

Completed acquisition by DC Thomson & Co Limited of Aberdeen Journals Limited

The OFT's decision on reference under section 22 given on 15 June 2006. Full text published 30 June 2006.

PARTIES

1. **DC Thomson & Co Limited (DCT)** is a Scottish based publisher of local and regional newspapers, magazines and comics in the UK. It publishes three newspapers¹, in addition to a tabloid format paper called The Weekly News. In the financial year ended 31 March 2005, DC Thomson achieved group turnover of approximately £162 million, roughly two thirds of which was achieved in the UK.
2. **Aberdeen Journals Limited (Aberdeen Journals)** is an Aberdeen based newspaper publisher. It publishes three newspapers,² a weekly classified advertising publication (Scots-Ads), the Aberdeen edition of a free student magazine (Student Pages) and a free business magazine (Upbeat). In its last financial year to 2 October 2005, Aberdeen Journals group turnover was £38.2 million, all achieved in the UK.

TRANSACTION

3. On 27 March 2006, DCT entered into an unconditional agreement to acquire the entire issued share capital of Aberdeen Journals. The transaction completed on 2 April 2006. The administrative deadline expires on 15 June 2006.

¹ The Dundee Courier & Advertiser (a regional daily paid-for publication), The Dundee Evening Telegraph (a local daily evening paid-for newspaper) and The Sunday Post (a national weekly paid-for newspaper).

² The Aberdeen Press & Journal (a regional daily paid-for newspaper), The Aberdeen Evening Express (a local daily evening paid-for newspaper) and The Aberdeen Citizen (a local weekly free newspaper).

JURISDICTION

4. As a result of this transaction, DCT and Aberdeen Journals have ceased to be distinct. The OFT believes that it may be the case that, post-transaction, DCT supplies more than a quarter of all local newspapers in those combined contiguous areas in which the merger creates an overlap. The OFT believes that these areas together constitute a substantial part of the UK as they cover a large part of North Scotland (including Aberdeen and Dundee) with a population of over 1,000,000 people encompassing an area of economic significance for local newspaper advertising. The parties agree that the share of supply test is met in this case. However, it is noted that the parties submit that the share of supply test is met in respect of each of Aberdeen and Dundee, as post-merger DCT supplies more than a quarter of all local newspapers in these cities which are the third and fourth largest, respectively, in Scotland and play important roles in its economy. The share of supply test set out in section 23 of the Enterprise Act 2002 (the Act) is therefore met. The OFT therefore believes that it is, or may be the case, that a relevant merger situation has been created.

RELEVANT MARKET

5. The parties overlap in the supply of local/regional newspapers in Scotland.³

Product market

6. Past Competition Commission (CC) reports⁴, have generally concluded that local weekly free and paid for newspapers are substitutes. Furthermore, the CC has concluded that local weekly newspapers are closer substitutes for each other than for local daily newspapers and daily and weekly titles are generally poor substitutes due to the differences in editorial content and publication frequency.
7. The parties submit⁵ that the relevant frame of reference is at least the market for all regional/local newspapers, whether paid-for or free, daily, weekly or Sunday.

³ DCT's The Weekly News is not considered to overlap with any of the newspaper titles of Aberdeen Journals for a number of reasons: (i) it contains gossip, celebrity interviews and human interest stories as well as games, puzzles and TV listings; (ii) it is audited as a consumer magazine; and (iii) its stories are not time critical.

⁴ Archant's acquisition of the London newspapers of Independent News and Media Limited (October 2004); Newsquest's proposed acquisition of the London newspapers of Independent News and Media Limited (October 2003); Gannett's proposed acquisition of three Scottish Media Group titles (March 2003); the proposed transfer of eight Trinity Mirror titles to Johnston Press (May 2002); and the proposed transfer(s) of Regional Independent Media's newspapers and assets to Gannett, Johnston Press and Guardian Media Group (November 2000).

⁵ Paragraph 55 of submission 3rd April 2006.

However, the OFT's decision made under the Competition Act 1998 in Aberdeen Journals⁶ found that the local titles in Aberdeen (daily and weekly) formed a separate frame of reference to the regional title (Aberdeen Press & Journal). The advertising rates for the local and regional newspapers of the parties indicate that there may be a difference between the two types: these rates reflect a combination of the size of circulation, the geographic area covered by the newspaper and other factors such as frequency of circulation.

8. Third party responses have indicated that many advertisers advertise in regional and local daily newspapers, as well as local weekly newspapers, and in some cases also in national newspapers. Regional newspapers may not always be daily and frequency of publication may not be the main factor for considering local/regional newspapers, especially as advertisers may not advertise every day in newspapers. One third party publisher of local newspapers said there is a small degree of competition between the parties' regional titles and its local weekly titles. Some third parties argued that it may be possible for advertisers to use a combination of a number of local newspapers in different areas as an alternative to one regional newspaper, in particular if advertising is focused on a number of local areas.
9. The CC has considered the extent to which advertising in non-print media acts as an effective substitute for advertising in local newspapers and generally concluded that it does not. The CC however has accepted that 'advertising only' publications may provide some alternative to advertising in local newspapers, in varying degrees (see references to CC reports above). Third parties have indicated that for some, while advertising in non-print media is used, it is mainly as a complement to advertising in newspapers but that advertising in newspapers is key to their advertising.
10. The OFT did not receive sufficient evidence in the course of this investigation to warrant a departure from the approach taken in previous cases as regards the product frame of reference.⁷

Geographic market

11. Previous CC reports have generally defined the relevant geographic market for local newspapers to be local. More specifically, they have considered the specific area in

⁶ Competition Act 1998, Decision of the Director General of Fair Trading, No CA98/14/2002, Predation by Aberdeen Journals Limited (Remitted case), 16 September 2002.

⁷ Although it is accepted that some third parties considered non-print media to be more of a constraint than that recognised by the CC previously.

which the newspaper is circulated ('geographic footprint') and the JICREG⁸ areas within that footprint.⁹

12. On the demand-side, local newspapers are more likely to attract local advertisers although regional advertisers may buy packages of advertising across a series of complementary local newspapers to cover a region. The OFT considers that local advertisers do not switch to advertising nationally or in substantially different locations in response to a rate increase, not least because national advertising rates tend to be more expensive.
13. In addition, the geographic footprint of local titles gives us important information with regard to the level of competition between them. Specifically, where the titles' geographic footprints overlap significantly, advertisers may consider them substitutes since they target the same readers. Conversely, where titles' geographic footprints overlap to a lesser degree, those titles are likely to be considered poor substitutes by advertisers, since an advertiser switching from one title to another is likely to view a large amount of their advertising spend as 'wasted' on circulation in areas in which they are not interested.
14. For the purposes of this case, the geographic frame of reference for the supply of local newspapers is left open because no competition concerns arise on the narrowest reasonable frame of reference, namely, based on JICREG areas. The competitive effects of the acquisition will be assessed by reference to the JICREG areas in which the parties' titles' footprints overlap.

HORIZONTAL ISSUES

15. Newspapers receive revenues from purchasers of (paid-for) newspapers and advertisers, who buy advertising space. The two are interdependent as readers are seeking appropriate editorial and advertising content, and advertisers are seeking readers who are most likely to respond to their advertising. Both sets are considered below.

Market shares

16. The competition assessment will focus on the competition in those JICREG areas where the parties overlap.

⁸ Joint Industry Committee for Regional Press Research (JICREG).

⁹ Johnston Press plc/Trinity Mirror plc (May 2002) and Newsquest/INM (2003). In Archant/INM (2004) the CC concluded that 'the geographic market was wider than the 'footprint' of any individual title, but was local, extending no wider than the areas covered by the former-INM publishing units'.

17. DCT's The Sunday Post, a national paid-for newspaper overlaps with Aberdeen Journals' titles in almost all relevant JICREG areas (41 out of 51 JICREG areas where there is an overlap between the parties only involve the Sunday Post from DC Thomson). However, given evidence underlying the CC's previous reports (see references above¹⁰), the difference in advertising rates between the local and national newspapers and the number of competing Scottish versions of UK national newspapers, the OFT believes that the Sunday Post does not constrain the behaviour of Aberdeen Journals titles (or vice versa) to any significant extent.
18. Aberdeen – this is a core area¹¹ of circulation for two Aberdeen Journals titles (Aberdeen Citizen and Aberdeen Evening Express). The Aberdeen Press & Journal also achieves 26 per cent of its total circulation in this area. While the combined share of supply is high in this area at 69 per cent, the increment is low at 0.1 per cent. DCT's The Dundee Courier & Advertiser (a morning paid-for newspaper) achieves less than 0.5 per cent of its circulation in this area, and its share of supply is only 0.1 per cent. The parties also face continued competition from the Aberdeen Independent (a weekly free newspaper).
19. Brechin – The parties will supply four titles in this JICREG area.¹² However, the parties' titles each focus on different areas (DCT's titles in Dundee and Aberdeen Journals' titles in Aberdeen) and face competition in this JICREG area from a local weekly paid-for newspaper, Brechin Advertiser. This newspaper accounts for more than 50 per cent of circulation in Brechin. The increment to the combined share of supply is also low – less than two per cent.
20. Dundee – This is a core area for DCT's The Dundee Evening Telegraph - DCT's The Dundee Courier & Advertiser also circulates a large number of newspapers in this area. The parties will have a high combined share of supply post-merger (98 per cent), but the increment from Aberdeen Journals' The Aberdeen Evening Express and The Aberdeen Press & Journal is small (two per cent). This is a focus area for the DCT local/regional titles which all have 'Dundee' in their titles. Third parties have considered the parties titles to be focused on different areas, and have not viewed them as substitutes.
21. Forfar – The parties will have around 50 per cent combined share of supply post-merger, but an increment of less than 0.5 per cent. Two other local weekly paid-for

¹⁰ See footnotes 4 and 9 above.

¹¹ The CC has previously excluded as not being relevant to a competition assessment, any JICREG areas where the titles of either of the parties to a merger have a penetration rate below 10 per cent; and has focused primarily on so-called 'core' areas where one or both competing titles have 30 per cent or more of their circulation/distribution volume-Johnston Press plc/Trinity Mirror plc (May 2002).

¹² For DCT, The Dundee Courier & Advertiser and The Dundee Evening Telegraph and for Aberdeen Journals, The Aberdeen Press & Journal, The Aberdeen Evening Express.

titles will continue to circulate here post-merger and one is more focused on this area – the Forfar Dispatch & Kirriemuir Herald achieves 72 per cent of its total circulation is in this area.

22. Inverness – This is not a focus area for either of the parties and their combined share of supply is less than 10 per cent. There are also a number of Inverness focused titles (three weekly paid-for newspapers and one free) that circulate in this area.

23. Laurencekirk – The parties have a combined share of supply of 53 per cent and an increment of 18 per cent. Three other local weekly paid-for titles circulate in this area, one of which achieves 87 per cent of its circulation in this area (Kincardineshire Observer). A number of advertisers located in this area have been contacted but none raised concerns.

24. Montrose – The parties have a 45 per cent combined share of supply in this area but the increment is only two per cent. There is one other weekly paid-for title circulating in this area, the Montrose Review which is very locally focused, achieving 62 per cent of its circulation in this area.

25. Perth – The parties have a combined share of supply in this area of nine per cent. There are a number of Perth titles (two weekly paid-for and two weekly free newspapers) that circulate in this area, all of which achieve at least 42 per cent of their total circulation in Perth.

26. Perth rural – The parties have a combined share of supply of 16 per cent in Perth rural. As in Perth, there are a number of Perth titles that circulate in this area, four of which achieve at least 38 per cent of their total circulation here.

27. Stonehaven – The parties have a combined share of supply of 22 per cent in this area (increment less than 0.5 per cent). There are a number of other local weekly newspapers (three paid-for and one free) circulating here, one of which (Mearns Leader) achieves 98 per cent of its total circulation in this area.

28. The parties each publish a regional title, focusing on different regional areas: DCT's The Dundee Courier & Advertiser (Dundee and surrounding areas) and Aberdeen Journals The Aberdeen Press & Journal (Aberdeen and surrounding areas). While the areas where these titles circulate are largely complementary they overlap in a number of the JICREG areas mentioned above: Aberdeen, Stonehaven, Laurencekirk, Montrose, Brechin, Forfar, Perth, Perth rural, Dundee and Inverness. Even considering the combined footprints of the parties' regional titles, the geographic overlap between these titles is limited and is in areas where there are a number of other local newspapers available. Some third parties have raised

concerns relating to the parties' combined 'dominance' on the 'east coast' and 'north east of Scotland' post merger. However these third parties have been unable to identify how competition will be lessened by the merger or how the parties were competing with each other pre-merger.

Barriers to entry and expansion

29. Previous CC reports have consistently identified a number of barriers to entry in local newspaper publishing. These barriers include: (i) economies of scale; (ii) costs associated with investment in editorial content (higher for paid-for titles); (iii) marketing and sales costs (higher for paid-for titles); (iv) access to printing facilities; and (v) the competitive response of incumbent titles (see references to CC reports above).

30. The parties submit that barriers to entry are low, in particular for local free newspapers.

31. One third party considers that barriers to entry are low and that entry is equally likely to come from private entrepreneurs as from established newspaper publishers. It acknowledges that there are high fixed costs. Another third party considers that the high fixed costs of setting up an editorial department, consumer marketing costs and maintaining availability at point of sale are barriers to entry. However, this third party also provided an example of where they have set up a magazine division within a number of weeks. Another third party considers that there are barriers to expansion of a title because Scotland is a very competitive market with a strong mix of long established and respected titles. It considers that building the advertising base, establishing editorial contributors and consolidating a position in the new community can take up to a year and therefore that barriers to entry are similar to those of expansion, but with an additional cost. Although some complementary media may have been introduced, for example IS Magazine. The Aberdeen Independent is an example of a newspaper that has launched successfully in Aberdeen Journals' focus area although this was launched in 1996. The OFT does not need to conclude on barriers to entry since it believes that this transaction does not raise any competition concerns.

VERTICAL ISSUES

32. No vertical concerns arise as a result of this transaction.

THIRD PARTY VIEWS

33. Third party views were mixed. One third party was concerned that the merger would raise competition concerns for it (because there are no alternative titles to which it could switch). However, this third party only buys advertising in Aberdeen newspapers and its concerns were not merger specific. Other third parties in the overlap areas raised concerns relating to the parties' 'dominance' on the east coast and north east of Scotland which have been dealt with above.

ASSESSMENT

34. The parties overlap in the supply of newspapers in Scotland.

35. As noted above, the geographic overlap between the parties' titles is very limited. DCT and Aberdeen Journals titles focus on Dundee and Aberdeen respectively and their regional titles focus on the surrounding areas of Dundee and Aberdeen respectively. In all other areas (i.e. non-focus areas) the share of each titles total circulation achieved in each area is less than 6.5 per cent and in each of those areas there are alternative local newspapers in circulation. In the areas where there is a high share of supply, and the parties are considered to be competing, the increment from the merger is low and there is competition from alternative titles which will act as a constraint post-merger.

36. Consequently, the OFT does not believe that it is or may be the case that the merger has resulted or may be expected to result in a substantial lessening of competition within a market or markets in the United Kingdom.

DECISION

37. This merger will therefore not be referred to the Competition Commission under section 22(1) of the Act.