



Australian  
Competition &  
Consumer  
Commission

20 June 2007

## Statement of Issues — PMP Limited and McPherson's Limited book printing businesses - proposed joint venture

1. Outlined below is the Statement of Issues released by the Australian Competition and Consumer Commission (**ACCC**) in relation to the proposed joint venture of McPherson's Printing Division (**MPL**), a division of McPherson's Limited and Griffin Press (**Griffin**), the wholly owned subsidiary of PMP Limited) (**proposed joint venture**).
2. A Statement of Issues published by the ACCC is not a final decision about a proposed acquisition, but provides the ACCC's preliminary views, drawing attention to particular issues of varying degrees of competition concern, as well as identifying the lines of further inquiry that the ACCC wishes to undertake.
3. In line with the ACCC's *Merger Review Process Guidelines* (available on the ACCC's website at [www.accc.gov.au](http://www.accc.gov.au)) the ACCC has established a secondary timeline for further consideration of the issues. The ACCC anticipates completing further market inquiries by **4 July 2007** and anticipates making a final decision on **18 July 2007**. However, the anticipated timeline can change in line with the *Merger Review Process Guidelines*. To keep abreast of possible changes in relation to timing and to find relevant documents, market participants should visit the Mergers Register on the ACCC's website at [www.accc.gov.au/mergersregister](http://www.accc.gov.au/mergersregister).
4. A Statement of Issues provides an opportunity for all interested parties (including customers, competitors, shareholders and other stakeholders) to ascertain and consider the primary issues identified by the ACCC. It is also intended to provide the merger parties and other interested parties with the basis for making further submissions should they consider it necessary.

### Background

5. On 7 May 2007, PMP Limited and McPherson's Limited advised the ACCC of the public announcement of the proposed joint venture.

## **The parties**

### **Griffin Press**

6. Griffin Press is a wholly owned subsidiary of PMP Limited, an ASX listed company. Griffin Press is based in Adelaide and operates an integrated book manufacturing facility which utilises web-fed and digital printing presses.
7. Griffin Press produces only books and specialises in mono book printing. That is, soft and hardcover books printed in one colour with a full colour cover. These books are generally in the trade (or 'read for pleasure') category. Griffin can produce books in 7 formats including the 3 most common formats:
  - A format- 181 x 111mm Portrait
  - B format- 198 x 128mm Portrait
  - C format- 234 x 153mm Portrait

### **McPherson's Printing Division**

8. MPL is based in Melbourne and operates two manufacturing plants, one in Mulgrave and one in Maryborough. Across these plants, MPL operates a range of cold-set and heat-assisted web presses, sheet-fed and digital presses.
9. MPL produces both mono and colour books, including trade, educational and professional reference books in a variety of formats. MPL also prints loose leaf publications, directories, puzzle and activity publications and race books.

## **The transaction**

10. On 7 May 2007, PMP and McPherson's Limited announced to the ASX that they had executed contracts to merge McPherson's Printing Division (MPL) with PMP's book printing subsidiary, Griffin Press.
11. Under the agreement, a new entity will be formed to operate the combined book printing business which will be 50% owned by each of McPherson's Limited and PMP. The joint venture company is expected to have combined revenues of approximately \$115 million and will have equal Board representation from McPherson's Limited and PMP. Griffin Press and MPL will continue to trade under their respective brands following the joint venture.

## **Market background**

### **Production of mono books**

12. Book production generally involves the following stages:
  - *Pre-pressing* – the process whereby the images to be printed are made into the correct format for printing using a pre-press device. For example, pre-pressing for offset printing involves the transfer of the images onto the lithographic plates;

- *Printing* – the process of transferring the images to the pages; and
  - *Binding* – the process whereby the printed pages are compiled to form the final product. It usually involves the cutting, folding and binding of the printed pages.
13. The printing technologies that are typically used in mono book production are:
- (cold-set) offset (sheet-fed or web-fed); and
  - digital (sheet-fed or web-fed).
14. The choice of technology will vary according to the format, quality and quantity of books to be printed.
15. Market inquiries suggest that digital technology tends to be used for very short printing runs (less than 1000 copies) — pre-release copies, for example.
16. Cold-set offset printing is the most common printing method for mono books. Sheet-fed offset printing tends to be regarded as higher quality than web-fed offset. However, market inquiries suggest that the most significant determinant of the choice between sheet-fed and web-fed technologies, at least for certain run lengths, is the cost per copy.
17. Sheet-fed offset will tend to be cheaper than web-fed offset for shorter print runs because it has lower start up costs; lower start-up waste; lower crewing requirements; and lower capital costs and therefore hourly depreciation. However, the higher running speeds of web-presses mean that these presses tend to be more efficient for longer print runs.

## **Market inquiries**

18. On 9 May 2007, the ACCC commenced market inquiries regarding the proposed acquisition. A range of interested parties provided responses, including publishers and other book printers.

## **Statement of issues**

19. For the purposes of this Statement of Issues, the issues in this matter are divided into two categories, 'issues that may raise concern' and 'issues unlikely to pose concerns'. The ACCC is inviting information from interested parties (preferably supported by examples and quantitative data) in relation to all issues.

## **Issues that may raise concerns**

20. The joint venture parties are the two biggest printers of mono books in Australia. The ACCC considers the following aspects of the proposed acquisition may lead to competition concerns:
- the joint venture will remove the principal source of competitive constraint for longer print runs (approximately 5000+ copies) of mono books;

- the joint venture may have an ability and incentive to negotiate more comprehensive ‘grid contracts’ with publishers, thereby limiting the ability of other printers to compete for shorter print runs.

### **Removal of the principal competitor for longer print runs**

21. Other than the joint venture parties only one other printer in the market, Ligare, offers web-fed offset book printing services. Further, market inquiries indicated that the web-presses utilised by the joint venture parties — high speed (Timson) fixed format web-presses — are significantly more efficient for longer print runs than the web-presses operated by Ligare.
22. Market inquiries to date suggest that, because of the printing technologies utilised, Griffin and MPL are generally considered to be the only two printers in the market competitive for longer print runs (around 5000 copies and above) of mono books in standard formats.
23. Market participants noted that large book publishers would routinely require these longer run lengths and most specialist book publishers would require these longer run lengths from time to time.
24. The ACCC invites further information and comments as to whether there would be competitive constraints operating on the joint venture that would be sufficient to ensure the proposed acquisition does not give rise to a substantial lessening of competition with respect to longer print runs. Potential sources of constraints are set out below.
  - *Other Australian competitors with offset (sheet-fed or web-fed) printing capability.* In particular, the ACCC invites market participants to provide comment on, and preferably specific examples of, the competitiveness of other book printers with respect to longer print runs.
  - *Actual or potential imports.* The ACCC is interested in whether:
    - publishers in Australia have the ability to viably shift their mono book printing offshore; and
    - mono books published overseas can be viably imported to Australia.

The ACCC notes the statements made in market inquiries, that offshore printing (and direct imports) are not feasible for some mono books because tight turnarounds are required. Market participants suggested turnaround times may be an issue for some books for the following reasons:

- the ‘30/90’ rule under the Copyright Act;
- retailers ‘just in time’ approach to inventory management and the need to respond quickly should excess demand arise in the market;
- current topic books and the need for timely release; and
- publishing timelines and the need to meet key release dates.

The ACCC seeks further information in relation to these reasons including:

- comments on, or preferably specific evidence of, the cost that customers would incur if they were to undertake offshore printing (or where relevant) direct import of books under each of these cases;
- the extent to which these constraints apply to colour book printing, and the reasons why colour printing has been shifted offshore to a significant extent; and
- the proportion of mono printing for which imports would not be considered viable, that is, the printing would not be shifted offshore (or books imported directly) in response to a small but significant price rise for mono printing in Australia.

The ACCC also considers that evidence of existing price differentials for offshore and domestic mono book printing would be of relevance.

- *The threat of new entry or expansion.* The ACCC has received a range of information on the likelihood of new entry or expansion on a scale capable of competition with the proposed joint venture. However, some of the information received, particularly in relation to the availability of the equipment (new or used) that would be required to compete on this scale, was contradictory. The ACCC seeks further information and evidence to resolve these issues, in particular:
  - the printing equipment that would be required for a printer to be a viable competitor to the joint venture for longer print runs and any potential barriers to acquiring this equipment (including cost and availability) both new and second-hand;
  - whether the existing size and growth of the Australian mono book printing market would be sufficient to make new entry on this scale viable;
  - the effects of industry contracts on the ability of a new firm to enter on this scale;
  - whether any overseas printers would be likely to enter the Australian market on this scale; and
  - whether there would be a publisher, or combination of publishers, likely to sponsor entry on the scale necessary for a new player to be a viable competitor to the joint venture, preferably providing reasons.
- *Countervailing power.* Any evidence of countervailing power, including arising from an ability for publishers to :
  - threaten to shift their shorter print run work offshore or to other domestic printers; or
  - to bypass the merged entity through imports or by sponsoring new entry.

### **The ability to negotiate more comprehensive grid contracts**

25. Market inquiries have indicated that competition in the market for offset mono book printing may be substantially reduced, if the proposed joint venture is able to leverage its position as the only cost competitive supplier of longer print runs to foreclose entry in the shorter print run segment of the market.
26. Market participants suggested that many Australian book publishers currently operate under a 'grid contract' with one or more printers. These contracts generally require that all work done in Australia in certain formats be done with the contracted printer. Work falling outside of these contracts may be offered for tender.
27. Market inquiries have raised concerns that the proposed joint venture may be able to foreclose competition in the shorter print run segment of the market by negotiating more comprehensive grid contracts.
28. The ACCC invites further information and comments as to whether the proposed joint venture will have an ability and an incentive to lessen competition in offset mono book printing by negotiating more comprehensive grid contracts. In particular, the ACCC is seeking further comment on:
  - the current coverage of industry grid contracts and the incentives for publishers to sign these contracts, for example to reduce transaction costs and/or to secure discounts or better service offerings;
  - whether the proposed joint venture is likely to be able to offer contracts across a broader range of formats because of the aggregation of the parties existing fixed format machines;
  - whether, as the most efficient domestic printer for longer print runs, the proposed joint venture will have the ability to:
    - reduce incentives for publishers to sign grid contracts (by offering lower discounts or less favourable service offerings); and/or
    - negotiate more comprehensive contracts without offering additional incentives; and
  - the likely effect on competition for shorter print runs should the joint venture be able to negotiate more comprehensive contracts.

### **Issues unlikely to raise concerns**

29. The ACCC considers that the proposed acquisition is unlikely to raise concerns in relation to the production of mono books using digital technology. This opinion reflects information received during market inquiries that suggests that:
  - the digital book printing industry is highly fragmented with a number of competitors;
  - barriers to entry appear to be low (the relevant equipment can be leased and various stages of production can be outsourced); and

- publishers have demonstrated a willingness to bypass printers by bringing their production in-house.
30. Nonetheless, the ACCC will accept further submissions from industry participants and will further consider this product area if it considers that such an assessment is warranted.

### **ACCC's future steps**

31. The ACCC will finalise its view on this matter after it considers market responses invited by this Statement of Issues.
32. The ACCC now seeks submissions from market participants on each of the issues identified in this Statement of Issues and on any other issue that may be relevant to the ACCC's assessment of this matter.
33. Submissions are to be received by the ACCC no later than **4 July 2007**. The ACCC will consider the submissions received from the market and the merger parties in light of the issues identified above and will, in conjunction with information and submissions already provided by the parties, come to a final view as to the appropriate course of action to take to resolve any competition concerns that remain.
34. The ACCC intends to publicly announce its final view by **18 July 2007**. However the anticipated timeline may change in line with the *Merger Review Process Guidelines*. A Public Competition Assessment for the purpose of explaining the ACCC's final view may be published following the ACCC's public announcement.