

# Acquisition of British Media by Press Holdings: Economic Evidence

July 12 2005



INTERNATIONAL

incorporating Lexecon Ltd

economists of competition policy & regulation

Dr. Cristina Caffarra

# Issues

- **Overlap in sale of national newspapers, and newspaper advertising space**
- **Overlap in sale of advertising to local advertisers in the Midlands**
- **Overlap in sale of TV advertising**

**NB: *Two-sided* markets (readers/listeners/viewers vs. advertisers), with externalities (e.g. increase in cover price reduces demand, and thus negatively affects advertising revenues)**

## Outline

- **No loss of competition in national press: Clarion and Sentinel are *not* close substitutes**
- **No loss of competition in local media markets in the Midlands: The Courier Group and West Midland Radio are not closest substitutes**
- **No meaningful other competition issue arising from combination of PH's interests with BM's**

## Outline

- **No loss of competition in national press: Clarion and Sentinel are *not* close substitutes**
- **No loss of competition in local media markets in the Midlands: The Courier Group and West Midland Radio compete are not closest substitutes**
- **No meaningful other competition issue arising from combination of PH's interests with BM's**

## Clarion and Sentinel not closest substitutes for *readers*

- **Together, Clarion and Sentinel account for 15% of circulation of national dailies**
- **No case for a separate “quality broadsheets” market**
  - Earlier CC cases also concluded different newspaper segments likely to form chain of substitution; in recent years distinction becoming more blurred
- **Whatever the market definition, the two titles are not closest substitutes**
  - Differences in readers’ profiles
  - Survey evidence suggests The Clarion closer to The Informer, and The Sentinel to The Bugle and The Globe
  - Empirical evidence on switching in response to discrete events confirms preferences of The Clarion and The Sentinel’s readers differ

## Clarion/Sentinel: differences in readers' profiles

	Clarion	Sentinel	Informer	Bugle	Globe	Other	Weighted Average for Newspaper Readers
Men	54%	49%	51%	47%	53%	55%	53%
Women	46%	51%	49%	53%	47%	45%	47%
Age 15-24	8%	11%	10%	12%	13%	6%	9%
Age 25-34	13%	16%	15%	15%	14%	15%	15%
Age 35-44	14%	23%	16%	19%	20%	23%	21%
Age 44-54	22%	16%	19%	15%	16%	15%	16%
Age 55-64	21%	15%	18%	16%	17%	18%	18%
Age 65+	22%	19%	22%	23%	20%	23%	22%
ABC1	87%	85%	93%	81%	82%	32%	60%
A	10%	9%	11%	6%	5%	2%	5%
Education up to 21+	42%	37%	50%	30%	35%	6%	22%

Source: Demographica

- **Differences in gender composition of readers**
- **Differences in age profile (Sentinel/Bugle/Globe comparatively younger readership)**
- **The Clarion and The Informer more ABC1 / A / tertiary educated readers**

## Clarion/Sentinel: different “next best” alternative for readers

- **Survey evidence suggests The Clarion closer to The Informer**
  - If The Clarion unavailable, 33% of readers would buy The Informer, 26% would buy The Sentinel
  - If The Clarion cover price increased from 60p to 65p (8%), of those that would switch *at least as many* would switch to The Informer as to The Sentinel
- **Survey evidence suggests The Sentinel closer to The Bugle and The Globe**
  - If The Sentinel unavailable, 27% Sentinel readers would buy The Globe and 25% The Bugle, only 21% would buy The Clarion
  - If The Sentinel cover price increased from 55p to 60p (9%), of those that would switch, at least four times as many would switch to either The Bugle or The Globe as to The Clarion.

## Readers' Survey

If your preferred newspaper were not available, which alternative newspaper would you buy instead?

First Choice Paper	Share	Second Choice Papers					
		Clarion	Informer	Sentinel	Bugle	Globe	Other
<b>Clarion</b>	10%	-	33%	26%	14%	20%	7%
<b>Informer</b>	7%	36%	-	33%	12%	15%	4%
<b>Sentinel</b>	5%	21%	17%	-	27%	25%	10%
<b>Bugle</b>	15%	15%	12%	26%	-	33%	14%
<b>Globe</b>	16%	9%	7%	25%	31%	-	28%
<b>Other</b>	47%	7%	7%	12%	21%	20%	33%

Source: Market Surveys Ltd

- **The Clarion readers relatively more likely to switch to The Informer**
- **The Sentinel readers more likely to switch to The Bugle or The Globe**

May not substitute to online newspaper in short term if requires a subscription, so not considered here.

## Readers' Survey

If your preferred newspaper went up in price by 5p, which alternative newspaper would you buy instead?

First Choice Paper	Second Choice Papers						Total
	Clarion	Informer	Sentinel	Bugle	Globe	Other	
<b>Clarion</b>	78%	7%	6%	3%	4%	2%	100%
<b>Informer</b>	8%	82%	4%	2%	3%	1%	100%
<b>Sentinel</b>	3%	2%	73%	10%	8%	4%	100%
<b>Bugle</b>	2%	1%	8%	77%	9%	4%	100%
<b>Globe</b>	2%	1%	8%	12%	73%	4%	100%
<b>Other</b>	1%	1%	3%	6%	5%	84%	100%

Source: Market Surveys Ltd

- The Clarion readers at least as likely to switch to Informer as to Sentinel
- The Sentinel readers significantly more likely to switch to The Bugle/The Globe

## Clarion/Sentinel: Readers' responses to discrete events confirm not "next best" substitutes (1/2)

- **When The Globe moved to tabloid format in 2003, Clarion's readers switched, but not so much Sentinel's readers**
  - The Globe trialled tabloid format in July 2003
    - Clarion's readership dropped by 3% for the duration of the trial period
    - Clarion's readership returned almost to previous levels after the trial
    - Sentinels readership dropped by 7% and after the trial remained 3% lower than previous levels
  - The Globe moved permanently to tabloid format in December 2003
    - Clarions readership dropped 2%
    - Sentinel's readership dropped by a further 4%

## Clarion/Sentinel: Readers' responses to discrete events confirm not "next best" substitutes (2/2)

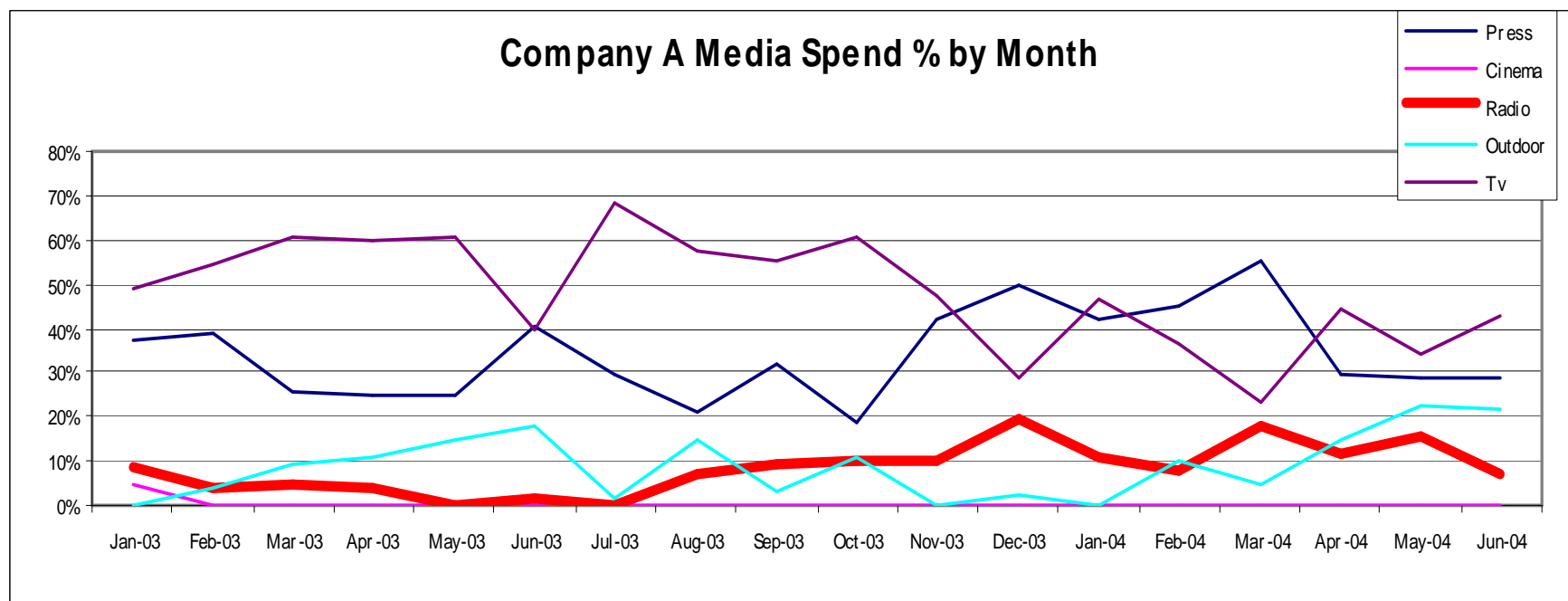
- **When The Sentinel cut its cover price, proportionally fewer Clarion (and Informer) readers switched**

- The Sentinel introduced a promotional cut in cover price by 20p (from 55p to 35p) for four weeks in November 2006
  - The Sentinel's share of circulation rose from 5.1% to a peak of 8.8% (on Monday 18 November 2006);
  - The Clarion's share fell from 10.2% to a low of 9.7%;
  - The Informer's share declined from 7.4% to 6.9%;
  - The Bugle's share fell from 15.4% to 14%, and The Globe's from 16.5% to 15.4%

## **Clarion/Sentinel: *prima facie* differences suggest not closest substitutes for *advertisers***

- **Advertising in the national press subject to competitive constraints from other media**
- **Differences in Clarion's and Sentinel's readers' profiles**
  - Demographic differences attract different types of advertisers
- **Actual differences in the composition of adverts**
  - Audit of brands/type of adverts over a week's period confirms advertisers perceive differences between The Clarion and The Sentinel
- **Survey evidence suggests broad set of substitutes**

# Pattern of advertising expenditure across media suggests other media compete for advertising budget



“A” spends large portion of budget on TV & Press. Note when money is taken off TV, it appears to be put into Press, and also into Radio.

## Survey of national press advertisers

- **Sample: 52 advertising agencies across the UK**
- **What proportion of your clients' total advertising budget is spent on the national press?**
- **Please rank the closest substitutes to national press advertising, by type of advert**
- **What would you do in response to a 5-10% *across the board* increase in the rate cards for national press advertising?**
- ***Within the national press*, how do you allocate spend across titles?**
- **How would you change the composition of your national press advertising if rates for The Clarion increased by 5-10%?**
- **And for The Sentinel?**
- **And for The Clarion and the Sentinel together?**

## Advertisers' Survey

If advertising rates for The Clarion/The Sentinel/both increased by 5-10% relative to other papers, how would that affect your advertising spend?

		The Clarion	The Sentinel	Both newspapers
National Newspapers	Sentinel	1.9%	-15.0%	-12.0%
	Clarion	-13.0%	1.8%	-11.0%
	Informer	3.1%	1.2%	4.9%
	Bugle	0.6%	2.1%	2.8%
	Globe	1.1%	2.0%	3.1%
	Other	0.1%	0.5%	0.7%
Other press		0.5%	2.5%	3.1%
National TV		2.3%	2.0%	3.5%
National Radio		0.8%	0.5%	0.9%
Regional Radio		0.3%	0.2%	0.6%
Display		2.1%	1.9%	3.0%

## Advertisers' Survey: Responses to raise in advertising rates for The Clarion/The Sentinel/both by 5-10%

- **Advertisers would shift to “other press”**
- **Would also shift to other media:**
  - The Clarion advertisers shift to TV and Display advertising
  - The Sentinel advertisers shift to regional newspapers, TV and display advertising

## Outline

- **No loss of competition in national press: Clarion and Sentinel are not close substitutes**
- **No loss of competition in local media markets in the Midlands: The Courier Group and West Midland Radio are not closest substitutes**
- **No meaningful other competition issue arising from combination of PH's interests with BM's**

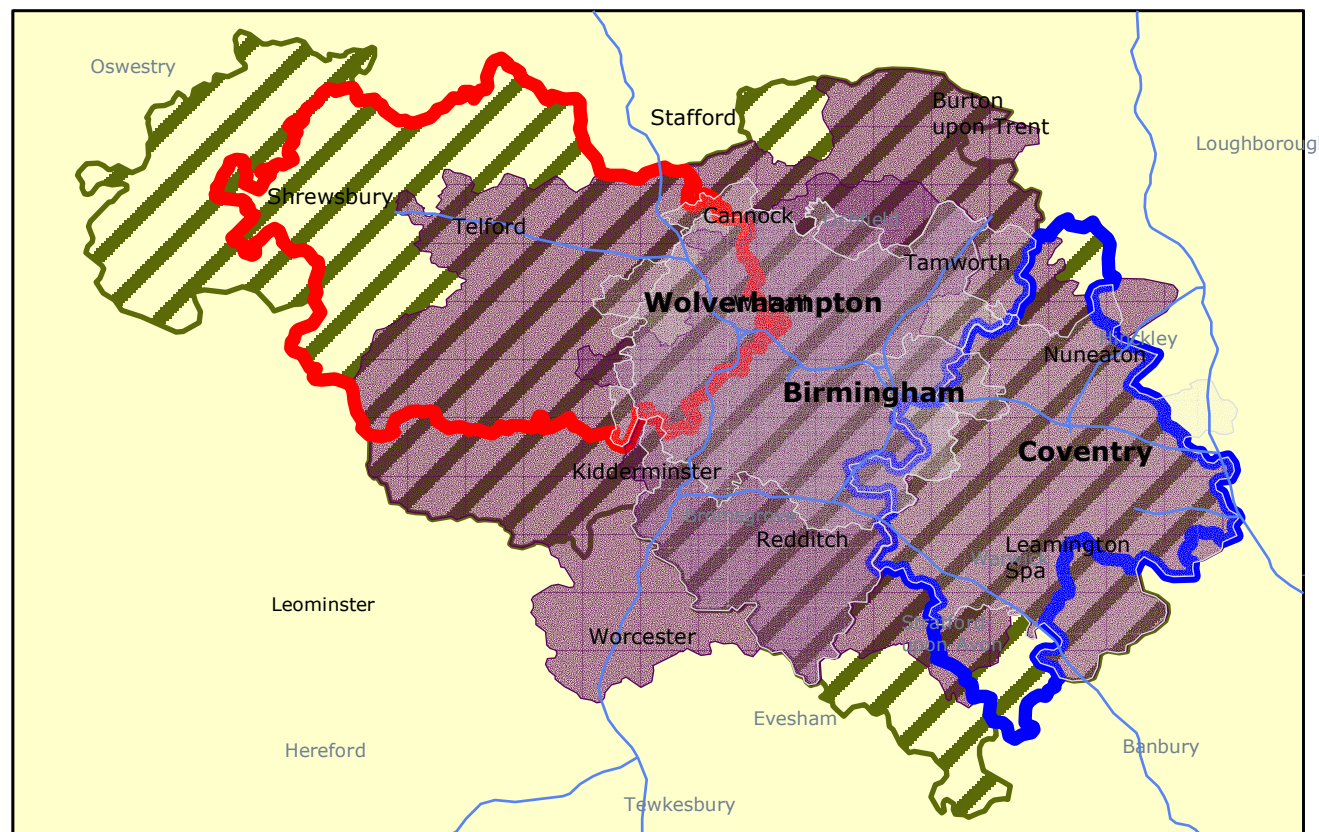
## Composite picture of competition in local media markets

- ***Press, radio, TV, internet and display all compete at the local level for advertising revenues***
- **Unlike national newspapers, local press do not earn a significant proportion of their revenues from circulation (most are free)**
- **Question is how *tight* is the competitive constraint across media?**
  - If markets are narrow there is no concern arising from the merger;
  - but if it is accepted that they are wider, then The Courier Group and the West Midlands Radio are not the closest substitutes.

## Differences in demographics and coverage/reach between CG and WMR (1/2)

- **WMR covers the entire West Midlands – Birmingham, Coventry and Warwick, and beyond Wolverhampton all the way to Telford and Shrewsbury (CG publishes a number of local titles (The Birmingham Gazette, The Warwick Herald...) across the whole of the Midlands (including East Midlands – Leicester, Derby and Nottingham).**
- **WMR is targeted at 15-30 students and young professionals while titles in the Courier Group are aimed at an older readership (30-50, professionals with families, 50-60 and pensioners).**
- **Differences in geographical and demographical coverage imply *wastage* when advertisers want to switch.**

# Area coverage



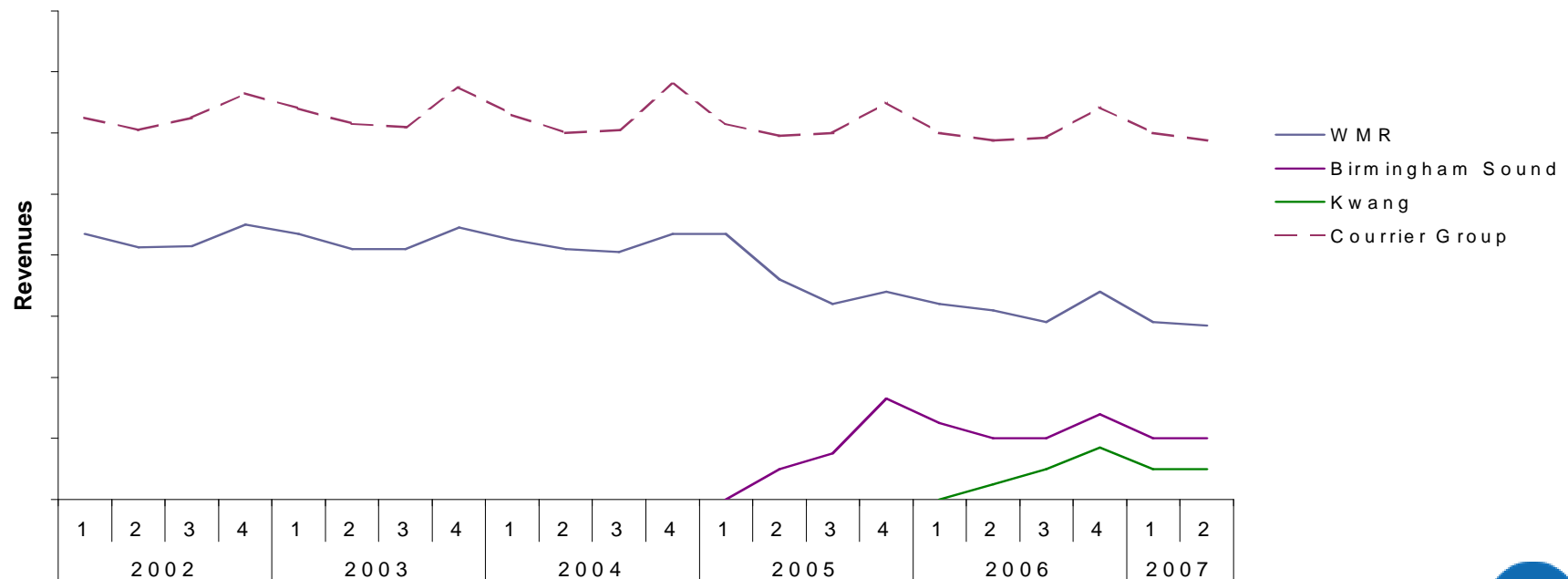
---

## **Evidence that WMR not closest competitor to CG's titles in the Midlands**

- **WMR advertising revenues not significantly affected over last few years by launch of new local titles by CG**
- **Entry into local radio affected WMR revenues more than it affected CG's**
- **Evidence of scope for “buying-around”**

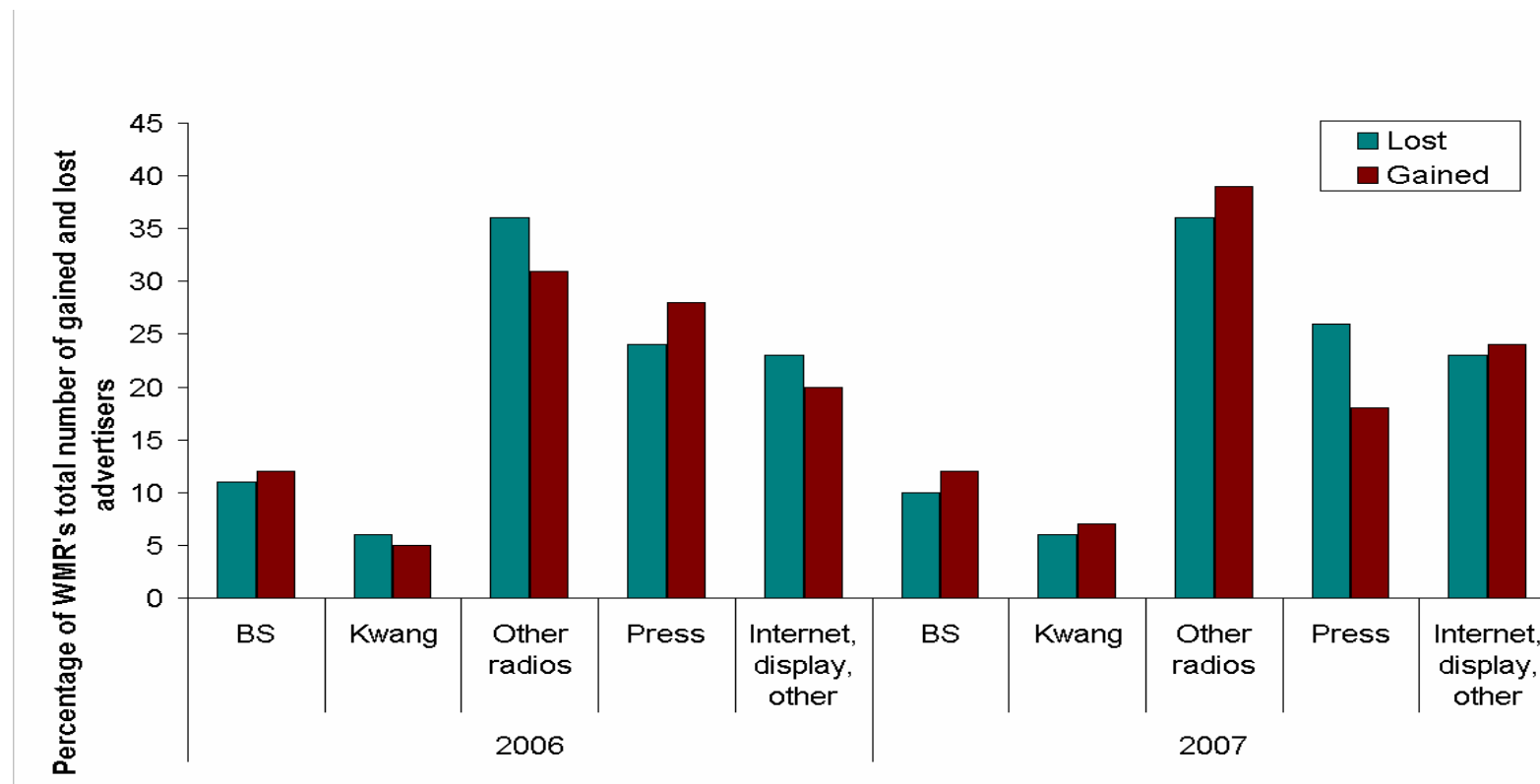
# Entry into local radio affected WMR revenues more than it affected CG's

- Birmingham Sound (BS) and Kwang entered in Q1-05 and Q1-06
- BS and Kwang's entry associated with greater reduction of WMR's revenues than those of CG.



# Radio advertisers do not switch more frequently from radio to local press than they do to other media

- **WMR advertisers lost to and gained from radio and other media**



## **Advertisers can effectively “buy-around” post-merger**

- **Possible concerns that even though not direct competitors, WMR and CG will form a combination impossible to avoid in Birmingham, and thus will be able to increase prices profitably.**
- **But if advertisers want to switch to another radio/press combination post-merger they can profitably do so (“buy-around”).**
- **Local stations can be used in combination with publications from Midlands Publishers (MP) or Birmingham Evening groups to reach the same audience/readers at a no-higher cost.**
- **Supported by evidence for all top 10 common WMR/CG advertisers.**

## Evidence of scope for buying-around: Example

- e.g. Birmingham First Garden Centre (third largest WMR customer).
- Target: 35-65 age group

	Reach	Cost
<b>Original advertising campaign</b>		
Birmingham Sound	258	192
WMR	652	652
CG	808	202
<b>Total</b>	<b>1,718</b>	<b>1,046</b>
<b>Alternative campaign</b>		
Birmingham Sound	258	192
Black Country Radio	204	153
Morning Post	710	355
Birmingham Echo	551	276
<b>Total</b>	<b>1,723</b>	<b>976</b>

Source: Listen! and Read! for reach, MDR for cost per thousand

---

## Outline

- **No loss of competition in national press: Clarion and Sentinel are not close substitutes**
- **No loss of competition in local media markets in the Midlands: The Courier Group and West Midland Radio are not closest substitutes**
- **No meaningful other competition issue arising from combination of PH's interests with BM's**

## No other competition issue arising from the merger

- **No effects on TV advertising market**
  - Increment in Marcia TV's share of TV advertising accounted for by pay TV channel Leisure TV too small to have any appreciable effect
- **No effects on market for ISP services**
  - Market competitive
  - Integration of internet connectivity with greater amount of content (The Sentinel, Leisure TV) will have no appreciable effect.