5 Views of the main parties

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Introduction

5.1. This chapter summarizes the views of Mirror Group and MIN. These views were submitted to us in written evidence and at oral hearings.

The views of Mirror Group

Background on Mirror Group

5.2. Mirror Group told us that the company had been restructured in late 1992 following the damaging Maxwell years. The controlling shareholding of the late Robert Maxwell and his family was sold by the administrators to various institutional shareholders and the company was able to operate free of proprietorial interference. The efficiency and profitability of the Group had been transformed, and it was now recognized as the highest margin publisher of national newspapers in the UK.

5.3. The principal activity of Mirror Group remained the publication and printing of national daily and Sunday newspapers. Its main national titles were *The Mirror* and the Sunday newspapers, *Sunday Mirror* and *The People*. These newspapers were published in six regionalized editions covering one or more television regions, including the Central TV region in which MIN's titles were published. Mirror Group also published the *Daily Record*, *Sunday Mail* and *The Glaswegian* (a weekly free newspaper) in Scotland although the *Daily Record*, in particular, circulated widely through the UK. However, it had become apparent to Mirror Group, because of the severe price-cutting competition to which it had been exposed, that a single-product business did not provide a secure basis for the future. It was therefore decided to diversify and transform the Group into a broadly-based media company.

5.4. Mirror Group had moved into television by establishing the Live City TV cable network which extended to five cities and reached 1.2 million homes. It had also taken a 20 per cent holding in Scottish Media (formerly Scottish Television plc), which held both the Scottish and Grampian TV franchises and also, through Caledonian Publishing plc, published the Glasgow *Herald* and *Evening Times*. Mirror Group had further developed its regional titles in June 1996 by acquiring a controlling interest in Century Newspapers Ltd, the Belfast-based publisher of the daily *News Letter* and various weekly titles. It had also taken a 46.43 per cent interest in Newspaper Publishing Plc, which published *The Independent* and the *Independent on Sunday* so as to include some broadsheet titles within its national newspaper portfolio.

5.5. In managing its varied newspaper portfolio Mirror Group applied the principle of collegiality. This it described as providing a common infrastructure based on the most modern technology and production methods, while leaving individual managements and editors free to develop the character of their separate titles.

The rationale for the merger

5.6. Mirror Group said that the proposed acquisition of MIN fitted in well with the general strategic development outlined in paragraph 5.3. It would extend the scope of its activities into regional newspapers, magazines and exhibitions, all of which offered interesting opportunities in their own right, and so further reduce the Group's reliance on its national newspaper business which, in its view, had suffered in recent years from uneconomic pricing by other newspaper proprietors. The acquisition would also provide an enlarged base from which to further develop its media interests.

5.7. The Midlands was a key area for Mirror Group's newspaper and television interests; about 10 per cent of the Group's newspapers circulated in this area. The acquisition of MIN had a strong commercial logic since it represented an opportunity for Mirror Group to strengthen its presence there. It had no plans to increase the Group's regional activities further.

5.8. Mirror Group pointed out that MIN's activities were clearly complementary to its own. MIN was the sixth largest publisher of regional newspapers in the UK[1] and the leading publisher in the Midlands with 38 well-managed titles; these included three well-established dailies, a Sunday title, 33 weekly titles of which five were paid-for and the remainder were distributed free, and one free monthly title. MIN distributed 3.6 million copies a week across an area of 4,000 square miles. It also published 36 specialist magazines and staged ten consumer and trade exhibitions, mainly directly related to its publications. MIN's other activities included direct marketing, ie the delivery of leaflets, magazines and product samples, and various on-line media services ranging from local radio to the Internet. The two companies had developed close links in running Birmingham Live TV which was a 50:50 joint venture. This had significant growth potential and had demonstrated that the two companies shared a common approach to the media business.

5.9. Mirror Group said that it believed MIN's regional newspaper business could develop and thrive given the access to funds for investment. It would be able to further enhance the quality of MIN titles for the benefit of readers, as well as increasing their profitability. It would provide wider news-gathering resources for MIN editors through an on-line link to all Mirror Group's databases to use as they saw fit. Mirror Group would also examine the extent to which its new multi-skilling training and re-equipment programme could be adapted and applied to MIN's titles in conjunction with any action MIN itself was planning in this area.

5.10. There was also significant potential for the enlarged Group to generate new revenue. The Mirror Group and MIN titles provided potential for joint sales canvassing and increased copy sales. Other new revenue opportunities would be created by the ability to offer a wider choice of cross-title advertising packages. The enlarged Group would also have enhanced opportunities within fast-growing areas, such

[1]This ranking is dependent on Mirror Group's Scottish titles not being regarded as regional newspapers-see paragraph 5.20.

as magazines and exhibitions, where MIN's skills would complement Mirror Group's promotional power.

5.11. There would also be significant benefits from the substantial reduction in the enlarged Group's production and distribution cost base, from economies of scale in purchasing materials, from shared resources across a wide range of activities and from joint distribution, canvassing and advertising. Mirror Group said that following discussions with MIN, it had identified savings and synergies amounting to not less than £5 million a year. These synergies would arise principally from the elimination of corporate and administrative overheads and from the benefits of larger-scale purchasing of newsprint and other consumables.

Editorial policy

5.12. Mirror Group said that it was committed to the accurate presentation of news and free expression of opinion. It supported diversity of the press, including the variety of opinions published and the range of newspapers available, all of which contributed to readers' choice. It did not consider that the proposed acquisition gave rise to any issues as regards the accurate presentation of news and free expression of opinion.

5.13. Mirror Group had a long-standing, widely acknowledged policy that its national titles including the Group's Scottish titles, should generally adopt a left-of-centre stance politically. The policy did not, however, extend to any other Mirror Group title. *The Independent* and *Independent on Sunday* were committed to providing a politically independent viewpoint. The *News Letter* in Northern Ireland had a long-standing, pro-Union stance which Mirror Group supported and recognized the need to maintain. However, within this broad stance there had been a process of modernization in the *News Letter*'s position in line with the thinking of its mainly Protestant constituency and the editor has initiated a number of shifts of emphasis in the newspaper's policy and had taken decisions as part of this process without reference to the Mirror Group board. Mirror Group management had been supportive, but retrospectively. There was no intention of changing the long-established political stance of *The Birmingham Post*.

5.14. Mirror Group told us that its broad editorial strategy was to differentiate its titles by achieving distinctive styles, content and format. This was achieved by giving individual editors the freedom to include or exclude material as they chose, including that from the Group's news database. Increased flexibility in the use of journalists throughout the Group brought with it the prospect of an event being covered by a single reporter on behalf of several titles. Individual editors would, however, retain discretion as to the extent to which they availed themselves of such arrangements.

5.15. Mirror Group no longer suffered from proprietorial interference in editorial matters. This manifested itself most clearly in the fact that Mirror Group management no longer routinely vetted editorials. Only in the case of exceptionally sensitive editorials (for which some safeguard was prudent) did management ask to see editorials in advance; no more than a handful were reviewed in this way each year. Mirror Group was proud and protective of the editorial independence enjoyed by its titles. Editors were jealous of the standing of their individual titles and acutely conscious of the link between editorial stance and readership. They would inevitably consult senior management if some major shift of stance were contemplated.

5.16. The appointment and dismissal of Mirror Group editors was made by the Group board on the joint recommendation of the Chairman and the Chief Executive. Mirror Group envisaged that the appointment and dismissal of editors of MIN titles would in general be a matter for the Midland Chief Executive, initially Mr Chris Oakley, subject to the approval of the regional board. It would be for him and the regional board to monitor the quality of the titles and their financial performance. The only exception to this general rule would be in relation to MIN's four main titles where the Midland Chief Executive would be required to consult Mirror Group's Chairman and Chief Executive before making an appointment. The Chairman and Chief Executive would expect to meet the appointee before the appointment was made. Essentially this reflected the need for senior management to know all senior journalists within the Group. This was important if all journalists were to be treated on merit within the wider organization.

5.17. Mirror Group said it recognized that the success of MIN's regional and local titles depended on their ability to reflect and respond to issues which were of interest and concern to the communities that they served, and so provide readers with a genuinely local product. It was the Group's intention to allow editors of MIN titles to exercise editorial freedom to maintain and develop the local character of their titles, as at present. There would, therefore, be no change in the tone or content of any of the MIN titles as a consequence of the proposed merger. The regional board and Mr Chris Oakley, who as Midland Chief Executive would be contractually committed to the operation for two years, would, among other things, ensure the continuity of the various titles and their distinctive regional character.

Concentration of ownership

5.18. Mirror Group was a major publisher of national titles. MIN on the other hand did not publish any national titles, so the acquisition would not result in any concentration of ownership of national newspaper titles.

5.19. At present, Mirror Group was the fourth largest publisher of regional and local newspapers (with 8.2 per cent of the market) and MIN was the seventh largest publisher with 5.1 per cent. The enlarged Mirror/MIN Group would become the largest publisher of regional and local newspapers in the UK with 13.3 per cent of the market. This figure compared with 11.7 per cent (Trinity), 11.0 per cent (Northcliffe) and 10.7 per cent (Newsquest), so there would be four publishers with market shares of the same order of magnitude. Mirror Group would become only marginally bigger than the others. It was also important to note that the Group's `regional' newspaper business was in sharp contrast to that of these other three publishers in that each of them had a widely-spread business and strong newspapers in a number of major cities. In contrast, apart from Belfast, Mirror Group's regional titles were rooted in Glasgow.

5.20. Mirror Group put it to us that the *Daily Record* and the *Sunday Mail* were in content and approach more properly seen as national newspapers published in Scotland rather than as regional newspapers, and as such should, contrary to the view that the MMC had taken in previous reports, be regarded as Scottish national rather than regional titles for the purposes of an assessment of concentration. Scotland was increasingly seen as a separate entity. Journalists on the *Daily Record* and the *Sunday Mail* regarded themselves as being part of a national newspaper organization. The *Daily Record* was printed in Oldham and Watford as well as Glasgow and it was circulated throughout the UK. It had a UK circulation greater than that of the *Daily Star*. Whereas advertisers saw most national titles as covering the whole of the UK, they regarded *The Mirror* as a package with the *Daily Record*, the latter providing the main penetration into the Scottish market. The *Daily Record* was essentially a national newspaper for Scottish people rather than a Scottish regional newspaper. But even counting the *Daily Record* and the *Sunday Mail* as regionals, the Group argued that a 13.3 per cent market share nationally was not of itself a matter for public concern. It was of the same order as the 12.3 per cent share which the MMC had found acceptable in the Trinity/Thomson merger.[1] Mirror Group also pointed out that, in contrast to the present inquiry, the Trinity/Thomson merger *did* include both regional and local overlap between the titles of the respective groups.

5.21. Mirror Group said that the bringing together of the ownership of national and regional titles did not give rise to any issues as regards concentration and the public interest. It was already found on a significant scale. Associated Newspapers was the third largest national and second largest regional and local newspaper publisher. United was the fourth largest national and the fifth largest regional and local publisher and also had three ITV licences.

5.22. Looking at the concentration of newspaper ownership at regional and local level, Mirror Group said that it had four titles that could be regarded as regional newspapers. In none of these cases was there any geographical overlap with MIN titles, which were concentrated in the Midlands. The bare statistics gave an exaggerated impression of the nature, strength and geographic scope of its regional newspaper activities since these regional titles were based in Northern Ireland and Glasgow. This was in complete contrast to the widely-spread businesses of other major publishers of regional newspapers. The

[1] See footnote to paragraph 4.60.

acquisition did not therefore give rise to any issue about concentration of ownership of regional or local titles generally or within the MIN area.

5.23. As to the relationship between its national titles and MIN's regional titles within the MIN area, Mirror Group stressed that other groups besides itself, for example Northcliffe and United, owned both national and regional titles.

5.24. In their Newsquest/Westminster report[1] the MMC commented that `Regional morning and Sunday newspapers compete for readers with the national press'. Mirror Group acknowledged that this was true in the case of some regional titles. The extent to which it was true, however, varied from title to title and depended on the relative qualities of the national and regional titles concerned and the demands and profile of their readers.

5.25. Mirror Group submitted that MIN has only two titles to which the MMC's comment quoted above might apply: *The Birmingham Post*, a morning daily with a circulation of about 28,000, and the *Sunday Mercury*, a Sunday title with a circulation of about 145,000. These were Birmingham's only morning and Sunday titles. It seemed unlikely that they competed for readers to any significant extent with core Mirror Group titles. Not only did *The Birmingham Post* have a very small circulation, but it had a well-deserved reputation as a `quality' title and as such appealed to AB readers. By contrast, *The Mirror* appealed mainly to C1, C2 and D readers. Although *The Birmingham Post* and *The Independent* both appealed to AB readers, the latter was targeted on young professional people and had a London/South-East focus. The combined readership of both newspapers was very small in the Birmingham area compared with the other national broadsheets. Whilst the profile of *Sunday Mercury* readers was closer to that of *Sunday Mirror* readers, it was a demonstrably local newspaper, and as such would be of limited appeal as a substitute for a national Sunday. The tendency among readers was to buy two Sunday newspapers, one national and one regional, as was illustrated by the fact that in Scotland people tended to purchase both the *Sunday Mirror* and the *Sunday Mail*. In any event, to the limited extent that either MIN title was seen as being in competition with the national press, readers in Birmingham had a choice each day between them and the complete range of national titles. That situation would not be affected by the proposed acquisition. It followed that Mirror Group's acquisition of MIN would not give rise to any meaningful concentration of national titles and morning regional/Sunday titles in the MIN area.

5.26. Mirror Group did not see MIN's Birmingham *Evening Mail* and *Coventry Evening Telegraph* as being in competition with the Group's dailies. A clear distinction had to be drawn between morning and evening newspapers. The use of a combined concentration figure for Mirror Group and MIN daily titles in the Birmingham area was grossly misleading. Purchasers of evening newspapers tended to be dedicated readers who bought a morning newspaper as well.

5.27. As far as local paid-for titles were concerned, it was also important to bear in mind that their readership catchment areas were relatively small; this was reflected in their commensurately low circulation figures. Their editorial and advertising focus was on the locality in which they circulated, in every case an area considerably smaller than that covered by the regionalized editions of Mirror Group's titles. Broadly, the extent of the regionalization of national titles was limited to their television listings, and sport and entertainment guide. They carried very little local news. A recent regionalized edition of *The Mirror* which appeared on 4 September 1997 had carried 2,910 SCCs of classified advertising. The amount of regionalization had in fact reduced markedly in the last 20 years, during which *The Mirror*'s 14 regional editions had been reduced to six based on ITV franchise areas. Local titles fulfilled entirely different needs from national titles, and there was no way in which the two were in competition with each other.

5.28. Local free sheets were advertising-driven with smaller distribution areas than regional and local paid-for titles and with little editorial content. Their advertising was heavily geared to low-cost items,

[1]See footnote to paragraph 2.17.

often placed by individuals rather than local traders, and was very different from that found in Mirror Group's national titles. There was therefore no competition between these titles and its national titles.

5.29. Mirror Group said that it had no plans to add to, sell or close any of MIN's existing titles. The performance of individual titles would be closely monitored. If a title was seen not to be performing well, the Group's approach would be to look for ways of improving it. The only foreseeable change in MIN titles might come from some swapping of titles with other publishers to make areas more contiguous.

5.30. Mirror Group said that it had no intention of introducing any systematic cutting of either cover prices or advertising rates in the MIN titles. The Group had been the target of unrealistic cover pricing in the national newspaper market but had kept its prices up. It regarded predatory pricing as a hugely expensive strategy that was unlikely to succeed in the regional newspaper market. Nor did it believe that such an approach could succeed in advertising. It would be very difficult to raise advertising rates once they had been reduced for a price war.

Effects on advertisers

5.31. Mirror Group said that most income from national display advertising came from selling to advertising agencies, which received the standard industry rate of commission of 15 per cent. In parallel to calling on agencies, the Group's sales force sought to establish direct links with client companies to understand better their needs and marketing objectives. The media market-place was intensely competitive and a certain level of discounting from the published rate card was commonly practised in the industry to secure business. From the advertiser's point of view cost-effectiveness was the key thing, which turned on the circulation and demographic readership data of the newspaper concerned.

5.32. All national newspapers offered regional advertising opportunities, but Mirror Group said that since its installation of new presses in the late 1980s, of all the national newspapers it had the most developed service to national advertisers wanting to give greater prominence to advertising in a particular region. This facility had also led, in April 1991, to the targeting of regional advertisers who previously could not justify the cost of using national titles.

5.33. Mirror Group said that it had sales offices in each of its six regions. Its Midland Region's advertising income was around £12,000 a week, of which about one-third came from businesses in the region and two-thirds from national clients. In addition, classified sales staff worked with the Group's regional sales office to obtain recruitment and motor advertising.

5.34. Existing advertising sales arrangements would be largely undisturbed by the transfer of MIN's titles to Mirror Group. There would, however, be co-ordination between Mirror Group's national advertising sales team and their counterparts at MIN so as to maximize national sales within MIN's titles. This was likely to be by way of cross-title packaging, ie offering advertisers special rates for inclusion in the regional edition of *The Mirror* and a MIN title. Details of how such arrangements might work had still to be worked out, but they were unlikely to generate significant amounts of additional revenue and certainly not sufficient revenue to have a material effect on the national or regional titles of third parties.

5.35. Apart from arrangements of this sort, Mirror Group did not anticipate significant change, although investment would be considered to enhance efficiency in areas of MIN's operation that might benefit from Mirror Group's expertise such as debt control, billing and advertisement production.

5.36. Mirror Group said that the acquisition would not result in any concentration of advertising sales at either the national or regional level. But following the merger there would be a measure of integration of the marketing functions of Mirror Group and MIN, both in London and Birmingham.

5.37. Mirror Group said that the balance of advertising revenue was very different for a national title as compared with a regional one. The bulk of Mirror Group's advertising revenue (over 80 per cent) came from display advertising, while the figure for classified advertising was no more than 15 per cent. For a regional newspaper the split was about 60:40 in favour of classified advertising, with such advertising in the local community being particularly important. Local television was presenting increasing opportunities for small businesses to advertise locally, but there was as yet no real alternative to regional newspapers' classified advertising.

5.38. An advertiser wishing to achieve national coverage through a Mirror Group title would not find a single MIN title, or a combination of MIN titles, to be an acceptable substitute. Equally, very few, if any, advertisers wishing to place advertising in the Midlands edition of a Mirror Group title would find a MIN title or combination of MIN titles an acceptable substitute. There were a number of advertisers (for example, national DIY retailers) which advertised both in the Midlands edition of *The Mirror* and in one or more of MIN's titles. However, there was no reason why the acquisition should affect them. In selling advertising, Mirror Group titles would continue to face fierce competition from the other national dailies, all of which published regional editions of their own titles. Nor would the acquisition affect in any way the local competition for selling advertising that MIN titles faced from other local newspaper groups in the Midlands and from other local advertising media, particularly local radio.

5.39. At the end of the day, advertising was bought on a cost per thousand readers basis. Mirror Group did well on its retail and display advertising, but competition with the other tabloids was very fierce. Even so, there was general resistance by newspapers to attempts by individual advertisers to force down advertising rates. Cross-advertising was a matter of presenting the advertiser with a choice rather than seeking to put pressure on him. By the same token, advertisers could not put pressure on newspapers, for example, not to advertise rival products. All advertisers were treated equally.

5.40. Mirror Group therefore concluded that the proposed acquisition did not give rise to any issues as regards concentration of advertising at either national or regional level.

Effects on retail newsagents

5.41. Mirror Group did not consider that the proposed merger would lead to any changes as far as retail newsagents were concerned. The Group had a good and constructive relationship with retail newsagents which it wished to maintain, although the tripartite relationship of national newspaper publisher, wholesaler and retailer could lead to tensions at times. There had been some reaction from newsagents when Mirror Group, in common with other national publishers, had increased its cover prices to meet the rising cost of newsprint, but had made no corresponding increase in the money value of newsagents' margins. The present structure of distribution was a very efficient way of getting newspapers out. It would not want to upset retailers by changing the relationship between its regional titles and their newsagents, and it had not considered doing so. As to direct delivery, Mirror Group said that it would consider all options but its priority was to encourage home delivery and it wished to do so through retailers. A direct delivery system for a national newspaper was unlikely to be cost effective, and none of Mirror Group's national titles was delivered directly in this way.

Effects on employment and efficiency

5.42. As far as trade unions were concerned, Mirror Group said that it drew a sharp distinction between creative journalists and other employees. At each of its print sites it recognized for the purposes of full collective bargaining the GPMU and the Amalgamated Engineering and Electrical Union, and wage settlements were negotiated at local level at each plant. The GPMU also had a full collective bargaining arrangement for the clerical staff at the Anderston Quay offices of the Scottish *Daily Record* and *Sunday Mail*.

5.43. Mirror Group said that it did not believe it appropriate or practical to have blanket collective bargaining arrangements for the highly-skilled creative professional staff who created the newspapers. Pay was reviewed through individual performance assessments conducted annually by line managers and co-ordinated by the personnel department and senior executives. The Group recognized the NUJ for the purposes of consultation on disciplinary, grievance and health and safety issues only. The Group said that there were in fact three journalist unions represented in its workforce; the NUJ, the Daily Mirror Journalists and the British Association of Journalists. Taken together, less than 50 per cent of Mirror Group's journalists were in union membership.

5.44. Mirror Group said it understood that MIN had broadly similar arrangements to its own for the recognition of the NUJ and the GPMU. The position on journalists was straightforward. It was not, however, sufficiently familiar with MIN's arrangements on the production side to know whether there were inconsistencies or conflicts with its own arrangements. In any event, the intention was to use the Birmingham and Coventry sites for the printing of MIN's regional evening newspapers.

5.45. Mirror Group said that its poor relations with the NUJ stemmed from the changes that had been found necessary by the new management. Collective bargaining for journalists had been brought to an end, all casual working had been ended and the four-day week had been replaced by a five-day working week. It had also swept away the system which saw NUJ officials in key executive positions in the company. All cases of summary dismissal cited by the NUJ referred to casual workers, none of whom had been employed by Mirror Group on permanent terms. Where there had been redundancies among permanent staff, these had been handled by normal procedures.

5.46. The Group said it recognized that the workforce had been unsettled by the Maxwell era and the changes introduced to re-establish the company. It had accordingly put in place a programme of benefits so that employees identified more closely with the company. These included a distribution of shares, a private health care scheme, free legal insurance and a car leasing arrangement with payments made through deductions from salary.

5.47. Mirror Group believed that there was scope to introduce greater efficiencies into the MIN business and to achieve cost savings of the order of £5 million a year as a result of the merger. There were two main areas in which cost savings could be made:

(a) head office/corporate activities, where it would be possible to do without a number of MIN's corporate headquarters functions and plc inspired costs; and

(b) the cost of purchasing, where Mirror Group purchased newsprint and other consumables (for example, printing ink), as well as banking and other services, at cheaper rates than MIN. These better terms would in future be made available to MIN.

5.48. Mirror Group said that it was planning to implement a major programme to retrain journalists on all its titles in on-screen multi-skilling techniques. This would involve re-equipping its titles with more sophisticated software for editorial production. The aim would be to eliminate the current sub-editorial functions and to rely instead on a smaller number of more highly-skilled, productive journalists. This programme was due to start in September and to be completed by March 1998. It would examine the extent to which this multi-skilling training and re-equipment programme could be adapted and applied for MIN's regional titles, in conjunction with any action MIN itself was planning along these lines.

5.49. The only job losses that Mirror Group had identified at this stage (which were taken into account in the overall figure of £5 million) were [*] head office staff. This number covered both head office staff proper and support staff in such areas as transport, purchasing, human resource management and finance. No editorial staff were involved. Other job losses were likely, however, as Mirror Group introduced the latest technology and greater efficiencies into MIN's business. There would be some rationalization of marketing but no specific job savings had been identified. Overall, the Group said that it intended to create an environment in which skilled productive journalists could flourish and in which career opportunities would be greatly enhanced. It also drew attention to the fact that in the expanding television area new jobs were being created.

5.50. Mirror Group's titles were printed on its presses at Watford, Oldham, Glasgow and Belfast. In addition, the company had various short-term contracts for printing regional editions of some of its national titles and Sunday colour supplements. These arrangements would be unaffected by the merger.

5.51. The acquisition would not give rise to significant savings in printing because the plants of both companies were currently working at or near capacity-at least at the critical peak time in the evenings.

*Figure omitted. See note on page iv.

The aim would be to maintain maximum flexibility in printing arrangements. MIN currently contracted out some of its weekly printing and it would be possible to do some of this non-time-sensitive printing at Watford. This would save approximately £1 million a year. The use of Watford would also provide MIN with the facility to provide inserted supplements and sections which it did not currently have. For the longer term, Mirror Group would examine as a separate investment project the viability of establishing a new plant in the Birmingham area to meet the combined printing needs of itself and MIN.

5.52. Mirror Group told us that following the irregularities of the Maxwell era, the new management had paid particular attention to the security of the arrangements for the Group's pension fund, which was now probably the safest in the country. The trustee company had 15 directors of whom seven were elected by members of the fund, and there was also an independent Chairman. At the very least, comparable arrangements would apply to the MIN pension fund. MIN had, however, put its own proposals to the Pensions Board and these would be implemented if approved by the Board as providing at least comparable safeguards. It was also agreed that there would be no merger of the Mirror Group and MIN pension funds unless the trustees of both funds agreed, and that in this regard the clause in the MIN pension trustee deed which enabled the company itself to direct that a merger should take place should not be relied upon. Mirror Group said that it was its intention that MIN's pension fund should carry on at the same level of funding as at present, subject to any change necessitated by the Budget.

The public interest

5.53. Mirror Group said that it was firmly of the view that its acquisition of MIN would not operate against the public interest. Indeed the acquisition of MIN would be very much in the public interest since, by becoming part of Mirror Group and having access to its greater financial and other resources, the MIN business would benefit both from investment and greater efficiencies. This would be to the advantage of MIN and to readers of its titles.

The views of MIN

Background on MIN

5.54. MIN said that the core of its business was The Birmingham Post & Mail Limited (which published the *Evening Mail*, *The Birmingham Post* and the *Sunday Mercury*) and Coventry Newspapers Limited (publisher of the *Coventry Evening Telegraph*). These businesses dated back more than 100 years but by 1991 the then owner of the titles, Ingersoll, was facing financial problems and looking to sell them. This led to a management buyout by the then senior operational managers at The Birmingham Post & Mail Ltd and Coventry Newspapers Ltd which was completed in November 1991.

5.55. Since the buyout MIN's newspaper business had been expanded by a series of acquisitions and the launch of two new free newspapers in the Midlands area. Details of the newspapers published by MIN together with their circulation figures are shown in Appendix 3.4.

5.56. The company was floated in March 1994. In late 1994 MIN took a strategic decision to diversify into magazine publishing and exhibition organization as a hedge against the cyclical nature of regional newspaper publishing, and because it considered that the premiums then being paid for newspapers were high, making further acquisitions in that sector unduly expensive. In June 1995 MIN acquired Inside Communications Limited, a specialist magazine publisher and exhibition organizer. Its other non-newspaper interests included Birmingham Live cable television, a joint venture with Mirror Group, direct marketing, commercial photographic operations and a small involvement in teletext and the Internet.

5.57. MIN currently published one morning daily newspaper (*The Birmingham Post*, which was the fastest-growing regional daily in the country), two evening dailies (the Birmingham *Evening Mail* and the *Coventry Evening Telegraph*), one Sunday newspaper (the *Sunday Mercury*), five paid-for weekly titles, 28 free weeklies and one free monthly. MIN told us that the final Saturday editions of the *Evening Mail* and the *Coventry Evening Telegraph* were circulated as the *Sports Argus* and *The Pink* respectively. They were produced by editorial staff shared with the *Evening Mail* and the *Coventry Evening Telegraph* respectively and used the same distribution arrangements. They traded on the goodwill of the other editions of these newspapers and were viewed in the trade as Saturday evening sports editions of the underlying newspaper rather than as separate newspapers. MIN pointed out that Saturday evening sports editions of newspaper titles were a common feature of the regional newspaper industry. The *Sports Argus* and *The Pink* did not exist on a stand-alone basis, being entirely dependent on the financial and managerial resources of their underlying newspapers. Their circulation figures were combined with those of their underlying newspapers in the figures produced by the ABC in recognition of the fact that each carried a minimum of 50 per cent of the number of display advertisements appearing in the underlying title on the same day. MIN also told us that on 18 June 1997 two of its free weekly titles, the *Loughborough Trader* and the *Loughborough Echo Extra*, had been merged into what was now known as the *Loughborough Echo Trader Xtra*. The weekly paid-for *Loughborough Echo* series was not involved in that merger and continued to be published as a separate paid-for title. The majority of MIN's titles circulated in the West Midlands but its more recent acquisitions included weekly titles circulating as far north as Derby and Ilkeston and as far east as Peterborough and Spalding.

The rationale for the merger

5.58. MIN said that while the management buyout team now running the company naturally valued their independence, there had been speculation in the financial press for some time that MIN might be a bid target. Acquisition by Mirror Group was an attractive option since MIN recognized the benefit to its titles of being part of a larger media group. The last two years had seen unprecedented consolidation within the regional newspaper industry and MIN had been interested in acquiring a number of the businesses involved but had been outbid. MIN considered that the process of consolidation would continue as regional publishers sought to protect their franchises and develop as mixed media companies gathering and disseminating information in a given area. With regional newspaper sales in slow decline, profits growth was dependent upon greater efficiency and opening up new sources of revenue including leaflet distribution, sponsorship and audiotext. The provision of in-depth editorial coverage for the local community was an expensive, people-intensive part of a regional newspaper's operations and it had to have size, critical mass and commercial strength if it was to sustain this kind of service. The trend towards consolidation in the industry, of which the present merger was a part, would therefore help to underpin editorial services to the local community rather than undermine them.

5.59. The acquisition of MIN by Mirror Group represented an attractive option offering access to greater funds and further scope for achieving economies of scale and operational efficiencies through pooled resources. Acquisition by Mirror Group would provide MIN with the finance to develop further into magazines, exhibitions and non-print media, areas in which MIN and Mirror Group had a shared interest. It was of great importance to MIN that Mirror Group was keen to see growth in these non-newspaper areas. The merger would also give MIN editors access to Mirror Group's editorial and picture databases and a wide range of source and archive material, and greater training opportunities for their staff.

5.60. MIN already had experience of working with Mirror Group in the development of the Birmingham Live cable television channel and believed that both companies shared a progressive culture and a common approach to the growth of the business. Both were dedicated to improving quality by technological innovation.

5.61. The combination of MIN's regional presence in the Midlands with Mirror Group's national brands would provide the enlarged Group with the ability to canvass jointly for extra copy sales, to offer advertisers a new range of cross-title packages, and also the possibility of harnessing MIN's exhibition and event experience to Mirror Group's strong national brands.

5.62. MIN anticipated that there would also be significant benefits from sharing resources and premises across a wide range of activities, including important economies of scale. The merger was estimated to yield cost savings and synergies amounting to more than £5 million a year. These would arise principally from the elimination of corporate and administrative overheads and the more efficient purchasing of materials, particularly newsprint where MIN's usage was only about 15 per cent of that of Mirror Group.

Editorial policy

5.63. MIN said that there was a long tradition of editorial independence in the regional newspaper industry and that consistent with that tradition it operated a policy of editorial freedom. Editorial decision-making was devolved and individual editors played a major role in formulating the policies and strategies of their newspapers. MIN did not impose any political view on its editors. It saw its regional newspapers as broadly apolitical (although *The Birmingham Post* took a generally Conservative stance), editors' first responsibility being to act as both mirror to and leader of the community and to campaign for what they saw as right for their local communities, with freedom to criticize any political party, council or government. The main board of MIN did not give instructions to editors, but editors were made fully aware that comprehensive and impartial coverage of their communities was vital. Each MIN newspaper had its own editor and dedicated editorial team, and rivalry between them was often intense. The campaigning influence of free newspapers with their limited editorial content was clearly less than that of paid-for newspapers, but even so it could be significant as in the case of the *Solihull News* campaign to save Solihull Hospital.

5.64. MIN editors were appointed by the main board on the joint recommendation of the Group Chief Executive and the Managing Director of the newspaper concerned. Editors could only be removed with the approval of the main board.

5.65. MIN's titles were distributed in an area with a strong and distinctive regional identity. Rivalry between competing newspapers was fierce, particularly between MIN's *Evening Mail* and MNA's Wolverhampton *Express & Star*, which were the two biggest-selling English regional dailies and competed directly in such areas as West Bromwich, Dudley, Aldridge and Sutton Coldfield. This rivalry kept editors and journalists on their toes. Competition in terms of new entrants to the market tended to come from free newspapers directed to a particular segment of the community or to a particular category of advertising. *Auto Trader* and *Auto Exchange* had established themselves on the basis of motor advertising and *Bargain Pages* had established itself as a free advertising paper about five years ago. A new free newspaper was shortly to appear directed to Birmingham's Irish community.

5.66. MIN did not believe that the proposed acquisition by Mirror Group would have any adverse effect on the editorial quality or content of MIN's newspapers. Mirror Group's stewardship of the Belfast and Scottish titles suggested that it would not seek to influence the editorial policy of MIN's titles. Editors would still have the same freedom to deploy their journalists. It would clearly not make commercial sense for Mirror Group to seek to alter the editorial identity of the MIN titles since local `voice' was critical to the reputation and credibility of regional and local newspapers. The new regional board to be set up following the proposed merger would have the important role of ensuring the strength and local vigour of the MIN titles, and in particular that their specific local character was maintained. MIN anticipated that its titles would continue to be run along similar lines to the present, and saw no reason why the accurate presentation of news and the free expression of opinion in its titles should in any way deteriorate as a result of a transfer to Mirror Group.

Concentration of ownership

5.67. MIN said that the market affected by the proposed merger was that for regional and local paid-for and free newspapers in the UK. There was no regional overlap between the regional titles of Mirror Group and the regional and local newspapers of MIN. Mirror Group's existing regional newspaper interests were in Scotland and Northern Ireland, whereas MIN's titles circulated in the Midlands.

5.68. The effect of the proposed transaction on the level of concentration of newspaper ownership was modest. The acquisition of MIN would increase Mirror Group's share of the total UK market for regional and local newspapers by 5.1 per cent to 13.3 per cent, making it marginally the largest regional and local newspaper publisher in the UK, but closely followed by three other major newspaper publishers: Trinity, Northcliffe and Newsquest. It would also make Mirror Group the largest publisher of regional and local daily newspapers with a market share of 18.9 per cent (an increase of 5.2 per cent), but again, only marginally ahead of Northcliffe with 16.9 per cent. In terms of weekly paid-for regional and local newspapers, the increment in market share was insignificant (only 2.3 per cent) and would give Mirror Group a market share of 12.4 per cent, very slightly ahead of Trinity with 12.1 per cent. In relation to weekly free regional and local newspapers Mirror Group would rank only fifth, with a market share of 6.8 per cent, well behind the market leader, Newsquest, which had 14.6 per cent. MIN said that in looking at levels of penetration in the Birmingham area for the enlarged Group, it was essential to distinguish between national morning newspapers and regional evening newspapers since readership was governed by entirely different considerations.

5.69. Mirror Group had been publishing a Midlands edition of *The Mirror* for several years. The area covered by this edition went much wider than that of MIN's titles, extending from Suffolk in the east to Shropshire in the west and from Nottingham in the north to Bedford in the south. This area was determined by the distribution and production pattern of the newspaper rather than the actual coherence of the local community concerned. For this reason MIN did not see its own titles as being in competition with regional editions of national titles. MIN told us that it had commissioned a survey in 1996 which showed that the most read sections of its evening newspapers, apart from the television listings, were regional and local news and job advertisements, areas which had very little coverage in the regionalized editions of the national dailies. A recent Thursday edition of the *Evening Mail*, that appeared on 4 September 1997, had carried over 17,000 SCCs of classified advertising. A check on a recent regional edition of *The Mirror* had revealed only three job advertisements in the Birmingham area within its regional jobs section, whereas on the same day the *Evening Mail* had 28 pages of local recruitment advertising.

5.70. Although *The Mirror* and the *Evening Mail* shared a similar readership profile there was little competition between them, either in terms of readership or advertising. Despite having a regional edition, *The Mirror* was not a close substitute for any of the MIN titles, as it only included editorial content and advertising aimed specifically at the Midlands on one day of the week (Thursday). Moreover, the broader geographical coverage of Mirror Group's regionalized newspapers made them of limited attraction to advertisers aiming for in-depth penetration of the local market. *The Mirror*'s readership penetration in the Midlands, at 14 per cent, was identical to its national penetration figure. It was significant that the launch of *The Mirror*'s regional edition in the Midlands had not resulted in any loss of market share by MIN.

5.71. MIN did not see *The Birmingham Post* and Mirror Group national titles as being in competition. *The Mirror* served a quite different readership from *The Birmingham Post* which was a broadsheet with some 70 per cent of its readers in the ABC1 category. *The Birmingham Post* also had a circulation of only 28,000 against 246,000 in the MIN region for *The Mirror*.[1] *The Birmingham Post* had in-depth coverage of the Midlands business scene and so targeted the local business community. It made a contribution to the profits of the group overall. Its closest rival was the *Financial Times*. *The Birmingham Post* generated a lot of high-quality jobs and property advertising. In contrast, *The Independent* did not have a Midlands flavour. It was targeted nationally at a young academic readership and its penetration in the Midlands at 1 per cent was the same as its national penetration. The *Sunday Mercury* was demonstrably not a competitor to the *Sunday Mirror*. The *Sunday Mercury* focused heavily on local sports coverage. Over 70 per cent of *Sunday Mercury* readers read a national Sunday newspaper as well.

5.72. MIN said that Mirror Group was committed to continuing to publish and develop all MIN's existing titles. Nor did MIN expect circulation policies for its titles, which were currently determined by agreement between operating division management and the main board, to change following the proposed acquisition in any way that would adversely affect the public interest. Both groups had the same philosophy on the need to maintain circulation. MIN did not consider that a policy of predatory undercutting of either cover prices or advertising rates would make any sense for the enlarged Group as it was unlikely to be successful. Cross-promotions involving tactical cover price discount offers were, however, a possibility. In general, readership loyalty was strong in regional newspapers and it was difficult to penetrate areas where other publishers were well established.

Effect on advertisers

5.73. There was a fundamental difference in the significance of advertising for a regional as compared

[1]The circulation area referred to here is somewhat smaller than that on which Table 4.11 is based.

with a national newspaper. For MIN, 80 per cent of its turnover came from advertising and 20 per cent from selling newspapers. For Mirror Group it was about 60 per cent from selling newspapers and 40 per cent for advertising. MIN said that its advertising policies were crucially important and needed to reflect local market needs. The aim was to provide a cost-effective advertising service to a wide range of clients.

5.74. Following the proposed merger MIN believed that the advertising policies of its titles would continue to be orientated towards their local markets. There would be changes to allow for the cross-selling of packages between titles, although the number of clients likely to be attracted by this would be limited due to the much wider spread of *The Mirror*'s Midlands marketing area. MIN did already offer cross-title packages which were very attractively priced but the rate of take-up was small. Advertising traffic was maximized where the cost was realistic in relation to response. This necessitated products which were developed to maintain their readership and advertising rates which were competitive. Advertisers made their decisions on the basis of the level of response they received for any given amount of expenditure.

5.75. *The Mirror* had a regional office in Birmingham with some 15 sales and administration staff and Mirror Group's policy has been to attract advertising from a variety of businesses to appear in the regional edition of *The Mirror*. The main areas of business targeted by *The Mirror* were recruitment and entertainment. Although its advertising rates were significantly below those of MIN for recruitment advertising, *The Mirror* was limited in the business it could obtain as compared with the penetration and more localized focus of MIN's titles. It followed that MIN and Mirror Group were not to any significant extent competitors in the market for the supply of advertising services.

5.76. MIN said that it expected the competitive pressures in the advertising market to remain as vigorous following the acquisition by Mirror Group as they were at present. Not only was the regional and local newspaper market, with 122 titles in the Midlands area, highly (and increasingly) competitive as evidenced by *Auto Exchange*, *Auto Trader* and *Bargain Pages* (see paragraph 5.65), but there were also many competitors among a range of other media, including paid-for and free advertising publications; directories like *Yellow Pages* and *Thomson Local Directories*, which offered an increasing number of regionalized editions; specialist advertising media; direct mail; television (including 12 non-Sky channels on which Midlands-only advertising could be bought); an increasing number of strong local radio stations; computer information services; and the Internet. Radio advertising had grown by over 20 per cent in three of the last four years, to a considerable extent at the expense of newspapers. It was the existence of these competing media which was forcing MIN to look for ways of improving the services offered to its advertising customers. Of MIN's 38 titles, only about eight could be regarded as market leaders in advertising; the others featured as an aggressive number two in their particular market. [*Details omitted. See note on page iv.*] MIN saw no reason to believe that quality of service would be compromised in any way by the proposed merger. Nor was there any reason to believe the merger would adversely affect competition in the market or lead to higher prices for advertisers.

5.77. MIN said that it was not aware of any particular reaction from advertisers or readers generally against the merger, and certainly not of any groundswell of opposition to it. A few letters had been received, some supportive, some simply seeking to understand what was proposed. In the main, advertisers had not expressed a view one way or the other.

Effects on retail newsagents

5.78. MIN said that it did not foresee any changes on the retailing front as a consequence of the merger. MIN's retail margins for newsagents were probably similar to those of Mirror Group and varied according to the level of service offered by the individual newsagent, ie the range of delivery services and related factors. Around one-third of deliveries of the *Coventry Evening Telegraph* and some 13 per cent of deliveries of its Birmingham newspapers were now made direct to homes. MIN had developed direct delivery services as a way of getting a closer relationship with its readers and to provide a service in those areas where none was provided by retail newsagents. The price for copy sales received by MIN, whether by direct delivery or using a retail newsagent, was approximately the same.

5.79. MIN considered that the use of direct delivery would grow in the future. There was an essential dichotomy between its interests and those of the newsagent. The newspaper publisher wanted to know his customer and develop customer loyalty. The newsagent's interest was in a more casual relationship with customers who came into the shop and made other purchases as well. Most newsagents kept surprisingly rudimentary records of their customers.

Effects on employment and efficiency

5.80. MIN said that because the MIN and Mirror Group titles largely served different reader and advertiser markets, there was little duplicated activity. The extent of staff and other savings was a matter for the Mirror Group board, but there were expected to be some [*] job losses in total across the combined group within the corporate and administrative overheads area.

5.81. Cost savings would be achieved by more efficient purchasing ranging from materials, especially newsprint, to insurance premiums. There would be various operational efficiencies and the pooling of resources. [

Details omitted. See note on page iv.

] There was scope for streamlining the administration of the respective sales teams, although the structure and deployment of the teams themselves were unlikely to be changed.

5.82. Independent of the savings flowing from the merger, MIN was moving to increase the efficiency of its editorial staff through Project Groundbreaker, which would lead to some redeployment and reduction in staff numbers. [

Details omitted. See note on page iv.

] The emphasis throughout would be on flexibility and teamwork and a breaking down of traditional roles and sectional responsibilities. It was known that Mirror Group was thinking along similar lines. Coupled with these developments would be the greater use of pooled editorial resources. Increased flexibility in the use of journalists would also lead to coverage of some events by a single reporter on behalf of more than one title. Individual editors would need to decide to what extent they used this approach in the context of the overall deployment of their journalists. More effective use of photographic resources would also be achieved by the phasing out of conventional photography and the introduction of digital cameras.

5.83. MIN said that the enlarged Group would need to consider the various options for rationalizing and expanding its printing operations. The development of a greenfield site covering both Mirror Group and MIN requirements was a possibility in the medium to long term. In the short term, Mirror Group would have some spare capacity at Watford which could be used for MIN weekly titles. This would also provide colour and inserting capacity but would raise problems relating to page size. Basically, MIN's core newspapers would continue to be printed at Birmingham and Coventry.

5.84. MIN said that it came as no surprise to learn that the NUJ was opposed to the merger. That was its standard response. MIN officially derecognized the NUJ for collective pay bargaining in 1987 and since then its representation had been confined to health and safety and similar issues. MIN did not have works councils. All staff would be consulted fully on the implications of the proposed merger. There was inevitably a natural concern over jobs, but people also recognized the advantages of working for a larger Group.

The public interest

5.85. MIN submitted that there was no reason to expect the proposed merger to operate against the public interest.

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*Figure omitted. See note on page iv.