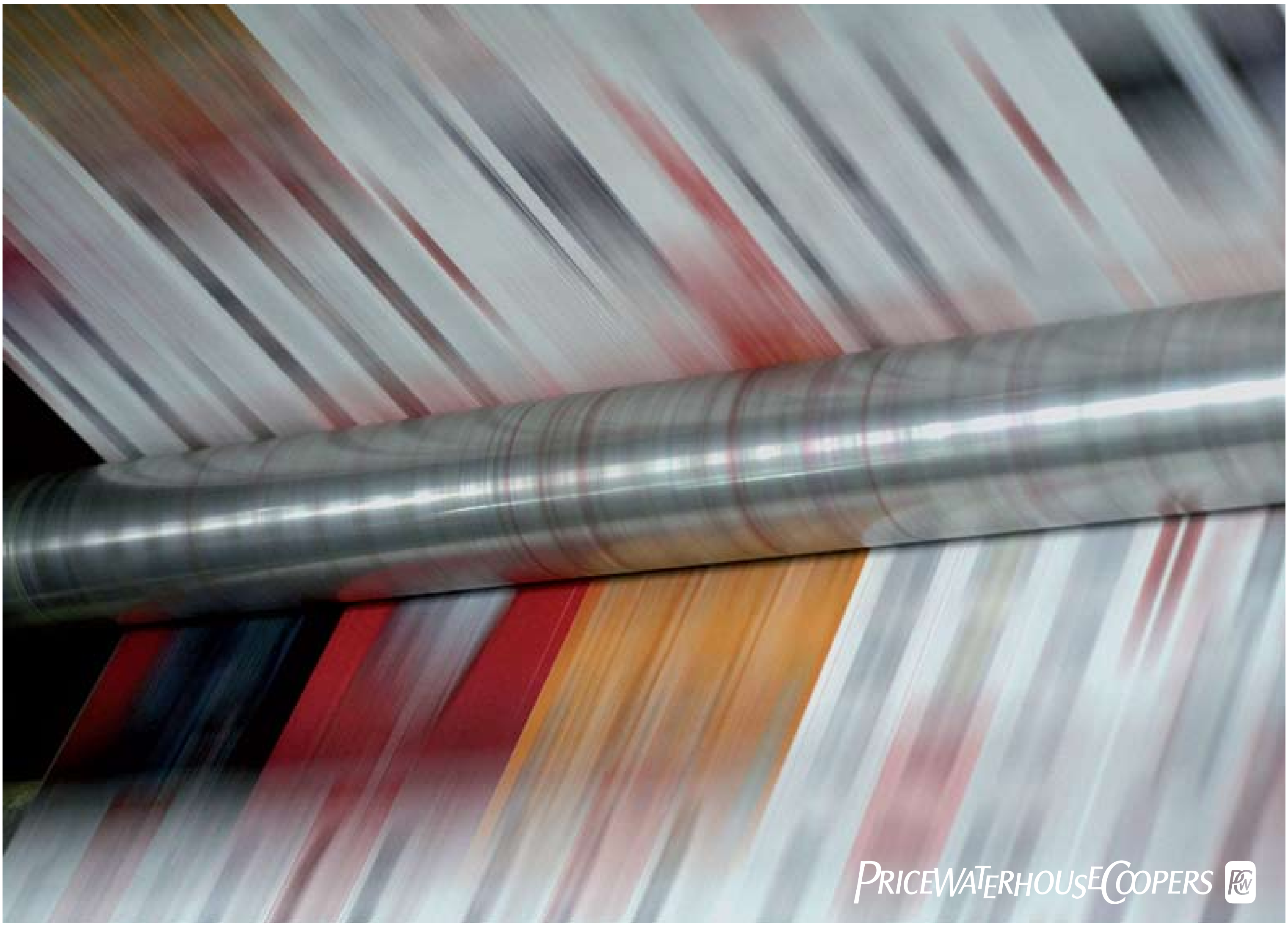
Strategy

On Media

From riches to rags: prospects for local newspapers



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Consolidation or collapse?

Regional and local press owners have expressed the urgent need to consolidate in order to make a successful transition to digital. However, they argue that they face a major obstacle in the form of a restrictive media merger control regime that has not in the past taken into account the potential for competition across boundaries between newspapers and other media. The Digital Britain report states that such arguments need to be tested against the evidence.

With the gauntlet effectively thrown down, now is the time for the industry to gather the evidence, and quickly, both in terms of advertising markets and media consumption. And, in forming conclusions about the potential for competition, a forward looking view needs to be taken owing to the rapid pace of technological change and expected continuing changes in consumer behaviour. We are in the digital age and new market boundaries need to be appreciated.

- Geographic and product markets need to be assessed in terms of where and how consumers get their news and whether or not there is more substitutability between regional newspapers and other media, particularly internet news provision, than perhaps has been assumed so far. We consider that internet news provision in particular will serve to broaden the markets in question.
- The concept of plurality in the digital age needs to be examined and, specifically, the existing requirement for plurality of views in newspapers should be subject to challenge for its relevance today and in the future. In a digital age, local voices are likely to comprise more than the local press, especially given the presence of BBC online and other local media outlets.
- In respect of advertisers, the strength of alternative media substitutability needs to be tested, rigorously. While on a case by case basis there may be specific nuances, evidence on internet advertising and radio advertising as potential substitutes for regional press advertising needs to be re-examined. Previous evidence in the UK has indicated that radio and newspaper advertising may be in the same market; the inclusion of internet advertising would broaden the market further.

Such actions are overdue. We welcome the ongoing Office of Fair Trading (OFT) review of the local and regional media merger regime as stakeholders need to be confident that there is transparency and certainty about the approach to competition issues by the authorities. This will offer more certainty to the sector and help ensure that consumers over the longer term are well-served by diverse and plural local media sectors.

Introduction

The local and regional newspaper industry in the UK is facing unprecedented pressure owing to a combination of structural and cyclical factors. Some reports suggest that within two years, nearly a third of all local and regional titles could be loss-making. Direct subsidies are at one end of the spectrum for dealing with these pressures. In France, for example, the government responded to similar challenges with a €600m rescue package for the French newspaper industry. At the other end of the spectrum are self-help actions and measures the industry can take, such as consolidation, but these face regulatory challenges and a political environment that is deeply suspicious of concentrations in regional and local media ownership. We do not believe that government subsidies should be the focus of efforts directed at the sector. Instead, the most appropriate response, in our view, is to review the way the existing competition and public interest frameworks are applied to the local and regional press in the UK.

This paper seeks to contribute to this important debate by assessing the challenges faced by the industry and potential ways of addressing them. In particular, we understand that time is of the essence: long-term structural factors together with recent cyclical effects mean that to ensure continued provision for consumers of diverse and plural regional/local news provision, policy makers may need to move quickly.

Context

Stephen Carter's Digital Britain interim report published in January 2009[1] acknowledges the challenges facing local news provision. The report tables 22 actions covering many diverse issues spanning content provision and networks. Action 14 invites the OFT and Ofcom to undertake an exploratory review of the local and regional media sector to assess whether any changes to the way the current merger regime is applied to the sector are necessary and desirable. Regional and local newspaper groups have expressed the need to consolidate in order to make a successful transition to digital against a backdrop of a media merger regime that has not in the past taken account of the potential for competition across boundaries between newspapers and other media. The Digital Britain report states that such arguments need to be tested against the evidence.

In response to Action 14, the OFT invited stakeholders to shape the scope of the review and published a discussion paper in March 2009[2].Guided by Government, key elements of the review include:

- The extent to which print markets are self contained either in relation to advertisers or to readership and the implications for market definitions;
- The extent to which public service broadcasting, local authorities and other public sector news and local information services, whether or not funded by advertising, constitute competition to commercial local media services;
- The potential for clear guidance to be available to industry on how cases would be approached by the OFT and Competition Commission including, where appropriate, guidance on the factual and economic evidence likely to be relevant to referral decisions;
- The need for informal advice in relation to specific cases; and
- The extent to which the public interest considerations remain appropriate; and specifically whether the requirement for a sufficient plurality of views in newspapers in each market for newspapers in the UK is realistic or desirable in the digital age.

While the review is timely given the current state of the newspaper sector, there may be a danger that resolution of key issues occurs too late and that plurality (as currently defined in terms of newspaper voices) is diminished owing to closures.

1 http://www.culture.gov.uk/images/publications/digital_britain_interimreportjan09.pdf
2 http://www.oft.gov.uk/news/press/2009/14-09

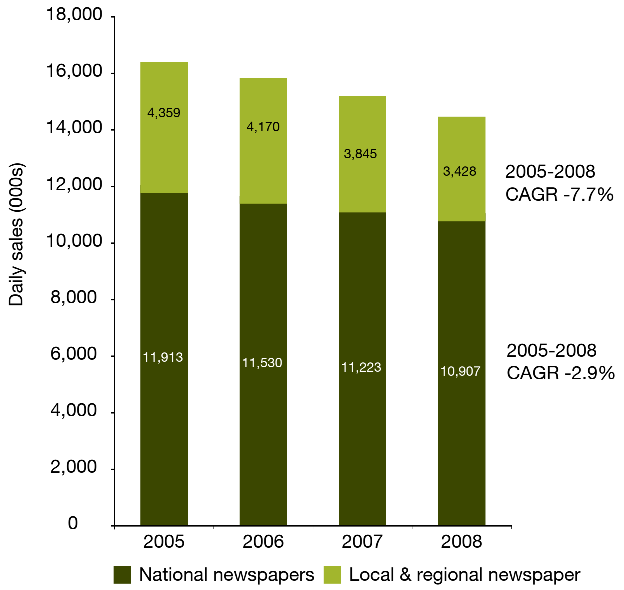
The challenge facing regional newspapers

A combination of long term structural factors and the current economic climate have placed unprecedented pressure on the local and regional newspaper sector. The increasing availability of the internet and 24-hour television news all mean that up-to-date news can be accessed virtually as events unfold. Newspaper publishers are finding it increasingly difficult to compete in this environment. The evidence of this can be found in the circulation of paid-for daily local and regional newspapers which has fallen by over 20% over the past four years (Figure 1).

The traditional business model for a regional newspaper comprised around 75% advertising revenue and 25% circulation revenue. However, recent trends demonstrate that advertising revenue at local and regional press titles is under significant pressure. Classified advertising, traditionally the most important element of newspaper revenues contributing around 70% to regional newspapers advertising revenues, declined by 11% on a compound average growth rate basis in each of the past three years (Figure 2). These figures reflect a shift of advertising online and the growing popularity of search engines and specialist classified advertising websites such as rightmove.co.uk (property), totaljobs.com (jobs), and autotrader.co.uk (cars). According to one report[3] the value of online classified advertising has already overtaken the classified advertising spend received by national newspapers and magazines and looks set to rise above directories in 2008. In the near future, online is expected to be the leading classified advertising medium, outstripping the regional press.

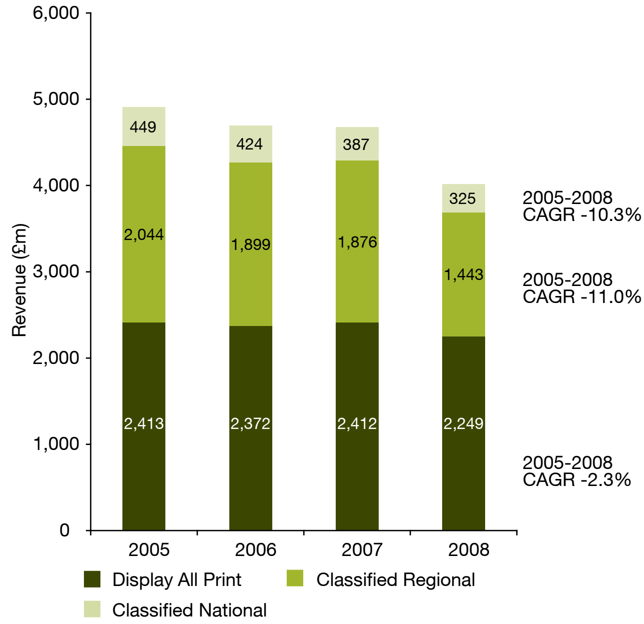
Local and regional newspapers have attempted to arrest the structural decline in their share of advertising revenue by investing heavily in their online offerings. Despite the efforts to recapture some of the classified revenue lost to the online channel, the online share of local and regional newspapers remains substantially below their share of overall classified advertising spend. For example, whereas local and regional newspapers had a 50% share in total recruitment advertising spending in 2007, their share of online recruitment advertising was much lower at 28%[4] . Overall, the contribution of online to local and regional newspaper revenues remains too small to offset the falling print revenues (online contributed 4% to revenues at Johnston in the first half of 2008 and 9% at Trinity Mirror Regional Papers division)[5].

Figure 1: Circulation of paid-for daily newspapers



Source: 2005-2007 data - The Advertising Statistics Yearbook; 2008 data – Enders Analysis

Figure 2: Newspaper Print Advertising Market



Source: 2005-2007 data - The Advertising Statistics Yearbook; 2008 data – Enders Analysis

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[3] UK Classified Advertising, Enders Analysis http://www.endersanalysis.com/publications/publication.aspx?id=613, 9 October 2008
[4] UK Media Advertising Expenditure 2007, Newspaper Society http://www.newspapersoc.org.uk/PDF/UK_Adspend_2007.pdf
[5] For example, Enders Analysis expects regional newspapers to capture an increasing share of online classified advertising spend. Nevertheless, Enders Analysis expects regional newspapers classified revenues to decline by 50%

In addition to these structural changes, the industry is facing a cyclical reduction in advertising revenues as a result of deteriorating economic conditions in the UK. A recent forecast by the Advertising Association suggests that the press advertising market could shrink by between £700 million and £1.6 billion by 2019. Regional papers are expected to be the worst hit. Another forecast expects regional newspaper classified revenues to decline by almost 50% between 2007 and 2013[6].

Other leading indicators of the prospects for the sector include the recent plummeting market values of the two leading regional newspaper groups – Johnston and Trinity Mirror. Johnston's share price has fallen by more than 90% in 2008 while Trinity Mirror's market value fell by more than 80% during the same period. There were over fifty newspaper closures in 2008[7] and the future of at least eleven further titles is reportedly currently under consideration.

The recent financial results released by local regional newspaper publishers underscore the extent of the problem faced by the sector:

- Daily Mail & General Trust (DMGT) – advertising revenue in January 2009 fell by 40% across its regional titles. DMGT also reported that all major advertising categories "remained under pressure" with retail down by 23%, recruitment down 37%, property down 52% and motors down 20%[8].
- Advertising revenues at Newsquest, which publishes over 200 local and regional titles in the UK, fell by almost 30% year on year in the last three months of 2008. Newsquest classified revenues fell by 35%, including declines of 58% in property advertising, 35% in jobs and 31% in cars[9].

One report suggests that within two years, 30% of the UK's local and regional newspapers could be loss-making[10]. The business model for local and regional newspapers as it currently stands is clearly unsustainable. This is echoed by Ofcom, which recently conceded that "it is generally accepted that local and regional newspapers are in long term decline".[11]

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[6] Ofcom, Market Impact Assessment of the BBC's Local Video Service MIA study, footnote page 60
[7] Press Gazette http://www.pressgazette.co.uk/story.asp?sectioncode=1&storycode=43224&c=1, 3 March 2009
[8] Guardian.co.uk, 1 February 2009. http://www.guardian.co.uk/media/2009/feb/11/dmgt-mediabusiness
[9] Press Gazette, 2 February 2009. http://www.pressgazette.co.uk/story.asp?sectioncode=1&storycode=42984&c=1
[10] Sunday Times, January 25, 2009. http://business.timesonline.co.uk/tol/business/industry_sectors/media/article5580795.ece
[11] Ofcom, Market Impact Assessment of the BBC's Local Video Service, June 2008

Importance of local and regional press in the UK

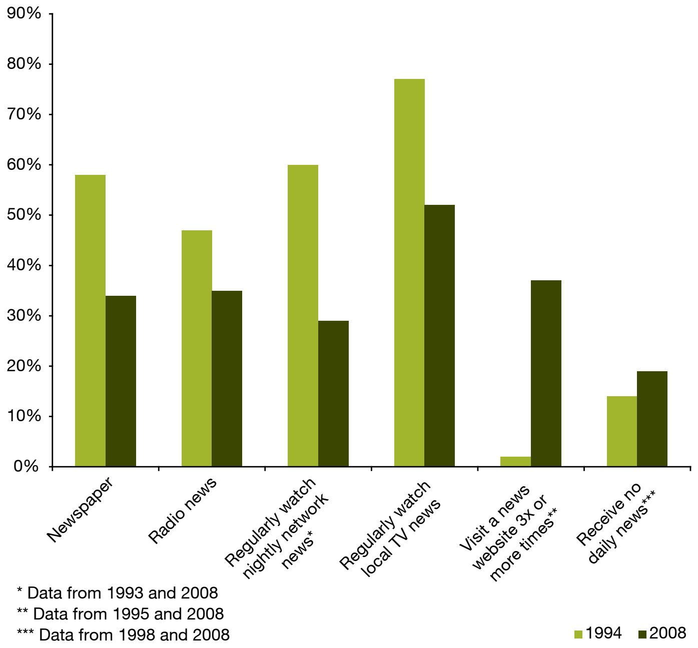
Against this backdrop of negative economic trends, the local and regional press plays an important role in the UK - 82% of British adults read a regional newspaper and 29% of those who read a regional newspaper do not read a national[12]. Past research has consistently found that local and regional news provision is highly valued by consumers. For example, Ofcom's 2006 New News, Future News study showed that "current events in my region" and "current local events" were the second and third most interesting news categories among consumers after "current events in the UK".

The same study found that local free and paid-for newspapers were cited as the first and the third most popular sources of local news and other local information.

It is important to recognise, however, that the results from Ofcom's study are based on a snapshot survey conducted in 2006 and do not reflect the dynamics of consumer preferences over time. Increasingly consumers rely on the internet as a source of their news. In the US, the proportion of people visiting a news website 3 times a week or more has grown from virtually nil in 1995 to nearly 40% today while the news consumption from other sources has declined dramatically (see Figure 3).

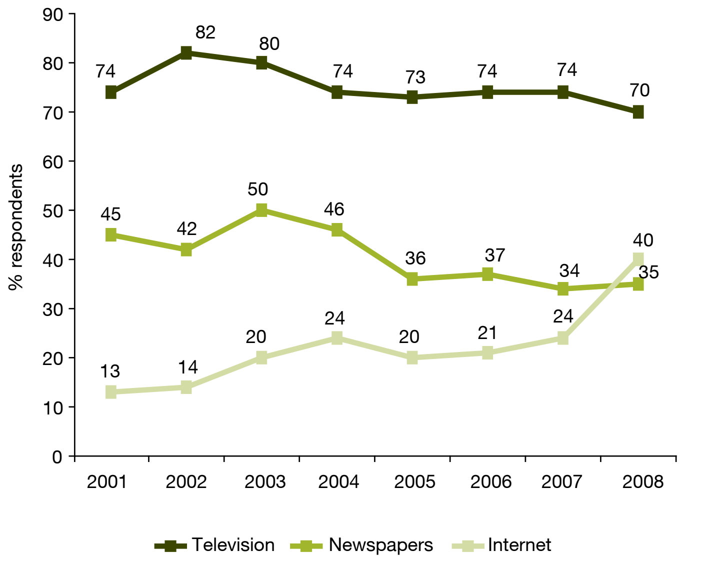
Another recent US study found that 40% of respondents view internet as their main news source, overtaking newspapers for the first time (Figure 4).

Figure 3: US news consumption in 1993 and 2008



Source: The Pew Research Center For The People & The Press, December 2008. Two responses elicited from each of the respondents.

Figure 4: Consumer responses to the question "Where do you get most of your national and international news?"



NB: Figures add to more than 100% because multiple responses were allowed

Source: The Pew Research Center For The People & The Press, December 2008

12 Newspaper Society website

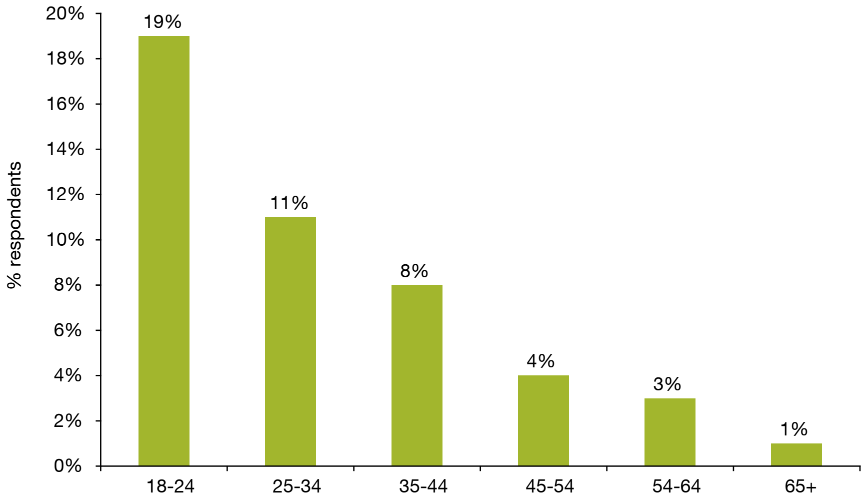
Box 1: Media plurality in a digital age

What actually constitutes plurality in the media, especially in relation to local and regional papers may need to be reconsidered in light of the trends in internet news consumption. For the younger demographics, the internet is becoming the primary source of news and advertising. The older and low income readers who are less able to take advantage of the internet as a news and advertising medium face the risk that one or more of the local newspaper titles close or drastically reduce circulation because consolidation, as a means to survival, is not viewed as feasible by the industry.

Plurality in the local press is becoming an increasingly outdated concept owing to the impact of the internet. Moreover, today there are a number of localities that are already served by only one newspaper.

Looking to the future, Figure 5 shows that there is a clear demographic pattern among the individuals who use the internet as their main news source, suggesting that the transition towards digital media has only just begun.

Figure 5: Proportion people who named internet as their most important news source by age group



Source: BBC/Reuters/Media Center Poll: Trust in the Media, 2006. Percentages are averages for each age group across 10 countries: UK, US, Brazil, Egypt, Germany, India, Indonesia, Nigeria, Russia, South Korea. 10,230 respondents.

Consolidation: a logical response in a shrinking industry

Consolidation in the local and regional newspaper sector could provide opportunities for making savings through sharing resources – printing presses, logistics, and support staff. Printing and distribution costs contribute, on average, over 20%[13] to the newspaper cost base and rationalisation of these costs through consolidation has the potential to reduce the need to cut costs elsewhere, for example by reducing investment in editorial content or closing titles altogether. The local and regional newspaper sector is already concentrated with the top five newspaper groups accounting for over 70% of local/regional press circulation[14]. It is likely that most of the synergies available through centralisation of certain functions in the absence of consolidation within local markets have already been realised. According to key players in the industry, for further savings to be realised without undermining investment in journalism, consolidation within local markets is required. However, according to the industry, the way in which the UK competition framework is currently being applied in this sector has hamstrung further consolidation in the sector.

[13] 2007 Industry Survey, Newspaper Society
[14] Newspaper Society Intelligence Unit 1 January 2009

What are the barriers to consolidation?

Mergers in the media sector are subject to three sets of regulations: the standard merger regime, a number of cross-media ownership restrictions and a Public Interest Test. Here we discuss how each of these sets of regulation impacts the consolidation of local and regional press titles in practice.

1. Standard merger regime

The 2002 Enterprise Act sets out that a merger or an acquisition will only be investigated if it meets either the turnover test or share of supply test:

- The turnover test is met if the UK turnover of the acquired enterprise exceeds £70 million;
- The share of supply test is met if, as a result of the merger, at least 25% of goods or services of any description supplied in the UK (or in a substantial part of the UK) are supplied by the merged entity.

In practice, the turnover of individual newspaper titles is typically too small to qualify the merging parties for the turnover test and in the past the OFT, the first level competition authority, reviewed cases on the basis of the share of supply test. Places as diverse as Slough, Windsor, Ascot, Wokingham and Glasgow have qualified as "substantial parts of the UK" in past OFT investigation of local and regional newspaper mergers.

Local newspapers usually carry advertising as well as editorial content. As a result, publishers of paid-for newspapers receive income from the sale of advertising as well as from copy sales – in other words they face two-sided markets. Hence for the purposes of the competition assessment, understanding the likely effects of a newspaper merger on two sets of customers – readers and advertisers – is important.

In investigating past cases, the OFT appears to have taken a narrow definition of the market in the supply of local newspapers and advertising, both in terms of its geographic and product scope.

Product market

- **National press** – the OFT has traditionally analysed mergers on the basis that local newspapers formed a product market distinct from national newspapers, from the perspective of both the advertisers and the readers. The demand side differences between national press and local newspapers are self-evident and are well-documented. From the reader's point of view, national newspapers typically provide much more national and international news. Their wide distribution footprint makes national newspapers less attractive to local advertisers, particularly advertisers in the classified segment, who are targeting only a very narrow local area.
- **Different frequencies** – the OFT has considered that weeklies and dailies constitute separate markets, largely based on the views of advertisers. In the most recent Dunfermline/ Berkshire Regional Newspapers case, the OFT argued that local press of different frequency should be disregarded solely on the basis that no advertising customer had told the OFT that publications of different frequencies are directly substitutable for any particular advertising campaign (see Box 2).

  There may be an important distinction between newspapers of different frequencies for example in terms of the editorial content. However, we consider that both daily and weekly titles are subject to significant competitive pressure in the advertising market from other media, particularly local radio and the internet. As with the geographical dimension of the relevant market, we believe that drawing a distinction between publications of different frequency may become irrelevant once these broader competitive forces are recognised.
- **Other media** – the OFT thus far has not considered that alternative print media such as local and regional advertising-only publications (Ad Trader, Autotrader, local property listings) or classified directories (Yellow Pages, Thomson Local) are effective substitutes to advertising in local papers. Local radio and internet were similarly not considered to be in the same product market as the local press. The Dunfermline/ Berkshire Regional Newspapers investigation explicitly explored the possibility that internet advertising may be a potential substitute to advertising in local newspapers. However, the OFT concluded that the evidence was insufficient to show that paid-for internet advertising presented adequate competitive constraints on local newspaper rates, notwithstanding the fact that paid for internet advertising was considered the strongest constraint on local newspapers.

We believe that the available evidence on the competitive pressure exerted on local and regional newspapers by other media does not convincingly support the conclusion that media such as local radio and the internet do not provide a sufficient competitive constraint on local newspapers (Boxes 2 and 3). Further, in our view, the competition authorities' analysis to date has failed to appreciate the rapid growth and the increasing importance of internet-based advertising and news and the likely dynamics of the industry going forward. Further research in this area is critical and may potentially justify a significant broadening of the product market definition.

Box 2: Dunfermline Press / Berkshire Regional Newspapers, 2008

Dunfermline Press completed the acquisition of several newspaper titles in Berkshire from Trinity Mirror in 2007. The OFT investigated the completed merger on its own initiative. It argued that post-merger, Dunfermline supplied more than 25% of all local weekly newspapers in the areas in where Trinity's Berkshire titles were circulated. These areas included Slough, Windsor, Reading, Wokingham, Maidenhead, Bracknell and Ascot. The combined population of these areas amounted to approximately 1% of the UK's population, representing a substantial part of the UK. Therefore the OFT argued that the share of supply test had been met.

Dunfermline Press argued that the definition of the product market should be sufficiently broad to include other media. To support this view, Dunfermline Press submitted the results of a survey of 337 local advertisers to the OFT. 48% of respondents said that they would reduce the frequency or advertising space in response to a 10% increase in advertising rates. A further 13% of advertisers said that they would stop advertising in local newspapers altogether. When asked about where they would reallocate their advertising expenditure in the event of a 10% price rise, 34% of surveyed advertisers said they would reallocate their spending to the internet and 21% to leaflets/direct mail. The OFT argued that internet, direct mail and leafleting should be given "proportionate (that is, relatively low) weight as constraints in the competitive assessment".

The OFT asserted that, based on these findings, it was "difficult to broaden the product market definition from local newspaper advertising only" without knowing how much advertising space or frequency would be reduced for those respondents that would continue advertising but with reduced advertising space or frequency. The OFT concluded that even if the actual loss were to exceed the critical loss (i.e. the loss of advertising customers required to make a 10% price rise unprofitable), it appeared that the actual loss would not significantly exceed the critical loss. "If so, this implies that — although the product market may be wider than local newspapers – it is not significantly wider, and the competitive constraint implied by whatever other media are in the market is not great". Therefore, the OFT concluded that the merged firm would have significant latitude to increase cover prices and/or advertising rates, and reduce circulation areas post-merger.

Consequently, the OFT concluded that the merger was likely to result in a substantial lessening of competition in the supply of local weekly newspapers and advertising space in weekly local newspapers in Slough and Windsor. The OFT accepted undertakings offered by Dunfermline Press to divest one of the titles to remove the overlap resulted from this merger in lieu of reference.

Box 3: Competition between local newspapers and other media

What is the evidence?

Ofcom – Market Impact Assessment of the BBC Local Video Service, 2008

Ofcom collected extensive survey evidence covering 2,373 respondents to gauge the impact of the BBC's proposed online Local Video Service. In particular, the survey asked the regular users of various commercial local media about their likely responses to the launch of the proposed service. 22% of current readers of paid-for daily papers said that they would use that source less (3% would stop reading such papers altogether, 8% would use this source a lot less and 11% a little less). The corresponding figures for the readers of free and paid-for weeklies were 15% and 14% respectively. 7% of respondents said that they will reduce their listening of local commercial radio. These figures suggest that internet-based news services and local radio both provide an important source of competition to local newspapers.

Ofcom - Radio Advertising Market Research, October 2006

Ofcom commissioned a survey of 500 radio advertising buyers, both direct buyers, who purchase airtime directly from the individual radio stations and indirect buyers – the media buying agencies. For both types of customers, Ofcom found that the pricing of radio advertising appears to be constrained by press advertising. In addition, in the case of indirect advertising, television and online also posed a substantial competitive constraint on local radio. As a result, a hypothetical monopoly supplier of radio advertising would not find it profitable to increase prices by 5-10% for a sustained period of time. These findings suggest that radio and press advertising (and possibly advertising in other media) are in the same product market. However, it is possible that radio advertising does not constrain newspapers to the same extent as newspapers constrain radio.

Indepen - The Impact of the Communications Act and the Enterprise Act on radio mergers, February 2004

Indepen commissioned a survey of 56 radio advertisers in the Severn Estuary area. The sample mainly comprised advertisers undertaking local (86%) rather than national campaigns and 82% of respondents were businesses other than advertising agencies. The respondents were asked to consider their actions if the costs of radio advertising in the Severn Estuary region had been 5% or 10% higher and the costs of all other media had remained the same. Based on the responses, Indepen was able to estimate an elasticity of demand for radio advertising in the region of -2.5, suggesting that a price increase was likely to result in lower revenues and profits. These findings also indicate that radio advertising is not a separate market from advertising on other media.

- **Geographic market**. The recent OFT cases have accepted JICREG (Joint Industry Committee for Regional Press Research) circulation or distribution areas where the parties overlap 'significantly' as a starting point for determining the geographic market. Significant overlap was taken to exist where the parties had at least 50% of the circulation in any one area with an increment of at least 10%, known as the 'footprint'. It was acknowledged that the relevant geographic market may differ from the areas of significant overlap if, for example, advertisers' next best alternative advertising medium has a different footprint. As an illustration, the recent Dunfermline Press/ Berkshire Regional Newspapers investigation identified potential competition concerned in two geographical markets – Slough and Windsor.

We agree with the overall approach taken by the competition authorities with respect to identifying the relevant geographical market for readers and advertisers given the specific local nature of news and advertising contained in local and regional press. However, we believe that drawing firm conclusions about the scope of the relevant geographical market may become relatively unimportant once the full extent of the competitive constraints on local and regional newspapers by other media, particularly local radio and the internet, are given due consideration.

The approach to defining markets narrowly implies that further consolidation of regional/local newspapers within many localities is likely to be virtually impossible. The top five regional and local newspaper groups own 62% of regional and local titles and account for 72% of circulation of these papers. In many localities only two owners are present (indeed, many areas are already served by only one local newspaper) and any further attempts to consolidate will:

- Attract time-consuming and costly scrutiny by the competition authorities; and
- Be likely to result in a finding of a substantial lessening of competition and be blocked, given the market definition approach taken thus far by the competition authorities.

We consider that the way in which the existing framework is applied, particularly with respect to market definition, requires an urgent review, as does the applicability of plurality in newspaper voices. In our view, further robust consumer and advertiser research is required to understand substitutability of newspapers and other media. Given the growing popularity of the internet both as a news source and an advertising medium, such research may well demonstrate that the market for local news and advertising is substantially wider than currently assumed.

It is also notable that competition authorities in other countries, particularly in France and the Netherlands[15] appear to have been more willing to accept behavioural commitments in mergers by newspapers. The parties are then able to realise significant operational synergies from combining their businesses while maintaining editorial independence and/or independence between different titles' commercial teams.

It may be argued that in the event of prolonged financial distress the merging parties can invoke the so-called "failing firm defence": in the absence of consolidation in a given locality the continuing revenue pressure could force one or both merging titles to close, drastically cut circulation or move online. The counterfactual against which the impact on consumers and advertisers ought to be assessed is not the status quo in which competition prevails, but rather one where one or both of the competitors are substantially weakened or eliminated. However, the OFT has set a very high bar when it comes to arguing the "failing firm defence" – it has only been successfully applied in four cases under the current Enterprise Act regime. The merging parties must demonstrate that absent the merger one of the parties would inevitably have exited the local market and that there are no other realistic purchasers whose acquisition of the failing business would produce a substantially better outcome for competition. It appears unlikely that the newspaper groups would be able to successfully argue the "failing firm defence" even if the individual titles concerned are incurring heavy losses: the OFT could argue that the struggling titles could be supported by the rest of the group.

There is a risk that local newspapers may face closures because their owners view consolidation options as infeasible, too onerous or excessively costly, given the way the competition framework is currently applied. A regime which reflects the increasing competitive constraints imposed on local newspapers by other media in the form of a broader market definition may be preferable to the one which promises blanket investigations of newspaper mergers with occasional "failing firm" exemptions.

2. Cross-media ownership restrictions

Certain cross-media ownership rules may also be applicable in the context of local and regional press. Essentially, these rules are aimed at ensuring that there are at least two local or regional commercial media voices (in television, radio and newspaper publishing) in addition to the BBC. For example, the same group may not:

- Hold a 'local sound broadcasting services' licence; and
- Run a newspaper (or newspapers) that has a 50% market share in the coverage area of the sound broadcasting service.

It may be the case that prescriptive cross-ownership rules of this sort are outdated and fail to appreciate that some local markets (if defined so narrowly) may not be able to sustain three independent media voices, particularly in the current economic climate. An alternative way of addressing potential problems associated with media cross-ownership may be through a streamlined Public Interest Framework, rather than

[15] In 2000, the Dutch competition authority cleared the merger of De Telegraaf Groep, the publisher of the largest national newspaper and some regional newspapers, and DLVB, the publisher of the regional newspaper Dagblad De Limburger, subject to the commitment that De Telegraaf guaranteed the commercial and editorial independence of the two competing regional newspapers in the province of Limburg. In France, the competition authorities accepted commitments to maintain editorial and or/commercial team independence in several newspaper mergers: SIPA/ Socpresse (2005), Spir Communication/ S3G (2006), and Groupe Hersant Media/ Lagardere (2007)

explicit cross-media ownership rules, especially as boundaries between media continue to blur owing to convergence.

Moreover, it is not clear that the synergies arising from holding cross-media assets are particularly large. For example, in the evidence submitted to the House of Lords Select Committee on Communications, Charles Sinclair, the Chief Executive of DMGT noted:

> "We have owned a variety of media assets in television, radio, newspapers and magazines, in the way we run things we have been rather disappointed in the cross-media benefits. They have been notably absent in any type of editorial synergy. Our television assets, when we owned them, never had anything to do with our papers. Even our national papers editorially are very separate, and all they really share are printing presses and distribution systems. They even have separate advertising sales forces and completely separate editorial groups. We do share printing with the regional newspapers, but that is about as far as it gets. We never got anything out of our very limited ownership of local radio. So cross-media I would say was an aspiration which broadly, in our case, did not deliver much in terms of commercial benefit".

3. Public interest considerations

As well as the standard competition framework just described, newspaper mergers are subject to the Public Interest Test. Specifically, the three public interest considerations for newspapers are the need for:

1. Accurate presentation of news;
2. Free expression of opinion; and
3. To the extent that it is reasonable and practicable, a sufficient plurality of views are expressed in newspapers in each market for newspapers in the UK or a part of the UK.

In addition, if a transaction involves a newspaper and a company active in other types of media further public interest considerations apply. These considerations are:

- In relation to every different audience in the UK or in a particular area or locality of the UK, for there to be a sufficient plurality of persons with control of the media enterprises serving that audience;
- The availability throughout the UK of a wide range of broadcasting which (taken as a whole) is both of high quality and calculated to appeal to a wide variety of tastes and interests;
- Persons carrying on media enterprises, and for those with control of such enterprises, to have a genuine commitment to the attainment in relation to broadcasting of the standards objectives set out in Section 319 of the Communications Act 2003.

In practice, the Public Interest Test has not so far been invoked in the context of local newspapers. Nevertheless, it is our view that the existence of a separate set of public interest rules for newspapers fails to recognise that plurality in local press is becoming an increasingly outdated concept in a digital age. Further, we concur with the findings of the House of Lords Communications Select Committee that there are opportunities for the Public Interest proceedings to be streamlined to allow a more rapid consideration of future cases[16].

[16] House of Lords Communications Select Committee Report: The Ownership of the News, paragraphs 265-271

Consolidation: a necessary evil?

It may be argued that as well as providing a long-term solution for the industry, consolidation may be associated with a number of potential threats.

From a logistical perspective, centralised printing may mean that those publications based far away from the centralised printing facility may have to be printed long in advance, affecting the relevance of the stories to consumers. However, it may be argued that the growing importance of the internet as a news source makes the immediacy of newspaper stories less relevant and so makes such logistical issues less important.

There is also evidence that consolidation, instead of preserving investment in newsgathering, may actually undermine it. For example, the House of Lords Select Committee collected several pieces of evidence from the US that consolidation in local media (radio and newspapers) resulted in cut backs in spending on newsgathering and investigative journalism and led to deterioration in the quality of news coverage and diversity. In the UK the National Union of Journalists pointed out that Newsquest had reduced its editorial staff by 2,000 in the last three years as it consolidated its ownership of local papers.

Nevertheless it is important to recognise that given the challenging economic environment and the decreasing demand for newspapers both by readers and advertisers, staff cuts are inevitable: each of the top 5 local and regional newspaper publishers has already announced editorial staff cuts. More jobs are set to go given the deteriorating economic outlook. Consolidation may allow publishers to limit the cuts in editorial staff by allowing cost savings elsewhere. Further, in some cases there may be scope for preserving editorial independence of the merging titles, while allowing the parties to reap the benefits of combining logistical operations of their businesses.

We also note that experience of consolidation need not necessarily be a negative one. For example, on the subject of 'news-hubbing', or sharing news resources among radio stations under common ownership in the same area, RadioCentre argued that:

"Clearly news-hubbing is made much easier when stations are under concentrated ownership … there is no evidence that balance and diversity of opinion have suffered as a result of these smaller groups' news-hubbing arrangements. With companies of this size, sharing news operations allows for a higher quality of news production and more formalised editorial structures, with anecdotal reports suggesting that this tends to reduce the incidence of mistakes with regard to fairness, accuracy and impartiality. In addition, common ownership helps stations to gain better access to external content, revenue and marketing opportunities."[17]

As part of its market impact assessment of BBC local services, Ofcom compared the quality of local and regional newspaper websites in those areas where one publisher accounted for a large proportion of newspaper circulation to those in areas where a number of publishers with similar shares were present. Ofcom identified no obvious relationship between the level of publisher concentration and the quality of their websites[18]. It should also be noted that there are likely to be significant economies of scale in providing innovative internet-based local services such as audio, video and user-generated content, interactive services and hyper-local websites. Larger newspaper groups are better positioned to invest in centralised resources to ensure that local businesses have the latest web-publishing capabilities and invest in easy-to-use websites.

[17] House of Lords Communications Select Committee Report: The Ownership of the News, paragraph 176.
[18] Ofcom, Market Impact Assessment of the BBC's Local Video Service, Paragraph 5.11.

What else can be done?

As advertising spending has shifted online, the key pillar of strategy for local and regional newspapers has been to take advantage of their strong local brands and develop their own on-line offerings. Website content typically mirrors the news and information contained within the papers' print editions. Some sites go further and offer enhanced content such as providing new updates throughout the day, adding video content, blogs and allowing users to comment on stories. Revenue generating features include classified advertising sections, display advertising, local business directories and dating services. Despite these efforts, the contribution of online revenues remains too small to offset the decline in print revenues.

There may be other ways in which local and regional press could leverage their local brand and knowledge: local newspapers' knowledge of local businesses and understanding of their needs is second to none. There may be scope, for example, for the newspapers to play a greater part in advising local businesses on their advertising strategies or seek ways to promote local businesses outside the print medium by organising business-to-consumer events or fairs.

The OFT intends also to review the impact of local authorities and other public sector services on local media markets. Such publications are thought to enable councils to engage better with the local communities, and the Newspaper Society cited several examples of local authority publications producing media packs to encourage local advertisers to use them. These publications should be considered in the market definition process.

There are proposals to review the existing planning application framework and remove the statutory requirement on councils to put planning application notices in the local press. The net impact of such a move is likely to be limited (around £15 million per year in advertising revenue lost for local newspapers)[19].

However, in combination with the broader trend towards greater use of council-funded media this has a potential to damage significantly commercial local and regional publications. Encouraging the use of local media by councils is among the easiest wins when it comes to ensuring long-term viability of UK's local and regional newspapers.

[19] http://www.pressgazette.co.uk/story.asp?sectioncode=1&storycode=42533

Concluding remarks

Regional and local press owners have expressed the urgent need to consolidate in order to make a successful transition to digital. However, they argue that they face a major obstacle in the form of a restrictive media merger control regime that has not in the past taken into account the potential for competition between newspapers and other media. The Digital Britain report states that such arguments need to be tested against the evidence.

Now is the time for the industry to gather the evidence, and quickly. With regard to consumers, the geographic and product markets need to be reassessed in terms of where and how consumers currently get their news. The degree of substitutability between print and other media, particularly radio and the internet, should be a key point for analysis. The new evidence may well show that there is greater substitutability between regional print newspapers and other media than perhaps has been assumed so far. In light of this, the concept of media plurality may need to be re-examined as we may find that the existing requirement for plurality in the local press is increasingly becoming outdated.

With regard to advertisers, the strength of alternative media substitutability also needs to be tested rigorously. Previous evidence from the UK has already provided some indications that radio and newspaper advertising may be in the same market; the inclusion of internet advertising would broaden the market further.

Such analyses are overdue. We welcome the ongoing OFT review of the local and regional media merger regime as stakeholders need to be confident that there is transparency and certainty about the approach to competition issues being undertaken by the authorities. This will offer more certainty to the sector and thereby help ensure that consumers over the longer term are well-served by diverse and plural local media sectors.

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