An empirical analysis of the competition in print advertising among paid and free newspapers

Economic competition is an invisible force that touches all of our lives. Markets where firms compete with each other healthily usually benefit consumers with lower prices, better quality products or services, and faster innovation. This is the reason why most countries have a government agency that oversees economic competition and enforces competition laws. In a small country like New Zealand, there is arguably an even greater need to be vigilant because many markets have a small number of firms, which could result in poor market outcomes. In New Zealand, the Commerce Commission has a mandate to act when two large firms, currently competing against each other, propose to merge into one, because the competition between them will disappear should the merger go through. Our research looks at such a case: the proposed merger between New Zealand Media and Entertainment (NZME) and Stuff (formerly Fairfax). We focus on the print newspaper industry where both companies are major operators. Our analysis shows that, while these two companies do not publish the same type of newspapers in the same cities, there is competition between them, and this competition would have been lost had they been allowed to merge. Thus, our result supports the Commerce Commission and Court of Appeal's decisions to decline this merger.

The print newspaper industry in New Zealand can be divided into two segments: paid daily city newspapers and free weekly suburban newspapers. From a reader's perspective, they might appear widely different in terms of content, length, and access. So how can, say, the *NZ Herald* (published by NZME) be a competitor with the *East & Bays Courier* (published by Stuff, available in the eastern suburbs of central Auckland)? Indeed, if most readers do not think that these two types of newspapers are similar enough to be substitutes, that they are equally happy with one or the other, then little competition would be lost if NZME and Stuff were to merge, because there was little competition between them to start with. However, there is another side to this two-sided market: the advertisers. We focus on advertisors because we can observe a key measure of competition—the price, which in this context is the advertising rate. Crucial to our analysis is geographical variation in market structure. While NZME and Stuff are the two leading newspaper publishers in New Zealand, the types of newspapers they publish differs across cities. Thus, we can look at whether advertising rates differ systematically with the presence of another local title, be it paid or free, one's own or a competitor's.

The price of a product is generally affected by many factors: demand, costs, and the level of competition. If two markets of the same product have similar demands and costs, then one can conclude with more confidence that the market with a higher price has a lower level of competition. This is the logic behind our statistical analysis: we compare the display advertising rate per circulation across different cities, all with different market structures. We find that, for full- and half-page display advertisements in free weekly suburban newspapers, the rate per circulation is significantly higher when the paid daily newspaper in that city is owned by the same publisher. In addition, the rate per circulation for a full-page display advertisement is significantly lower in markets where a rival firm publishes a competing free weekly newspaper. In other words, the advertising rates reveal that advertisers who put in large display ads do shop around different newspaper titles if available, and publishers are also aware of this. In cities with rival free weeklies, rival publishers have to keep their rates competitive so to attract advertisers. In cities where the same publisher owns both the paid daily and free weeklies, the advertising rate is higher than an otherwise competitive level, because the publisher knows that local advertisers have little choice when it comes to patronising one of its titles.

Our paper is novel to the economic study of the newspaper industry, where most existing work focus on competition in content (quality). We show how a competition authority may use empirical analysis to supplement its qualitative survey when examining a proposed merger or conducting a market study.

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