

# 5 Views of the main parties

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## Introduction

5.1. This chapter summarizes PSN's views about the potential transfers and the views of each of the three bidders about its own acquisition of PSN's newspaper publishing and printing business. These views were put to us both in written submissions and at hearings. Much of the evidence we received, concerning the companies themselves and the market place, is presented in Chapters 3 and 4.

## **The views of PSN**

### ***Summary***

5.2. PSN told us that it had no grounds to consider that any of the proposed transfers might be expected to operate against the public interest.

5.3. No significant competition concerns arose. The relevant market in terms of providing local news and opinion was now much wider than the supply of printed local or regional newspaper titles. Alternative sources included local radio, regional and local television, including cable franchises, and other media. On this basis, the proposed transfers were insignificant in terms of increased concentration and raised no concerns about consumer choice.

5.4. Similarly, the relevant market in relation to advertising revenue was wider than local or regional newspaper titles, which competed with local and regional free advertisement publications, commercial radio and television and numerous other alternatives.

5.5. No other public interest concerns arose. At national level, concentration of ownership was not a concern, since each of the proposed transfers would result in a share of supply of regional newspapers in the UK of less than 15 per cent. No possible regional concerns arose that were additional to or distinct from those raised by an increase in concentration at local level. Only in some localities was there any kind of overlap but in all areas this was limited in terms of circulation or distribution, or geographically, or on both counts. Also, in some of the areas, alternative titles were available.

5.6. There would still be significant scope for diversity of opinion in all areas of overlap after any of the proposed transfers, which was enhanced by the policy of editorial independence which, PSN understood, existed in all three companies.

5.7. PSN was not aware of any grounds for considering that any of the proposed transfers would have an adverse affect on the accurate presentation of news and free expression of opinion, or on employment.

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

5.8. PSN's newspaper publishing and printing activities were conducted through two subsidiaries. PPP published the evening newspaper in Portsmouth and a range of weekly newspapers in east Hampshire and West Sussex. NP published three evening newspapers in Sunderland, Hartlepool and South Shields and a range of weekly newspapers spreading from Hartlepool into the Scottish Borders.

5.9. PSN's existing strategy was to consolidate its position in each of these regions and to expand into adjacent areas through acquisitions.

5.10. PSN believed that for the foreseeable future, local newspaper groups would mainly provide local news and information in each publishing area through printed newspapers, but that this format would increasingly be complemented by electronic media. PSN was investing in new electronic media services which were complementary to their 'host' newspapers, extending services to both readers and advertisers. PSN newspaper titles provided these electronic services via the Internet, local teletext and audiotext.

5.11. PSN told us that it had not sought offers for its businesses and had no financial need to do so. The company had invested much in recent years and was still on the lower slopes of very strong profit growth. As recently as September 1998, the board had confirmed its strategy to remain independent. It considered that the prospects for both local newspaper publishing and retailing were excellent and that PSN's strategy of developing both businesses would continue to benefit shareholders. However, having received an uninvited approach for its newspaper publishing and printing business, the board had been advised that it must be prepared to recommend an offer at a price which reflected the company's underlying growth prospects and strategic value.

5.12. In the course of the inquiry, PSN informed us that none of the companies which were interested in the publishing and printing business had expressed an interest in the retailing business. The board of PSN had therefore started an auction process for its retailing business so that it could identify possible purchasers, in order to enhance shareholder value. On 30 April 1999, PSN announced that it had conditionally agreed to sell its retailing business to T and S Stores plc.

5.13. PSN explained that the interest in acquiring PSN's newspaper business had started early in 1998, following the retirement of Sir Richard Storey as Chairman of PSN. Johnston had expressed a wish to purchase PSN but the board rejected its offer for two reasons. Johnston's price, £16 per share, was far too low. Secondly, Johnston had attached various conditions that were unacceptable to PSN.

5.14. In January 1999, Johnston bought 14.99 per cent of PSN's shares from institutional shareholders, launched a tender offer for a further 10 per cent and announced its intention to seek approval from the Secretary of State to go beyond a 24.99 per cent holding. PSN advised shareholders against the tender offer and it failed.

5.15. It was against that background that PSN started discussions with Newsquest and Newscom with a view to agreeing a recommended offer. PSN emphasized that the board would consider recommending an acceptable offer from any of the referred applicants.

5.16. PSN noted that while there were advantages in merger and acquisitions, there was a healthy future for both small and large companies that served their communities well. To illustrate the community focus, PSN said that people who lived and worked in Portsmouth were interested only in the local newspapers in that city. The fact that the newspaper might be owned by a company that also owned the titles in Southampton was irrelevant to them. PSN believed that there was no reason to be concerned about concentration in areas that were near each other, any more than about concentration in widely dispersed areas.

### ***Concentration of ownership and effects on competition***

5.17. PSN considered that newspapers alone did not constitute a relevant market when examining the effect of the transfers. The relevant markets were the provision of regional and local news and opinion through all formats, and the supply of local and regional advertising space. PSN considered that local newspapers did not exist at a national level. They were a fragmented industry with many companies. None had a blanket editorial policy across the country. If any company decided it was large enough to have such a policy, it would very soon lose readers' interest. Lost readers meant lost advertisers and a gap would open for an entrepreneur to enter the market.

5.18. PSN told us that increased concentration of ownership, in terms of regional and local newspapers by circulation and distribution in the UK, gave rise to no competition or other concerns for any of the transfers.

5.19. At 1 January 1999, PSN was the twelfth largest regional newspaper business and had only about 2.7 per cent of the combined circulation and distribution in the UK of paid-for and free regional and local newspapers. The effect of each of the transfers would be as follows. Johnston's share nationally would increase from 6.4 to 9.1 per cent; Newsquest's share would increase from 11.9 to 14.6 per cent; and Newscom's share would increase from 4.1 to 6.8 per cent.

5.20. Taking paid-for weekly newspapers only, the transfers would have the following effect: Johnston's share would increase from 16.2 to 16.9 per cent; Newsquest's share would increase from 9.0 to 9.7 per cent; and Newscom's share would increase from 4.9 to 5.6 per cent. These were minor increases.

5.21. PSN considered that, for all the transfers, there were no possible regional concerns arising from increased concentration that were additional to or distinct from those raised by increased concentration in particular localities.

5.22. Because the news and opinion provided by PSN's titles was essentially local in character, the proposed transfers did not reduce consumer choice and diversity of opinion on regional issues or on the regional slant of national issues.

5.23. PSN told us that for its own purposes it had no regional categories of advertising. It monitored performance on a national and local basis.

5.24. PSN said that only one of its titles, the weekly *West Sussex Gazette*, was aimed at consumers on a regional basis, but that had a limited geographical range, mainly in rural West Sussex.

5.25. Moreover, there were a number of local radio and television stations aimed at consumers throughout West Sussex which ensured a diversity of news sources and a balance of opinion: for example, Spirit FM, based in Chichester, with 37 per cent of all commercial radio listeners and penetration of households estimated at up to 30 per cent in Chichester; Southern FM with 25 per cent of listeners in West Sussex and strong coverage in Worthing; and BBC local radio.

5.26. In PSN's area in the North-East, there were a number of local radio stations including Metro FM; Sun FM; Century Radio and BBC local radio. Sun FM and Century Radio had been launched within the last five years. The teletext service had become more localized and the local cable television franchises were obliged to provide local programmes as a condition of their franchise. This combination of media ensured that the proposed transfers would not have an adverse effect on diversity and balance of opinion.

5.27. In relation to advertising, there were a number of alternatives in West Sussex to PSN's titles and those of Johnston, Newsquest and Newscom respectively. In addition to the three applicants (two of which would continue to provide alternatives to any acquirer of PSN), both Trinity and Northcliffe had a title in the region, as well as other competitors. In Hampshire, there would be minimal overlap as a result of the proposed transfer to Newscom. In the North-East of England, Trinity had a significant number of titles and was a very effective competitor providing choice throughout the region. Thus, competition would remain strong in each region.

5.28. Because local commercial radio and television provided competitive constraints, advertisers seeking to advertise on a regional basis were not adversely affected by the proposed transfers.

5.29. PSN pointed out that all the proposed transfers would result in some increased concentration in certain localities. However, where there was such overlap, the transfer was unlikely to have an adverse effect for readers and advertisers as generally only one company's titles had significant presence in any locality and any overlap was insignificant both in terms of circulation and distribution and geographically.

5.30. The transfer to Johnston of PSN's titles in north-east England and the Borders of Scotland would not increase local concentration, as Johnston did not publish newspapers in these areas. The transfer to Newsquest of PSN's titles in south-east Hampshire and West Sussex would not increase local concentration as Newsquest did not publish in south-east Hampshire and its *Evening Argus* had a limited circulation and penetration throughout West Sussex. The same was true for Newscom. PSN did not therefore expect the transfers to result in any loss of choice for readers or advertisers. PSN said that had it no grounds for expecting that Johnston, Newsquest or Newscom would be more likely than PSN itself to exploit any position of strength it would inherit with PSN's leading titles in certain localities. The overlap areas are considered in more detail below, for each of the transfers.

### *Johnston transfer*

5.31. PSN told us that the proposed transfer to Johnston would result in increased concentration principally in the following localities: Arundel, Angmering, Petworth, Bognor Regis, Littlehampton, Worthing, Steyning, Storrington rural area and Pulborough. These overlaps did not give rise to significant concerns. Apart from PSN and Johnston, there were a number of additional titles available to readers and advertisers throughout West Sussex including *Friday-Ad*, *Worthing Property Guide*, *Sussex Life*, *Contact-a-Car* and *Auto Trader*. Many of these competed for advertising revenue in the

areas concerned. For all these areas of overlap with Johnston, PSN argued that there would be no adverse effect for readers or advertisers.

5.32. In Arundel, PSN's paid-for title, the *Chichester Observer* Series, had limited circulation of less than 800. The loss of independence would therefore have no significant adverse effect on readers. Although PSN had two free weekly titles with penetration of over 40 per cent, free advertising publications could easily be established and distributed. In any case, the area was geographically small so the overlap was minor.

5.33. PSN's titles in Angmering and Petworth had limited circulation. The main PSN title in Angmering was the *West Sussex Gazette*, a niche title targeted at a wider audience.

5.34. In Petworth, the *Chichester Observer* Series was the only paid-for title with significant penetration. Johnston's *Horsham Advertiser* Series was the only free title with significant penetration. The overlap was small geographically.

5.35. In Bognor Regis, Johnston's title, the *West Sussex County Times*, had minimal circulation and penetration of less than 1 per cent.

5.36. In Littlehampton and Worthing, PSN's titles had penetration of less than 10 per cent.

5.37. In Steyning, PSN's title, the *West Sussex Gazette*, had limited circulation in the locality and was targeted at a wider audience geographically. Moreover, an alternative paid-for title with similar circulation, Newsquest's *Evening Argus*, was available.

5.38. The PSN title in the Storrington area was also the *West Sussex Gazette* and there would be no adverse effect for readers or advertisers, for the same reasons that applied to the Steyning overlap. The same was true for Pulborough.

#### *Newsquest transfer*

5.39. PSN said that the proposed transfer to Newsquest would result in minimal increased concentration in any locality. The main titles for Newsquest in PSN's areas of circulation and distribution in south-east Hampshire and West Sussex were the Brighton *Evening Argus*, a paid-for daily evening newspaper which had some circulation throughout West Sussex (its main area of circulation was in Brighton, Hove and Worthing), and the *Brighton & Hove Leader*, a free weekly newspaper which was distributed to 9,000 households in Shoreham Portslade, where PSN had a minimal circulation.

5.40. In Worthing, Johnston's paid-for and free titles would continue to provide significant competition and choice for readers and advertisers. Moreover, PSN's title, the *West Sussex Gazette*, had penetration of less than 10 per cent and its circulation was too small for its loss of independence to have a significant effect on readers or advertisers. In Steyning, the *Evening Argus* had penetration over 10 per cent but Johnston's titles would remain alternatives if there were a transfer to Newsquest.

5.41. Turning to the North-East of England, there would also be a limited increase in concentration in certain localities. In most of these areas, Trinity had at least one title with significant circulation or distribution. Where there was no such Trinity title the area was not such as to encourage Newsquest, if it acquired PSN, to exploit the position. The geographic area was so small that the overlap in PSN's and Newsquest's titles was insignificant. Trinity titles were readily available throughout the region.

5.42. In Peterlee, Newsquest's titles had penetration of less than 10 per cent and Trinity titles were available. There was one village, Shotton, in which penetration by Newsquest titles might be over 10 per cent. However, the area was geographically small and Trinity titles were available as alternatives.

5.43. In Billingham, PSN's and Newsquest's titles both had minimal circulation and penetration in this geographically small area. The main publisher was Trinity.

5.44. In Durham, PSN's title had circulation and penetration that was so small that the transfer to Newsquest would have no adverse effect for readers or advertisers, in particular because of the presence of Trinity titles. The penetration and circulation of Newsquest titles was also very small in Hartlepool.

### *Newscom transfer*

5.45. PSN said that a transfer to Newscom would result in increased concentration principally in Fareham and Hamble Bursledon. Both were close to other localities where the same PSN and Newscom titles were circulated and distributed. The geographical areas involved were so small that the overlap was not material. In any case, the PSN and Newscom titles were aimed at readers with different geographical interests.

5.46. There were alternatives for advertisers, such as the monthly publication *The Informer*, and the *Meon Valley News* owned by Tindle, with approximately 30,000 copies distributed monthly. There were also niche titles such as *Auto Trader* and *Auto Freeway*. *Auto Trader* owned *Diamond FreeAds*, a twice-weekly free advertisement publication which competed across the area. Spirit FM (in West Sussex), Ocean Radio (based in Segensworth) and Wave FM were also possible alternatives for individual consumers and advertisers.

5.47. In Fareham, Newscom's paid-for title had minimal circulation. The proposed transfer was unlikely therefore to have an adverse effect for readers.

5.48. PSN told us that it had some joint venture publications with neighbouring local newspaper publishers. Three of these publications included Newscom. *Ad Finder* was a free weekly for West Sussex and southern Hampshire. The two companies also published *Recruitment South*. A joint venture between PSN, Newscom, Guardian Media Group and Tindle published the *Free Admart* title. In the North-East of England, PSN produced *Quids In* with Trinity.

5.49. There were 'change of control' clauses in relation to these joint ventures, but it was unlikely that these would be exercised following any transfer.

### ***Effects on advertisers and readers***

5.50. PSN explained that advertising space was sold to local businesses by PSN's sales force at its two local newspaper subsidiaries. Sales to clients operating on a national basis were handled by Mediaforce.

5.51. PSN considered that, since the transfers related to the acquisition of newspapers which were aimed essentially at local markets, the question of whether any market power would be acquired vis-à-vis advertisers must be assessed at local level. However, if it were considered at a national level, PSN's view was that the balance of power between national advertisers and each of the bidders was such that none of them would risk its commercial relationship with national advertisers across the whole of its business by exploiting any marginal increase in bargaining power that it might acquire in a particular area.

5.52. PSN told us that the transfers would have no significant adverse effect in relation to local advertising in any area. Regional and local newspapers faced competition from a number of alternatives for advertising revenue obtained from selling advertising space on a regional or local basis. These included specialist publications such as *Auto Trader* and *Diamond FreeAds*, directories such as *Yellow Pages*, local commercial radio, regional and local commercial television including local cable franchises (although the level of competition might vary), cinema and outdoor advertisements. PSN itself ran a scheme in association with CWC offering 'truly local TV advertising' in Portsmouth at a cost of just £10 for 30 seconds. Alternative forms of distribution, such as the Internet, meant that consumers had access to a large number of titles from outside any particular locality.

5.53. In West Sussex, for example, there were readily available alternatives. PSN estimated that Spirit FM, an independent radio station for the West Sussex area based in Chichester, had gained approximately 50 per cent of its advertising revenues (around £400,000) from advertisers switching from PSN itself. In south-east Hampshire, the overlap resulting from the proposed transfer to Newscom was insignificant.

5.54. In the North-East, the press accounted for one-third of advertising revenue, of which PSN accounted for around 11 per cent and Newsquest 5 per cent (1998 figures). A number of advertisers used both radio and newspapers in the North-East. In the fourth quarter of 1998 almost £1 million of NP's advertising revenue came from 105 clients who also used Century and Metro FM, local commercial radio stations. This represented about 14 per cent of PSN's total advertising revenue in the North-East.

5.55. If PSN remained independent, it would continue with its existing policy of competing vigorously for advertising revenue in accordance with its advertising rates.

5.56. PSN was asked to respond to a complaint from an advertiser in the North-East that the company had been guilty of predatory pricing, high advertising rates and poor-quality publication (see paragraphs 6.25 and 6.26). PSN refuted any suggestion that it had engaged in predatory pricing and observed that there was no evidence. The advertiser said that PSN's rates were higher than those of Newsquest, quoting the example of PSN's *Sunderland Echo* compared with Newsquest's *Advertiser Property*. PSN replied that the two newspapers were not comparable, one being a paid-for evening newspaper, in which advertisers were prepared to pay more for higher-quality readership, and the other a weekly free. PSN refuted allegations of poor-quality publication, noting that it had invested considerably in new presses.

5.57. Turning to the effects on readers, PSN told us that, in providing local news and opinion to consumers, printed newspaper titles faced competition from a number of sources, including local and regional radio and television. Competition was increasing, for example through the development of cable television and access through electronic media. PSN said that the transfers would have no significant adverse effect on the diversity of local news and opinion.

5.58. PSN submitted that the transfers essentially only involved overlap in the provision of regional and local news and opinion in the three areas: West Sussex (in the case of Johnston), south-east Hampshire (in the case of Newscom) and the North-East of England (Newsquest). In PSN's view, its discussion of the particular areas summarized in paragraphs 5.31 to 5.47 demonstrated that any increase in market share as a result of the proposed transfers raised no concerns about the provision of local news and opinion.

5.59. In the North-East, PSN accounted for 8.2 per cent of all newspaper readers and radio listeners with Newsquest accounting for 5.5 per cent. Others had greater shares: Trinity accounted for 16.8 per cent; Century Radio accounted for over 20 per cent; and Metro FM for nearly 14 per cent.

### ***Effects on accurate presentation of news and free expression of opinion***

5.60. On the question of accurate presentation of news and free expression of opinion, PSN said that it gave considerable freedom to its editors. They were required to represent and promote the interests of their local communities. These issues varied between communities, and editors on different newspapers could take different positions. There was no company policy on party political matters. PSN's statement of editorial principles is set out in Appendix 5.1.

5.61. PSN noted that no objection to Johnston was raised in the Commission's report on *Johnston Press plc and Home Counties Newspapers Holdings plc*. Indeed, the Commission received favourable comment on Johnston's reputation for editorial independence and no evidence led it to doubt Johnston's commitment to the accurate presentation of news. Similarly, no objection was raised to Newsquest in the Commission's 1996 report on *Newsquest Media Group Limited and Westminster Press Limited*. PSN had no reason to doubt that Newscom's commitment to accurate reporting and

editorial freedom had remained unaltered since 1991 when the Commission had investigated a number of proposed transfers relating to Southern Newspapers plc, Newscom's predecessor.

### ***Effects on efficiency and employment***

5.62. PSN said that it did not have detailed knowledge of the business plans of Johnston, Newsquest or Newscom in relation to PSN's business and therefore had no substantive comments.

## **The views of Johnston**

### ***Summary***

5.63. Johnston told us that its main reasons for wishing to acquire PSN were to obtain a portfolio of titles in the North-East of England where currently it had no presence, and to extend its existing operations in the South of England. It was also interested in acquiring PSN's relatively modern printing presses, which would enable it to print more group titles in-house and to include more colour pages in a number of its newspapers. It continued to seek suitable opportunities for sensible and responsible expansion of its business.

5.64. Johnston considered that PSN's focus on moderately-sized evening newspapers and weekly titles (both free and paid-for) was consistent with its own strategy and existing business. It intended to explore the possibilities for cost savings and expected synergies to arise from the reduction of corporate and administrative overheads, the ability to purchase some services and materials more economically, and through more efficient utilization of the enlarged group's newspaper presses.

5.65. Johnston intended to maintain and develop PSN's titles and it believed that the cost savings resulting from the transaction would enhance their prospects, giving the business enhanced security in an increasingly competitive market and facilitating greater ongoing investment than would otherwise be the case. It was unlikely to retain PSN's retail business in the long term. In the South of England, Johnston regarded the PSN titles as a logical extension to its existing presence in that area.

5.66. Johnston pointed out that the area of overlap of the parties' titles was in a rural area of West Sussex, which was small not only in geographic but also in population terms. It was important to note that the major parts of the circulations or distributions of the three overlapping PSN titles were in areas where Johnston titles did not circulate. It firmly believed that within the overlap area, whether in its entirety or in its constituent parts, the proposed acquisition would not be detrimental to the public interest.

5.67. Johnston emphasized that it did not believe any adverse effects would arise as a result of the proposed transfer. It did not regard regional advertising as being a significant influencing factor, nor did regional diversity raise any concerns about diversity of opinion. The overlapping areas were very small, both in readership and advertising terms. Johnston emphasized that its commercial interests would be best served by maintaining and developing all the titles, including their diversity of content, which were currently circulated/distributed in the overlapping areas.

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

5.68. Johnston emphasized that its business was based almost entirely on the publication of local newspapers. It was committed to the local newspaper market and believed that the group would provide a solid and successful framework within which the long-term future of PSN titles, together with its own, could be assured. It had considerable experience in publishing local, weekly and moderately-sized evening newspapers and believed that cost savings and efficiencies could be achieved by bringing both groups of titles under common ownership.

5.69. Johnston told us that PSN had, for a number of years, been regarded as a company which, in due course, was likely to be taken up in the process of industry consolidation. The catalyst that led it to approach PSN was the resignation of Sir Richard Storey as Chairman of the company. It viewed

PSN as an attractive opportunity. In particular, PSN's portfolio of titles was similar to its own, being made up of free and paid-for weekly newspapers together with several moderately-sized evening titles.

5.70. In Johnston's view, its initial approach in November 1998 had been rejected because at that time PSN's preference had been to remain independent. However, Johnston observed that the local and regional press had undergone a process of consolidation in recent years. It had been a participant in this consolidation process and had made a number of acquisitions since its flotation in 1988, including the local and regional newspaper interests of EMAP in 1996. This process had been driven by the need for capital investment in order to remain competitive as well as the long-term decline in the circulation of paid-for local and regional newspapers in the face of growing competition from other media and social changes.

5.71. Johnston considered that the future of local newspapers in the UK, especially those with high-quality news and editorial content, was dependent on further consolidation. Its acquisitions over the past five years had been motivated by its view that, as a larger publisher, it was better able to produce high-quality newspapers in a cost-effective manner. It wished to print as many of its own titles as possible and to maximize its press utilization.

### ***Concentration of ownership and effects on competition***

5.72. Johnston noted that the consolidation in the industry to date had not prevented numerous new titles from being launched. Although the majority had been weekly free and advertising-only publications, a number of paid-for publications had also been launched.

5.73. Johnston told us that it agreed with the Newspaper Society view that consolidation of local ownership of regional and local newspapers at national level had been necessary to ensure a vigorous, well-resourced and effective regional and local newspaper industry. It said that there was a powerful public interest argument for this, and that the future strength of local products would only be safeguarded by permitting greater consolidation within the industry which was at present very fragmented. The danger was that the competition it faced was not interested in providing good editorial material. On the contrary, they were targeting Johnston's advertising revenue and were competing for it in a way which did not provide the sort of editorially rich newspapers produced by Johnston.

5.74. Concerning concentration at the local level, Johnston said that many of its newspapers serving different but geographically adjacent communities overlapped at the edges of their circulation areas. But owning both titles in an area of overlap did not enable it to change the way in which it behaved. Whether it was cover price or advertising rates, it was driven by the local communities which the titles served as their core area rather than being influenced by the relatively small part of the overlapping area. It noted that in overlap areas, the circulations become weaker the further they were from the core areas, such that the cessation of one of the titles in the overlap area would result in little benefit to the remaining title. Thus, even when it had a high concentration of ownership in an overlapping area, it was not commercially sensible to use that as a basis for increasing cover prices or advertising tariffs because a considerable majority of the readers were not in the overlapping area. And if it attempted to force up prices, it knew from experience that the existing competition, or new competition, would come in and attack that market, particularly as barriers to entry were low. None of the towns and villages in the overlap areas were large generators of advertising revenue.

5.75. Johnston submitted that a modest movement of 2.7 per cent in its market share of all local and regional newspapers in the UK would not give rise to appreciable competition or other public interest issues. In the event, there would still be three larger UK publishers in this category and numerous smaller publishers (at least 126 in January 1999). The market share of the merged undertaking would be highest in relation to weekly paid-for newspapers at just under 17 per cent, but the movement in market share would only be 0.7 per cent. Johnston contended that weekly paid-for newspapers could not be regarded as a relevant product market, since these competed directly with free newspapers for advertisers and readers.

5.76. Johnston considered that national markets were a very poor measure of the extent to which publishers competed for readers and advertisers, because the principal competition was from other publications and alternative media in the region or local areas in which they were circulated or distributed. In Johnston's view, the impact of a proposed acquisition on diversity of opinion should be assessed by reference to whether the newspapers in question had a common readership.

5.77. Johnston pointed out that none of PSN's titles achieved appreciable penetration levels in East Sussex and none of Johnston's titles achieved significant penetration in Hampshire. PSN's daily and free weekly titles had an appreciable presence in Portsmouth and environs but did not compete with any of Johnston's titles except marginally in Arundel. The only titles in East Sussex with more than 10 per cent penetration were free weekly titles, and the same situation prevailed in West Sussex with the sole exception of PSN's weekly paid-for *Chichester Observer* Series which also exceeded the 10 per cent threshold. However, these penetration levels should not be taken to imply a county-wide presence, since all PSN and Johnston titles were locally focused with a limited presence outside their principal area of circulation or distribution.

5.78. Johnston did not consider that it competed in a regional or county-wide market for either readers or advertisers in East or West Sussex. The parties' titles had largely local circulation or distribution areas, none achieved appreciable penetration rates throughout the county and the core circulation or distribution areas of both parties' titles were local. Residents could not realistically choose between the parties' titles as predominantly they served different local areas, and the vast majority of the advertising was local. Johnston estimated that less than 5 per cent of the advertising carried in the parties' titles in East or West Sussex could be categorized as county-wide or regional.

5.79. Each party's titles achieved household penetration rates of at least 10 per cent in a predominantly rural area of West Sussex covering seven small towns and Storrington rural area. There were no such areas in the North-East of England. Johnston pointed out that of the overlap areas, only Angmering and Littlehampton had more than 5,000 households. PSN's presence in these towns was not significant; in each the household penetration was between 1.6 and 12 per cent and the combined market share of PSN's titles was only 5 per cent in Angmering and 5.9 per cent in Littlehampton. These penetration levels indicated that PSN's titles were not widely read in these towns and were unlikely to be regarded as attractive by advertisers for the purpose of reaching readers in them. Hence the effect of the transfer on readers and advertisers in these towns would be minimal.

5.80. The remaining locations, all of which had 5,000 or fewer households, were peripheral to the core circulation or distribution of the titles in question and both parties' cover price income was negligible. Accordingly, Johnston believed that there were no grounds for considering that the transaction would lead to higher cover prices or a change in editorial policy as this would risk having adverse effects on readership (and therefore cover price and advertising income) across the newspapers' total circulation areas where overlap was either negligible or non-existent. Johnston further noted that it had a strong reputation for maintaining the editorial independence and local character of the newspapers that it acquired and that the Commission had acknowledged this in previous reports.

5.81. Johnston said that its most important competition was from other printed publications rather than local radio, cable television or the Internet, although it did vary by category and the Internet could well be a major source of competition in the future. For example, the principal competition for property advertising had been either another newspaper group or an entrepreneur encouraged by estate agents to launch a publication such that the entire property market in an area could move from one publication to another overnight.

5.82. Johnston emphasized that much of its competition was now in the form of non-newspaper publications which were targeting segments of its advertising but which did not carry news. The importance of publications such as *Friday-Ad* should not be underestimated. Because it was not a newspaper, it would not be included for measurement of market concentration. In many parts of Sussex it had become the market leader for lineage advertisements and was used extensively by small business advertisers. Also, *Friday-Ad* was increasingly encroaching into the wider market for more substantial classified advertising categories and was progressively seeking larger display advertisements from a variety of advertisers. It had a wide circulation due to its practice of 'dumping'

copies at newsagents, and at places such as general shops, filling stations and fast-food outlets where it was seen as attracting customers into these outlets.

5.83. Johnston did not believe that market concentration was equivalent to market power in advertising. There were examples of small competitors who had come in to attack a segment of its advertising base and it had been forced to respond. Furthermore, no relationship between price and market concentration had been established. Although it was relatively easy for small publishers to complain about larger ones, Johnston had had only one such complaint made against it to the OFT in the last three years and that had lacked substance. It added that it would not permit its advertising representatives to behave in an anti-competitive manner because it was only too well aware of the consequences.

5.84. Responding to accusations by a newspaper publisher (LSN) (see paragraph 6.16), Johnston told us that if there had been evidence of predatory pricing the publisher would have contacted the OFT as it had made clear, in writing, that it would not hesitate to do. Johnston had not been approached by the OFT about any such allegation. It added that it investigated complaints of this nature very carefully and was satisfied that they were not justified.

5.85. In Johnston's view there would be greater concentration in future towards an industry with four or five major enterprises and fewer middle ranking ones, but with a good many small businesses, owning one or two titles. Although Johnston did not think that the presence of small businesses was essential for the health of the industry, it was inevitable that they would be there because the barriers to entry were very low and diminishing.

5.86. In Johnston's view the day of the great county newspaper, real or imagined, had gone. Regional and local newspapers tended to have smaller circulation areas now and were more closely focused on their readership. The exceptions were metropolitan evening newspapers which were seeking to extend their presence well beyond their main centres of publishing. By and large, newspapers in the local and regional scene were retreating to their 'citadels' and might be doing a better job within them.

5.87. Johnston told us that the ease with which a newspaper publisher could switch from one contract printer to another depended on the nature of the publication. It would be more difficult for large-size publications and those requiring significant amounts of colour than for others. For an evening title, it was essential to print very close to the market otherwise the title would not be out early enough to maintain sales: all evening newspapers tended to be printed in the location in which they are published or very close to it.

### ***Effects on advertisers and readers***

5.88. Johnston considered that its acquisition of PSN would not have any appreciable effects on competition for advertisers. It said that it pursued a conservative policy on advertising rates and intended to continue to do so. Although certain advertisers were given preferential rates on the basis of their frequency of advertising and/or total advertising spend, Johnston did not differentiate between advertisers on the basis of their location within a title's circulation area. In particular, lower rate cards did not apply in any location where both PSN and Johnston's titles were circulated/distributed.

5.89. Johnston said that there were many examples of effective competition in its business. For example, the rates it achieved for property advertising across the group had been falling for years due to competition. In every one of its markets, to a greater or lesser extent, property advertising had been an attractive target for competitors to attack. Recent developments in free advertising papers had led to it giving away more free classified advertising to the small private client than ever before. Johnston felt that the extent to which it faced real competition was not fully appreciated.

5.90. Concerning the particular case of Arundel, Johnston observed that none of the parties' titles had this town within their core circulation/distribution areas. Given that each of the PSN and Johnston titles had its own core circulation/distribution area serving largely different and geographically separate groups of readers, it followed that advertisers in Arundel regarded the titles as complementary and not as alternatives, and they used a mix of the titles to achieve their required geographical

coverage. It noted that all but one of the business advertisers in Arundel used both Johnston and PSN titles. Furthermore, Arundel and West Sussex as a whole were served by a number of other publications, both paid-for and free, in addition to those of PSN and Johnston, particularly those of Newsquest, which carried a considerable amount of local advertising.

5.91. Johnston told us that it was important to note that part of the reader attraction of local and regional newspapers lay in the range of advertising which they carried and that a loss of advertising reduced reader appeal. This could develop into a vicious circle of reducing readership and advertising revenue such that the profitability of titles was reduced and ultimately rendered unviable.

5.92. Johnston stressed that whether it was its existing businesses or a newly acquired business, its local businesses were run locally by local management who were in tune with and close to their customers. There was no central 'diktat' as to how advertising rates were to be charged, other than its conservative general policy requirements. Local management looked closely at the rates charged by competitors which covered a variety of situations and categories of advertising. The emergence of free advertising publications had meant that the industry now had to allow private individuals to advertise items up to a certain value free of charge. Johnston added that the news its publications carried was supported by the profits made from advertising. Free-advertising publications did not have that burden since they did not need journalists because they were not providing a news service.

5.93. Free classified advertising had been introduced several years ago by Johnston as a response to the competitive threat posed by free advertising-only publications. These publications, which had seen considerable growth in recent years, came in two fundamental forms:

- (a) free advertising publications which offered lineage advertising free of charge, had a cover price and were sold through various retail outlets; and
- (b) advertising-only publications, such as *Friday-Ad*, which charged for their lineage advertising content and distributed their products through a variety of outlets. Both forms of advertising-only publications used their strong lineage content as a platform to attract other advertising categories, including 'run of paper' display advertising.

Johnston said that all its newspaper subsidiaries carried some free classified advertising, the extent being determined by local management. Johnston's classified columns were popular with readers and accordingly it was necessary to maintain the volume and diversity of classified advertising, and therefore to carry a certain volume of free classified advertising. In most cases, the free classified advertising in Johnston's titles was published in paid-for newspapers although in those few instances where they were the market-leading titles, it could also be carried in free newspapers.

5.94. In setting advertising rates, Johnston told us that it was influenced by the quality of the title, whether paid-for or free, and the combinations in which they were sold. The way it packaged its titles changed quite regularly and it could add paid-for and free titles together to give advertisers better coverage.

5.95. Johnston noted that the availability of alternatives for advertisers had grown dramatically in recent years. There were now numerous successful free advertising publications and the revenues of private lineage advertising carried by local newspapers was far less now than a few years ago. Furthermore, the free advertiser papers were now moving into trade advertising, albeit not free, which was encroaching into Johnston's market. There had been a growth in specialist advertising publications, such as for job advertising or motor car sales, and there would be more in future.

5.96. Johnston said that the addition of the PSN titles would not change the relationship between Mediaforce and the agencies because, by definition, the vast majority of that advertising concerned local situations. It would not expect there to be any detriment to agencies or their clients.

5.97. Johnston told us that employment advertising differed from some of the other categories in that when people were recruiting to fill vacancies, they generally did so less frequently than other categories such as motors, property or large retailers, which typically advertised every week. It considered that the average rate for job advertising in West Sussex was no more than its own group average. It saw no reason why advertisers would believe that if the transfer went ahead, the increase in concen-

tration would lead to increased rates, especially as the resultant overlap of titles would be confined to a very small area in West Sussex. Furthermore, it did not believe that a high market share in a particular locality implied that it had an ability to increase rates to advertisers, given the growing competitive constraints which applied in all its markets.

5.98. Concerning the effect of cover price rises on readers, Johnston said that they did not bring in a great deal of additional revenue. It was more important for it to keep its circulations in a healthy position than to get an extra few thousand pounds from cover price increases.

### ***Effects on accurate presentation of news and free expression of opinion***

5.99. In Johnston's view, the transfer would not have any effects on diversity of opinion at the national level due to its long-standing policy of editorial independence, the largely separate geographical coverage of the parties' titles, and the fact that Johnston would still be absent from large parts of the UK. Furthermore, existing regional and local newspaper publishers with a greater national market share showed no evidence of having any influence over readers or advertisers at a national level.

5.100. Johnston said that it was renowned for giving its editors full independence. Editors were selected for their professional competence, judgment and management qualities: once appointed, they were expected to follow guidelines which reflected the principles of Johnston's editorial policy (see Appendix 5.2). But subject to that, and to budgeted editorial/advertising ratios, they had virtually complete control of the editorial content of their newspapers. Johnston planned to maintain all the acquired titles and to invest in their editorial content. It therefore did not consider that the transfer would have any adverse effects on the accurate presentation of news and free expression of opinion.

5.101. Johnston told us that its underlying philosophy was to provide the conditions and opportunities for its titles to flourish. It required its editors to pick up and reflect on the issues of importance to the local community since any title that failed to do so was likely to lose readers in its core circulation/distribution area, which would in turn lead to a decline in advertising and circulation revenues. It emphasized that every one of its publishing businesses was a local enterprise operating in a specific market. These differed in many ways, including different mixes of advertising content and different histories, varying amounts of newsprint, differing geography and costs of distribution.

5.102. Johnston told us that it intended to achieve a number of savings as a result of the merger. These would arise principally from reduced administrative costs and increased purchasing power. Although savings would be made at head office level, there were no overlaps between the respective regional administrative offices. It hoped to be able to optimize the use of PSN's newer printing presses to reduce its costs of production as well as increasing the colour content of some of its existing titles.

5.103. Johnston considered that any organization which tried to introduce a standardized editorial product as a means of cutting costs was unlikely to remain in business for long. It was producing local newspapers to meet the interests, aspirations and concerns of local people and if it were to depart from that policy it would sell fewer newspapers. Its interest was to deliver high-quality, local newspapers that focused on local interest and any sort of approach which departed from that would be counter-productive and bad for business.

5.104. In respect of the interests of local democracy, Johnston pointed to the different editorial approach of its newspapers over the same issue. Typically these were about matters in which local councils had an interest, such as hospital developments. Johnston said that it gave its editors complete independence to reflect the needs and requirements of their local communities: thus an issue could be viewed differently by adjacent communities and the newspapers would reflect this divergence. To suggest that a merger would have an adverse effect in this respect was not borne out by the way in which Johnston operated. It would be contrary to its commercial interests not to reflect the interests of local readers. It wanted its editors to be important people in their own right who played a leading part in their own communities.

5.105. Johnston told us that there had been very few occasions when it had had to discuss editorial policy with its editors. Its directors had only two opportunities to influence the situation, when an

editor was appointed and when one was to be dismissed. Between those two situations, and the second had never arisen, the editor was entirely responsible for the editorial content of his or her publication. In a sensitive case an editor would take the initiative and obtain advice from Johnston's lawyers.

### ***Effects on efficiency and employment***

5.106. Johnston expected to maintain publication of all the acquired titles. As PSN and Johnston did not both have offices in the same towns, it was unlikely that there would be any significant job losses. It wished to ensure that, as far as possible, any redundancies were on a voluntary basis with any staff affected being offered new positions within the company. Johnston said that it intended to maintain its good relations with union representatives.

5.107. Johnston told us that a principal benefit from merging the companies would be in their printing operations. It had a policy of printing its titles in-house when able to do so. Currently it had eight titles which it was unable to print itself. It believed that, depending on PSN's existing press schedules, the additional printing capacity of PSN would enable it to bring in-house newspapers currently printed externally, to provide extra colour facilities to add value to some titles, and to make more efficient use of total printing resources by rescheduling.

5.108. In respect of potential savings to be made, Johnston said that it had no access to information other than that in the public domain but it thought very few jobs would be at risk. It would not need a plc function, so PSN would be de-listed and certain activities, like insurance, would be coordinated from its head office. This would inevitably result in a very small number of job losses. It pointed to its record in the case of its takeover of EMAP where it had not made 'swathes' of people redundant. It had consciously avoided doing that and it did not think the PSN acquisition would be any different. While there could be significant operational printing benefits from the proposed acquisition, Johnston did not anticipate any job losses in pressroom staff as a result.

5.109. Johnston told us that it had a constructive approach in its dealings with trade unions. It had not reduced job opportunities for journalists. It had invested in the newspapers in terms of their quality and pagination had increased. It did not think that the trade unions would find Johnston an unacceptable owner of the PSN businesses.

## **The views of Newsquest**

### ***Summary***

5.110. Newsquest stated that it saw itself as one of a group of publishers with a demonstrable commitment to the long-term future of the regional and local press in the UK. This had been demonstrated by the increased circulation and distribution figures for the Westminster Press titles since it had taken them over. It had also been reflected through investment in presses, pre-press technology, staff development and positioning of local titles on the Internet.

5.111. We were informed by Newsquest that its business strategy was twofold. It intended to pursue organic revenue and profit growth by seeking to improve the range and appeal of its titles to their readership (including launching new titles where appropriate) thus increasing advertising sales, and by managing costs. Also, it intended to make strategic acquisitions of newspapers in its existing markets or in contiguous areas, to enable it to maximize cross-selling opportunities, and to increase its efficiency by spreading fixed and distribution costs.

5.112. In summary, Newsquest believed that there would be no adverse repercussions for either readers or advertisers from taking over PSN for the following reasons:

- (a) Any relevant overlap between PSN and Newsquest titles was very small. There were only three postcode districts where both Newsquest and PSN titles had over 10 per cent household penetration.
- (b) Newsquest's national market share for regional/local newspapers would increase from 11.9 to 14.6 per cent. Although this transaction would put Newsquest marginally ahead of Trinity, Northcliffe and Mirror Group Newspapers in sales of regional and local newspapers in the

UK, it would not change its position in any category and the transaction should not give rise to public concern.

- (c) Newsquest was committed to the publication of local newspapers which were directed towards their local market and serviced local needs. Its editorial policy did not interfere with the autonomy of local editors.
- (d) Newsquest had a proven track record of improving local and regional titles to the benefit of readers and advertisers. It had identified scope for similar improvements in PSN's portfolio of titles.

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

5.113. Newsquest told us that it saw itself as a long-term participant in the UK regional and local newspaper sectors. It viewed its proposal to purchase PSN's newspapers as evidence of its commitment in that respect, as well as consistent with its business strategy. Newsquest saw a significant opportunity for the future development of PSN's titles in their local markets of Portsmouth and of Sunderland/the North-East, to the benefit of readers and advertisers.

5.114. Newsquest said that it had been tracking PSN's newspaper business as a potential target since March 1998. The key attraction was that PSN was a good business with good newspapers. It had made an approach to PSN following the withdrawal from management of the business by the Storey family, which controlled some 37 per cent of the shares. At that time PSN had not been up for sale, but following Johnston's purchase of shares the situation had changed and Newsquest had now been accepted as a potential acquirer.

### ***Concentration of ownership and effects on competition***

5.115. Newsquest considered that overlap of titles was not directly related to competition between newspapers. The household penetration of a newspaper was not necessarily related to where the main competition existed. This was particularly so in the case of regional newspapers like the *Northern Echo* which did not have a large conurbation as its heart, and was distributed through some 2,500 outlets throughout a broad geographical area serving a morning market, competing with the nationals. The main competition was in the core areas. Newsquest noted that the nature of *The Northern Echo* in particular and the *Evening Argus* in Sussex to a lesser extent was that, even though they had peripheral circulation or distribution outside their core areas, the effective competition was within their core areas.

5.116. Commenting further on core areas, Newsquest said that it was difficult to give a hard and fast assessment of precisely which would be core or peripheral areas of circulation or distribution for any particular title. A critical starting point was the role that a title played within its region or locality. Paid-for weekly titles tended to have a local emphasis, whereas daily regional morning titles tended to have a much broader geographic coverage than regional evening newspapers, which were focused on a specific city or town. Sunday titles tended to have a broad coverage. The geographical scope of a title's circulation or distribution would determine the scope of interests and issues upon which the title sought to report.

5.117. While the definition of a core area would vary from case to case in Newsquest's opinion, it considered the 10 per cent household penetration test as too broad-brush. Applying this test would bring within the relevant overlap area a large number of readers from areas which were not representative of a title's principal editorial focus, and were therefore only peripherally relevant to advertisers who were interested mainly in the title's core readership area. In Newsquest's view, a title would generally have around 60 per cent of its circulation in its areas of principal editorial and advertising focus. The position might be slightly different depending on whether a title had either a broader or a more localized circulation. In the case of a paid-for weekly title, core areas might have as high as 80 per cent of a title's overall circulation, whereas for a broader circulation morning title core areas might fall back to the 60 per cent level spread across a number of towns. With respect to free weekly titles, the situation was complicated by the fact that many of them would contain little editorial matter

and their content might be of lower quality. However, in the absence of any other guide, a 60 per cent benchmark was not unrealistic in this context.

5.118. Newsquest emphasized that there was now a large amount of competition for advertising and that classified advertising was the cornerstone of the regional newspaper industry. Apart from competition with other newspapers, it had to compete with such publications as *Auto Trader* for motor cars, *Loot* for bargains and property and with various other bargain papers that were challenging its classified business. Newsquest said that local radio stations and regional television were also looking for classified advertisements.

5.119. Commenting on the introduction of the Internet, Newsquest considered that it opened the door to everyone and anyone to compete for classified advertising, whether local, national or international. While there were significant respects in which, potentially, these new media were taking business away from newspapers, the extent to which they were creating new business was unclear. As to advertising on the Internet, Newsquest said it realized at an early stage that it would not be sufficient to offer only local or regional coverage and hence it would need partners to achieve national coverage and to share costs and technical expertise. It had collaborated with Northcliffe, Trinity and others to create a system called Autohunter which had national coverage and which had been moderately successful. It had now adopted common branding with Trinity, Northcliffe and the *Evening Standard* with a This Is site covering various parts of the country.

5.120. Newsquest maintained that any relevant overlap between its titles and those of PSN was minimal. Only in three postcode areas had both parties' titles over 10 per cent household penetration. Furthermore, it was Newsquest's opinion that, even if the overlap issues in this case were viewed as material, account should be taken of the fact that the regions in question were characterized by vigorous competition, principally from Trinity in the North-East and Johnston in the South-East. Moreover, the potential existed for market entry by a number of other large regional publishers.

5.121. We were informed by Newsquest that, in the event of the transfer of PSN, it would intend to review the content of the titles acquired to maximize circulation or distribution and to ensure that they competed with other media such as local radio and television, other local publications and the Internet.

5.122. In Newsquest's view, none of the PSN titles competed against its own titles. It noted in particular the different nature of PSN's daily titles in the North-East, where Newsquest's *The Northern Echo*, which was a broad-based regional morning newspaper containing predominantly national and regional news, differed from PSN's *Sunderland Echo* or *Hartlepool Mail*, both of which were local evening daily titles with a purely local readership. It pointed out that *The Northern Echo* was a regional morning newspaper sold predominantly through newsagents, and therefore was on sale at the same time and places as national morning newspapers and competed with them for sales. For Newsquest's marketing purposes, comparisons were made with national newspapers including both broadsheets and tabloids.

5.123. Newsquest told us that, in general terms, barriers to entry in establishing a regional or local title were relatively low. This was particularly so in the case of free newspapers. It was easier to achieve successful market entry with a free newspaper, which was largely dependent on its advertising revenue, than with a paid-for title, where factors such as readership credibility played a predominant role in the success of a title. The sizes of barriers to entry were related to the size of the area into which a new title was launched. Newsquest would not envisage a new entrant into PSN's area having significant difficulties in obtaining the necessary printing and distribution capabilities. Newsquest also told us that, generally, where a circulation or distribution area was prosperous, there tended to be more competition. By contrast, where the market was 'thin' there was little or no competition because the area could barely support one newspaper.

5.124. In Newsquest's view, there would be more consolidation in the forthcoming years. Compared with five years ago, all the large regional newspaper owners had undergone some change in size, apart from Northcliffe which had broadly retained its original form. It noted that complaints about newspapers would be from advertisers about prices or from readers about poor quality or not carrying local news. Such complaints had no direct connection with the size of the newspaper business.

5.125. In response to the NUJ's general criticism of concentration of ownership and the creation of regional monopolies (see paragraph 6.40), Newsquest pointed out that it had launched ten new newspapers during the last 15 months. In so doing it had spent time and money on journalist training programmes. It had also created more job opportunities and further diversity of opinion. Its editors and titles were close to the communities they served and, it told us, it was 'ridiculous' to suggest that control of local newspapers was 'remote', whether this applied to Newsquest or any other newspaper group.

5.126. Newsquest said that editing a newspaper did not give the freedom to say anything and everything one wished. In effect its newspapers belonged to its readers, and the editor's job was to take account of the views of the community and the readers. Intervention with an editor over a particular line or view was rare in Newsquest's experience, and this would be a matter for the local managing director.

### ***Effects on advertisers and readers***

5.127. We were told by Newsquest that its advertising policy was to provide a wide and flexible range of options to private individuals and businesses. It assumed that PSN's policy would be the same and it would in any event retain existing advertising contracts.

5.128. Although there was a national and a local market for advertising, Newsquest did not believe that there was a significant separately identifiable regional advertising market because advertisers tended to target local areas rather than regions. Had there been opportunities to develop a regional advertising market in the North-East, Newsquest would already have attempted to take advantage of this.

5.129. Newsquest said that it would move PSN's national sales representation from Mediaforce to its in-house operation, Newsquest Media Sales (NMS), in order to achieve economies of scale. Currently, national and provincial display advertising revenue was obtained by NMS which principally sold to advertising agencies who wished to use its newspapers as part of a national or sub-national advertising campaign. Regional and local advertising tended to be sold through Newsquest's network of local offices and its local field and telephone sales staff.

5.130. Newsquest told us that, at present, it did not have specific plans for subscription or cover prices and advertising rates for PSN's titles. It understood that PSN was planning to increase some of its advertising rates and had budgeted for a cover price increase. Newsquest's objective was for its titles to have stable circulation and any plans in relation to PSN's titles would be adopted with that objective in mind. After its acquisition of Westminster Press, Newsquest did not increase the cover prices but concentrated on stabilizing circulation and distribution figures, which had been declining. Recent price increases which Newsquest had made to those titles had been below inflation and were implemented two years after the acquisition.

5.131. Newsquest told us that one of the specific benefits it was looking for was an improvement in PSN's leaflet sales and direct marketing, an area in which Newsquest was a market leader. It believed it could bring this and its Internet experience to PSN.

5.132. Newsquest brought to our attention several reports on the future of the Internet as a mass market medium. They showed that the number of people with access to the Internet in the UK was increasing rapidly and it seemed likely that Internet advertising would follow the same trends as in North America. Internet advertising allowed consumers to carry out relatively sophisticated searches to find information about the relevant products. Competition for advertising would intensify with other companies, such as software providers, competing with traditional publishers through the use of the Internet.

5.133. Concerning the inclusion of loose material in newspapers in general and scratch cards in particular (see paragraphs 6.63 and 6.64) Newsquest informed us that it preferred promotions to be in-paper and controlled by itself, since at all times its newspapers had to be credible in the market and look after the interests of its readers. It was very difficult to restore the trust between a publisher and its readers once such a relationship had broken down. Although it had no absolute policy and would

leave the decision to local managers and editors, Newsquest's headquarters were always informed and at times did run checks on the information carried in leaflets. Occasionally Newsquest had refused to deliver leaflets because of their contents.

5.134. Newsquest told us about its introduction of a transparent rate card in one area. This meant that it was clear to everyone concerned how much they were paying for their advertisements. The transparent rate card was fair to everyone and no further deals were arranged. It was particularly relevant to the property market because estate agents were a fairly tightly knit community, buying a lot of space over a significant period of time. Rather than individual rates with negotiated discounts, the rates were set so that a certain amount would be paid for a certain number of pages or volume commitment, irrespective of the size of the advertiser.

### ***Effects on accurate presentation of news and free expression of opinion***

5.135. Newsquest told us that its editorial policy (see Appendix 5.3) was based on the principle that a regional or local newspaper publisher would appeal to its readership in the relevant locality or region only if its titles reflected the views and concerns of the readers in that area. Each of its local editors had complete freedom to exercise their discretion, subject to the general proviso that the titles accurately reflected the views of the communities they served. Newsquest did not encourage any political slant and none of its local or regional titles was expected to adopt such a slant. Each editor had absolute autonomy and reported only at a local level to the regional managing director. It would be necessary for local editors to keep the regional managing director informed only if a situation developed which might have consequences for the group as a whole, typically a libel action.

5.136. Newsquest claimed that it had been a leader in the introduction of high-quality editorial into free newspapers. In its opinion some of Newsquest's stand-alone free titles often matched the paid-for title in any given locality in terms of content and editorial: for example, *The News Shopper* in London and the South. It added that in determining the content of its free titles, Newsquest always took into account the fact that free titles were unsolicited. In its view, newspapers had an editorial function to perform. Newspapers, whether paid-for or free, were distinct from papers which did not carry editorial and which carried solely advertisements. In Newsquest's view the latter were bargain papers, not newspapers. It observed that a poor-quality free newspaper was self-defeating in that people would not read it and hence advertisers would not use it.

5.137. Because free titles relied on advertising as their sole source of revenue, it was crucial that free titles appealed to and were read by the widest possible range of readers in order to attract advertisers. Newsquest suggested that this meant that its local editors ensured that the requisite elements of news, entertainment, community information and comment were contained in its free titles.

5.138. Although Newsquest said that it did not have a formal policy on content, its general aim was to produce quality titles that served the local market. It noted that after its acquisition of Westminster Press in 1996, it achieved its aim of improving the circulation/distribution of many of the titles by improving their appeal to local readers. To the extent that Newsquest could be said to follow any policy, it was to publish high-quality titles irrespective of their type.

### ***Effects on efficiency and employment***

5.139. Newsquest told us that it believed PSN had eight staff in its head office in Portsmouth and it would seek to ensure that there was no duplication of roles after the proposed transaction. In the event of a general economic downturn it would look particularly at its free newspapers and review their distribution figures with the aim of reducing newsprint costs. We were advised by Newsquest that it managed its business by geographical area rather than title. Whilst title data were available they were not a key source of management information as Newsquest sought to optimize the use of its pre-press, technology press, finance and administrative resources across a number of titles to maximize efficiency by geographical clustering.

5.140. Newsquest explained to us that its geographic 'clustering' strategy was aimed at achieving cost-saving benefits, particularly by maximizing the returns from capital-intensive items such as printing plants, by utilizing these plants to print as many titles as possible. It pointed out that some of its smaller evening newspapers would not be able to survive as dailies if they had to work on their own with separate printing arrangements and back office costs. Also, by sharing costs in this way the cost of pre-press systems, particularly in respect of technical support, could be shared between a number of titles. It added that several of its more serious newspapers would not be viable on their own. The benefits achievable within the back office could apply to finance, administration, management and distribution functions. An additional benefit was that top class experts could be afforded because the cost would be spread among a number of titles making use of them.

5.141. Newsquest told us that a 'cluster' would normally consist of a regional managing director, to whom local managing directors would report, and a regional finance director to whom local finance managers reported. There was usually a central circulation and distribution function but the regional team was small, comprising two to four people, and control was very much retained by local managers and editors.

5.142. In respect of the editorial implications of 'clustering', Newsquest explained to us that certain of its titles shared certain features such as local sports reports. It also had a central features database for the titles, which pooled and correlated material such as copy for supporting advertisement features which local editors could access and customize as required. Sharing such resources enabled the stronger newspapers to support the weaker. It had networks covering a number of different physical locations which were grouped together to use the same pre-press technology in a wide area network. Newsquest had 13 geographic groupings covering its 147 local offices.

5.143. Newsquest said that PSN had very good printing capabilities. Newsquest did not, at present, have printing facilities in PSN's areas. While it had presses in Brighton and York, they did not print for any of PSN's competitors. It noted that PSN's Portsmouth press was very large and was currently being expanded and enhanced at considerable cost. This would be particularly useful for Newsquest's in-house printing requirements. The heat-set press was primarily suitable for obtaining a glossy effect for specialist magazines and Newsquest could make use of this facility for its many niche publications. It added that its Brighton press was overloaded, as was its Colchester press, which meant that it was currently contracting-out some of its printing requirements. There was also a good PSN press in Hartlepool which Newsquest understood was underutilized at present and which it would consider using for printing some of its newspapers in the North-East and North-West which were presently contracted-out.

5.144. We were told that Newsquest and its subsidiaries did not recognize any trade unions for collective bargaining, although it had no objection to its employees being trade union members and indeed some were, although the number was not known to Newsquest. There had been no strikes or work stoppages against Newsquest during the last ten years. It had regional staff councils in place in all of its publishing centres and it encouraged employee representation through these councils, which generally met monthly. Such councils were consultative bodies dealing with working practices and conditions and local policies: they did not negotiate wages or engage in collective bargaining. Newsquest intended to continue this policy as regards the employees on the PSN titles. Newsquest added that its experience was that the council had been an extremely effective forum for its staff to express their views: problems and issues were discussed at staff council meetings and the minutes of these meetings were displayed for all employees to see. It noted that PSN recognized trade unions, other than for collective bargaining purposes, and there were no plans to formally de-recognize these arrangements.

5.145. Responding to criticisms made by the NUJ, in particular in respect of its non-recognition of unions for collective bargaining purposes (see paragraph 6.47), Newsquest pointed out that, following industrial unrest in the industry, the majority of newspapers in the UK had decided that they were not going to recognize trade unions for this purpose. Newsquest was one of them. It had a very good relationship with its employees, 70 per cent of whom were shareholders in the company. Although the NUJ was dismissive of its staff councils, they had been introduced many years ago and had worked well.

5.146. Newsquest said that it had not seen the survey of some of its employees that the NUJ had carried out, and based its comments on the press release on the subject. The press release did not indicate what criteria the NUJ had used to select the 250 Newsquest employees to whom the form was sent (out of a total of 1,450 journalists employed by Newsquest in 1997 when the survey was carried out). The 70 completed forms indicated that less than 5 per cent of Newsquest's journalists had submitted their views.

5.147. With respect to the NUJ's adverse comments on its remuneration levels, Newsquest told us that, like any other organization, it paid a range of salaries depending on age and experience. There was no 'average' salary as such because all salaries were determined by its local managing directors who took into account the relevant employee's knowledge, skills and experience. Newsquest said that its rates of pay bore favourable comparison with those of its peers. It pointed out that the lowest figure referred to by the NUJ was a starting figure for an A-level student coming into the business. Newsquest also drew attention to its investment in the training of its journalists, noting that 23 of its trainee journalists had recently achieved a Diploma in Journalism. It was not aware of any discontent among its 1,500 journalists and said that it had not had any complaints from any other unions.

5.148. On the subject of working hours, Newsquest said that its local editors and managers constantly monitored the working hours of its employees in order to comply with the Working Time Regulations. When employees were required to work longer hours this was dealt with by allowing time off in lieu for extra working hours. As with salaries, these matters were dealt with on a purely local basis.

5.149. In response to the NUJ's claim that it had unfilled vacancies, Newsquest told us that from time to time it had unfilled vacancies for both advertising and editorial staff: in such cases a position might remain unfilled for a short period because Newsquest wished to find the right person for the job rather than fill a position as quickly as possible.

5.150. In the particular case of a union official at Bolton, Newsquest said that the individual concerned had been transferred to a branch office that subsequently had been closed. At about the same time, a sales development manager and a senior financial staff member had been made redundant but the NUJ had not commented on this. Newsquest stressed that it always worked within the law, including legislation concerning trade unions.

5.151. Newsquest strongly refuted the NUJ's allegation that it did not care about the editorial content or the quality of its newspapers, or that it sacrificed quality for quantity. It described itself as a newspaper business publishing top-quality newspapers with high-quality editorial, whether those newspapers were free or paid-for. It said that it had dramatically improved the titles it had acquired from Westminster Press, increasing their circulation and distribution figures as a result. Furthermore, it continued to launch new titles where it perceived a need in the market, for example the *Southend Observer*, and remained committed to providing high-quality editorial in its newspapers.

5.152. In respect of potential efficiency benefits, Newsquest envisaged that the two PSN publishing centres would join its existing publishing regions and would not be subject to significant structural changes. It expected the following efficiencies from the transaction:

- increased purchasing power reducing the cost of newsprint;
- elimination of duplicate head office functions;
- benefits from the use of its own national sales representation, NMS;
- increased level of leaflet sales through its in-house national leaflet sales operation;
- reduction in back office costs; and
- utilization of PSN's presses to print some Newsquest titles.

5.153. Comparing the efficiencies of the two operations, Newsquest reiterated that savings could be achieved in particular at head office, and that, as part of a larger group, the benefits from improved buying terms for items such as newsprint would be enjoyed throughout the group. PSN had already been taking action on local efficiencies and back office savings and were well on track in this respect. Newsquest added that it was interested in looking at PSN's business and its employees and seeing what it could do to make improvements rather than making cuts. It considered PSN to be well managed, and noted that it had good editors.

## **The views of Newscom**

### ***Summary***

5.154. Newscom told us that the transfer would not operate against the public interest because there was no significant overlap between its titles and those of PSN.

5.155. Since Newscom did not intend to change PSN's publishing configuration, it anticipated no dilution of quality or content or adverse effects on choice or price to readers or advertisers. News provision would be enhanced and strong competition would remain for existing and future advertisers.

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

5.156. Newscom noted the progressive consolidation of the regional newspaper sector, which it saw as both inevitable and positive. Consolidation allowed new opportunities for growth by acquisition which, in material terms, were otherwise absent for companies with a long-term commitment to the sector. The recent round of acquisitions and mergers had involved companies committed to and focused on regional newspaper publishing over a sustained period. Newscom saw itself taking a positive part alongside Johnston and Newsquest in this process.

5.157. It was part of Newscom's strategic policy to achieve growth with local newspapers both through organic development and by acquisition, which would enable it to improve efficiencies and rewards to shareholders; the acquisition of PSN was consistent with that. Business synergies would be available together with improved resources to meet market needs. Moreover, a larger profile in the market place was essential for meeting the challenges posed by competing media and related technological advances such as the Internet.

5.158. Newscom saw PSN's Sunderland operations as important new territory from which to develop its strategy for growth.

5.159. Newscom referred to Johnston's tender offer in January 1999 and to the announcement by Newsquest in February that it was in preliminary discussions with PSN's board and had submitted an application for the Secretary of State's consent to a transfer of PSN's titles.

5.160. In view of the rapidly changing events and following informal discussions between board members, the executive at Newscom took the view that it would be prejudicial to its shareholders' interests to allow either of the other interested parties to have a timing advantage with the Commission's referral process. It was clearly important that Newscom's position was not jeopardized in terms of the potential to make an important strategic acquisition. Newscom therefore submitted an application for the Secretary of State's consent to a transfer.

### ***Concentration of ownership and effects on competition***

5.161. Newscom told us that, because the areas of overlap between it and PSN were not significant, no effect on competition with other newspapers was anticipated.

5.162. Newscom supported the view that consolidation of regional and local newspapers at national level was necessary to ensure a vigorous, well-resourced and effective newspaper industry. Diversity was not lost, because the local markets did not change. Newscom saw its strength in local news and if it did not provide that, it would swiftly suffer commercially. Central management did not mean loss of local control.

5.163. Asked whether a point would come when further consolidation would raise competition or other concerns about the public interest, Newscom's view was that, if any group started to abuse a controlling position, readers and advertisers would not buy its publications. Technological advances had lowered barriers to entry in recent years.

5.164. At the national level, as far as advertising was concerned, the power rested with the national advertisers and their agencies.

5.165. In respect of regional markets, Newscom submitted that there were many different local markets rather than regional markets. Certainly Newscom did not regard any of its own titles as being regional. In response to a question about whether Southampton and Portsmouth could be regarded as a distinct region with its own market characteristics, Newscom's view was that they represented two distinct markets.

5.166. Newscom told us that it did not have a classification for regional advertisers in its own revenue spend analyses.

5.167. When Newscom was asked about the overlap with PSN in Fareham and Hamble Bursledon, its response was that the need for titles to compete with each other was entirely the same, whether or not they were under the same ownership. Readers were retained by giving them the choice of titles.

### ***Effects on advertisers and readers***

5.168. Newscom said that its advertising policy was expressed in clear guidelines, the objective being to offer customers a service designed to generate the maximum response from readers in a cost-effective manner. Its guidelines had the following objectives. The production of advertisements was in a manner specified by the customer, in accordance with the Advertising Standards Authority Code of Practice and the Newspaper Society Code of Practice. Customers were supplied with research and information on Newscom products and markets to assist them in making their purchasing decision. All advertiser complaints or concerns were addressed in a prompt and efficient manner. All customer information was treated as a matter of client confidentiality. Publications were produced to a high standard of print quality and were circulated or distributed in accordance with Newscom's current published statements, independently audited by the ABC and VFD.

5.169. Newscom said that it saw in the transfer significant opportunities to expand on its national advertising. It said that it might also be possible to sell more regional advertising. Newscom had a Southampton title; with PSN, it might be able to introduce some Portsmouth opportunities in a single sale.

5.170. Unlike PSN, which used Mediaforce, Newscom handled its own advertising. By bringing it in-house, it would save the commission paid by PSN.

5.171. Newscom published joint venture advertising publications with PSN and others. If the transfer took place, it foresaw no changes in its joint venture titles, except that its partners (other than PSN) might have some concerns from a share ownership point of view.

5.172. Newscom told us that it had a proud and successful history of publishing and printing newspapers of the highest editorial and technological standards. It had built a reputation for editorial independence with an extensive range of titles produced by locally-managed teams of journalists and sales staff. Relevant and informative editorial content was geared to specific readership and communities.

5.173. Newscom told us that it had a comprehensive editorial policy covering a wide range of ethical and operational issues (see Appendix 5.4) which was designed to ensure that all the company's newspapers aspired to the highest editorial standards. PSN publications would be expected to adopt this policy should they be acquired by Newscom.

5.174. Newscom editors were committed by their contracts of employment to adhere to the Press Complaints Commission Code of Practice and the editorial policy required them to ensure that their staff were familiar with the provisions of this Code and to ensure that it was applied in daily working practice. This commitment would be extended to PSN editors after the acquisition, if it did not already apply.

5.175. Newscom believed that positive effects would arise from the transfer. As an example, in an area covered by two existing Newscom newspapers, a significant part of the New Forest, the news

desks at each publishing centre, in Bournemouth and Southampton, might inform each other of major breaking stories. But in almost every case, the subsequent news report would be researched, written and processed by dedicated staff at each of the relevant titles. Such co-operation would be extended to PSN titles.

5.176. Newscom guaranteed the editorial independence of each of PSN's titles but would seek to strengthen those sectors of their content in which weakness might be perceived. For example, *The News*, which currently had no direct representation at Westminster, would have access to the services of the Newscom parliamentary correspondent.

5.177. Newscom's central group editorial services which supplied features copy of wide general interest, such as motoring, personal finance, holidays and travel, would become available to all PSN titles, in addition to PSN's own resources.

5.178. Newscom was committed to providing a comprehensive and high-quality news and features service, supplied by local teams of journalists. The company currently employed more than 300 journalists across its operations and had won a large number of awards, particularly in recent years, for editorial quality.

5.179. Newscom had a policy of improving its titles, where required, through the addition of new editorial platforms, extension of edition structures and launch of new products. In this respect, PSN would be treated the same as any existing part of Newscom.

5.180. Newscom said that it followed industry standards on the ratio of editorial to advertising content and these would apply to PSN titles after acquisition. Current average figures were 30 per cent news to 70 per cent advertising on frees, 40 per cent news to 60 per cent advertising on paid-for weeklies and 65 per cent news to 35 per cent advertising on paid-for dailies.

### ***Effects on accurate presentation of news and free expression of opinion***

5.181. Newscom told us that, while it had an editorial policy which clearly set out the company's editorial aspirations, it believed editors should edit their publications in a manner appropriate to their specific readerships and communities. To this extent, Newscom would not seek to influence or control the accurate presentation of news and free expression of opinion which already characterized PSN's titles. As mentioned in paragraph 5.173, Newscom's statements of editorial principles are set out in Appendix 5.4.

5.182. Newscom explained that it had a Group Editor who was responsible for general editorial policy and training, for cross titles, supplements, non-newspaper publications and for liaising with advertising departments. Editors of titles were responsible commercially to their respective managers and on purely editorial matters to the Group Editor, who kept in contact with them on a very regular basis. Eight group editorial meetings were held each year to discuss, for example, editorial problems, legal matters and complaints. Editors would be expected to notify the Group Editor before embarking on an editorial campaign that might be controversial.

5.183. Editorial independence, and the right of editors to determine the editorial content of their newspapers within broad guidelines, was fundamental to Newscom's editorial policy. Each paid-for publication has its own dedicated news reports and feature writers with heavy emphasis placed on the employment of staff with local knowledge. They and the sub-editors worked under the direction of the editor, ensuring that each title had its own unique character so that in those areas in which more than one newspaper was available, the public had the freedom to choose between genuinely different publications.

### ***Effects on efficiency and employment***

5.184. Newscom said that it had an excellent track record of investment in the business. During the previous five years more than £50 million had been allocated to major capital projects. These included two major relocation projects and the installation of two new presses for its Southern Region, as well as significant IT projects across all regions. These investments demonstrated its long-term commitment to the industry and determination to provide readers and advertisers with the highest-quality colour and print facilities.

5.185. Newscom told us that it had a long-standing commitment to training and development. It had recently begun a major management development programme and established an advertising sales training department staffed by seven full-time trainers.

5.186. If it acquired PSN's titles, the enlarged company would provide enhanced career prospects for all employees because of its policy of advertising all vacancies internally and promoting from within Newscom's existing workforce, wherever possible. On the editorial front, particularly, the opportunity for journalists to advance their careers within an expanded company of around 150 titles was expected to be a major employment benefit.

5.187. Newscom believed that its recent record of successfully assimilating acquired businesses demonstrated exemplary stewardship and an ability and commitment to develop the newspapers it acquired. Newscom, which did not recognize the NUJ, was invited to respond to an assertion by this union that a number of contractual problems and other issues had arisen since it had acquired newspapers in the South-West of England from Bailey (see paragraph 6.50). Newscom told us that it was not aware of any contractual disputes or problems arising from the acquisition in December 1997. It said that there were no outstanding grievance or disciplinary procedures or employment tribunals.

5.188. Newscom expected to make some savings in the area of corporate overheads and in certain areas of duplication. It envisaged no redundancies among journalists. Newscom told us that it would not just be looking to cut costs; it was also interested in growing the advertising sales business.

### ***Other issues***

5.189. Newscom was asked to respond to concerns that had been expressed about the position of HCG if, as a result of the transfer, its printing contract were taken over by Newscom (see paragraphs 6.13 and 6.68). In relation to the assertion that Newscom could obtain competitive advantage in terms of obtaining sensitive information about HCG, Newscom believed that the availability of such information was overstated. The only information which could be gained was the identity of advertisers, this being available from the publication itself on publication day or back issues. Newscom therefore maintained that in practice, given the time frames available, no commercial advantage could be gained. In any case, Newscom would not contemplate any action that could undermine its credibility as a highly regarded commercial printer, thereby jeopardizing its relationship with all its print customers, including, for example, the *Daily Mail*.

5.190. HCG had complained that, when it was an agent for Hampshire County Council for the placement of public notices, Newscom had refused to allow it the agency or publisher's discount (see paragraph 6.14). Newscom's response was that it used The Newspaper Society's Agency Recognition scheme to identify recognized agencies. Newscom agreed that one of its managers had expressed concern about the prospect of having HCG as an intermediary with Hampshire County Council, one of its own customers. On the question of giving discounts to publishers, Newscom regarded this practice as historical and offered no one such a discount.

5.191. Newscom was asked to respond to complaints that it had changed its terms to retail newsagents in April 1999, resulting in a loss of profit for newsagents. There was a concern that, if Newscom acquired PSN's titles, it would similarly reduce the retail terms for those (see paragraphs 6.65 and 6.66). Newscom replied that it had indeed recently changed its terms to the retail newsagent trade and would review the terms on offer from the PSN titles to ensure that they were competitive.