The Competition Authority
An tÚdarás Iomaíochta

DETERMINATION OF MERGER NOTIFICATION M/07/064 - JOHNSTON PRESS/CLONNAD

Section 21 of the Competition Act 2002

Proposed acquisition by Johnston Press plc of Clonnad Limited

Dated 19/02/08

Introduction

1. On 12 December 2007, the Competition Authority ("the Authority"), in accordance with section 18(1)(b) of the Competition Act 2002 ("Act"), was notified on a mandatory basis of the proposed acquisition by Johnston Press plc ("Johnston Press") through its wholly-owned subsidiary Score Press Ireland Limited, of Clonnad Limited ("Clonnad").

2. The Authority advised the parties and the Minister for Enterprise, Trade and Employment that it considered the proposed acquisition to be a media merger within the meaning of section 23 of the Act.

The Undertakings Involved

The Acquirer

3. Johnston Press publishes a range of local newspapers in England, Scotland, Northern Ireland and the State and has also established a number of associated internet sites. It operates 318 titles in these areas (including 18 dailies, 166 paid-weekly, 123 free-weekly and two Sunday titles) and has 12 regional print centres, including three on the island of Ireland, located in Kilkenny, Limerick and Portadown. Its shares are listed on the London Stock Exchange. In the financial year ended 31 December 2006, the worldwide turnover of Johnston Press was stg£602.2 million (€883.341 million).[1] Its turnover in the State was €49.5 million in the same period.

4. Johnston Press entered the Irish local newspaper sector through its acquisition of Score Press Limited (M/05/037), Local Press (M/05/062) and the Leinster Leader Limited (M/05/065). Following these acquisitions, Johnston Press launched a number of new editions of its Echo publication in addition to launching the "Weekender" editions, which complement its paid-for titles in the State.

5. As well as publishing various Northern Ireland newspapers, Johnston Press publishes the following newspapers in the State:

   - *Leinster Leader* (plus a freesheet Weekender edition)
   - *Kilkenny People* (plus a freesheet Weekender edition)
   - *Leinster Express* (plus a freesheet Weekender edition)

[1] The exchange rate used for the calculation was the European Central Bank's bilateral exchange rate for 2006.

- *Offaly Express* (plus a freesheet Weekender edition)
- *Limerick Leader* (plus a freesheet Weekender edition)
- *Limerick Chronicle*
- *The Nationalist and Munster Advertiser* "*The Nationalist*" (plus a freesheet Weekender edition)
- *Tipperary Star* (plus a freesheet Weekender edition)
- *Longford Leader* (plus a freesheet Weekender edition)
- *Leitrim Observer* (plus a freesheet Weekender edition)
- *Dundalk Democrat*
- *Dundalk Life*
- *Tallaght Echo*
- *Donegal Democrat*
- *Letterkenny People* (plus a freesheet Weekender edition)

6. Following its acquisition of Score Press in 2005, Johnston Press operates the printing press facilities of the Kilkenny People newspaper. These printing activities involve:

    - Commercial sheet fed printing. This printing relates primarily to third party print customers; and,
    - Newspaper printing interests which include publishing the *Kilkenny People*, *Leitrim Observer*, *Longford Leader*, the *Tipperary Star* and *The Nationalist*. These interests also extend to third party newspaper printing.

7. In addition, the printing activities of Johnston Press' Leinster Leader group involve its wholly-owned subsidiary Leader Print Limited, whose printing interests are located in Limerick. All of the Leinster Leader Group's titles are printed by Johnston Press. Leader Print also prints third party titles.

The Target

8. Clonnad is a private limited company, which is owned by two shareholders. It publishes the weekly freesheet newspaper *South Tipp Today*, founded in 1995, which is circulated primarily in Cashel, Cahir, Clonmel, Carrick-on-Suir, Tipperary town and surrounding regions.

Rationale for the Proposed Transaction

9. Johnston Press informed the Authority that the proposed transaction will enable it to expand its operations in the local media sector in Co. Tipperary and will provide a specific free local news sheet to complement its current publications, particularly the *Tipperary Star* and *The Nationalist*. It stated that the transaction would enable Johnston Press to compete in a space which it currently does not

occupy, i.e. the local free news sheet context and will allow Johnston Press to offer a new product to households (i.e. a freesheet alongside paid publications), reach those households which no longer purchase paid for weeklies, while also providing a specific local target audience for smaller advertisers looking for market entry rates and budget advertising packages.

10. Clonnad expects that Johnston Press will bring its considerable experience of the newspaper sector to the acquisition. It considers that Johnston Press is best placed to continue Clonnad's long tradition of service to the communities in which it is active. One of the initiating factors for the sale of Clonnad was the pending retirement of one of the directors/owners, who are now desirous to make a return on their investments.

The Investigation

11. The Competition Authority was notified of the proposed transaction on 12 December 2007. On 4 January 2008, formal requests for information ("RFIs") were issued under section 20(2) of the Act to Johnston Press and Clonnad, with a deadline of 1pm on Friday 18 January for responses. The deadline for Clonnad was subsequently extended to 5.30pm on Tuesday 22 January. As the Authority received a response from Johnston Press on 18 January and a response from Clonnad on 21 January, both of which were deemed to comply with their respective RFIs, the new "appropriate date" became 21 January 2008 in accordance with section 19(6)(b)(i) of the Act. The new deadline for a Phase 1 determination therefore became 20 February 2008. The Authority subsequently asked the parties additional questions on 25 and 29 January, to which the parties responded.

12. The Authority contacted various third parties as part of its investigation. Telephone interviews were held with:[2]

- 8 advertisers out of a list of the top 12 *South Tipp Today* advertisers;
- 6 advertisers out of a list of the top 15 advertisers in *The Nationalist* classified as "regional";[3]
- 11 advertisers out of a list of the top 14 advertisers in *The Nationalist* classified as "local";[4] and
- 4 newspapers and newspaper groups.

The Authority telephoned all advertisers on the lists, but was unable to make contact with, and thus to interview, all of them. The Authority did not receive any third party submissions.

[2] Common advertisers to both parties who were interviewed were counted twice in the above figures.
[3] Johnston Press categorised as "regional", advertisers who have more than one outlet and which carry out advertising in Tipperary / Waterford / Limerick or North and South Tipperary Ridings.
[4] Johnston Press categorised as "local", advertisers which carry out advertising in a specific locality, such as Clonmel or Cashel.

Background – Co. Tipperary Newspapers

13. As a county, Tipperary is unique in the State in that it is divided into two administrative areas – North Riding and South Riding, which have separate county councils. The following newspapers are published for a Co. Tipperary readership, but many focus on discrete areas within the county:

- The *Tipperary Voice*, owned by the Voice newspaper group, a weekly paper which focuses on the entire county of Tipperary. It was first published in January 2007;

- The *Tipperary Star,* owned by Johnston Press, a weekly paper which focuses on North Tipperary, in particular in the Thurles area. It also has a weekly Weekender edition, distributed in Thurles. It was first published in 1909;

- The *Nenagh Guardian*, independently owned, a weekly paper which focuses on the Nenagh area of North Tipperary. It was first published in 1838;

- *The Nationalist*, owned by Johnston Press, a weekly paper which focuses on South Tipperary. It also has a weekly Weekender edition, distributed in Clonmel, and the monthly *Tipp News*, distributed in Tipperary town. It was first published in 1890; and,

- *South Tipp Today*, which is circulated primarily in the South Tipperary areas of Cashel, Cahir, Clonmel, Carrick-on-Suir, Tipperary town and their surrounding regions. It was first published in 1995.

All of these papers are 'paid-for', with the exception of the Weekender editions, *Tipp News*, and also *South Tipp Today*, which is distributed to houses or left in newsagents in its area.

14. As Tipperary borders several counties, other newspapers which are not focussed on Co. Tipperary are also available and read in the areas of Tipperary bordering the relevant county, for example the *Midland Tribune*, *Munster Express*, *Waterford Today*, *Waterford News and Star* and the *Limerick Leader* (owned by Johnston Press).

Overlap

The Parties' Co. Tipperary Newspapers

15. *South Tipp Today* is distributed in certain towns in South Tipperary. Therefore, any direct overlap can only occur within this area. The main Johnston Press newspapers available in this area are *The Nationalist*, *The Nationalist Weekender*, the *Tipperary Star*, the *Tipperary Star Weekender* and *Tipp News*. Some features of these newspapers are listed in Table 1 below. As can be readily observed, these newspapers differ in important ways such as price, format, focus and circulation.

Table 1
Selected Characteristics, South Tipp Today and the Overlapping Johnston Press Publications

Newspaper	Frequency	Price	Format	Focus	% editorial content	Weekly Circulation (Number)
South Tipp Today	Weekly	Free	Tabloid	[ ][5]	53%, almost all local news	19,945
The Nationalist	Weekly	Paid for	Broad sheet	[ ]	65%, of which 75% local, 20% regional and 5% national	14,139
The Nationalist Weekender	Weekly	Free	Tabloid	[ ]	35%	7,500
The Tipperary Star	Weekly	Paid for	Broad sheet	[ ]	65%, of which 75% local, 20% regional and 5% national	9,201
The Tipperary Star Weekender	Weekly	Free	Tabloid	[ ]	35%	5,000
Tipp News	Monthly	Free	Tabloid	[ ]	Not provided	4,000 monthly

Source: Johnston Press and Clonnad

Newspaper Publishing

16. Table 2 below shows the geographical overlap in circulation between the newspapers of the parties by town and also the percentage of each newspaper's total circulation that each town represents. Note that the table collates the weekly circulation figures of *The Nationalist* and *Tipperary Star Weekenders* and the monthly figure of the *Tipp News* into one column.

17. Table 2 shows that the towns representing 100% of *South Tipp Today*'s circulation, represent approximately 75% of *The Nationalist*'s circulation but only approximately 8% of the *Tipperary Star*'s circulation. *The Nationalist Weekende*r is circulated in Clonmel and the monthly *Tipp News* is circulated in Tipperary. 56% of *South Tipp Today*'s circulation occurs in Clonmel, as opposed to 30% for *The Nationalist* and 100% for *The Nationalist Weekender*.

[5] The parties informed the Authority that this was the primary demographic of *South Tipp Today*. However, several advertisers informed the Authority that they considered that many urban younger people who would not necessarily buy broadsheet newspapers would read *South Tipp Today*, as it would be lying around the house and would provide local news of interest to them.

Table 2
Typical Weekly Circulation of South Tipp Today and the Overlapping Johnston Press Publications, by Town/Village, and the Percentage of Each Title's Total Circulation Represented by Each Town/Village, 2007[1]

Town	**South Tipp Today (Number)**	**%**	**Nationalist (Number)**	**%**	**Tipperary Star (Number)**	**%**	**Tipperary Star and The Nationalist Weekenders, Tipp News (Number)**	**%**
South Tipp.								
Clonmel	[ ]	[50-60]	[ ]	[30-40]	[ ]	[0-10]	[ ] (Nationalist Weekender)	100
Carrick-on-Suir	[ ]	[0-10]	[ ]	[0-10]	-	-	-	-
Tipperary	[ ]	[10-20]	[ ]	[10-20]	[ ]	[0-10]	[ ] per month (Tipp News)	100
Cahir	[ ]	[0-10]	[ ]	[0-10]	[ ]	[0-10]	-	-
Fethard	[ ]	[0-10]	[ ]	[0-10]	-	-	-	-
Cashel	[ ]	[0-10]	[ ]	[10-20]	[ ]	[0-10]	-	-
Ballingarry / Mullinahone	[ ]	[0-10]	[ ]	[0-10]	-	-	-	-
Dundrum	-	-	-	-	[ ]	[0-10]	-	-
Ardfinnan	-	-	[ ]	[0-10]	-	-	-	-
Killenaule	-	-	[ ]	[0-10]	-	-	-	-
Newcastle	-	-	[ ]	[0-10]	-	-	-	-
North Tipp.								
Roscrea	-	-	-	-	[ ]	[0-10]	-	-
Templemore	-	-	-	-	[ ]	[10-20]	-	-
Ballina	-	-	-	-	-	-	--	-
Nenagh	-	-	-	-	[ ]	[0-10]	-	-
Thurles	-	-	[ ]	[0-10]	[ ]	[30-40]	[ ] (Tipperary Star Weekender)	100
Newport	-	-	-	-	[ ]	[0-10]	-	-
Littleton	-	-	-	-	[ ]	[0-10]	-	-
Kilcommon	-	-	-	-	[ ]	[0-10]	-	-
Other								
Mitchelstown	-	-	[ ]	[0-10]	-	-	-	-
East Limerick	-	-	[ ]	[0-10]	-	-	-	-
Dungarvan	-	-	[ ]	[0-10]	-	-	-	-
Kilkenny	-	-	[ ]	[0-10]	[ ]	[0-10]	-	-
Dublin, Cork	-	-	[ ]	[0-10]	[ ]	[0-10]	-	-
UK	-	-	[ ]	[0-10]	[ ]	[0-10]	-	-
TOTAL	[ ]	**100**	[ ]	**100**	[ ]	**100**	**-**	**-**

Notes:
1. These circulation figures represent typical weekly advertising revenue for the above localities. The Johnston Press figures were taken from the week ending 8 December 2007, while the relevant figures for *South Tipp Today* relate to circulation for the week of 24 October 2007.

Source: Johnston Press and Clonnad

Newspaper Advertising

18. Table 3 shows the overlap in advertising revenue by town/area, between *South Tipp Today* and the Johnston publications. The table also shows the percentage of each newspaper's total advertising revenue that comes from each town/area.

19. Table 3 shows the towns in Co. Tipperary from which *South Tipp Today* derives advertising revenue (representing approximately [90-100]% of its revenue, the remainder coming from outside the county). These towns equate for the most part to the areas in which it is circulated. *The Nationalist* derives approximately [60-70]% of its revenue from these towns and the *Tipperary Star* approximately [40-50]%.[6] Both *Weekender* papers derive a significant majority of their revenue from these areas also.

Table 3
Typical Weekly Advertising Revenue of South Tipp Today and the Overlapping Johnston Publications, by Town/Area, and the Percentage of Each Title's Total Advertising Revenue Represented by Each Town/Area, 2007[1]

Town	**South Tipp Today**	**%**	**Nationalist**	**%**	**Tipperary Star**	**%**	**Nat W/E**	**%**	**TS W/E**	**%**
	€		**€**		**€**		**€**		**€**	
South Tipp.										
Clonmel	[ ]	[60-70]	[ ]	[20-30]	[ ]	[0-10]	[ ]	[80-90]	-	-
Carrick-on-Suir	[ ]	[0-10]	[ ]	[0-10]	-	-	-	-	-	-
Tipperary	[ ]	[0-10]	[ ]	[0-10]	[ ]	[0-10]	[ ]	[0-10]	-	-
Cahir	[ ]	[10-20]	[ ]	[0-10]	[ ]	[0-10]	[ ]	[0-10]	[ ]	[10-20]
Cashel	[ ]	[0-10]	[ ]	[10-20]	[ ]	[10-20]	[ ]	[0-10]	[ ]	[10-20]
Fethard	[ ]	[0-10]	[ ]	[0-10]	[ ]	[0-10]	[ ]	[0-10]	-	-
North Tipp.										
Thurles	[ ]	[0-10]	[ ]	[0-10]	[ ]	[20-30]	-	-	[ ]	[50-60]
Nenagh	-	-	[ ]	[0-10]	[ ]	[10-20]	-	-	-	-
Roscrea	-	-	-	-	[ ]	[0-10]	-	-	-	-
Templemore	[ ]	[0-10]	[ ]	[0-10]	[ ]	[0-10]	-	-	-	-
Newport	-	-	-	-	[ ]	[0-10]	-	-	-	-
Other										
Neighbouring counties	[ ]	[0-10]	[ ]	[0-10]	[ ]	[0-10]	-	-	-	-
National advertising	-	-	[ ]	[20-30]	[ ]	[0-10]	-	-	-	-
Not analysed	-	-	[ ]	[10-20]	[ ]	[10-20]	[ ]	[10-20]	[ ]	[10-20]
Total	[ ]	**100**	[ ]	**100**	[ ]	**100**	[ ]	**100**	[ ]	**100**

Notes:
1. These figures represent typical weekly advertising revenue for the above localities.

Source: Johnston Press and Clonnad

Newspaper Printing

20. As Johnston Press is also active in printing in the State, and *South Tipp Today* is a consumer of printing, there is a vertical overlap between the activities of the parties in this area.

The Relevant Market

A Two-Sided Market

21. Newspapers are mainly designed to satisfy the needs of both readers and advertisers. As such, an assessment of the nature of competition

[6] However, if Thurles (which is in North Tipperary) is excluded from the list of towns, *South Tipp Today*'s percentage revenue remains high at approximately [90-100]%, while the percentage of *Tipperary Star*'s advertising revenue drops to approximately [20-30]%.

in newspaper markets requires a consideration of the interaction between advertisers and readers. This type of assessment is carried out typically in the context of a two-sided market analysis.[7]

22. In a two-sided market, two groups of players interact through a particular medium (e.g., a newspaper) that enables them to achieve their inter-related objectives. In this instance, newspapers wish to attract advertisers on one side and readers on the other side to form an audience for advertisers. An advertiser's demand for advertising space in a particular newspaper depends on, amongst other things, the size of the newspaper's readership, its target readers and distribution area.

23. Certain readers may buy a newspaper because of both its content and advertising. These readers may derive positive benefit from buying that newspaper. However, there are readers who buy a newspaper purely for its content. These readers may dislike advertising, especially if it is intrusive.

24. In its analysis, the Authority considers whether, in the context of a two-sided market, the proposed transaction is likely to impact on the structure of competition in respect of regional/local newspaper readership and advertising. In addition the Authority briefly addresses the impact of the proposed transaction on the market for printing.

Is the Advertising Market Wider Than Newspapers?

25. The parties argue that a market definition of advertising in newspapers is too narrow and that given the increased usage of online media and the increased provision of websites dedicated to particular newspaper titles, such a narrow interpretation would not reflect current market reality.

26. Although some advertisers, in particular auctioneers, informed the Authority that internet advertising was becoming more important to them, the Authority did not find evidence that it formed part of the same product market as newspaper advertising at the present time. With online advertising, consumers have to go online to view the ads, while newspaper advertising disseminates advertisements to all readers. Newspaper advertising is necessary to reach certain people, in particular older consumers. Advertisers who wish to reach a broad range of people in a limited geographic area would use newspapers rather than the internet. The Authority was informed that some consumers see an advertisement first in a newspaper, and then use the internet to learn more about it.

27. As regards radio, advertisers informed the Authority that it could not replace newspaper advertising, which is more visual and can provide more detail. Radio is better for disseminating urgent or more broad-based information. The Authority was also informed by several advertisers that some newspaper readers never listen to radio, and vice versa. The Authority' survey found advertisers unwilling to switch to radio in the event of a small but significant rise in the price of advertising in local/regional newspapers. This suggests that radio

[7] For a discussion of two sided markets see the symposium of papers in *Competition Policy International*, Vol. 3, No. 1, Spring 2007, pp. 147- 298.

advertising is therefore not in the same product market as newspaper advertising, but is a complement to it.

28. The Authority's market investigation also did not show that alternative print media, for example, magazines, leaflets and directories, were substitutable for newspaper advertising.

Should the Product Market Include both Freesheets and Paid For Newspapers?

29. The parties argued that the narrowest possible market is that of local freesheet newspapers circulating largely within a particular region. They also noted that there is limited substitutability between the Johnston Press titles in Co. Tipperary and *South Tipp Today*, both from a readership perspective, given the editorial content of each publication and for advertisers, given the target audience and reach of each publication.

30. In a previous (non-merger-related) investigation[8], the Authority concluded that local paid for and free newspapers competed in the same market.

31. Similarly in the present case, although the Authority's survey found that various advertisers considered there to be a difference in content and presentation between the Johnston Press titles and *South Tipp Today*, many did not consider that this made a difference from an advertising perspective, as they were primarily interested in circulation in the relevant area of South Tipperary.

32. The Authority considers that the relevant product market is advertising in local (i.e. non-national) paid for and freesheet newspapers.

The Relevant Geographic Market

33. The overlap in the activities of the parties occurs in South Tipperary. The Authority's survey of advertisers suggested that those located in South Tipperary who used *South Tipp Today* and *The Nationalist*, did not see newspapers from other parts of the county as substitutes for *South Tipp Today* and *The Nationalist*. Thus, the Authority will concentrate its competition analysis in South Tipperary.

34. For the purposes of this determination, in light of the fact that the Authority does not consider that the transaction will give rise to a substantial lessening of competition, it is not necessary to outline the precise delineation of the relevant geographic market. If a narrower geographical definition than South Tipperary is used (e.g. Clonmel), the analysis does not change, while if a broader market is used (e.g. Co. Tipperary), then there are many more competitors to the merging parties.

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[8] Competition Authority, *The alleged predation by the Drogheda Independent Company Limited in the market for advertising in local newspapers in the greater Drogheda area*, Enforcement Decision No. E/05/001, dated 7th December 2004. This may be accessed at www.tca.ie.

Market Structure

35. Market structure can be characterised as the number and size distribution of firms. The initial impact of any merger is felt on market structure as two firms pre-merger become one firm post-merger. In this section, the pre- and post-acquisition market shares in the relevant market identified above are considered.

Measuring Concentration

36. Market concentration refers to the degree to which production in a particular market or industry is concentrated in the hands of a few large firms. It refers in particular to the number and size distribution of firms in the relevant market: the fewer the number of firms and/or the more disparate the firms are in terms of their sizes, the more concentrated the market. The significance of concentration in competition analysis is that in highly concentrated markets in which barriers to entry are also high, effective competition is likely to be weak.

37. The most commonly used measure of concentration is the Herfindahl-Hirschman index (HHI), which is defined as the sum of the squares of the market shares of all firms participating in the market. According to the Competition Authority's *Merger Guidelines*,[9] a HHI in excess of 1800 indicates a situation where "mergers occur in already highly concentrated industries".[10]

38. As the Competition Authority's *Merger Guidelines* make clear, in order to accurately characterise the competitive conditions in a market, attention has also to be paid to factors such as barriers to entry and exit, buyer power, switching costs, and so on. Thus, while market shares and the HHI index are used as screening mechanisms, reference to other market characteristics is necessary in order to determine the presence of market power post acquisition.

39. In the context of this two-sided market, the Authority considers data obtained from the parties describing the market structure of advertising and newspaper readership. The Authority considers: (i) newspaper advertising revenue in South Tipperary, and (ii) newspaper circulation figures in South Tipperary. The analyses of the data from both provide a very similar result.

Market Structure for the Newspaper Advertising Market in South Tipperary

40. Precise data on the market shares of each participant in the market for newspaper advertising in South Tipperary is not available. However, the parties provided advertising revenue figures for each of the Johnston publications and *South Tipp Today* for each town in Co. Tipperary. The Authority has therefore calculated estimated market shares in the market for newspaper advertising in South Tipperary. These are presented in Table 4 below.

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[9] Competition Authority, 2004, *Notice in Respect of Guidelines for Merger Analysis,* Decision No. N/02/004, hereinafter referred to as "Competition Authority, *Merger Guidelines*", available at www.tca.ie.

[10] Competition Authority, *Merger Guidelines*, paragraph 3.10.

Table 4
Estimated Shares in the Market for Newspaper Advertising, South Tipperary, Pre & Post-acquisition, 2007[1]

Supplier	Ownership	Estimated Market Shares Pre-acquisition (%)	Estimated Market Shares Post-acquisition (%)	Change in Summary Measures
Nationalist	Johnston Press	[50-60]	[90-100]	
Nationalist Weekender				
Tipperary Star				
Tipperary Star Weekender				
South Tipp Today	Clonnad	[30-40]	-	
Tipperary Voice[2]	Voice Newspapers	[0-10]	[0-10]	
Total		100	100	
Summary Measures				
C_2		[90-100]	[90-100]	0
HHI		4820	9140	4320

Notes:
1. Market share estimates are based on advertising revenue figures for a typical week in 2007. "South Tipperary" as used in this table comprises the following towns: Clonmel, Carrick-on-Suir, Cahir, Cashel, Fethard, and Tipperary. Although other newspapers such as the *Nenagh Guardian*, the *Munster Express*, *Kilkenny Advertiser* and *Waterford News and Star* sell advertising space to customers located in South Tipperary, the Authority understands that the level of such sales is negligible. Thus, the Authority has omitted these newspapers from the market share estimates.
2. [The estimated *Tipperary Voice* figures are based on assumptions made by the Authority.]

Source: Johnston Press and Clonnad

41. Based on the estimated figures in Table 4 above for a typical week in 2007, the merged entity post-acquisition will have a market share of [90-100]% and the HHI index will increase from 4,820 to 9,140, an increase or delta of 4,320.

42. The Authority's *Merger Guidelines* set out a series of thresholds that can be used as a 'rough and ready' method of screening mergers. The increase in the HHI between the pre- and post-acquisition environments (i.e., a 'delta' of 4,320) combined with a post-acquisition HHI of 9,140 indicates that the proposed acquisition would give rise to a merger Zone C situation in newspaper advertising in South Tipperary.

43. Merger cases falling in Zone C are characterised by the Authority's *Merger Guidelines* as those that usually raise competitive concerns. However, the fact that a merger falls into Zone C does not necessarily mean that it will lead to a substantial lessening in competition. As the Authority's *Merger Guidelines* point out, factors that affect whether a merger in Zone C will raise competition concerns include the closeness of competition and the extent to which entry and/or expansion is likely to occur in the market post-acquisition.

Market Structure for the Newspaper Circulation Market in South Tipperary

44. Using the circulation figures provided by the parties for each of the Johnston publications and *South Tipp Today* for each town in County Tipperary also reveals that the merged entity post-acquisition will have a market share in excess of [90-100]%. The increase in the HHI between the pre- and post-acquisition environments indicates that the proposed acquisition would give rise to a merger Zone C situation in the market of newspaper circulation in South Tipperary.

Competition Analysis

45. In this section, the issue of whether or not the proposed acquisition will result in a substantial lessening of competition ("SLC") is addressed. The Authority's analysis of unilateral effects is outlined in detail below. Unilateral effects refer to a situation where the anti-competitive effect of a merger results from non-coordinated action by market players and arises where the merged entity has the ability post acquisition to unilaterally exercise market power by, for example, raising price or reducing output. The exercise of unilateral effects usually involves a merger of sellers of differentiated products competing on the basis of price and depends largely on the closeness of the merging firms' products. In other words, if the two products are each other's closest substitute, a pre-merger price increase of Product A would result in customers switching their purchases to Product B (and other rivals). Post-merger, the merged entity would internalise consumer substitution away from Product A, thereby avoiding at least some of the penalty otherwise associated with raising price.

46. As there is no evidence to suggest that there will be any co-ordinated effects resulting from the proposed acquisition, the Authority will not analyse co-ordinated effects.

Newspaper Advertising

47. As outlined above, factors that affect whether a merger in Zone C will raise competition concerns include the closeness of competition and whether entry/expansion is likely.

Closeness of competition

48. Closeness of competition refers to:

- the degree to which the undertakings involved competed with each other pre-merger; and
- the extent to which non-merging undertakings constrain the merged entity's ability to raise price.

49. The parties submitted to the Authority that *South Tipp Today* does not compete closely with any of the Johnston Press publications. As a result of its investigation, the Authority considers that:

- *South Tipp Today* does not compete closely with the Weekender editions of the *Tipperary Star* and *The Nationalist*, as their content and advertising focus involve features and entertainment, there is limited local content, and they are focussed primarily on the 19-30 age group. *South Tipp Today* is only concerned with local news and is not directed to a particular age group.

- The *Tipperary Star* does not compete closely with *South Tipp Today*. The circulation and advertising figures shown in Tables 2 and 3, respectively, and the information received by the Authority from advertisers shows that the geographic focus of both newspapers is substantially different – the *Tipperary Star* is focussed on North Tipperary, around the Thurles area in particular, and *South Tipp Today* is focussed on specific towns in South Tipperary. South Tipperary-based advertisers did not see the *Tipperary Star* as being a choice for advertising in South Tipperary. Several South Tipperary advertisers interviewed by the Authority did use the *Tipperary Star*, but it was in order for their advertising to cover North Tipperary.

- As no advertisers mentioned the *Tipp News* as a competitor to *South Tipp Today* and as it is published monthly as opposed to weekly, it would not appear to be in direct competition with *South Tipp Today*.

50. As regards *The Nationalist*, the parties contended that, in view of various differences between the two papers (outlined in Table 1), as well as the differences in the papers' rate cards, with *South Tipp Today* being substantially cheaper, the parties were not close competitors, although active in similar geographic areas. For example, classified advertising in *The Nationalist* costs €10 for 15 words or less, including VAT. The equivalent *South Tipp Today* rate is €5, including VAT. The parties also highlighted the fact that approximately [20-30]% of *The Nationalist*'s advertising content is national advertising, while *South Tipp Today* carries no national advertising.

51. The Authority is of the opinion, from its own examination of copies of *South Tipp Today* and *The Nationalist* and from its investigation, that they are differentiated from each other in terms of pricing, format, editorial and advertising mix. However, as evident from Tables 2 and 3, *The Nationalist* and *South Tipp Today* focus on broadly similar geographic areas in South Tipperary. Both carry general local news, with pages in both papers dedicated to news from specific towns. Many advertisers stated to the Authority that the location of circulation was a very important factor in choosing a paper to advertise in.

52. In addition, upon reviewing the parties' responses to their respective RFIs, the Authority noted some statements which appear to suggest that the parties considered each other to be close competitors in the South Tipperary area:

- In an Information Memorandum dated January 2007 prepared on behalf of Clonnad, it is stated that "There are only two newspapers in South Tipperary with South Tipp Today being a price leader in advertising and also offers more penetration per Euro than current competitors – The Nationalist and Tipp FM."

- In addition, an internal market review by Johnston Press for quarter one, 2007, states that "[The quotation appears to indicate that *The Nationalist* considers *South Tipp Today* to be a close competitor]."

53. Upon being asked by the Authority to comment and provide clarification on the above, the parties stated, *inter alia*, as follows:

- As regards the Clonnad statements in the Information Memorandum: "[The redacted quotation states that the statements must be read in the context in which they were made]."

- [In relation to the Johnston response, the redacted quotation states that the statements must be read in the context in which they were made]

- The parties also provided a list to the Authority of the top advertisers they had in common, arguing that their advertising customer overlap is extremely limited. However, when these advertisers were interviewed by the Authority more of them were common to both newspapers than had appeared in this list. This appears to be because advertisers appearing in the top advertiser list of one newspaper did advertise with the other newspaper, but did not appear in its top advertiser list.[11]

54. The Authority contacted various advertising customers of *South Tipp Today* and *The Nationalist*:[12]

- Of *The Nationalist*'s 7 "regional" customers interviewed, one expressed concerns and one expressed slight concerns about a reduction in competition and possible price rises post-merger.

- Of its 11 "local" customers interviewed, 4 had such concerns.

- Of the 8 *South Tipp Today* local customers interviewed, 2 were concerned and 2 were slightly concerned.

55. From the Authority's investigation, it appears that *The Nationalist* and *South Tipp Today* are each other's closest competitor. The relevant question for the Authority to consider is the extent of the closeness of competition between them. In this respect, it should be borne in mind that:

- For certain categories of advertisers in *The Nationalist*, *South Tipp Today* is not a substitute. This applies to [20-30]% of *The Nationalist's* advertising that is national in nature and many of its "regional" advertisers.

- For smaller local advertisers, many view *The Nationalist* and *South Tipp Today* as substitutes. However, some customers informed the Authority that using both newspapers together allowed them to access a wider target audience in South Tipperary, in view of the fact that they are differentiated products. Some advertisers informed the Authority that *South Tipp Today* has a disciplinary effect on *The Nationalist*'s pricing, even if these advertisers did not play one off against the other during negotiations over advertising rates.

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[11] The limited advertising overlap between the top advertisers of each newspaper is consistent with the parties' arguments of a limited competitive overlap.
[12] See further explanation in paragraph 12.

- Approximately one third of the local customers of *The Nationalist* expressed concerns about the merger, while between one quarter and one half of local customers of *South Tipp Today* expressed such concerns.

56. In addition to the above, in assessing the closeness of competition, the Authority must consider whether non-merging undertakings would constrain the merged entity's ability to raise price. The only other newspaper with a focus on South Tipperary is the *Tipperary Voice*, a county-wide paid-for newspaper. In the Authority's discussions with advertisers, many stated that they were open to advertising with the *Tipperary Voice*, but since it was new, they were waiting for it to develop its circulation in the South Tipperary area. Others stated that its advertising rates were too expensive if they just wanted to reach customers in South Tipperary, as its rates were based on its circulation in the whole county.

57. The Authority therefore considers that the *Tipperary Voice* poses a limited constraint on the merged entity for some advertisers. However, it is not clear that it is a sufficiently close competitor to discipline the merging parties from raising price post-merger.

Entry

58. The Authority's *Merger Guidelines* require the following three requirements to be met for entry to be able to constrain a merged entity from raising prices post merger:

- Entry must be timely – entry is considered timely only if it occurs within two years;

- Entry must be likely – in other words, entry must be profitable at existing (or lower) prices; and

- Entry must be sufficient – entry must return prices to their pre-merger levels. For this to happen, entry must occur on a sufficient scale.

59. The undertakings involved consider that entry would be timely, likely and sufficient in scope to curtail any concerns, as the relevant market is characterised by low barriers to entry, any barriers to entry that do exist are likely to be surmountable and entry has occurred recently.

In particular, they note the following:

- Clonnad has fixed assets of only [<€100,000], but generates a turnover of [€500,000-€1,000,000].

- Printing and distribution services are freely available.

- River Media Group's launch of 'quality frees' (freesheet titles) in six counties over the past eighteen months, with a distribution of over 100,000 copies, demonstrates the presence of low barriers to entry and expansion.

- The Voice Group, in addition to launching the *Tipperary Voice*, has launched 6 other paid for titles in the last year with a total estimated circulation of 50,000.

- The Independent Free Group has launched titles in Galway, Cork and Limerick and distributes about 175,000 copies.

- Newspaper groups are already present in adjacent counties, such as the IFN Group and The Advertiser Group, which claims to be Ireland's leading freesheet newspaper group, with a total readership of 550,000 per week and which publishes the adjacent Kilkenny Advertiser with a circulation of 19,500 copies. Such groups may be able to exploit synergy gains from extending outwards by launching new titles in adjacent or neighbouring areas to those where they are currently focussed.

60. The Authority also notes its own conclusion in the Drogheda Independent case,[13] in which it stated that

> It appears that the barriers to setting up a local newspaper and in particular a local freesheet are low and falling. The traditional barrier, the purchase of a printing press, has fallen considerably and is no longer even a necessary expenditure as local newspapers can easily outsource their printing requirements. A freesheet newspaper could conceivably be created with some of today's software packages and a laptop. Even the distribution of a freesheet can be outsourced. The initial costs of entry appear quite low and to a considerable extent do not appear to be sunk.

61. As part of its investigation in the present case, the Authority also contacted various newspapers and newspaper groups and asked them questions on entry in the regional/local newspaper sector. Their responses indicated to the Authority that:

- Most of the new newspapers launched over the past few years were by groups such as The Voice Group, River Media and the Advertiser Newspaper Group. Many of these groups start newspapers in several different areas in a single year.

- It is easier for newspaper groups to enter a new newspaper market than for individuals, as they have more financial backing and costs are lower, as much of the content e.g. celebrity interviews, can be used in several of their newspapers.

- If money and expertise are available over about 2-3 years (and it is not difficult to poach staff from competitors), it is possible to enter. However, many newspaper groups are willing to give newspapers 5-6 years to reach profitability.

- The free newspaper sector is still relatively undeveloped in the State in comparison to other countries, and the changing nature of Irish society is altering the newspaper sector. In particular, young people are more willing to read freesheets. This results in a greater demand for free newspapers, of which there has been a proliferation in recent years.

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[13] Competition Authority, *The alleged predation by the Drogheda Independent Company Limited in the market for advertising in local newspapers in the greater Drogheda area*, Enforcement Decision No. E/05/001, dated 7th December 2004. This may be accessed at www.tca.ie.

- The costs associated with launching a new newspaper are greater for paid-for newspapers than for free newspapers – this is because the former require greater staff and have higher production costs.

- The costs of launching a free newspaper are minimal, with the costs including wages, IT, marketing, distribution and printing. The latter two costs are easy to outsource. Many of these costs are not sunk.

- The newspaper sector is very dynamic with lots of entry and expansion. Despite the growing popularity of the internet, the general public is still very interested in reading paid-for and free newspapers. As a result, demand for newspaper advertising remains high.

62. As a result of its investigation, the Authority concludes that:

- Entry would be timely – i.e. a new newspaper could be launched within two years in South Tipperary. There is considerable evidence demonstrating that newspaper groups are launching newspapers very quickly, sometimes at a rate of several a year. Many elements of the business, such as printing and distribution, may be outsourced, which can accelerate the launch periods.

- Entry would be likely – entry is possible at existing or lower prices. In light of the low costs and sunk costs involved, the availability of outsourcing, the ability of well-resourced newspaper groups to use the same content in several of their publications, and the evidence of recent entry in the county and region, entry is likely.

- Entry would be sufficient, i.e. occur on a sufficient scale. With the evidence of the successful establishment of new newspapers launched by newspaper groups as well as individuals in all areas of Ireland, including Tipperary, the possibility of outsourcing and the low sunk costs involved, it is clear that entry would be sufficient.

Conclusion in relation to newspaper advertising

63. As noted above, the proposed merger is a Zone C merger, in other words, a merger that more usually raises competition concerns. In the instant case, these concerns centre on the ability of the merged entity to raise advertising rates for certain classes of customers. However, a careful examination of the evidence suggests that low barriers to entry, as evidenced by the recent record of entry both in South Tipperary and elsewhere in the State, as well as few if any sunk costs, will be sufficient to constrain the merged entity in this respect. Therefore the Authority concludes that the proposed transaction would not lead to a significant lessening of competition in newspaper advertising in South Tipperary.

Newspaper Publishing

64. As the conditions of competition in relation to newspaper publishing are similar in this case to those relating to newspaper advertising, the Authority will not consider this element separately.

Newspaper Printing

65. There is no horizontal overlap between the activities of the parties regarding printing. However, there is a vertical overlap – Johnston Press prints its own and third party publications and *South Tipp Today* outsources its own printing requirements to Kerry's Eye, an independently owned and operated publishing company. *South Tipp Today* will be printed by Johnston Press following completion of the proposed transaction.

66. Due to the lack of horizontal overlap in printing and the limited nature of *South Tipp Today*'s circulation and therefore of its printing requirements, the Authority does not consider that the proposed acquisition of *South Tipp Today* will have an significant impact on the provision, or purchasing, of printing services in the State.

Ancillary Restraints

67. The Share Purchase Agreement contains a non-solicitation clause and a non-compete clause in the distribution area of South Tipp Today, for a maximum of two years following completion of the proposed transaction. The parties have stated, and the Authority considers that, in view of their limited timeframe and geographic scope, these arrangements are directly related and necessary to the implementation of the proposed transaction, in order to protect the investment of Johnston Press.

Determination

68. The Competition Authority, in accordance with section 21(2)(a) of the Competition Act 2002, has determined that, in its opinion, the result of the proposed acquisition by Johnston Press plc of Clonnad Limited will not be to substantially lessen competition in markets for goods and services in the State and, accordingly, that the acquisition may be put into effect.

For the Competition Authority

Dr. Paul K. Gorecki
Member of the Competition Authority