factors including:

- (a) the product differentiation as between different titles/media;
- (b) the geographic coverage of different media;
- (c) the availability of other media;

- (d) the views of advertisers as to the substitutability of other advertising media;
- (e) the views of the local readership;
- (f) the socio-economic profile of the readership;
- (g) cost; and
- (h) local market circumstances.

7.8. Newsquest considered that the outcome of the present inquiry depended on the behaviour of both advertisers and readers. To attract advertising, newspapers needed both to attract readership and to provide an appropriate medium for advertisers. In order to attract and retain readers, Newsquest said that it must offer a wide range of information both in the form of reporting events and paid content.

7.9. Newsquest said that local weekly newspapers were not a distinct market from either a reader or advertiser viewpoint because of the availability of alternative media. Further the 'market' viewpoint of an advertiser in the London area could be varied. In the case of some national advertisers it could sometimes be purely a number of relevant households in social categories, whilst for store openings, for example, it would be the catchment area that was relevant.

7.10. Newsquest considered that there was no substitute for a close scrutiny of the local market to gauge the actions of and opportunities available to advertisers, in particular in relation to the substitutability of different media. This was particularly important in this context as the London area was very different to other areas where regional/local newspapers circulated: the market here was complex and multilayered.

7.11. Newsquest told us that competition from other media was especially strong in London; in addition to other newspaper publishers this also came from the development of specialist advertising publications and publications aimed at ethnic groups. Newsquest considered that in the Greater London area, the broad range of socio-economic profiles had encouraged some advertisers to 'multilayer' the advertising market. Newsquest said that this had resulted in a greater proliferation of advertising-only and niche publications than anywhere else in the country.

## ***Competition***

### *Substitutes for Newsquest's local London newspapers*

7.12. Newsquest submitted that it was not possible in a general context to assess precisely the relative importance of different media. Local market circumstances would be of special relevance. The choice of media, in particular by advertisers, would depend on a variety of factors including rates, manner and extent of distribution, content and target audience. Newsquest further added that readers would be influenced by editorial content and advertising.

7.13. Newsquest said that it considered other regional/local titles represented significant competitors. In terms of whether other local newspapers could be considered as substitutes for Newsquest's local titles, Newsquest said that there were two separate criteria for the reader and the advertiser. From the reader's point of view, local newspapers competed for their time. From the advertiser's point of view, quite a different set of criteria was applied. Advertisers may for example, want to place advertisements in paid-for rather than free newspapers.

7.14. Newsquest said that it competed vigorously with a wide range of competitors, including INM's local London titles. Newsquest competed with INM's titles by offering advertisers a better promise of response and a better all-round-service.

7.15. Newsquest said that the extent to which regional/local titles faced competition from other advertising media and newspapers varied. Newsquest told us that the market for its local London newspapers was weighted towards a local market for advertising but the emphasis would vary depending on the different segments of advertising. Newsquest explained that [ ✂ ] of their business came from

classified advertising. Depending on the advertiser, they might want to reach a very local area or a much wider area. With property, for example, an independent estate agent was likely to want to reach a local catchment area. If the advertiser was, however, a larger regional estate agent, it might want a regional presence. Newsquest considered that there was a growing market for people who wanted to move outside their local area. Newsquest said that in recognition of this, it had launched a regional property publication targeting people who wanted to move from, for example, east London to central London or vice versa.

7.16. Newsquest told us that regional newspapers such as the *Evening Standard* and *Metro* could be considered to be head-to-head competitors with its local London titles. Newsquest said that although there might not be the extent of overlap between advertisers in these regional and local publications, the overlap existed. Newsquest also said that the extent of the overlap of readers between the *Evening Standard* and its local London titles would be significant because although the *Evening Standard* was classified as a regional title it also served the interests of commuters.

7.17. Newsquest said that it also faced competition from certain national titles. Most national newspapers (and certainly the London-wide titles) produced listing supplements for local events and entertainment in direct competition to those provided by local newspapers. Newsquest also considered that national publications competed with its local titles for advertising in the field of public sector job vacancies; for example, both *The Times* and *The Guardian* had weekly public sector job vacancy sections.

7.18. Newsquest considered that its publications faced significant competition from advertising-only publications. This was especially the case in Greater London where there was a vast range of niche products and advertising-only publications that competed for classified advertising. Newsquest said that in Bromley, for example, 85 per cent of the free *News Shopper* title was devoted to advertising; around two-thirds of that comprised classified advertising (principally motors, situations vacant and property). In relation to each of these classified categories, Newsquest said that there was a great number of alternative advertiser options and that such options included *Auto Trader*, *Auto Exchange*, *Exchange & Mart*, *Loot*, *FreeAds* and *Buy & Sell*. [

*Details omitted. See note on page iv.*

]

7.19. Newsquest said that local authority publications also provided competition for advertising revenues. Newsquest told us that there were at least 15 local council titles that operated in the Greater London area including *Waltham Forest Magazine*, Wandsworth Council's *Brightside* and *The Hounslow Council Update*. The majority of these publications carried third party advertisements and three had links with Trinity Mirror. A recent example of a new entrant to this area was *The Londoner*, the monthly newspaper from the Mayor of London. This publication was widely distributed across the whole of London by way of free distribution and the Royal Mail.

7.20. Newsquest said that its publications also faced competition from the large number of magazines such as *South West*, *North West*, *The Meridian* and *The Guide*. Newsquest said that Highbury House Publications owned and distributed over 300,000 copies of nine magazines in glossy A5 format across London. These titles contained a wide range of advertising and some had paginations of up to 180 pages. Newsquest also considered that there were a number of listings products which imposed competitive constraints on regional/local titles, including, for example, *Time Out*.

7.21. Newsquest further submitted that competition also came from significant letterbox marketing carried out in Bromley by a range of distribution companies.

7.22. Newsquest said that local radio imposed competitive constraints on the local press. It said that the largest commercial radio station in London was Capital Radio (owners of Capital FM, Capital Gold and XFM); however, other significant competitors included Chrysalis (owners of Heart 106.2, LBC and Classic FM), GWR (owners of Classic FM), EMAP (owners of Kiss 100 and Magic FM) and Virgin Radio (owned by SMG).

7.23. As regards television, Newsquest submitted that the London ITV franchise (London Weekend Television) was owned by Granada as was Meridian Broadcasting which operated in the South and South-East of England. This along with the various cable and digital operators (including Sky Broadcasting, NTL and Telewest) represented viable competition for certain forms of advertising spend.

7.24. Newsquest told us that competition for certain types of advertising might be provided by outdoor advertising companies. Newsquest said that cinema advertising was also a lucrative area with £164 million being spent on this media in 2001. Additionally, in the London area, there were advertising opportunities on the London Underground, Docklands Light Railway and on the London buses.

7.25. Newsquest considered that new and developing media posed a particular threat, especially to its advertising revenue. The nature of the Internet and its distribution meant that competitive pressure was intense and increasing. Newsquest told us that the number of electronic competitors that it faced across all advertising sectors was increasing, and that this competition cut across geographical boundaries. Newsquest believed that, over time, the conversion by advertisers from local newspapers to Internet advertising would increase further. Newsquest said that it recognised that regional and local newspapers had to develop an Internet presence in order to participate in this growing medium.

7.26. Newsquest considered that the London area was well served by regional specific web sites which competed with printed media. Newsquest said that this competition came from both web sites of London regional newspapers, for example, the web site of the *Evening Standard*, [www.thisislondon.co.uk](http://www.thisislondon.co.uk), as well as from a plethora of sites from third parties catering for the London area. Newsquest considered Internet-based competition to be especially important in the London area due to the high percentage of connectivity with 96 per cent of businesses having Internet connectivity.

7.27. Newsquest told us that many London boroughs and NHS Trusts now had their own web sites which advertised job vacancies, for example the web site of the London borough of Bromley, [www.bromley.gov.uk](http://www.bromley.gov.uk) and the web site of the Bromley Health Trust, [www.bromleyhospitals.nhs.uk](http://www.bromleyhospitals.nhs.uk).

7.28. Additionally, Newsquest told us that it faced further competition from specialist web sites such as [www.monster.com](http://www.monster.com) and [www.totaljobs.com](http://www.totaljobs.com) (recruitment), [www.rightmove.co.uk](http://www.rightmove.co.uk) and [www.propertyfinder.co.uk](http://www.propertyfinder.co.uk) (property) and [www.discountmotors.co.uk](http://www.discountmotors.co.uk) and [www.autotrader.co.uk](http://www.autotrader.co.uk) (motors).

7.29. Newsquest said that because it considered web-based services to pose a serious threat to the ability of regional and local newspapers to compete both in the market for advertising and readership, it had to ensure that it competed in this medium. Newsquest had developed web sites which it viewed as extensions to its traditional newspaper business, in order to fulfil consumer expectation of online newspapers and to provide a complete package of services for the local community. All Newsquest's titles were represented on the Internet. Newsquest considered that its own sites were complements to its printed titles as they might assist it to maintain and build upon its existing local and regional franchises through an alternative delivery mechanism.

### *Links with other publishers*

7.30. Newsquest told us that there were few examples of linkages between Newsquest and the larger publishers of regional/local titles. Newsquest submitted that it had the following links with other publishers:

- (a) The four largest publishers were all members of the Newspaper Society, the industry body representing UK regional/local newspapers, which considered issues of general interest to the newspaper industry.
- (b) Newsquest had in place joint web site ventures. These included [www.thisisessex.com](http://www.thisisessex.com) which was run in conjunction with Northcliffe (a subsidiary of DMGT) to provide an Essex-wide web site and [www.holdthefrontpage.co.uk](http://www.holdthefrontpage.co.uk), a web site aimed at journalists, which was run in conjunction with both Northcliffe and Trinity Mirror.
- (c) Newsquest also had a share of approximately one-quarter of [www.fish4.co.uk](http://www.fish4.co.uk), a site which allowed customers to search for local jobs, houses and cars. This site was linked to regional newspapers of Newsquest, as well as to other large newspaper operators. The other shareholders were Northcliffe, Trinity Mirror and GMG.
- (d) Newsquest printed the *Daily Mail* and *The Mail on Sunday* for DMGT on its Bradford and Southampton presses. [ *Details omitted. See note on page iv.* ] The

contract at Southampton was entered into by Newscom prior to its acquisition by Newsquest. A small number of Newsquest's titles were printed on the presses of: Northcliffe in Stoke-on-Trent, GMG in Reading, Westferry Printers in the Docklands and an independent publisher in Carlisle. All contracts are based on arm's length terms.

- (e) Newsquest also printed the *Daily Mail* and *The Mail on Sunday* under contract for DMGT at its Cambuslang site. This contract was entered into between SMG and DMGT prior to Newsquest's ownership.
- (f) Newsquest's Regional Letterbox Services was an agency which arranged for the distribution of leaflets of other publishers on a job-by-job basis where coverage was not available from Newsquest's titles. Similar services may be offered by the other publishers.
- (g) Newsquest had an agreement with the sales house Clacksons, which also represented the London titles of GMG, Archant, Tindle and INM's North West London Newspapers. The formal agreement with Clacksons expired on 23 May 2003 but it continued informally, until August 2003 when Clacksons terminated the arrangement. Through this agreement parties were able to place adverts in the combined publications of the aforementioned publishers.
- (h) Through its acquisition of Newscom, Newsquest had a 50 per cent share in a joint venture with Portsmouth Publishing and Printing Ltd (owned by Johnston) called Classified Periodicals Ltd. This company published an advertising-only weekly newspaper called *Recruitment South* in the Portsmouth, Southampton and Winchester area.
- (i) Through its acquisition of Newscom, Newsquest had a 25 per cent share in a joint venture with Portsmouth Publishing and Printing Ltd, Tindle and Surrey & Berkshire Newspapers (GMG) called Free Admart Ltd. *Admart* was a paid-for title featuring free advertisements, but contained no editorial. It was available in the Hampshire area and adjoining localities.
- (j) Newsquest had joint ventures with Northcliffe in Essex of a paid-for advertising-only title, *Job Weekly* and two free pick-up publications, *Stansted Life* and *Autoweekly* (advertising-only).

Newsquest told us that the joint ventures with other publishers were limited to the joint venture publication itself and that the contractual printing arrangements were on arm's length terms.

### *Pricing and buyer power*

7.31. Newsquest considered that the level of concentration in a market for newspapers did not affect the price it charged for advertising. Newsquest considered that the main determinant of pricing elasticity for advertising was how effective that form of advertising was compared with the alternative opportunities, cost and effectiveness. Newsquest told us that advertising spend was generally highly price sensitive across all categories.

7.32. In terms of measuring efficiency of advertising, Newsquest told us that it offered the promise of a response. Advertisers would determine a value on how much they were willing to pay for that promise. Newsquest said that advertisers knew that their advertisement would reach a certain number of potential customers based on the newspaper's circulation figure. Newsquest told us that agencies tended to be more sophisticated than many local customers in measuring the effectiveness of advertising as they were charging a customer a fee for this.

7.33. Newsquest submitted, however, that agencies did not necessarily have more of an ability to negotiate discounts than other independent customers. Based on the structure of the rate card, the independent customer would get the same price as an agency and Newsquest said that it held to this discount structure.

7.34. There were three basic parameters that Newsquest took into account when determining discounts: frequency (the number of insertions in a title), volume (the size of the advertisement or the size of the advertisements over a period of time), and the number of titles in which the advertisement will be placed. Newsquest also told us that the rate card was set on a title by title basis. Newsquest said that if a competitor were to cut prices on its rate card, it would only respond if customers started to leave, rather than responding directly to the competitor's reduced prices. Newsquest told us that it was generally able

to operate successfully without offering lower prices than its competitors. It was generally able to hold to its established discount structure and compete by offering a better promise of response to advertisers and better all-round-service.

7.35. Newsquest said that it monitored the volumes of its direct competitors but that the amount it monitored of other substitute media varied. It was difficult to compare other media with newspapers; it was particularly expensive to monitor television and radio. Radio was particularly difficult due to the complex discounting arrangements and the sheer number of radio stations. Newsquest said that print publications were easier to monitor where it could count the number of pages, the average amount of trade advertisements relative to private advertisements on the page and so forth. Newsquest said that on the whole, it tended to monitor printed media rather than broadcast media.

7.36. Newsquest said that factors that influenced businesses to advertise in a particular newspaper included:

- (a) the geographical spread of the title's circulation/distribution;
- (b) whether the title is paid-for (and therefore actively purchased, thus ensuring a more targeted response, and usually higher readership) or free;
- (c) the level of circulation/distribution (the number of copies sold and distributed);
- (d) the level of response achieved in the past, and that expected in the future;
- (e) global economic factors that influence the level of total advertising spend;
- (f) national economic factors that will affect some markets, for example recruitment and property;
- (g) the choices which exist in the market the advertiser is targeting, including both other printed media (including niche and advertising-only publications) and alternative media, for example radio, television and the Internet, the influence of which will become more apparent, the larger the circulation/distribution of the title;
- (h) the socio-demographic make up of the title's readership;
- (i) the strength of editorial; and
- (j) the quality of the newspaper in terms of paper used, level of colour, quality of finish.

7.37. Newsquest had heard anecdotally about times when Trinity Mirror had sold advertising at rates of around 50 per cent off their rate card. [

*Details omitted. See note on page iv.*

] Newsquest said that it understood that the degree of discount offered by the *Evening Standard* and the *Metro* was more variable depending on the client and the advertising agency being used. Newsquest believed, however, that discounts approaching 50 per cent of rate card were not uncommon.

7.38. Newsquest told us that yields increased for the Dimpleby titles after they were acquired by Newsquest because they also introduced an on-line offering which was not previously available. Newsquest also attributed the increased yields to the different way in which it organized the portfolio of titles.

### *Prospects for entry*

7.39. Newsquest submitted that in general terms, barriers to entry in establishing a regional or local title were relatively low. Newsquest told us that it was probably quicker to achieve successful market entry with a free newspaper, which was largely dependent on its advertising revenue, than with a paid-for

title, where various factors, such as the speed of winning readership from other established products, played a predominant role in the title's success. Newsquest said that the availability of editorial, distribution and printing resources in the London area facilitated new entry.

7.40. Newsquest pointed out that in London in 2003 alone it had launched a new free title, namely *The Chiswick*. Newsquest said that the low barriers to entry in the market were illustrated by the fact that a publisher launched a rival publication in Chiswick within a month of the launch of *The Chiswick*.

7.41. Newsquest did not believe that major publishers would limit the launch/expansion of titles into areas in which other publishers were active. Newsquest stated that there was no 'live-and-let-live' behaviour among publishers and that this suggestion simply did not reflect what happened in practice.

7.42. Newsquest said that it had actively launched into areas where other publishers operated, most recently in 2003 with the *Uckfield Leader*. Another example was in Croydon. The Trinity Mirror owned publication, the *Croydon Advertiser*, had a strong presence in the recruitment advertising market, while Newsquest's free publication, *The Guardian*, had a strong presence in the property advertising market. In 2000 Newsquest set up an office in the Croydon area with its own advertising and editorial resource and recruited senior staff from Trinity Mirror's title. In the past three years, Newsquest has invested £[ ] to its titles in the Croydon area. As a result of this investment, revenues have grown by [ ] per cent.

7.43. In response to the Newsquest initiative in Croydon, Newsquest said that Trinity Mirror undertook an initiative to increase its presence in motor advertising in the neighbouring borough of Sutton. Trinity Mirror launched a separate supplement which, when combined with Trinity Mirror's reduction in advertising rates, contributed to a considerable loss in Newsquest's advertising revenue.

7.44. Newsquest added that in February 2002, the property-only title *Move To* was launched in direct competition to Newsquest's *Property Weekly* in south-west London. This launch was supported by Trinity Mirror, which provided the title's distribution network. *Move To* was extremely successful, with the loss of [ ] of revenue from *Property Weekly*.

7.45. Newsquest said that the launch of various new paid-for titles in the London area further demonstrated that barriers to entry were low. In fact, the distribution and printing facilities available in or close to the areas of overlap made new entry even more feasible. Newsquest itself said that it launched the *Amersham & Chesham Free Press* in January 2001 as well as a new edition of its *Comet Series* in Wandsworth in January 2000.

7.46. Newsquest considered that the ability of a newspaper to sell advertising was linked to its effectiveness as an advertising medium and in particular the level of readership. Thus, with a paid-for newspaper, securing an audience for a new product was likely to incur some start up expenses, particularly where the area was already well served by existing publications, though Newsquest did not consider that other publications necessarily constituted a barrier to entry. Newsquest said that it had traditionally only successfully established paid-for newspapers when a free title had been converted into a paid-for title (for example, the *St Albans Observer* in Hertfordshire), and through the establishment of community specific editions of existing newspapers.

7.47. Newsquest considered that the launch of the *Metro* in the London area illustrated the ease with which publishers could launch a free newspaper. Newsquest believed that with a free newspaper, the key differences as compared to a paid-for title were: the requirement to establish a household distribution network; and the costs of distribution.

7.48. Newsquest said that there had been a considerable increase in the number of niche and advertising-only products, bulk distribution and 'themed' publications in the London area, all of which had had a real impact on classified advertising revenues in the regional/local press. Newsquest emphasized that such products could be real substitutes, in particular for classified advertising, to the advertising service provided by a free newspaper. Whilst such products did not of course include editorial, they would often be an attractive alternative format for publishers wishing to reach certain types of advertiser, and for the increasing number of readers whose principal interest was in perusing advertising material.

7.49. Newsquest submitted that local community-based newspapers could be launched with little expense beyond an individual's time and effort. Newsquest said that in north-east London, a number of

'parish pump' publications had been successfully produced, that covered very local stories and attracted low-end local advertising with only one or two resources. Print runs were between 5,000 to 10,000 and the products were distributed as a pick-up. These types of titles had proved to be resilient in the face of more traditional publications. Newsquest noted that in the past few weeks, a Lewisham-based product had been launched, using a private telephone number, but carrying a range of advertising. Initial indications showed that it is being produced by a group of associates on a part-time basis.

7.50. Newsquest considered that in light of the many variables, it was impossible accurately to predict the costs of establishing a viable business. Newsquest said that the costs which may be expected to be recovered on exit were derived from the extent to which the product had established any valuable goodwill and the nature and condition of any related premises and equipment.

7.51. Newsquest submitted that local and regional newspapers must represent local interests if they were to survive as viable businesses. On this basis, Newsquest said that in assessing barriers to growth, no distinction could be made between small players and small titles. Even if a small title formed part of a larger publishing group, it must operate as a small business with a local presence in order to retain its readership and advertiser interest.

7.52. In terms of other suppliers/publishers operating in contiguous or neighbouring areas to those of relevance to the inquiry, who would be most likely to enter the market with new titles, Newsquest said that two of the largest regional/local newspaper publishers already operated titles in the Greater London area, that is, Trinity and Associated Newspapers. Newsquest said that due to the relatively minimal barriers to entry of the regional/local newspaper market (particularly with free, niche or advertising-only publications) any other current newspaper operator could enter the London market at any level.

7.53. Newsquest noted that recent press reports had linked the owners of *The Express* newspaper with the launch of a new free London title, the *Evening Mail*. It was reported in [www.mediaguardian.co.uk](http://www.mediaguardian.co.uk) that this new title would begin with a print run of 500,000 and would be distributed throughout the whole of the Greater London area.

7.54. Newsquest said that that in the Greater Bromley area specifically, Tindle, Northcliffe, Kent Messenger and KOS all operated titles in areas overlapping or contiguous to existing Newsquest and INM titles. Newsquest thought that they might be expected to expand their existing operations or enter this area with new titles, if the opportunity arose.

7.55. Newsquest said that Kent Messenger circulated a number of weekly titles in south-east London, around Dartford, Swanley and Bexley. It was therefore well placed for expansion, and Newsquest believed that it had sufficient excess printing capacity to facilitate this. Newsquest thought that KOS was another possible new entrant. Newsquest noted that on its web site it alluded to an interest in broadening its activities: 'Kent on Sunday *will* produce quality newspapers reflecting the new found prosperity of the Garden of England.' (Emphasis added). Newsquest believed that Trinity Mirror could also launch new titles from its nearby base in Croydon.

7.56. In North London, Newsquest noted that Archant had a strong presence and Newsquest believed that it was interested in expanding its range of titles in London. Northcliffe had a number of titles in Essex and Sevenoaks and could consider using these as bases for launching new titles into the London area. Newsquest considered that the fact that it currently printed its London titles at a range of presses some distance from London (for example, in Oxford and Brighton) demonstrated that it would be feasible for these publishers to launch new titles from their nearby bases.

7.57. Newsquest said that it was impossible to predict the likely strategy of any future entrants, and therefore any impact on advertising markets. As a general proposition, however, it was likely that the publishers set out above would consider launching a new title in the local areas of relevance if the opportunity arose.

### ***Effects of the proposed merger on competition***

7.58. Newsquest told us that it did not believe that the proposed transaction would have any adverse effect on competition. Newsquest said that it would continue to compete vigorously in the areas currently served by its own and by INM's titles. Newsquest considered that due to the high level of competition

local newspapers faced for advertisers from printed and non-printed forms of media, seen from a Greater London viewpoint, the impact of this transaction was not material.

#### *Areas of overlap between INM's and Newsquest's titles*

7.59. Newsquest submitted that within the Greater London area, there were just four areas of local overlap (in north-west, north-east, east and south-east London). Of these, Newsquest said that three were of limited significance as they were minimal and for the most part on the fringes of the particular overlap area. Newsquest told us that the only area of overlap of any potential materiality was the greater Bromley area of south-east London. Newsquest did not, however, believe that this transaction raised any competition or public interest concerns in this respect, not least because of the choice of printed and non-printed media available in this area and because of the presence of other major newspaper publishers in the overlapping and contiguous areas.

7.60. Newsquest submitted that in assessing the current degree of competition between Newsquest's and INM's titles it was important to bear in mind that the titles were very different products both in terms of content, nature and pagination. For example, Newsquest said that in terms of editorial content, the *Bromley Express* (INM) had a low editorial content with a total pagination of 56 pages, as opposed to the *Bromley News Shopper* (Newsquest) with approximately 184 pages in total, with around 45 of these featuring editorial. Newsquest said that editorial played a key role in the *News Shopper* series, and its quality was acknowledged in 2002 when it received the Newspaper Society award for 'Campaigning Newspaper of the Year'.

7.61. Furthermore, Newsquest said that INM's and Newsquest's titles differed in the Bromley area in terms of major advertising categories.

- (a) *Property*: Newsquest said that the *Bromley News Shopper Series* was clearly the major vehicle for property advertising. Its property advertising section might occupy as many as 70 pages compared with the 8–9 pages that the *Bromley Express* would typically achieve. If Newsquest were to change terms or service levels to the disadvantage of estate agents, a rival publisher would find it very attractive to diversify into the greater Bromley area at low marginal cost.
- (b) *Recruitment*: Newsquest submitted that recruitment advertising divided into local direct advertisements and agency advertisements. The latter were placed on a regional or even national basis and a merger in greater Bromley had no impact whatsoever upon them. The local direct advertisements were, as their name suggested, placed more locally. INM sold space for the four boroughs of Bromley, Bexley, Gravesend and Dartford as a single package. Such sales were therefore made in competition with all of the publishers' active in that area. The combination of Newsquest and INM in greater Bromley would have no effect on competition in that wider area.
- (c) *Motor trading*: Newsquest considered that whilst motor trading was more localized than recruitment advertising, there was substantial competition from publications such as *Auto Trader* and *Loot*. The level of competition faced was clear from the fact that *Auto Trader* now carried approximately three times as many private motor advertisements as the Newsquest titles in the Bromley area. A high proportion of the *Motor Trader* advertisements carried mobile phone number contact details showing the willingness of readers/advertisers to travel throughout London to purchase motor vehicles and related products. In any event, Newsquest considered that just as in the other sectors, any adverse change in terms or service would attract new entry.

7.62. Newsquest said that in north-west London, there was some overlap in the Wembley and Harrow area between Newsquest's free weekly *Harrow Times* series, and INM's free weekly *Wembley & Kingsbury Chronicle*. The overlap was in five postcode districts in which the *Harrow Times* (with a distribution of around 80,000 copies) had low marginal distribution (8,932). In this area there was also overlap with a further INM title, the *Harrow & Sudbury Chronicle* in only one postcode district.

7.63. Newsquest noted that there was a further minimal overlap in Cricklewood, where INM's paid-for and free weekly *Kilburn Times* overlaps on the very fringes of Newsquest's free weekly *Hendon Times* distribution area in three postcode districts (involving around 5,050 copies of the title's almost 120,000 distribution). In this area, the *Hendon Times* also overlapped in one postcode district with INM's paid-for title, the *Camden Times*.

7.64. Newsquest identified that in north-east London, there was overlap around Haringey, Hornsey, Wood Green and Tottenham. INM's paid-for weekly *Hornsey Journal* Series overlapped with Newsquest's free weekly *Haringey Independent* in seven postcode districts. The *Haringey Independent* also overlapped with the *Haringey Weekly Herald* (a free weekly title) in nine postcode districts and in one postcode district with INM's paid-for title, the *Camden Chronicle*.

7.65. Newsquest said that in east London, there was overlap in one postcode district between Newsquest's free weekly *Waltham Forest Independent* and INM's free weekly *Woodford Weekly Post* (a relatively recent launch), and some minor overlap on the fringes of Newsquest's free weekly *Epping Forest Independent*'s distribution area.

### *Market shares*

7.66. Newsquest told us that there were no concerns about the overall level of concentration of its local London newspaper business that would result from the merger. Newsquest considered that the effect of the merger was resolutely local within a broader regional area.

7.67. Newsquest submitted that its national 'share' (in terms of circulation/distribution) for regional/local newspapers would increase from 15.4 to 16.4 per cent. Newsquest would remain the third largest UK regional/local newspaper publisher, behind Trinity Mirror with 23.7 per cent and DMGT with 22.2 per cent. Newsquest noted that these figures did not include 4.3 million copies of the *Metro*, circulated across the country and excluded competition from products that did not fall within the 'newspaper category'.

7.68. Newsquest told us that the merger would increase its share of total circulation/distribution in the Greater London area from 21.5 per cent to 28.8 per cent. This would make it the second largest publisher in the London area, behind Associated. Newsquest said that Associated was the largest publisher in the London area with the weekly distribution of its *Metro* title being 1,517,275 and its *Evening Standard* having a circulation of 1,491,555. Newsquest submitted that Associated's titles represented 40.5 per cent of the total circulation in the London area.

7.69. Newsquest said that the second largest publisher was currently Trinity Mirror with weekly circulation of 1,902,512 affording a share of 25.6 per cent. Newsquest said that it was currently third with a total weekly circulation of 1,592,978 giving it a share of 21.5 per cent and fourth was INM with a weekly circulation of 546,645 (7.4 per cent).

7.70. Newsquest said that the high local market shares that the CC identified would be offset by actual or potential competition from other media or new entrants. Newsquest argued that there was a vast range of substitutes available to advertisers for almost every category of advertising. This was particularly so in Greater London.

7.71. Newsquest said that the market shares that the CC identified in the remedies letter were in many cases inaccurate. Newsquest said that the JICREG-based methodology for market shares was flawed and that copies circulated/distributed formed an inappropriate basis for a definition of advertising share as it failed to attribute weight to the advertising content of the titles concerned.

### *Clustering*

7.72. With regard to whether the merger could strengthen Newsquest's overall market position in the London/South-East market, Newsquest said that London and the South-East comprised a series of local markets. There might be a single market only in a certain context where packages of advertising were put together using a number of local titles to facilitate advertising in that area. Newsquest considered that to the extent that Newsquest was able to add INM's titles to its packages, this was likely to be beneficial as it would enable it to compete with other packages in the area, including, for example, those offered by Trinity Mirror and the *Evening Standard*. Other than in this specific context, Newsquest believed that the effect of the merger was resolutely local within a broader regional area.

7.73. Newsquest noted that the position in the Greater London area, with regard to the main publishers, would not change as a result of this acquisition. DMGT remained the largest publisher with

Trinity Mirror and Newsquest providing strong competition both among themselves and with the DMGT titles.

7.74. Newsquest considered that whilst the merger would result in a small increase in the share of London/South-East titles being owned by one of the larger publishers of regional/local titles, Newsquest did not believe that there was any cogent evidence to suggest that this would lead to a lessening of competition either in the London area, the South-East or in the UK as a whole.

7.75. Newsquest said that for a number of years, it had operated titles which competed against those owned by Trinity Mirror, DMGT and Johnston. Newsquest said that no change was to be expected in the levels of competition experienced in any market as a result of the acquisition.

7.76. Newsquest told us that if the Greater London area was evaluated separately, it should be noted that there was a significant number of other publishers present including Archant, GMG, Tindle, Yattendon, Kent Messenger and KOS.

#### *Effects on prospects for entry*

7.77. Newsquest did not believe that the merger would increase barriers in the local geographic areas. Newsquest told us that entry barriers in London and specifically in the area affected by the transaction were particularly low.

#### *Newsquest's views on the CC's quantitative and qualitative assessment of advertisers*

7.78. Newsquest reviewed the results of the CC's advertiser questionnaire as well as the results of the telephone survey conducted by Andrew Irving Associates. Newsquest argued that both surveys had serious limitations and that the results should not, therefore, be given undue weight by the CC as evidence of possible negative effects resulting from the merger. As a result of its concerns, Newsquest commissioned IRN Research to conduct an independent survey.

7.79. Newsquest told us that both CC surveys involved a sample of the current customers of Newsquest and INM. Newsquest said that given that the aim of the exercise was to assess substitutability, it was essential to take account of the views of those advertisers who used to advertise in the local press but which had switched to another media (and who of course may switch back) and also the views of those advertisers which have elected not to use the local press for their advertising needs. Newsquest considered that, in order to provide a complete picture of the competition facing local newspapers for advertising spend, the CC should have broadened the sample to include both of these categories of advertiser. Newsquest argued that the exercise could therefore at best only be viewed as an overview which was highly likely to be biased to the view that local newspapers constituted a separate market.

7.80. Newsquest did not consider that the CC's sample size was sufficiently large to be able to draw a generalization of the views of London advertisers from it. Newsquest noted that the telephone survey covered only 30 advertisers whilst the advertiser questionnaire elicited responses from only 129 advertisers. Newsquest said that the size of the samples were insufficient to shed light on the general characteristics of the market.

7.81. Newsquest argued that the sample was further flawed by the fact that only the views of the higher spending advertisers were obtained. Newsquest noted that of the sample, 39 per cent of the respondents were advertising agencies and 57 per cent were other businesses. Newsquest said that the fact that such a high proportion of the sample were advertising agencies meant that the views of many actual end users had not been considered. Further, Newsquest believed that the survey failed to take account of a whole sector of Newsquest's advertising revenue generated by smaller advertisers. [

*Details omitted. See note on page iv.*

]

7.82. Newsquest argued that the fact that larger advertisers made up the sample had the effect of ‘skewing’ the response to the questions. Larger advertisers were more likely to consider advertising in local newspapers to be essential as they had elected to spend large amounts of money on this medium. Asking this question at the beginning of the survey set the tenor of the advertiser’s response and it would be difficult for an advertiser to then agree that other media were especially good substitutes.

7.83. Newsquest also believed there to be contradictions in the results of the advertiser questionnaire. Newsquest noted that the results of the questionnaire stated that 88 per cent of the sample agreed that local press advertisements were ‘essential’ to their business; 56 per cent, however, said that if rates were increased, they would reduce their advertising spend. Furthermore, Newsquest said that 41 per cent said that they would respond to an increase by switching their spend to other localities or to other media. This supported Newsquest’s view that there were in fact a number of options open to advertisers, and that it was, *inter alia*, this ability to go elsewhere which imposed a constraint on Newsquest from raising its prices. Newsquest believed that there were low barriers to entry for certain types of competing publications. Indeed, a ‘few’ out of only five estate agents interviewed in the telephone survey (which Newsquest considered to be a considerable percentage) commented that they might respond to price increases by creating an independent newspaper. Newsquest said that this was consistent with the ease with which property publications had been launched. Newsquest noted that the launch of *Move To* in south-west London, for example, [ *Details omitted. See note on page iv.* ].

7.84. Furthermore, Newsquest said that when advertisers were asked whether Newsquest’s and INM’s titles were realistic commercial alternatives, 75 per cent who used the south London titles and 36 who used the north London titles said that they were. Newsquest believed that the survey itself however, showed that the position was not quite as clear cut as this: a number of respondents of the advertisers questionnaire were quoted as saying ‘Would only use Newsquest’ and ‘Each title is unique’. Newsquest pointed out that it was also stated in the results of the telephone survey that many advertisers ‘felt that INM titles did not stand alone,’ which Newsquest said suggested that INM’s titles were at best complementary to, rather than substitutes for, Newsquest’s.

7.85. Newsquest also thought that that context of the survey may well have impacted on the results. Newsquest said that advertisers were likely to be concerned given that they were aware that the CC was looking to assess the possibility of negative side effects arising out of a proposed merger of two local titles. Newsquest also believed that a number of leading questions had been asked such as ‘Do you agree or disagree that following the proposed merger the advertising terms/conditions offered to you would become less favourable?’

7.86. Newsquest noted a number of points which came out of the telephone survey. Newsquest said that the results of the survey referred to indications that local authorities were very reliant on local newspapers. Newsquest did not consider that this accurately represented the views of the majority of local authorities, a significant number of which published their own newsletters and which were increasingly using the Internet as the media of preference. Newsquest noted that the Government had proposed that, by 2005, there would be a vigorous initiative to encourage the placing of public sector job advertisements on the Internet.

7.87. Newsquest said that it was not surprised by comments by some industry groups that: ‘Internet advertising was becoming increasingly effective and could potentially be a major advertising medium in the future’. Newsquest said that it was already feeling the impact of the Internet as a competitor for advertising revenue, and believed that this competition would increase.

#### *The results of Newsquest’s own surveys*

7.88. Herbert Smith, for Newsquest, commissioned IRN Research to undertake some further research on alternative media titles and the extent of local newspaper advertising in the London area. Newsquest submitted that the surveys provided evidence that there was competition for advertisers that extended beyond regional or local newspapers. The three surveys that were conducted included:

- (a) a survey of advertisers in local and regional newspapers and specialist publications in London;
- (b) a survey of consumers to determine which sources of information they would go to first and which other sources they would use when seeking a range of products and services; and

- (c) a desk research report assessing the extent and availability of local advertising media for the promotion of local goods and services in the circulation areas of relevance to the inquiry.

7.89. The main findings of the desk research were:

- (a) The mix and range of local goods and services varied across local newspapers and alternative titles in the circulation areas of local newspapers that were under investigation by the CC.
- (b) Local newspapers accounted for around 30 per cent of classified advertisements and 70 per cent of display advertising in the area.
- (c) Alternative titles provided competition in all major categories of goods and services promoted in local newspapers.
- (d) Based on a random sample of titles in the area, INM and Newsquest titles accounted for approximately 45 per cent of local newspaper display and classified advertisements.
- (e) There was considerable variability in the breakdown of types of advertisements found in local newspapers. Advertisements were classified into motor, property to rent, property to buy, home improvements, jobs, local entertainment, second hand goods and a catch all other category. The catch all other category was the most important for local newspapers in terms of share of advertisements, approximately 40 per cent overall.

7.90. The methodology and results of the survey of advertisers are attached in Appendix 5.5.

7.91. The consumer survey consisted of telephone interviews of 401 adults in the circulation areas of the local newspapers under investigation. The main findings of the survey were:

- (a) Consumers used a wide range of information sources to seek local goods and services.
- (b) There was a wide choice of information on local goods and services. Local newspapers were important but not critical to consumers for information on local goods and services.
- (c) The most important first source of information for local goods and services was directly from the service provider, ie estate agents for renting/buying property, dealers for buying new and used cars, recruitment agencies and job centres for finding a job, and the local authority for local authority services. However, for local entertainment, second-hand goods and sales promotions at local stores, local newspapers were the most important first source of information while friends/family and acquaintances were the most important first sources of information for local tradesmen.
- (d) Many consumers only sought information from their first source of information for local goods and services. It varied from 24.9 per cent for buying a house or apartment to 60.3 per cent for seeking local authority services.
- (e) Local newspapers only accounted for between 10.5 per cent and 40.4 per cent of first sources of information depending on the goods or the service sought. However, between 5.2 per cent of respondents seeking local tradesmen and 21.9 per cent for renting property did not know what first source of information to use.
- (f) The percentage of respondents who used local newspapers for first or other sources of information ranged from 7.2 per cent for local authority information to 49.4 per cent for local entertainment. In not one local goods and service category did more than half of the respondents choose local newspapers as their first or other source of information.
- (g) Local newspapers were only clear first choice in two categories of goods and services: local entertainment and second-hand goods. In the third category where local newspapers were the most important first choice of information they were only just ahead of adverts in local stores for information on sales at local stores.

7.92. Newsquest said that from the results of the CC's surveys and those of its own, it was not possible to conclude that advertisers and readers definitively viewed local newspapers in London as advertising vehicles which were substitutable only with other local newspapers.

### ***Editorial diversity***


7.93. Newsquest did not consider that the proposed acquisition would result in any adverse effect on reader choice or product quality.

7.94. Newsquest said that it was fully committed to the accurate presentation of news, and as such saw its role as producing newspapers which were the authoritative source of news which its readers could trust. Further, Newsquest told us it recognized that regional/local titles would only appeal to and therefore retain the support of the readership in the relevant region/locality if they reflected and represented the views of the readers in that area. Newsquest considered that the day-to-day running of its titles, including the balance of content between news coverage and editorial opinion was best placed in the hands of its editors. Each local editor was therefore totally independent in terms of editorial stance and opinion and Newsquest said that editors often took positions which were diametrically opposed to those expressed in a neighbouring Newsquest title.

7.95. For both paid-for and free titles, Newsquest said that it was acutely aware of the fact that any attempt by a publisher to impose a uniform style and approach would only risk a loss of readership and reduced advertising revenues. Newsquest noted that its editorial policy was outlined to the CC in previous investigations and that it aimed: 'to produce newspapers that reflect the views of their communities and be their voices'. Newsquest further added that it was the policy of Gannett Co Inc to give complete editorial freedom without interference from the US management. Newsquest did not, therefore, envisage any impact on the titles arising from the ownership by its parent company of titles in the USA.

7.96. Newsquest submitted that it had a long track record as a publisher of high-quality regional/local titles in the UK. Newsquest noted that its approach to editorial issues had been scrutinized by the CC on five occasions since 1996. Newsquest said that in each of these investigations, Newsquest was found to be a fitting steward for regional/local titles. This was quite apart from the other nine transactions which have been investigated and cleared by the Secretary of State without reference to the CC. Newsquest pointed out that the CC noted in the SMG/Gannett inquiry: 'Gannett's reputation for preserving editorial freedom and not interfering on a day-to-day basis in the editorial content of titles'.

### ***Benefits of the proposed acquisition***

7.97. Newsquest told us that it would seek to improve INM's titles such as the Kentish Times group that had seen a significant drop in its circulation over recent years [  ]. Newsquest said that it intended to improve and differentiate the INM titles that overlapped with its own in the South-East and attract more readers and advertisers.

7.98. Newsquest submitted that it planned to integrate the INM titles into the London packages on offer. Newsquest believed that this would enable it to enhance its offering to advertisers thereby increasing competition with both Trinity Mirror and the *Evening Standard* and *Metro*.

### ***The relevance of previous inquiries***

7.99. Newsquest accepted that the CC was not bound by precedent but submitted that it should be anticipated that broadly similar factual circumstances, over a short term, would be appraised in a manner that was broadly consistent. Newsquest believed that a number of general conclusions could be drawn from the CC's findings in the RIM report and the Johnston/Trinity report as follows:

- (a) relatively high levels of regional market share may be permissible, provided a sufficient number of competitors remained within the region in question (Newsquest noted that in the RIM report, the remaining presence of three such publishers with more than 10 per cent of circulation/

distribution was sufficient to persuade the CC that the transfers concerned would not operate against the public interest);

- (b) generally speaking, consent to the acquisition of a 100 per cent share of a local market would not be permitted (Johnston/Trinity report), although;
- (c) a ‘rule of reason’ approach could in some circumstances be adopted, such that even monopoly positions in local markets (even across substantial areas) could be justified where the long-term future of titles might be improved and where the resultant options to advertisers might be increased (RIM report);
- (d) Generally speaking, however, where an acquisition led to high local market shares, it was desirable that the market in question remained within reach of at least two major publishers of local newspapers as they represented the most credible threat of new entry (RIM report); and
- (e) in addition, actual presence within a local area might be important where there were high local market shares as this gave advertisers at least some alternative and represented a threat/constraint to the larger publisher. In this context, account could be taken of titles whose editions were not necessarily ‘core’ to a locality (Johnston/Trinity report).

7.100. Newsquest told us that if we were to take the view that the local competition impact in certain areas was to operate adversely to the public interest in terms of advertisers’ impact, our approach would be unprecedented on the basis of the local market shares identified. Newsquest accepted that the precedent value of previous reports might in some circumstances be relatively limited, though Newsquest believed that it was striking that no adverse public interest finding impact had been found in circumstances which on any analysis were vastly more concentrated (both regionally and locally) than those that were the subject of this inquiry. Newsquest strongly submitted that the CC could not possibly harbour an expectation of adverse consequences flowing from the current transfers to the necessary legal standard.

7.101. Newsquest emphasized the relevance to the inquiry of the RIM report. Newsquest noted that one of the general principles included in the RIM report (and expressed by the Secretary of State in his press release clearing the transaction) was that where an acquisition led to high local market shares, it was generally desirable that the market in question remained within easy geographical reach of at least two major publishers of local newspapers as they represented the most credible threat of new entry. Newsquest also emphasized that the Johnston/Trinity report demonstrated that actual presence within a local area might also be important where there were high local market shares as this gave advertisers at least some alternative and represented a threat/constraint to the larger publisher.

7.102. Newsquest believed that the evidence that it and INM had provided to the CC showed beyond doubt that other newspaper publishers were close enough to the overlap areas to make expansion a clear option or threat, if market opportunities were to arise. Newsquest noted the following points that it had made to the CC during the course of the inquiry:

- (a) in all overlap areas, at least one competing publisher had a presence;
- (b) in terms of each overlap area, there was always at least one other competing publisher which was close enough to make expansion a clear option/threat, even though it did not already operate in the overlap area. These competing publishers were closer than those considered to be relevant in the Johnston/Trinity report and there was significantly more commuter travel between localities than between the localities considered in the Johnston/Trinity report;
- (c) it was quite simply not tenable to regard any localities within London as being the ‘territory’ of any specific publisher; and
- (d) Newsquest did not believe that the comments made by individual advertisers, taken in their overall context, provided any compelling evidence that its behaviour would become unconstrained following the proposed transfer.

7.103. Newsquest reiterated that if the CC were to proceed to the view that any of the transfers might operate against the public interest, this approach would be unprecedented when the specific characteristics of the relevant localities in London were taken into account (both in terms of local market shares and the degree of competitor presence in and around the localities affected).

### ***Potential conditions***

#### *Kent Division*

7.104. Newsquest said that it would understand if the CC had some concerns about the effects on competition of the transfer in Kent. However, Newsquest believed that if the Kent newspapers came under its ownership, [ *Details omitted. See note on page iv.* ]. Newsquest believed that even though INM had said that it would not close the Kent titles, it might end up having to do so [*Details omitted. See note on page iv.*]. Newsquest told us that it could improve the titles in the Kent division.

7.105. Newsquest considered that if the Kent titles were blocked and left in the ownership of INM, the demise of INM's Kent operations which was already under way, would be accelerated. Newsquest explained that INM would be left with a small operation in a competitive market. [ *Details omitted. See note on page iv.* ] Newsquest thought that there may be parties in Kent that would be interested in acquiring the Kentish Times group. Newsquest said that if it acquired the Kentish Times group and shifted its editorial emphasis, then Newsquest would be able to support the titles.

#### *North London Division*

7.106. Newsquest said that the CC should not be concerned with north London as the transfer would not change the nature of competition in north London.

7.107. Newsquest told us that Hornsey was the only area in north London where there was a large overlap with a Newsquest titles. Newsquest pointed out that the *Hornsey Journal* only had a 6 per cent share of sales and distribution in the area and a household penetration of 7 per cent (and the overlapping Newsquest title had only 13 per cent of its overall distribution in this area). Newsquest said that confusion would arise where the same methodology was used to assess paid-for and free titles. A good example was Woodford: if one looked at market share based on distribution numbers, INM's launch into Woodford in 2003 had increased INM's market share in this area from 0 to 20 per cent, but the newspaper did not run many local advertisements so in fact its market share could be considered to be 0 per cent or very nearly 0 per cent. Newsquest submitted that the geography that was of interest to the reader was not necessarily of interest to the advertiser.

7.108. When asked about the possible extraction of a newspaper from the package of three titles which included the *Hornsey Journal*, the *Weekly Herald* and the *Islington Gazette*, Newsquest said that operationally it was difficult to see how this could be done. Newsquest told us that it assumed that the titles had joint resources such as shared sales and editorial teams and that all the manufacturing process and the printing was channelled through one central operation. Newsquest told us that none of the individual titles nor groups of titles from the portfolio were resourced to allow them to operate as stand-alone titles. Newsquest explained that if ownership of these three INM titles were transferred to it, it was unlikely in the longer term that the titles would be kept as a separate division. Newsquest said that it had yet to decide the best way of integrating the INM titles with those of its own. Newsquest told us that it would be unlikely to integrate a largely paid-for portfolio and a largely free title portfolio due to the different culture that went with the two types of newspapers.

7.109. Newsquest said that it had viewed the transaction of the titles as a whole and that there was no question of them looking at individual properties within INM's operation. Newsquest told us that the transfer of titles would be quite a different proposition if the entire portfolio of titles was not included. On a practical level, the shared resources between the titles would make extraction of some and not others difficult. Newsquest also said that it would be a complex task to agree on a value for individual properties. Newsquest told us that if the transfer of some of the titles was blocked, it would need to assess a partial transfer very carefully.

7.110. Newsquest was asked about the possibility of divesting the *Haringey Independent* in order that the transfer of the *Hornsey Journal* could be permitted. It said that the nature of its publishing activity in London was that in order to be competitive and survive and prosper it needed a centralized shared resource approach to publishing. Newsquest said that centralized resources were part of its rationale for having titles that were contiguous with each other as resources could be shared. For any title, such as the *Haringey Independent*, not to be able to benefit from these shared resources, particularly as it was currently part of the centralized structure, would weaken the title. Newsquest considered that the link between the *Haringey Independent* and the other Independent titles was also important because it was a brand that was recognized more widely in north London rather than just its distribution area.

7.111. Newsquest said that if it owned the newspapers, it would differentiate more of the content so that different things were offered to the same people. Newsquest told us that it would not seek to put the same content into two products in the same market.

7.112. Asked if there were any behavioural conditions which could be applied to any transfer in order to avoid any perceived adverse public interest effects, Newsquest said that it did not believe that such conditions would be workable in this context.

## **Views of INM**

### ***Background to the transfer***

7.113. INM told us that it had expanded rapidly in the past eight years, growing from a medium-sized newspaper company with its interests primarily in the Republic of Ireland into an international group with interests primarily in five countries throughout the world. It bought into *The Independent* in London in 1993, first taking a 30 per cent stake and later going to 100 per cent in several stages, the last being 1998. It pursued a similar strategy in New Zealand where, through its Australian associate APN, it is now the biggest newspaper owner, and in South Africa where it first bought a 30 per cent shareholding in Argus Newspapers, the country's biggest media group, in 1994 and later went to 100 per cent. In Australia, it has built the country's fourth largest media company, APN, with a market value of some Aus\$1.6 billion in which it has a 45 per cent stake. In 2000 it bought the BTNL for some £300 million.

7.114. INM told us that it had also invested heavily in upgrading its plant and electronic systems, culminating in a new press plant outside Dublin which was completed at a cost of some €70 million in 2001. In addition there have been heavy investments in Internet and other electronic developments, including iTouch plc and the Irish cable company Chorus.

7.115. INM told us that it had spent around €2 billion since 1993, all of it financed either from cash flow or from borrowings. INM said that it had hoped to finance the acquisition of BTLN through the sale of its Irish cable interests, but that the sale had not proceeded. Although INM told us that it had never been uncomfortable about its debt levels, a change in market sentiment towards companies which were seen to be heavily borrowed had affected its share price which had fallen by more than 75 per cent over the past three years. INM felt under pressure from institutional investors and analysts to address its debt levels.

7.116. INM announced in March 2003 that it proposed to inject some €257 million of new capital into the business, comprising a rights issue of €108 million, the sale of the regionals for £60 million (then equivalent to €92 million), and some disposals of non-core assets amounting to some €59 million.

### ***Rationale for the transfer***

7.117. INM told us that as part of the debt reduction programme, various assets had been considered for sale. The UK regionals division had been chosen because it was essentially non-core, had limited growth prospects within INM, and would find ready buyers at an attractive price. It was a stand-alone operation, which fitted well with several actively acquisitive newspaper groups, some of whom had previously expressed interest should INM ever want to sell.

7.118. INM considered confidentiality to be of the utmost importance because the sale of the regionals business was part of a complex refinancing operation, involving a rights issue, a new banking

consortium and the replacement of several debt instruments in Australasia, as well as an asset sale. INM told us that it had opted for a private sale because it feared that the existence of any form of auction for the titles would be likely to leak, given the nature of the business and the intense media attention on INM. While an auction might have yielded a slightly higher price, INM believed that the premium was likely to be small, and not worth the risk of premature disclosure.

7.119. INM told us that Gannett had indicated an interest in INM's London regionals several times, and in January 2003 a meeting took place between the two companies whereby INM offered Gannett exclusivity on the grounds that it would agree to the required price and to move swiftly. INM said that a price was agreed very quickly and the sale process was progressed with the intention of announcement on 26 March 2003.

7.120. INM told us that no other bidders were involved. However, during the discussions Archant, through a bank, had expressed an interest in the INM regionals (INM had indicated it was not interested in pursuing this approach). INM also told us that at one point it had become concerned about the speed at which the negotiations were proceeding, and, given INM's paramount interest in an announcement by 26 March 2003, there was a single telephone conversation with the CEO of Johnston to test the level of interest at the agreed price. Other than that, INM told us that it did not discuss the proposed deal with any other trade party.

7.121. INM had publicly announced its decision to sell its UK regionals on 26 March 2003. It had since raised new capital and entered into new banking arrangements based on the receipt of the sale proceeds. Should the sale to Gannett not go ahead, INM told us that it would immediately seek another trade buyer.

## ***The market***

### *The relevant geographic market*

7.122. INM told us that it was extremely hard to define local weekly newspapers as a distinct product market. In London, neither readers nor advertisers necessarily saw the market in the same way. Readers might travel across many areas in a day with the opportunity to experience more publications than in any other part of the country, and Londoners were known to be very mobile in their purchasing habits. Different advertisers would also have different market viewpoints depending on whether they were looking for blanket coverage of certain demographics or a much more tightly targeted geographical area. Local display retail advertisers would focus on one single borough, whereas a recruitment advertiser would focus on a much wider area.

7.123. INM told us that regional and local titles were published to serve the needs of the local community, both readers and advertisers, but that the London area in particular was extraordinarily complex and could be described as many 'multi-local' markets due to the varying levels of overlap/competition in different areas. INM said that the *Evening Standard* and *Metro* for example, demonstrated how a publication that operates across the whole London region could compete at all of these levels. INM considered that in some areas the *Evening Standard* and *Metro* could be seen as substitutes for local newspapers; in other areas they were complementary. INM therefore asserted that defining local weekly newspapers as a distinct economic product would not be correct in the London area.

7.124. INM told us that the services offered to readers and advertisers alike were well served by many other forms of media including local radio, television, other newspapers, specialist publications, magazines and increasingly the Internet, and provided by the multiple types of media available to residents of London. As an example, a resident of Islington would have the opportunity to buy six local/weekly products (*Islington Gazette*, *'Ham & High'* (Broadway edition), the *Evening Standard*, *Loot*, *Auto Trader* (Motors), and *Job Opportunities* (recruitment). They would have delivered through their door the *North London Weekly Herald*, the *Haringey Independent*, the *Haringey Advertiser* and *Avenues* (property), and they could pick up *Metro*, *Alley* (leisure), the *Camden New Journal* and *Auto Express* (motors). In Bromley, a resident would have the opportunity to buy eight local/weekly products (*Bromley Times*, *Croydon Advertiser*, *Loot*, *Auto Trader* (motors), *Job Opportunities* (recruitment), *Jobs & Careers* (recruitment), *Evening Standard* and *Diamond Free Ads*. They would have delivered through their door the *Bromley Express*, *Bromley News Shopper*, *Bromley & Tandridge News*, *The Guide*

*Magazine*, and *Meridian Magazine*, and could pick up *Metro*, *Auto Express* (motors), and *Kent on Sunday*.

### *Characteristics of the market*

7.125. INM told us that in each of the areas covered by the titles to be transferred, there were competing local newspapers, specifically:

- In all of the overlap areas of interest in north London, Trinity Mirror was the main competitor and in many areas was the market leader. Archant was also present in the market with its flagship ‘*Ham and High*’ series and the *Recorder* series and was seen as a significant competitor. Archant had been active in recent times launching several new editions of both major products.
- In Gravesham, the main competitor was Kent Messenger. This publisher had been extremely active in recent years promoting titles widely and expanding the business from the more rural areas of north Kent towards the metropolitan areas of Greater London. Northcliffe was present in this area with the *Courier* product. Newsquest was seen in this area as the third player after Kent Messenger and INM. Trinity Mirror was also present although in a small way with a *Medway* product. *Kent on Sunday* was a new entrant and was increasing the number of copies sold as it established its place in the borough.
- Dartford was very similar to Gravesham and had exactly the same competitors. The Kent Messenger had put new products in to this area in the last five years and *Kent on Sunday* had recently entered this area.
- Bexley was a more crowded area as Trinity Mirror was present with the *Mercury* product. Kent Messenger had a smaller presence and KOS was also participating.
- Bromley had INM and Newsquest titles as the main titles present. However, a strong Tindle presence could be seen along with KOS and some Trinity Mirror products.

7.126. INM told us that while there was price competition in the market, it was not simply a case of competitive price cutting. Advertisers looked at value, and would pay more for space in a higher-quality newspaper with more colour or higher readership. Yields varied across areas according to a number of factors including the strength of competition. There were examples of price wars, which tended to be confined to a single category of advertising at a time. Advertisers would be targeted by local sales teams, which were constantly seeking to secure more business.

7.127. INM said that the markets of relevance had seen many changes during the last five years, notably:

- Ethnic population growth in London had been significant and the overall population had become more transient. Ethnic titles had grown significantly over the last five years, including dual language titles.
- Growth in property prices had ensured that many blue-collar workers and their families, traditional readers of the weekly local newspapers, had been unable to stay in their ‘home’ area. This point had been evidenced during the recent fire workers strike and by issues raised by teachers and nurses.
- There had been an increase in the number of niche products and of bulk distribution or pick-up products. Supermarket foyers, petrol stations, railway and tube stations were now lined with ‘dump bins’ containing motoring, recruitment and property products for readers to self select. The trend was tending to be towards more ‘themed’ products which contained highly-targeted, specialist advertising.

7.128. INM told us that there were clear differences between paid-for and free newspapers, otherwise paid-for titles would no longer exist. INM believed that paid-for titles had survived the entry of the free titles and would continue to do so because they constituted a market of their own. INM said that

a paid-for title was typically bought by a loyal customer for a reason such as the news content or if they were looking at one of the main advertising categories. INM told us that this was why an advertiser could easily be persuaded to advertise in a paid-for product. As the paid-for title typically contained more news content and reader value, the expectation was that the product stayed around longer and was passed on to others. Therefore, more people could be expected to read it. On the other hand, a free title might not be expected to have the same longevity because of its high penetration covering a wide patch which served a different purpose. INM argued that advertisers who were publicizing one off events such as retail openings or sales would be more attracted to advertising in a free title. INM disagreed that paid-for and free titles could be considered to be substitutes as the two types of newspapers had different contents, were distributed differently, had a different readership and different wastage levels. INM argued that a lot of change would have to be made to a free title to turn it into a paid-for newspaper.

### *Substitutes*

7.129. INM told us that, in addition to other local newspapers, weekly titles faced competition for both readers and advertisers from an increasing variety of different media, for example:

- The daily metropolitan titles *Metro* and the *Evening Standard* competed head on with weekly titles for both readers and advertisers, for example in the area of new homes. London-wide packages offered by weekly/regional press competed with those offered by the *Evening Standard* and *Metro*. Trinity Mirror had a ‘Capital Package’ and Newsquest had an enhanced ‘London Package’ that included titles owned by other media owners to create a comparable area of coverage to that of the *Evening Standard/Metro* package.
- There was competition from National titles that included London focused products within their packages. A good example was INM’s *The Independent* which produced a Saturday listing magazine *The Information* heavily targeted at London with advertising that could be bought on a London-only basis.
- All of the relevant markets contained specialist advertising titles in many formats. These ranged from listings products serving the entertainment and leisure market such as *Time Out* to property and motoring products such as *Hot Property* and *Auto Trader*.
- The recent increase in the number of radio licences held within the INM publishing areas had led to more localized news being broadcast to households served by INM titles. Rates had been reduced to a level that allowed some traditional newspaper clients to enter the radio market as part of their marketing and advertising spend. There had been many local radio licences acquired recently by owners of regional press, for example Kent Messenger and Tindle.
- The Internet was the fastest growing of the competitive media with no real barriers to entry and low operating cost. All major categories of advertising, recruitment, motors and property were covered by numerous web sites. This was driving all existing print publishers to set up their own sites to compete and it was the view of several publishers that in the medium to long term there would be a general migration away from advertising in local newspapers for certain categories to the Internet.

7.130. INM told us that advertisers in a number of categories could use other media and that these other media were growing at the expense of local newspapers. INM said that there was anecdotal evidence of gains in market share, but could not quantify the extent to which other media were securing local newspapers’ revenue. It was possible to measure market shares of newspapers, but not those of other media.

### *Threat of entry*

7.131. INM told us that entry into the local newspaper market in London was relatively easy. There were several components required to establish a weekly title, specifically an editorial department, an advertising sales department, administration and finance functions, a production department, a distribution network and printing facilities. In addition the business would need to be supported with working capital. INM asserted that:

- Distribution and printing could be contracted out which reduced the need for up front capital, and there was currently plenty of capacity available in London. There was also the advantage that in London there was a strong pool of journalists and advertising executives.
- The cost of production systems had reduced dramatically over the last ten years, and there were standard packages available so little time was now required in setting up systems.

7.132. Similarly, INM told us that barriers to growth for firms having entered the market were not significant, as long as editorial quality could be maintained in order to sustain reader interest, without which advertising response would fall and revenues decline until the product became no longer viable. INM also thought that barriers to exit were minimal. If the majority of work was contracted out then the main cost would be in contract penalties and staff redundancies. Any equipment purchased could be sold and any premises sub-let to minimize closure costs. If the business had achieved some success there would be the opportunity for a sale (subject to regulatory approval) with many potential buyers likely to be interested.

7.133. INM believed that it should therefore be possible to put a weekly newspaper business together in months rather than years. INM told us that in its area of operation there had been 26 newspaper launches and 16 closures in the last five years, and a large number of additional launches in the Greater London area, highlighting the competitive nature of the London market. Free newspapers appeared to be easier to launch than paid-for titles, as witnessed by the launch of *Metro* by Associated. INM cited the recent launch of *Kent on Sunday* as an example, and indicated that in response to that launch INM had continued to stress the quality of its own publications and to compete on the basis of customer service. INM said that this was the same response it would offer to any new entry.

7.134. INM told us that given the existence of competitors other than Newsquest in or near all markets involved, the likelihood of entry into any of those markets would not be changed by the transfers. INM believed that Archant was the most likely to launch in the area covered by Post Newspapers and East London Newspapers, Archant and Trinity Mirror were both likely to launch in north London, as might the Camden New Journal, and that Kent was a highly competitive market where Northcliffe, Kent Messenger or Trinity Mirror could readily launch; indeed Kent Messenger had done so in recent years.

7.135. INM was not aware of any potential entrant being deterred from entry by a threat of retaliation or of any tacit agreement by publishers not to enter each other's areas for fear of competitive response.

## ***Effects of the transfers on competition***

### *Local markets*

7.136. INM told us that there was effective competition in the markets in which it operated, and that the transfers would make no difference to that. In local markets INM believed that even where one publisher had a high share of the market, others would enter the market if they saw any evidence of an attempt to exploit a monopoly situation. Those others might be major publishers or independent start-ups; either way they would be unlikely to be influenced by the size of the incumbent. Incumbents, given the financial pressures upon them, would be unlikely to attempt to defeat entrants through sustained price cutting.

7.137. INM argued that the CC's measure of market share was misleading and based on a misunderstanding of the marketplace. INM told us that it was much too crude to use the percentage of circulation by title as a measure of concentration in the sector, particularly in relation to advertising. First, INM said that it was wrong to lump together free and paid-for titles (see paragraph 7.128). INM argued that the CC's market shares of the titles outside the Kentish Times division was especially misleading. INM believed that within certain areas, the overlap between INM and Newsquest titles was much lower than the CC's market shares indicated. Second, INM said that the numbers failed to take account of a volatility of shares. INM provided the example of the Woodford edition of the *Ilford and Redbridge Post* which was launched around six months ago. INM noted that the newspaper was an experiment and that it could be closed with little notice. INM said that if the Woodford edition closed, the only overlap would be 699 paid-for copies in Barkingside which was a Newsquest title that accounted for 1.3 per cent of the

total market. INM told us that there was nothing permanent about the market shares that the CC had identified.

7.138. In summary, INM told us that it did not believe that high levels of local concentration brought about by the transfers were a cause for concern because the relevant geographic markets went wider than the local areas discussed, existing competitors would continue to discipline Newsquest's pricing and the ability and willingness of new entrants to penetrate the market would provide a further check.

7.139. INM understood that Newsquest intended to preserve the acquired titles, and further develop their individual distinctiveness alongside their existing titles. INM said that the *Express* series in particular, could be preserved with a complementary positioning to the *News Shopper* (because it allowed local advertisers to secure space nearer the front of the newspaper, for example). This would preserve choice in the local market.

### *Regional markets*

7.140. INM told us that as the market for local newspapers consolidated, the competition became more ferocious. Although at a regional level any threat to Newsquest's position post-transfer could not come from INM, there were plenty of others who would exercise a constraint on Newsquest's behaviour. While firms might make a rational business decision not to compete against a strong neighbouring title, that did not imply the existence of a 'live and let live' attitude.

### *INM's response to the CC's survey of advertisers*

7.141. INM were sceptical about the reliability of the results from the advertisers' responses to the questionnaire and the telephone survey. INM considered that advertisers used local newspapers because this provided them with good value for money both as regards to the advertisement's reach (particularly in the case of free titles which were delivered to every household in a given area) and as regards quality of response (especially in the case of paid-for titles). INM believed that if advertisers did not receive good value, they would use other products. INM told us that the responses to the questionnaire and the telephone survey made clear that if rates rose as a result of the merger, advertisers (who INM considered to have limited budgets) would reduce their expenditure in the relevant titles. The elasticity of demand would act as a discipline on prices.

7.142. INM believed that it was likely that both the questionnaires sent to advertisers and the telephone survey represented the attitudes of advertisers in general more negatively than it actually was. INM said that in surveys of this kind, people who were unhappy were more likely to respond than those who were content. It was therefore reasonable to assume that advertisers generally took a more favourable view of the merger than was indicated by the responses.

7.143. Moreover, INM believed that it was natural, if asked for one's view of a proposed transaction, to speculate about the possible disadvantages. Therefore, INM said that the results of the questionnaires claimed that certain advertisers thought their terms would worsen if the merger proceeded and other unfavourable statements. INM said that so far as it was aware, the respondents were not asked to provide evidence to support these claims.

7.144. INM noted that the questionnaire and the telephone survey were restricted to leading advertisers in Newsquest and INM titles affected by the merger: they did not include other advertisers and potential advertisers in the relevant geographic areas. INM said that the respondents therefore constituted the class of advertisers most convinced of the value of advertising in local newspapers and most likely to raise concerns about the merger. In this respect, INM believed the responses to the questionnaire and the telephone survey were biased against the merger.

7.145. Furthermore, INM told us that it was questionable whether a reliable view of advertisers' attitudes could be formed from the samples used. INM noted that the survey only covered 30 advertisers and the response ratio for the questionnaire was low (14 per cent).

7.146. INM noted that although neither the questionnaire nor the survey included small advertisers, the telephone survey suggested that small advertisers would be vulnerable to price rises because they had a weak bargaining position. In INM's view, this understated the extent to which small advertisers

disciplined rates. If rates exceeded an advertiser's limited budget, they would cut or reduce their advertising in the titles concerned. INM said that small advertisers were important to local newspapers not only for the revenue they themselves generated, but also for the readers, and in consequence the other advertisers, whom they attracted. INM told us that although an individual small advertiser would not be able to negotiate a discount that may be available to a major advertiser, local newspapers must be sensitive to the demand of small advertisers as a class.

7.147. INM submitted that certain views that were presented in the telephone survey and the responses to the questionnaire, appeared to conflict. In particular, INM said that the results of the questionnaire indicated that the majority of advertisers did not regard other media as good substitutes for local newspapers, whereas the results of the telephone survey indicated that the majority would be willing to switch to other media if rates in local newspapers increased. INM said that similarly, the telephone survey recorded the view of some advertisers that the INM titles did not 'stand alone' which INM believed implied that the Newsquest titles were seen as complementary rather than as competing. INM said that this conflicted with some of the views presented in the results of the telephone survey to the effect that the merger would reduce competition.

7.148. INM also told us that some of the factual claims made were false, misleading and/or unsupported. INM noted that the results of the telephone survey said that *Auto Trader* and *Exchange & Mart* were less directed at the local market than were local newspapers. INM said that these publications contained substantially more local advertising than many local newspapers and had in recent years taken away much of the private advertising from London local newspapers. INM noted that the results from the telephone survey stated that an advertisement could only be placed on the web site associated with a local newspaper if it was also placed in the printed version. INM believed that this completely ignored the growing number of successful web sites covering the main advertising categories which did not have newspaper affiliations. Similarly, INM believed that the claim of the results from the telephone survey, that in recent years the *Kentish Times* series had forced the *News Shopper* to drop its prices by 15–20 per cent, was without foundation.

### ***Editorial issues***

7.149. INM told us that it foresaw no effect on the accurate presentation of news and free expression of opinion as a result of the merger. Its own editorial policy placed responsibility for editorial content on editors. INM believed Gannett policy to be broadly in line with its own and representative of the industry. It was widely accepted that local focus was vital to remain competitive in the industry, and freedom for locally based editors was an important contributor to that. INM believed that Gannett's good reputation for training and developing editorial staff was well deserved.

7.150. INM told us that despite the reduction in the number of proprietors implied by the transfers, it did not expect any reduction in the diversity of opinion expressed.

### ***Benefits***

7.151. INM said that it anticipated a number of benefits from the merger, notably that:

- print quality might improve as Newsquest could take advantage of spare capacity in in-house print facilities of a higher quality than the printers currently used by INM;
- diversity of coverage of local news would improve in a merged operation as resource management would allow wider coverage and more in-depth investigation of news items; sports coverage could also be improved with greater resources; and
- the larger operation might be better equipped to attract better people in a traditionally difficult labour market.

### ***Potential conditions***

7.152. INM said that on the basis of the remedies letter that the CC dispatched, it was concerned about the inconsistency of the CC's investigation with its previous inquiries such as the RIM/Gannett/

Johnston/Guardian deal in 2000 and Johnston/Trinity in 2002. INM told us it recognized that the CC considered each case on its merits but, if strategic planning was to be possible, it was legitimate to expect that the CC would be consistent across its inquiries. INM considered that these concentrations arose in local areas with characteristics markedly similar to those in question in the present inquiry. INM noted that the CC was satisfied that the effect of the transfers in those areas would not operate against the public interest. INM noted that in the RIM report, the CC considered a number of local markets in which a transfer to Gannett would give rise to high shares in core areas; however, the CC nevertheless reached a favourable conclusion. In the Johnston/Trinity report, INM noted that the CC was satisfied that the existence of a remaining substantial competitor would answer concerns about high shares in a number of localities. INM believed that comparable competition would serve as a discipline in the present inquiry and that it clearly had substantial competitors in those areas.

7.153. INM told us that although the CC was mandated to assess the transfers on a title by title basis, the economic logic was that the CC should look at a division as a whole, particularly the Kent division and the North London Newspapers division. INM emphasized the linkages between titles within a division. The divisions were the level that INM reported internally on profitability, management and editorial teams.

7.154. INM believed that the whole of INM's London regionals business was worth more as a whole than as individual parts. INM said that extra cost would need to be built in if the company was to be run differently. The EBITDA and the ratios would be lower for the group as a whole. INM said that the difficulty of splitting off any of the divisions was that it had a group production centre of 30 staff that served all five divisions. It also had a finance team of 20 staff serving the five divisions and a central management team and an extended media team with another ten staff. INM considered that it would be difficult to break these services up. INM told us that the value to a potential buyer was that it could simply take the whole company including management and run it seamlessly.

7.155. [ *Details omitted. See note on page iv.* ]

7.156. [ *Details omitted. See note on page iv.* ]

7.157. INM submitted that behavioural remedies would not work in the market as they would be too hard to monitor due to the level of competition.

#### *The Kentish Times division*

7.158. [ *Details omitted. See note on page iv.* ]

7.159. INM recognized that there were two main competitors in Kent and that it agreed with the market shares that the CC had identified in Kent. However, INM considered there to be a lot of competition in Kent at a macro level. INM said that there were several other large groups on the periphery such as the Kent Messenger, Northcliffe and Tindle. Furthermore, INM pointed out that two new titles were about to be launched in Bexley and that others such as *Auto Trader* and *Loot* all had Kent editions. INM also noted that the *Bexley Chronicle* (published by Stone Leisure) was to be launched in September 2003 which would increase competition for their titles. INM also said that the *Kent Messenger* title was also looking at expanding into the Bexley area.

7.160. INM said that if the Gravesend titles transferred and the Bexley and Bromley titles did not, the Bromley and Bexley titles would not have the strength to exist on their own. From an advertising view they would struggle to survive as two separate groups as the advertising revenue was insufficient to support two editorial groups.

7.161. [

*Details omitted. See note on page iv.*

]

#### *North London Division*

7.162. [

*Details omitted. See note on page iv.*

] INM said that the difficulty with taking the North London division out of the four north London divisions was that a gap would be created in terms of management as well as some of the group's sale achieved through national representation and cross-sale between divisions. [

*Details omitted. See note on page iv.*

] INM told us that it could be difficult to separate individual titles from within divisions, particularly where there were close editorial linkages between titles or where they formed part of a common sales proposition to advertisers. INM said that it could not split the *Hornsey Journal* and the *Islington Chronicle* titles. INM believed that to differentiate the titles, two editorial teams would be required which would have a large impact on the viability of the titles as a whole. INM said that the *Hornsey Journal* could not support its own editorial team and that it was doubtful whether the *Islington Gazette* could do so.

7.163. [

*Details omitted. See note on page iv.*

]

INM said that there was a lot of advertising that was common across the two newspapers particularly on recruitment, classified advertising and property. [

*Details omitted. See note on page iv.*

]

#### *Post Newspapers*

7.164. INM said that if the *Ilford and Redbridge Post* was taken out of the Post Newspapers division, there would not be a division left to sell.

#### *Assets necessary to the continuation of newspapers*

7.165. INM told us that most of the value in the proposed transaction came from the value of the titles rather than the fixed assets. If the CC blocked 'assets necessary to the continuation of newspapers' as well as the titles, the main issue would be in Kent where INM had a lease on the Sidcup office which was the publishing division and production facility for the whole group. INM said that if it had to transfer four titles, it would need to split the lease or floors. INM told us that it did not have any significant assets.

P GEROSKI (*Chairman*)

P FREEMAN

R HOLROYD

D TRELFOED

M WEBSTER

R FOSTER (*Secretary*)<sup>1</sup>

19 August 2003

---

<sup>1</sup>It is the normal practice that the Secretary of the CC signs reports. On this occasion the Secretary was absent and so was unable to sign.