



Public Competition Assessment

27 August 2007

PMP Limited and McPherson's Limited book printing businesses - proposed joint venture

Introduction

1. On 15 August 2007, the Australian Competition and Consumer Commission (ACCC) announced its decision to oppose the proposed joint venture between Griffin Press (**Griffin**), a wholly owned subsidiary of PMP Limited (**PMP**), and McPherson's Printing Division (**MPL**), a division of McPherson's Limited (**ML**) (**proposed joint venture**). The ACCC was of the view that the proposed joint venture would be likely to have the effect of substantially lessening competition in the national market for the production of mono (black and white) books using offset printing, in contravention of section 50 of the *Trade Practices Act 1974* (the **Act**).
2. The ACCC formed its view on the basis of the information provided by the parties to the joint venture and information arising from its market inquiries. This Public Competition Assessment outlines the basis on which the ACCC has reached its decision on the proposed joint venture, subject to confidentiality considerations.

Public Competition Assessment

3. To provide an enhanced level of transparency and procedural fairness in its decision making process, the ACCC issues a Public Competition Assessment for all transaction proposals where:
 - a merger is opposed;
 - a merger is subject to enforceable undertakings;
 - the merger parties seek such disclosure; or
 - a merger is approved but raises important issues that the ACCC considers should be made public.
4. This Public Competition Assessment has been issued because the proposed joint venture between Griffin and MPL was opposed by the ACCC.

5. By issuing Public Competition Assessments, the ACCC aims to provide the market with a better understanding of the ACCC's analysis of various markets and the associated merger and competition issues. It also alerts the market to the circumstances where the ACCC's assessment of the competition conditions in particular markets is changing, or likely to change, because of developments.
6. Each Public Competition Assessment is specific to the particular transaction under review by the ACCC. While some transaction proposals may involve the same or related markets, it should not be assumed that the analysis and decision outlined in one Public Competition Assessment will be conclusive of the ACCC's view in respect of other transaction proposals, as each matter will be considered on its own merits.
7. Many of the ACCC's decisions will involve consideration of both non-confidential and confidential information provided by the merger parties and market participants. In order to maintain the confidentiality of particular information, Public Competition Assessments do not contain any confidential information or its sources. While the ACCC aims to provide an appropriately detailed explanation of the basis for the ACCC decision, where this is not possible, maintaining confidentiality will be the ACCC's paramount concern, and accordingly a Public Competition Assessment may not definitively explain all issues and the ACCC's analysis of such issues.

The joint venture parties

PMP Limited

8. PMP is an ASX listed company which, according to its website, is Australasia's largest commercial printer. Its book printing is conducted through PMP's wholly-owned subsidiary, Griffin.
9. Griffin is based in Adelaide and operates an integrated book manufacturing facility which utilises web-fed and digital printing presses. Griffin produces only books and specialises in mono book printing; that is, soft and hardcover books printed in one colour with a full colour cover (and colour illustration section if required). These books are generally in the trade (or 'read for pleasure') category.

McPherson's Limited

10. ML is an ASX-listed company with the following business operations:
 - *McPherson's Consumer Products* – which distributes household consumer products (such as kitchen utensils and glassware), and
 - *MPL* – which focuses mainly on printing and book production.
11. MPL is based in Melbourne and operates two manufacturing plants, one in Mulgrave and one in Maryborough, Victoria. Across these plants, MPL operates a range of cold-set and heat-assisted web-fed presses, sheet-fed presses and digital presses.

12. 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 proposed transaction

13. On 7 May 2007, PMP and ML announced to the ASX that they had executed contracts to merge MPL with Griffin.
14. Under the agreement, a new entity was to be formed to operate the combined book printing business which would be 50 per cent owned by each of ML and PMP. The joint venture company was expected to have combined annual revenues of approximately \$115 million and equal Board representation from ML and PMP. Griffin and MPL were to continue to trade under their respective brands following the joint venture.

Areas of overlap

15. Griffin and MPL's operations overlap in the production of mono books using offset web-fed and digital printing. The overlap is primarily in the trade or 'read for pleasure' segment of the market.

Timing

16. The following table outlines the timeline of key events in this matter.

Date	Event
09-May-2007	ACCC commenced review under the Merger Review Process Guidelines.
25-May-2007	Closing date for submissions from interested parties.
28-May-2007	Former proposed date of 13 June 2007 for announcement of ACCC's findings amended to allow for consideration of further information.
20-Jun-2007	ACCC published a Statement of Issues outlining preliminary competition concerns. Former proposed date of 20 June 2007 for announcement of ACCC's findings amended to allow for consultation on Statement of Issues.
04-Jul-2007	Closing date for submissions relating to Statement of Issues.
11-Jul-2007	Former proposed date of 18 July 2007 for announcement of ACCC's findings amended to allow for consideration of further information.
24-Jul-2007	Former proposed date of 1 August 2007 for announcement of ACCC's findings amended to allow for consideration of further information.
15-Aug-2007	ACCC announced it would oppose the proposed transaction.

Market inquiries

17. The ACCC conducted market inquiries with a range of industry participants, including competitors, potential competitors, customers, input suppliers, industry

bodies, and other interested parties. Submissions were sought in relation to the substantive competition issues.

Statement of Issues

18. The ACCC published a Statement of Issues on 20 June 2007 in which it identified the following competition issues of concern:
- the joint venture would 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 pricing grids with publishers, thereby limiting the ability of other printers to compete for shorter runs.

Market definition

19. The ACCC considered that the relevant markets for the assessment of this matter were:
- a national market for the production of mono books using offset (including web-fed and sheet-fed) printing; and
 - a national market for the production of mono books using digital printing.
20. The ACCC defined separate markets for book production using offset and digital technologies on the basis that these technologies do not currently compete and are unlikely to compete for a number of book printing jobs within the next three years.
21. Digital printing technology is currently only cost-effective for very short printing runs (market inquiries indicated up to approximately 500 copies). As a result, digital printing has opened up new opportunities for very short printing runs where the cost of offset printing would otherwise be considered prohibitive, for example keeping 'end of life' titles in print and self-publishing. As well, some market participants suggested that the quality of digital printing is not yet comparable with that of offset printing.
22. The ACCC considered that as digital printing technology improves it may begin to compete with offset printing for the shorter print runs. For example, market participants noted that digital printing may be an option for printing runs of up to 1000 in the next 1–3 years. However, this is still considerably shorter than the average trade paperback run of 5000 copies.¹

¹ Department of Industry, Tourism and Resources (2004), Interim Report, *Measuring and Improving the International Competitiveness of Australian Book Producers*, Canberra. The ACCC notes that this figure is also broadly consistent with evidence provided by market participants during the market inquiries process.

Production of mono books using digital printing

23. The ACCC noted in the Statement of Issues that the proposed joint venture was unlikely to raise competition concerns in the market for the production of mono books using digital printing because:

- the digital printing industry is highly fragmented with a number of competitors;
- barriers to entry appear to be low;
- publishers have demonstrated a willingness to bypass printers by bringing their digital printing production in-house.

24. Market inquiries after the Statement of Issues broadly supported this view. As such, the ACCC considered that the proposed joint venture would be unlikely to result in a substantial lessening of competition in this market.

Production of mono books using offset printing

25. Due to the ability of offset printers to substitute between certain publication types, the ACCC defined a market for offset printing which includes all types of mono books (trade, legal and professional reference and educational). However, the ACCC's strongest competition concerns were in the trade (or read for pleasure) segment of the market.

26. As noted above, the production of trade books is where the operations of Griffin and MPL directly overlap. The competition analysis below focuses on the likely effects of the proposed joint venture on competition for the printing of mono trade books.

Domestic competition

27. Although no precise market share data is available, data presented to the ACCC suggested that the revenues Griffin and MPL generate from mono trade book printing are significantly larger than those of other domestic players. This is consistent with market inquiries which indicated that other specialist book printers are considered 'fringe' operators, used primarily by small publishers and for 'non standard' work by the larger publishers. Further, information obtained during the ACCC's inquiries indicated there was strong competition between Griffin and MPL and they were considered each other's main competitor.

28. Domestic offset printers compete for mono trade book printing work in two ways:

- through competition for the provision of pricing grids; and
- in the spot market (for those jobs which fall outside the pricing grids and for the work of small publishers which are not covered by a pricing grid).

These are discussed below.

Competition for pricing grids and grid contracts

29. Market inquiries indicated that the largest publishers, and most other publishers of a significant size, have a set price list ('pricing grid') in place with a domestic printer for printing of their 'standard format' work. Some publishers maintain the pricing grid as an exclusive supply arrangement ('grid contract') that specifies that the publisher must provide all of the printing that falls under the pricing grid to that printer. Publishers, whether or not they have a formal contract with a domestic printer, generally put their grids out to tender periodically.
30. These grid arrangements are explained further at Box 1.

Box 1 Grid arrangements between printers and publishers

The pricing grid arrangement between a printer and a publisher will often set out the printing prices in a grid according to various printing requirements, including, but not limited to, the book format, the paper stock to be used, the number of pages in a book and the number of copies to be printed.

31. The majority of offset mono book printing for trade publishers falls under a grid. Trade book publishers spoken to over the course of market inquiries considered that there are only two printers that are currently competitive for grid work — Griffin and MPL. This is consistent with information received during the ACCC's market inquiries which showed that significant trade publishers who print under a grid tended to hold this grid with Griffin or MPL.
32. Market participants noted that Griffin and MPL are considered the only two printers that are:
- able to offer competitive prices across the full range of a trade publisher's printing requirements;
 - capable of delivering the turnaround times required for time sensitive printing; and
 - capable of handling large volumes of work (at least for the larger publishers).
33. The reasons for this are explored in Box 2.

Box 2 Printing technologies and competitiveness

Griffin and MPL are the only two printers in Australia that operate high speed fixed-format web-fed presses. Other book printers operate sheet-fed presses or variable format web-fed presses that operate at a considerably lower speeds (per unit printed) compared to the high speed fixed-format web-fed presses. While other presses may be more efficient than high speed web-fed presses for shorter print runs (less than 3000 copies) because of their lower fixed costs, as the number of copies increases, high speed web-fed presses become more cost-effective because of their faster operating speeds.

Market participants indicated that Griffin and MPL are able to offer significantly lower prices for longer print runs and are cheaper across a publisher's overall printing requirements.

In addition, the higher speed of the presses allows Griffin and MPL to offer faster turnaround times, an important part of a printer's price-service offering from a publisher's perspective.

Spot market printing

34. Offset printers also compete for trade book printing on the 'spot market'. Spot market printing tends to be work that does not fall under the pricing grids (for example, non-standard formats) or work for smaller publishers. The ACCC found that many publishers on a pricing grid will approach their pricing grid printer(s) to undertake this work in the first instance.
35. The ACCC found that Griffin and MPL were each other's closest competitive constraint for spot market work. Other book printers tend to be most competitive in this market for shorter print runs (e.g. less than 3000 copies). Although the other book printers may sometimes win quotes above this 3000 copies range, the ACCC found that as print runs increase, particularly in the 5000+ range, Griffin and MPL will almost always be able to offer lower prices because of the relative efficiency of their high speed web-fed presses for these longer print runs.

Import competition

36. There are two broad categories of imports relevant to the competition analysis. First, there are 'Australian originated'² books placed for print overseas. Second there are books published and printed overseas and imported for sale in Australia.

Competition with overseas printers for Australian originated books

37. Market inquiries indicated that the offshore printers most likely to compete to print Australian originated books are located in Hong Kong/China, Singapore and Malaysia. Information provided to the ACCC during its investigations suggested that offshore mono printing may be slightly cheaper than domestic mono printing.

² Australian originated books include those originally published by an Australian publisher (these are primarily books by local authors), as well as international books for which an Australian publisher has acquired the local rights.

38. Despite this, most of the medium and larger trade publishers contacted by the ACCC during market inquiries indicated that they only have a small proportion of their Australian originated mono books printed offshore.
39. Publishers indicated that the reason that mono trade books are rarely printed offshore, despite the existing price differentials, is the need for timely printing. This is explored in more detail below.

Competition with direct imports of books

40. Another source of import competition for local printers is the direct importation of books from overseas. Where overseas publishers hold the Australian rights to a book they have the option of adding the Australian copies to their own overseas print runs and directly importing or coordinating printing in Australia either directly, through their Australian subsidiary (for multinational publishers) or through an unrelated Australian publisher that acts as a distributor.
41. Australian publishers with UK or US parents indicated that direct importation already occurs for many of their titles. However, these tend to be new books that are forecast to have low domestic demand or are backlist titles.
42. Most publishers indicated that all their major or 'blockbuster' mono book titles are printed in Australia because of issues with printing turnaround times.

Why do turnaround times constrain imports?

43. Most publishers indicated that their 'requirement' for quick turnarounds on their printing constrains their use of offshore printers or direct importation of books. The major timeliness issues faced by publishers (one or more may apply for any individual title) are discussed below.

The 30/90 day rule

44. The 30/90 day rule provides protection from parallel importation under the *Copyright Act 1968* for books 'first published in Australia'. A book is deemed to be 'first published in Australia' if it is published in Australia within 30 days of being published overseas.³
45. Most publishers said that it is almost always impossible to print offshore or import directly and still meet the 30 day requirement (except with airfreight, which is not cost-effective). Reasons for this included the time lapse between Australian release and overseas publication which generally does not allow enough time for an Australian rights holder to print overseas and transport the books and still have the books supplied to the public within 30 days.
46. Publishers indicated that the cost of not complying with the rule is the loss of sales that may result from competition with parallel imports of the title.

³ The '90 days' element of the rule allows parallel importation of books 'first published in Australia' to satisfy local orders that have been unfulfilled for more than 90 days.

Print decisions, inventory management and responsiveness to market demand

47. The ACCC found that the costs of ordering too many copies in a print run create significant risks for publisher. If too many books are printed there is an increase in the number of books being remaindered. Remainders are those books that a publisher is unable to sell. Publishers bear the costs of unsold books because the industry largely operates on a 'sale or return' basis. The ACCC found that, coupled with the ordering patterns of retailers who increasingly work on the 'just in time' approach to inventory management, this has led to a trend in the industry toward shorter initial print runs followed by fast turnaround reprints when demand for a book is high.
48. Many publishers commented on the difficulties in predicting sales for a given book. Market participants provided evidence of the variability of sales by title. Undertaking a shorter initial run and relying on timely reprints to respond to market demand is seen by publishers as a way of managing these risks.
49. In this environment, publishers see offshore printing as increasing the risk to their business. The longer turnaround times associated with offshore printing lead to increased risk for two reasons:
- publishers would not have information about actual and/or expected retail orders (used to inform print runs) when undertaking their initial print decisions; and
 - publishers would not be able to respond to any higher than expected demand in the first three months of sales and therefore must either undertake a larger initial print to fulfil any sales 'upside' or forgo these sales until reprints arrive.

Current topic books

50. Non-fiction books represent more than half of trade book sales in Australia. A significant proportion of these are classified as 'current topic' by publishers, including biographies, political and other current event based novels.
51. A percentage of these current topic books are considered to be highly time sensitive. Publishers aim to release these books to market very quickly to capitalise on public interest in a topic at specific times, for example a sports star's/ politician's retirement, a tragic event, or the conclusion of a court hearing. The turnaround times for offshore printing are viewed by publishers as prohibitive for these highly time sensitive books.

Publishing timetables

52. In some cases larger publishers claimed that the very nature of their production schedules sometimes restricts them to printing onshore. Publishers set a release date for a book many months in advance and selling cycles to retailers, marketing and publicity campaigns are geared around these dates. Once a release date is established, publishers noted the importance of meeting the release date both for ongoing relationships with retailers and from a sales perspective.

53. Offshore printing is perceived by publishers as more risky, due to greater potential for delays in the printing process and/or the freighting to Australia, and publishers are less willing to take on this risk at current prices when there are significant costs associated with not meeting the release deadlines.

Conclusion on the constraint provided by imports

54. The ACCC considered that offshore printing and direct importation of books will at some level constrain the pricing decisions of domestic printers. However, currently domestic book printing prices are in the main below this level. The costs publishers could potentially incur as a result of the longer lead time required for offshore printing may be significant for any individual title. The ACCC considered that a large enough proportion of current domestic printing may be regarded as time sensitive such as to limit the constraint provided by offshore printing.

Barriers to entry

55. The ACCC considered that to provide a competitive constraint on the merged entity, a new entrant (or an existing entrant choosing to expand) would need to enter on a sufficient scale, including purchasing high speed web-fed presses to allow them to offer printing across a range of formats. The ACCC considered the likelihood of new entry on this scale was made less likely by:
- existing arrangements between publishers and the joint venture parties, which limit the ability of a new entrant to gain access to a sufficient volume of work upon entry;
 - the lead time to source a new high speed web press (on average 12 months);
 - excess capacity in the industry (including the capacity held by the joint venture parties); and
 - the size of the industry and its limited growth prospects.
56. Market inquiries with a range of parties indicated that new entry into offset mono book printing in Australia was not an attractive proposition even if prices rose by, say 5 to 10 per cent, as a result of the proposed joint venture.

Likelihood of an increase in price and profits

57. The ACCC considered that the proposed joint venture would remove the closest competitive constraint on the joint venture parties. As a result, the ACCC considered the joint venture would have the ability and incentive to significantly increase prices and/or profit margins on its most 'captive' sales: longer print runs and time sensitive printing.
58. The ACCC explored the possibility that publishers could defeat price rises by threatening to shift their more contestable work offshore or to other domestic printers. However, the ACCC did not consider that this was likely to be a sufficient constraint on the joint venture on the basis that:

- captive sales represent a large enough proportion of total sales such that it may be profitable for the joint venture to increase prices even if publisher's were to shift their more contestable work;
- the joint venture will be able to price discriminate because captive sales are easily identified; and
- the more contestable work is bundled with captive work through pricing grids, and publishers tend to favour these arrangements because of the reduction in transaction costs and the benefits received in terms of pricing and turnaround times through committing work to one printer.

59. On this basis, the ACCC considered the joint venture would have the potential to increase prices and profit margins.

Conclusion

60. On the basis of the above, the ACCC formed the view that the proposed joint venture between Griffin and MPL would have the effect, or be likely to have the effect of substantial lessening competition in the Australian market for the production of mono books using offset printing in contravention of section 50 of the Act.