



## Public Competition Assessment

28 March 2017

### PMP Limited - proposed merger with IPMG Group

#### The ACCC's decision

1. On 17 February 2017 the Australian Competition and Consumer Commission (**ACCC**) announced its decision not to oppose PMP Limited's (**PMP's**) proposed merger with IPMG Group (**IPMG**) (the **proposed merger**).
2. PMP and IPMG both supply heatset web offset printing services, which are used to print catalogues and magazines. PMP also has a catalogue and magazine distribution business.
3. The ACCC considered that the proposed merger would be unlikely to contravene section 50 of the *Competition and Consumer Act 2010* (the **Act**).
4. Section 50 prohibits acquisitions that would have the effect, or be likely to have the effect, of substantially lessening competition in any market.
5. The ACCC considered the competitive effects of the proposed merger in the following markets:
  - the national market for the supply of heatset web offset printing services and
  - the supply of catalogue letterbox distribution services.
6. This Public Competition Assessment outlines reasons for the decision by the ACCC not to oppose PMP's proposed merger with IPMG.
7. Please note that this and other public competition assessments are subject to the following qualifications:
  - the ACCC considers each transaction on a case-by-case basis and so the analysis and decision outlined in one assessment will not necessarily

reflect the ACCC's view of another transaction, even where that other transaction may involve the same or a related market and

- as public competition assessments are brief and also do not refer to confidential information provided by the parties or other market participants, assessments do not set out all of the issues and information considered by the ACCC, nor all of the analysis and reasons of the ACCC.

## **The parties and the transaction**

### **PMP**

8. PMP is a public company listed on the Australian Securities Exchange. PMP prints catalogues and magazines on printing presses located at its print sites in Moorebank, New South Wales; Clayton, Victoria; Wacol, Queensland; and Bibra Lake, Western Australia.
9. PMP's other principal activities are: book printing through Griffin Press in South Australia; magazine distribution through its business Gordon & Gotch; and letterbox distribution through PMP Distribution.

### **IPMG**

10. IPMG is a private company which is wholly owned by the Hannan family. IPMG's print businesses include: Hannanprint, Offset Alpine, Bolton Print and Inprint, which print a range of magazine, catalogue, direct mail, newspaper and other publications. IPMG's print facilities are located in Warwick Farm and Lidcombe, NSW; Noble Park, Victoria; and Geebung and Cairns (Bolton Print site), Queensland.
11. IPMG ceased its magazine distribution operations in 2010. IPMG's other operations include: creative, engagement and production agencies; public relations and communications; digital media; and packaging.

### **The transaction**

12. On 28 October 2016 PMP announced an intention to merge with IPMG. It intended that PMP would acquire 100 per cent of the shares of IPMG and issue new PMP shares to the IPMG shareholders (who would together hold a maximum 37 per cent interest in PMP). This would entitle IPMG to nominate two directors to the PMP Board.
13. The merger parties' stated rationale for the transaction is to lower their costs of production and ensure the ongoing viability of the business, by reducing underutilised and older presses to reflect current and anticipated demand for printing services.

## Review timeline

14. The following table outlines the timeline of key events for the ACCC in this matter.

Table 1: Timeline

Date	Event
2 November 2016	ACCC commenced review under the Merger Process Guidelines
18 November 2016	Closing date for submissions from interested parties
22 December 2016	ACCC published a Statement of Issues
30 January 2017	ACCC requested further information from the merger parties
31 January 2017	Closing date for submissions relating to Statement of Issues
6 February 2017	ACCC received further information from the merger parties
17 February 2017	ACCC decision not to oppose

15. The total elapsed time from start to finish was just over three months. The total period net of time taken by the parties to submit information or documents was 68 business days.

## Market inquiries

16. The ACCC conducted market inquiries with a range of industry participants, including competitors, catalogue and magazine customers, input suppliers, industry bodies and other interested parties.

## Statement of Issues

17. On 22 December 2016 the ACCC published a Statement of Issues on the proposed merger, identifying two concerns. The ACCC stated its preliminary view that the proposed merger may reduce competition in:
- heatset web offset printing services and
  - catalogue letterbox distribution services.
18. At the time of publishing the Statement of Issues, most of the market feedback received by the ACCC was obtained before IVE Group Australia (**IVE**) had announced its acquisition of The Franklin Printing Group (**Franklin**) and printer AIW. Further information about IVE's acquisitions is set out at paragraphs 26 and 27 below.

## Industry background

### Printing methods

19. Different printing methods can be used to produce catalogues, magazines and other commercial printed materials. These methods include digital printing and offset printing.
20. Offset printing is a method where images are transferred (offset) to rubber blankets or rollers and then printed onto paper; and includes sheet-fed printing and web offset printing.
21. Web offset printing is a mass production printing method where a continuous reel of paper is fed through the offset printing press. The paper is trimmed and folded automatically by the machine after the ink is applied. Web offset is particularly well suited to medium to large print runs, due to the efficiency and speed of printing.
22. There are two forms of web offset printing:
  - Heatset web offset, which uses coated paper and kerosene based ink, which is dried rapidly by forced air heating. There is also a web offset print type referred to as hybrid or semi-commercial, whereby a heater or oven is attached to a traditional coldset machine, thus enabling heatset-style printing.
  - Coldset web offset, which uses uncoated paper (newsprint) and ink that is dried by ordinary evaporation and absorption.

### Print industry

23. The merger parties submitted that the print industry is heavily reliant on the print media / publishing industry, and therefore is affected by falling demand in those industries. These falls are largely due to the digitisation of media, which has resulted in a structural shift in demand from printed to online media.
24. Consumer demand for print products has fallen. In particular, demand for magazine printing has been significantly affected by the shift to digital media. According to magazine sales data from Xchange IT and the Audited Media Association of Australia, the number of printed magazines sold in Australia has declined by more than a quarter in the past five years. According to data from the Australasian Catalogue Association, there has been a smaller decline in the number of catalogues delivered, of around 8 per cent from FY13, when the volume of catalogues delivered peaked at more than eight billion.
25. There is excess capacity in the printing industry. Some of this excess capacity is necessary to manage seasonal peaks in demand. For example, catalogue printing has greater volumes in the pre-Christmas period. However, the structural decline in demand for printing services is also a factor.

## Other printers

26. Other than PMP and IPMG, the most significant heatset web offset printer in Australia is IVE. IVE is a publicly listed marketing and print communications company based in NSW. Its printing business, Blue Star Web, prints catalogues and magazines.
27. On 13 December 2016 IVE completed the acquisitions of Franklin and AIW. Franklin is a specialist catalogue printer based in Sunshine, Victoria. AIW primarily prints catalogues but also prints some magazines. It is based in Springvale, Victoria.
28. Smaller printers, such as Access Print (formerly Cadillac) and Spotpress, also provide heatset web offset printing.
29. Some newspaper printers, including Fairfax Media, News Corporation and West Australian Newspapers, also have the ability to supply heatset web offset printing, using heatset and hybrid presses.

## Catalogue distribution

30. Most catalogues are distributed to residential letterboxes. Retailers might also distribute them in their stores or have newspaper publishers insert them in newspapers.
31. The catalogue letterbox distribution market contains two major suppliers: PMP and Salmat.
32. PMP is the only company providing a bundled catalogue print and distribution service. Salmat does not print catalogues and IPMG and IVE do not offer distribution services.

## Previous ACCC decisions

33. In 2001 IPMG and PMP proposed to merge. After a public review, the ACCC announced that it would oppose the merger on the basis that the proposal raised substantial competition concerns in heatset web offset printing and magazine distribution. IPMG and PMP were the two largest commercial printers in Australia. They owned the majority of heatset web offset presses and had a combined market share of about 75 per cent of heatset web offset printing. Additionally, the merger of the distribution businesses of IPMG and PMP would have given the merged firm more than half of the magazine distribution market. The competitive overlap in magazine distribution no longer exists as IPMG ceased its magazine distribution operations in 2010.
34. In late 2016 the ACCC considered IVE's acquisitions of Franklin and AIW. The ACCC decided that a public review of these acquisitions was not required as the ACCC considered that there was a low risk that the acquisitions would result in a substantial lessening of competition.

## Market definition

35. The ACCC's starting point for delineating relevant markets to assess the competitive effects of the proposed merger involves identifying the products actually or potentially supplied by the merger parties. The ACCC then considers what other products constitute sufficiently close substitutes to provide a significant source of constraint on the merged entity. In this case, the ACCC assessed the competitive effects of the proposed merger in the context of:
- the national market for the supply of heatset web offset printing services and
  - the market for the supply of catalogue letterbox distribution services.

### Heatset web offset printing

#### Product dimension of the market

36. The ACCC considered that there is minimal demand-side substitution between different printing methods for customers acquiring catalogue / magazine printing services. Heatset web offset printing was the only type of printing that was suitable for most of these customers. These customers were unlikely to consider other types of printing (such as sheet-fed or digital) to be close substitutes for heatset web offset printing because:
- While it is technically possible to use other types of printing in many situations, the higher costs involved and issues related to quality, finish and timeliness mean these options are typically not close substitutes.
  - While some customers have alternatives to heatset web offset printing (for example, using other printing methods or other forms of marketing) for a significant proportion of customers, particularly larger catalogue and magazine customers, there are no alternatives and hard copy printing is an essential requirement for their business.
37. In relation to supply-side substitution, the ACCC considered whether suppliers of different methods of printing could switch quickly and without significant investment to print magazines and catalogues. The ACCC concluded that:
- There are impediments to printers switching from different printing methods to supplying heatset-style printing. Sheet-fed and digital printers are unable to supply heatset web offset printing services without purchasing new or second-hand heatset presses. Similarly, owners of coldset presses will face costs in converting them to hybrid presses, and converted presses are likely to be more costly to operate. However, the ACCC understands some coldset presses in Australia have been converted to hybrid presses.
  - Hybrid presses are capable of printing comparable quality products to heatset web offset presses from the reader's perspective. However, hybrid presses are limited in their ability to produce certain high quality products (for example, high-end magazines) and may have higher operating costs. There also appears to be differing abilities in presses that are designed as hybrid presses versus those that are converted from coldset presses. To

the extent that hybrid printers can print products of comparable quality and at similar cost as heatset web offset printers they are likely to form part of the heatset web offset market.

38. Catalogues and magazines are printed using the same heatset presses (and hybrid presses to some extent, as discussed above), but typically require different finishing equipment to bind, stitch, insert or staple the end product. Finishing equipment can be purchased or rented at reasonable cost, or alternatively finishing processes can be outsourced to third parties. The ACCC therefore considered that printers can switch production between catalogues and magazines reasonably quickly and without significant investment, and concluded that catalogue and magazine printing are likely to be in the same market.

#### Geographic dimension of the market

39. The ACCC considered that the geographic scope of the heatset web offset market is national. For the majority of customers, it is sufficient to print in one location within Australia then transport the products to the same state as the customers' principal operations or end markets. However it was noted that some customers' options are limited to suppliers in the same state / region due to cost and timeliness issues.
40. Overseas based suppliers are unlikely to be an alternative option for most customers due to freight costs and lead times to transport printed materials.
41. While the ACCC based its consideration on a national market, it considered that the precise geographic scope of the market was not likely to determine the assessment of the competition issues arising from the proposed merger.

#### Catalogue letterbox distribution

42. The ACCC considered that it was also relevant to assess the potential competitive effects of the proposed merger on catalogue distribution in Australia. The precise product and geographic scope of the market was not likely to impact on the competition issues arising from the proposed merger so the ACCC did not consider it necessary to form a concluded view on the precise dimensions of this market.

## **Competition analysis**

### Reduced competition in heatset web offset printing

43. The ACCC considered whether the proposed merger would be likely to substantially lessen competition in the market for the supply of heatset web offset printing services to customers in Australia. The ACCC examined the potential for a loss of competitive tension in respect of prices and/or quality of service in this market.
44. In summary, while the ACCC considered that the merger of the two largest heatset web offset printers is likely to lessen competition, it did not consider that it reached the threshold of being a substantial lessening of competition.

### Competition between PMP, IPMG and others

45. Historically IPMG and PMP have been the largest suppliers of heatset web offset printing services in Australia. Each has sites in multiple locations and they have traditionally been the only two heatset printers able to offer customers a national 'footprint'. IPMG and PMP competed closely with each other in tenders, particularly for long-run catalogue and magazine print jobs.
46. Following the proposed merger, the combined share of the two largest firms in this market, the merged PMP-IPMG and rival IVE, would be well above its closest rivals. While this raised concerns for the ACCC, it was considered within the context of other structural changes in the market, including the recent growth of IVE via recent acquisitions, the expansion of newspaper publishers into this market and the constraint provided by smaller printers.
47. IVE's recent acquisition of Franklin and AIW created another printer capable of servicing the heatset web offset printing requirements of most, if not all, customers. In part this is because it now has a larger geographic footprint with presses located in Melbourne and Sydney.
48. After these acquisitions, IVE won a contract with a major customer, Coles, displacing IPMG. IVE has announced plans to increase capital expenditure, including a significant press upgrade in Sydney.<sup>1</sup>
49. The ACCC considered that IVE was likely to be a significant competitive constraint on a merged PMP-IPMG in the future.
50. With the trend away from print news to online, the ACCC's market inquiries indicated that newspaper publishers, such as Fairfax, West Australian Newspapers and News Corporation, have the ability and capacity to supply heatset web offset printing services. The printing offered by the newspaper publishers could be from dedicated heatset presses or coldset presses (that is, traditional newspaper presses) converted to hybrid presses, giving them the ability to produce magazines and catalogues.
51. For example, Fairfax's Printing and Logistics business advertises that it has heatset printing capabilities that are able to print more than 400 titles and more than 244 million copies per year, with half of these being for external commercial clients.<sup>2</sup>
52. The ACCC considered that newspaper publishers provide some competitive constraint on a merged PMP-IPMG, with the potential for this to expand in future.
53. Additionally, printers with single site locations also compete to supply heatset web offset printing services. Examples include Spotpress and Access Print (formerly Cadillac). While these printers are generally only able to meet the requirements of customers with smaller to medium-sized print requirements, they are likely to continue to provide some constraint on a merged PMP-IPMG.

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<sup>1</sup> <http://www.asx.com.au/asxpdf/20170227/pdf/43gbtc7s3qtlx5.pdf> page 10

<sup>2</sup> <http://www.fairfaxmedia.com.au/Company/printing-logistics>



### Market conditions and barriers to entry and expansion

54. The ACCC considered that barriers to entry on a scale needed to compete with the merged firm are high, but barriers to entry on a smaller scale and barriers to expansion are lower.
55. The ACCC considered that the key barrier to entry is excess capacity in an environment of falling or static demand.
56. The ACCC also considered the following potential barriers to entry or expansion:
- The need to make significant capital investments in printing equipment. The ACCC considered this barrier was likely to deter large scale entry. However:
    - the ability to purchase second-hand equipment somewhat lessens this barrier and
    - a firm need not enter on a large scale to compete for smaller customers, capital costs are unlikely to be sufficient to deter smaller scale entry, and expansion can then occur incrementally.
  - Having a track record of reliability in the market is likely to confer a competitive advantage. However, the ACCC did not consider this was a high barrier.
57. Given all of the above, the ACCC considered that, if opportunities arose, due to a reduction in excess capacity or higher printing prices, new entry or expansion by existing smaller heatset web offset industry participants would act as a competitive constraint on the merger parties. The ACCC considered that such expansion could be achieved relatively quickly by newspaper publishers given: they already participate in the market; they already possess some of the equipment; they have suitable facilities, often in locations attractive to customers; and they have an established reputation in the market.

### Countervailing power

58. While the ACCC found that some large customers have a degree of bargaining power when negotiating with suppliers of heatset web offset printing services, it did not consider that customers are likely to exert countervailing power in this market.
59. Historically there have been limited examples of customers sponsoring entry into this market. For example, in the early 2000s AIW was established with at least one medium-sized retailer as a foundation customer. However, customers do not currently see sponsorship of entry as a viable alternative to incumbent printers.
60. Similarly, self-supply is not considered a viable option, given current market conditions.

### Risk of co-ordination

61. 'Co-ordinated conduct' involves competing suppliers recognising and accommodating their mutual interdependence by not competing as aggressively

as they otherwise would. This type of co-ordination does not require any explicit communication or commitment between rivals. Rather, rivals would act in their own self-interest, taking into account each other's likely actions and reactions.

62. The ACCC had expressed in its Statement of Issues a preliminary concern that reducing the number of major suppliers of heatset web offset printing providers might increase the likelihood that the remaining suppliers, principally PMP-IPMG and IVE, would individually 'decide' not to compete as aggressively as they otherwise would.
63. The ACCC concluded that the merger would not substantially increase the risk of co-ordination. Having greater concentration and fewer major printers could make it easier to engage in tacit coordination. However, coordination would likely be unsustainable as it would create incentives for entry and expansion in the market.

### Foreclosure of rival distributors

64. The second concern the ACCC expressed in its Statement of Issues was that the merger might allow a merged PMP-IPMG to foreclose rival catalogue distribution providers that compete with PMP's operations distributing to letterboxes, particularly through PMP-IPMG offering heatset web offset printing 'bundled' with distribution.
65. The ACCC concluded that the merger will not change the ability or incentive of PMP-IPMG to engage in such a foreclosure strategy. In particular, for a merged PMP-IPMG to have a substantially greater ability to foreclose its rival or rivals than PMP does now, it would need to face substantially less competition in heatset web offset printing (that is, have substantially more power in that market). As stated in the section above on printing competition, the ACCC did not consider that was likely to occur.

### Conclusion

66. Based on the above analysis, the ACCC concluded that the proposed merger of PMP with IPMG would not be likely to have the effect of substantially lessening competition in any market.