



## Statement of Issues

22 December 2016

### **PMP Limited – proposed merger with IPMG Group**

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#### **Purpose**

1. PMP Limited (**PMP**) proposes to merge with IPMG Group (**IPMG**). PMP and IPMG both focus on commercial printing, particularly heatset web offset printing. Heatset web offset printing is the main method of printing for catalogues and magazines. PMP and IPMG are the two largest suppliers of heatset web offset printing in Australia. PMP also has a catalogue and magazine distribution business.
2. This Statement of Issues:
  - gives the Australian Competition and Consumer Commission's (**ACCC's**) preliminary views on competition issues arising from the proposed merger
  - identifies areas of further inquiry
  - invites interested parties to submit comments and information to assist our assessment of the issues.

#### **Overview of ACCC's preliminary views**

3. The legal test which the ACCC applies in considering the proposed merger is in section 50 of the *Competition and Consumer Act 2010*. Section 50 prohibits acquisitions that would have the effect, or be likely to have the effect, of substantially lessening competition in any market.
4. The ACCC divides its preliminary views into three categories, 'issues of concern', 'issues that may raise concerns' and 'issues unlikely to raise concerns'.
5. For this matter, the ACCC has two issues that may raise concerns.

#### **Issue that may raise concerns: reduced competition in heatset web offset printing**

6. The ACCC's preliminary view is that the merger may substantially lessen competition in the supply of heatset web offset printing services. PMP and IPMG are the two largest suppliers and the merger will cause a reduction in the number

of significant suppliers from three to two. The reduction in competition may lead to higher printing prices or lower levels of service.

**Issue that may raise concerns: foreclosure of rival distributors**

7. The proposed merger may allow a merged PMP-IPMG to foreclose rival catalogue distribution providers that compete with PMP's distribution operations, particularly through offering a bundled print plus distribution service offering. This may lessen competition in distribution of catalogues.

**Making a submission**

8. The ACCC is seeking submissions from interested parties, particularly on the following key issues:
  - the closeness of competition between PMP and IPMG
  - the extent to which customers, or certain customer segments, have alternatives to PMP and IPMG
  - whether newspaper publishers, some of whom have heatset web offset printing capability, are a competitive option for magazines and catalogues
  - barriers to market entry or expansion in heatset web offset printing
  - how closely IVE Group Australia (**IVE**) will now compete with PMP and IPMG, given its recently announced acquisition of The Franklin Printing Group (**Franklin**) and printer AIW
  - whether, if the merged PMP-IPMG gains market power in heatset web offset printing, the merged PMP-IPMG will be able to foreclose rival providers of catalogue distribution services.
9. Detailed discussion of these and other issues, along with specific questions, is contained in this Statement of Issues.
10. Interested parties should provide submissions by no later than **9am on 31 January 2017**. Responses may be emailed to [mergers@acc.gov.au](mailto:mergers@acc.gov.au) with the title: *Submission re PMP-IPMG - attention Stella Leung / John Rouw*. If you would like to discuss the matter with ACCC officers over the telephone or in person, or have any questions about this Statement of Issues, please contact Stella Leung on (03) 9658 6444 or John Rouw on (03) 9290 1402. Mark Basile, contactable on (03) 9290 1855, is the lead investigator on this merger.
11. The ACCC anticipates making a final decision on 23 February 2017, however, this timeline can change. To keep abreast of possible changes in relation to timing and to find relevant documents, interested parties should visit the Mergers Register on the ACCC's website at [www.accc.gov.au/mergersregister](http://www.accc.gov.au/mergersregister).

## Confidentiality of submissions

12. The ACCC will not publish submissions regarding the proposed merger. We will not disclose submissions to third parties (except our advisors/consultants) unless compelled by law (for example, under freedom of information legislation or during court proceedings) or in accordance with s155AAA of the *Competition and Consumer Act 2010*. Where the ACCC is required to disclose confidential information, the ACCC will notify you in advance where possible so that you may have an opportunity to be heard. Therefore, if the information provided to the ACCC is of a confidential nature, please indicate as such. Our [Informal Merger Review Process Guidelines](#) contain more information on confidentiality.

## About ACCC ‘Statements of Issues’

13. A Statement of Issues published by the ACCC is not a final decision about a proposed merger, 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.
14. 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.

## Timeline

Date	Event
<b>28 October 2016</b>	PMP announced its intention to merge with IPMG
<b>2 November 2016</b>	ACCC commenced review of the proposed merger
<b>22 December 2016</b>	ACCC publication of Statement of Issues
<b>31 January 2017 – 9am</b>	Deadline for submissions from interested parties in response to this Statement of Issues
<b>23 February 2017</b>	Anticipated date for ACCC final decision

## The parties

### The acquirer – PMP Limited

15. PMP Limited 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
  - Bibra Lake, Western Australia.
16. PMP's other principal activities are:
- book printing, through Griffin Press in South Australia
  - magazine distribution, through its business, Gordon & Gotch
  - letterbox distribution, through PMP Distribution.
17. PMP's Australian revenue in FY16 was about \$335 million (excluding Gordon & Gotch). Its FY16 printing revenue was about \$200 million.
18. PMP's most recent trading update stated that volumes have "been soft in the early part of FY17 and market conditions have been challenging. In all the circumstances, PMP has advised that its first half standalone Earnings Before Interest Tax Depreciation and Amortisation (pre-significant items) is expected to be significantly lower than last year".<sup>1</sup>

#### **The target – IPMG Group**

19. IPMG Group is a private company, which is wholly owned by the Hannan family. IPMG's printing 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,
  - Geebung and Cairns (Bolton Print site), Queensland.
20. Bolton Print in Cairns only offers sheet-fed printing and does not offer heatset web offset printing services.
21. IPMG ceased its magazine distribution operations in 2010.
22. IPMG's other operations include: creative, engagement and production agencies, public relations and communications, digital media and packaging.
23. The parts of the IPMG business that will be merged with PMP generated about \$350 million of revenue in FY16. Its FY16 printing revenue was about \$330 million.

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<sup>1</sup> Address by the Chairman to PMP Extraordinary General Meeting 16 December 2016, <http://www.pmplimited.com.au/media/25586/pmp-chairman-speech.pdf>

## The proposed transaction

24. On 28 October 2016, PMP announced an intention to merge with IPMG. It is intended that PMP will acquire 100 per cent of the shares of IPMG and issue new PMP shares to the IPMG shareholders (who will together hold a maximum 37 per cent interest in PMP). IPMG will be entitled to nominate two directors to the PMP Board.
25. The merger parties submit that the print industry has been in decline for over a decade due to industry trends including digitisation of media leading to reduced consumption of print media, and commensurate decline in demand for printing. They submit that the proposed transaction would allow them to better compete with existing competitors by becoming a more efficient, lower cost business. They also submit that the merger would 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.

## Industry background

### Printing methods

26. Different printing methods can be used to produce catalogues, magazines and other printed materials for commercial needs. These methods include offset printing and digital printing. Offset printing includes the web offset and sheet-fed offset printing methods.
27. Web offset printing is a mass-production printing method where images on plates are transferred (offset) to rubber blankets or rollers and then printed onto the chosen paper stock. A continuous roll of paper is fed through an offset printing press. The paper is trimmed and folded automatically by the machine after the ink has been applied. Web offset printing is particularly well suited to medium to large print runs, due to the efficiency and speed of the printing.
28. There are three types of web offset presses:
  - **heatset** web offset presses use coated paper and kerosene-based ink which is dried rapidly by forced-air heating prior to folding
  - **coldset** web offset presses use newsprint (uncoated paper) and the ink is dried by ordinary evaporation and absorption
  - **hybrid** presses combine the capabilities of heatset and coldset and enable printers to print on both coated and uncoated paper. A coldset printer can be converted into a hybrid press by installing a dryer or oven. To achieve heatset results on a hybrid printer, a printer would use coated paper and heatset ink, and dry the ink using the installed dryer. The coldset functionality would remain the same.
29. **Sheet-fed** printing involves individual sheets of paper being fed into printing presses to print high quality products. It is also possible for these printers to run off reels of paper (similar to web offset printers), and the reel of paper is cut into individual sheets as part of the printing process. Sheet-fed printers are popular

for small and medium-sized print jobs such as magazines, books, brochures, leaflets and flyers.

30. **Digital** printing involves no plates or offset equipment. That is, the print is applied with an inkjet akin to that in an office printer; and the process is much quicker to initiate. The press has the ability to print variable data as part of the one printing process (for example, changing addressees) and the digital medium allows for quick and last minute editing of the artwork. Digital printing is more economical for smaller print runs.
31. The size and speed of a press may be measured in pages (for example, 16 or 48 pages: the higher the number, the larger the capacity).
32. Printers also employ extra 'finishing' processes and equipment, for example, to glue, staple and bind publications. Some printers can apply 'perfect binding' (a square spine) to high-end magazines. Catalogues typically do not have such finishing. Printers vary in the finishing equipment installed.

### **Printing industry**

33. The merger parties submit that the printing industry is heavily dependent on the print media / publishing industry and the retailing industry. The printing industry is thus affected by the trend towards digitisation of media, which has affected how publishers and retailers communicate to consumers and the demand that they have for print products. The ACCC understands that the number of magazines sold in Australia has declined by more than a quarter in the past five years. The ACCC also understands 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 over 8 billion.

### **Other industry participants and market shares**

34. Other than PMP and IPMG, the most significant heatset web offset printing company in Australia is IVE. IVE is a publicly listed marketing and print communications company based in New South Wales. Its printing business, Blue Star Web, prints catalogues and magazines.
35. On 13 December 2016, IVE completed the acquisition of Franklin and AIW. Franklin is a specialist catalogue printer based in Sunshine, Victoria. It does not print magazines. AIW primarily prints catalogues but also prints some magazines. It is based in Springvale, Victoria.
36. The ACCC decided not to conduct a public review of the two acquisitions by IVE, as the ACCC considered that they did not raise competition concerns.
37. Further discussion and questions on the impact of IVE's acquisitions on the overall competitive dynamics in the print industry are raised in paragraph 72 below.

The ACCC invites comments on the above description of the industry, in particular:

- the extent to which heatset web offset printing volumes are declining, and
- the size of the print run for which sheet-fed and digital printing becomes competitive with web offset printing.

## **Future with and without the acquisition**

38. Section 50 of the Act prohibits mergers or acquisitions that would have the effect or be likely to have the effect of substantially lessening competition in a market. In assessing a proposed acquisition pursuant to section 50 of the Act, the ACCC considers the effects of the acquisition by comparing the likely future competitive environment post-acquisition if the acquisition proceeds (the “with” position) to the likely future competitive environment if the acquisition does not proceed (the “without” position) to determine whether the proposed acquisition is likely to substantially lessen competition in any relevant market.
39. On the basis of the information currently available, the ACCC considers the likely competitive environment if the merger does not proceed will involve PMP and IPMG continuing to compete with each other.

The ACCC invites comments on the likely future competitive environment if the merger does not proceed.

## **Previous ACCC decisions**

40. In 2001 IPMG and PMP proposed to merge. After a public review, the ACCC stated that it considered that the proposal raised substantial competition concerns in printing and magazine distribution; and announced that it would oppose the merger. IPMG and PMP were the two largest commercial printers in Australia. They owned the majority of heatset web offset presses in Australia, and had a combined market share of about 75 per cent of heatset web offset printing. The ACCC stated smaller printers using other printing processes, such as sheet-fed printing, were unlikely to provide a competitive constraint to the merged parties. The merger did not go ahead.
41. The competitive overlap in magazine distribution no longer exists as IPMG ceased magazine distribution in 2010.

## **Market definition**

42. The ACCC’s preliminary view is that the relevant market for assessing the competitive effects of the proposed merger is the provision of heatset web offset printing services on a regional or national basis.

### **Product market: Heatset web offset printing**

43. 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.

44. PMP and IPMG are the two largest suppliers of printing services for catalogues and magazines, particularly publications that are:
- long-run (many copies)
  - time-sensitive (for example, issued weekly to monthly)
  - medium to high quality (for example, ranging from retail catalogues to 'high-end' magazines).
45. The ACCC's preliminary view is that in general there is minimal demand-side substitution between various printing types for customers acquiring catalogue and magazine printing services. Heatset web offset is generally the only type of printing that is suitable for most of these customers. While it is physically possible to use alternatives to heatset web offset printing in many situations, the costs involved and issues related to quality, finish and timeliness mean these other options are typically not close substitutes.
46. However, the ACCC recognises that there are likely to be different customer segments. Some customers of PMP and IPMG may have alternatives, such as non heatset web offset printing or other forms of marketing. However, 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.

#### *Supply-side substitution*

47. In relation to supply-side substitution, there are impediments to printers switching between print types:
- Sheet-fed and digital printing firms are unable to supply heatset web offset printing services without purchasing new presses.
  - Owners of coldset presses will face costs in converting them to hybrid presses, and converted presses may be more costly to operate than new or second-hand heatset presses.

#### *Hybrid presses*

48. The ACCC understands that certain catalogues and magazines are produced on both hybrid and heatset web offset printers, and that, from the reader's perspective, the publications are of the same quality. While the ACCC's preliminary view is that hybrid presses are capable of producing some products that are alternatives to traditional heatset products, hybrid presses:
- may be limited in their ability to produce certain high quality products
  - may have limitations in the paper sizes they can efficiently produce, and
  - may have higher operating costs.
49. There also appear to be differing abilities in presses that are designed and initially purchased as hybrid presses versus those that are converted from coldset presses.



50. While the ACCC has not formed a concluded view on this issue, to the extent hybrid presses are able to print comparable quality at similar cost to heatset web offset presses, it is likely they will form part of the heatset web offset market.
51. Regardless of whether hybrid presses are “in” or “out” of the relevant market, their competitive impact for certain customers is taken into consideration in the competition assessment.

*Are magazine and catalogue printing in the same market?*

52. The ACCC understands that magazines and catalogues are printed using the same heatset web offset presses. This may give suppliers the ability to switch between printing magazines and catalogues. However, magazine printing and catalogue printing require different finishing equipment. For example, high-end magazines require ‘perfect binding’ which requires separate equipment. Some publications require saddle stitching, or inserting, which is all done on separate equipment.
53. In addition, printers such as Franklin and IVE (before it acquired Franklin) appear to have gained reputations for particular strength and specialisation in catalogues or magazines respectively.
54. The ACCC is considering further the effect of the need for different finishing equipment on the ability of suppliers to switch production between magazines and catalogues. If finishing processes can be economically outsourced to third parties, this would likely increase the ability to switch between catalogues and magazines.

*ACCC’s preliminary view on product market definition*

55. At this stage, the ACCC considers there is likely to be a market for heatset web offset printing services. This may include heatset printing using hybrid presses.
56. The ACCC is considering further whether there are separate markets for catalogue and magazine printing, but our preliminary view is that there is likely to be a combined market.
57. This product market definition is consistent with previous ACCC decisions. The ACCC is aware that the market has changed since those decisions, with printing volumes falling and technology for digital and sheet-fed printing improving. The ACCC recognises these changes, but does not consider that sheet-fed and digital printing are in the same market as heatset web offset printing. It appears that the competitive dynamic in PMP’s and IPMG’s primary area of focus — large print runs of catalogues and magazines — remains largely unchanged, albeit with lower volumes.

**Geographic scope of the market**

58. The ACCC’s preliminary view is that the heatset web offset market has elements of competition that are state based, regional and national.
59. Some customers consider their options are limited to using suppliers in the same state as their principal operations / end markets, because it costs too much in time and money to have printed materials transported from interstate. Where a

customer has printing requirements across Australia, it may be important for the printer to have a national presence.

60. Other customers are willing to have material transported from an adjacent state or even further.
61. Overseas-based suppliers are unlikely to be an alternative option for most customers. This is because the size of many magazine and catalogue print runs means the freight costs are prohibitive and because timeliness of distribution is important. However, printing overseas may be an option for magazines published less frequently.
62. The ACCC ultimately may not need to reach a final view on the precise geographic boundaries of the markets. At this stage the ACCC considers that the exact geographic market definition is not likely to determine the assessment of the competition issues arising from the proposed merger.

### Market shares

63. The ACCC has received various estimates of national market shares by revenue and capacity. While these figures are estimates and use different metrics, the estimates have generally correlated fairly closely. The ACCC estimates that the market share by revenue for heatset web offset printing in Australia fall within the ranges in Table 1 below.

*Table 1: Heatset web offset printers estimated market shares by revenue*

Firm	Estimated market share by revenue
IPMG	25 – 33%
PMP	25 – 33%
Merged PMP-IPMG	50 – 66%
IVE (Blue Star/Franklin/AIW combined)	23 – 37% (Franklin 15 – 20%) (IVE/Blue Star 3 – 10%) (AIW 5 – 7 %)
Others	10 – 20%

64. “Others” includes newspaper publishers. Newspaper publishers traditionally have coldset presses used to produce newspapers, however, some newspaper publishers also have heatset print capabilities. The heatset print capabilities are used to produce “glossy” inserts for the newspapers, but also to produce publications for third parties that are not inserted into the newspapers. For example, Fairfax’s Print and Logistics business advertises that it can produce heatset catalogues and magazines. Also, IPMG out-sources some Western Australian print requirements to West Australian Newspapers (**WAN**). See from paragraph 78 below for further discussion and questions about the role of newspaper publishers in heatset printing.

The ACCC invites comments from market participants on its preliminary views about the definition of the relevant market(s). In particular market participants may wish to comment on the following:

- If you routinely use heatset web offset printing, what circumstances in the short to medium term would cause you to use another form of printing instead, such as coldset, sheet-fed or digital printing?
- If a merged PMP-IPMG increased heatset web offset prices five to 10 per cent, what would you / the customer do?
- How easy is it for a supplier of heatset web offset catalogue printing services to switch to supplying magazines and vice versa? What are the costs of the finishing equipment required to produce magazines and catalogues?
- Is it possible to out-source the 'finishing' of printed products?
- Do you consider the ACCC's estimated market shares to be accurate?

### **Issue that may raise concerns: lessening of competition in the supply of heatset web offset printing**

65. Based on its inquiries to date, the ACCC's preliminary views are that:

- By eliminating the competitive rivalry between PMP and IPMG, the proposed merger may provide the merged firm with the ability and incentive to unilaterally increase prices or lower service levels.
- For a significant number of customers PMP and IPMG are likely to be each other's closest competitors.
- The merger reduces the number of significant suppliers of heatset web offset printing services from three to two (the non-merger party being IVE), which may decrease the level of competition and increase the risk of coordinated conduct or tacit collusion.
- Other competitors (such as Spotpress, Graphic Print (Cadillac), and newspaper companies) may not provide a significant competitive constraint on a merged PMP-IPMG.
- A merged PMP-IPMG could price discriminate between those customers that do have viable alternatives to the merged entity and those that do not.
- The threat of entry or expansion may not sufficiently constrain the merged entity.
- The threat of customers exercising countervailing power (sponsoring entry or expansion or in-sourcing printing) may not be a strong constraint on a merged PMP-IPMG.

### **Competitive rivalry and alternative suppliers**

66. The ACCC considers that for a large number of customers PMP and IPMG are likely to be each other's closest competitors:
- They are the two largest suppliers of heatset web offset printing services with a national 'footprint'.
  - Many customers have indicated that PMP and IPMG compete aggressively with each other for tenders, particularly for 'long' run catalogue and magazine print jobs.
  - PMP and IPMG have routinely competed closely with each other for a number of multi-million-dollar contracts for prominent retailers (while also losing contracts to other businesses, particularly businesses that are now part of IVE).
  - PMP has also stated that there is over-capacity in the printing industry, including underutilised capacity within PMP's and IPMG's press fleets. Firms in such a situation are more likely to have an incentive to compete strongly to gain work for their underutilised presses.
67. As noted at Table 1 above, the ACCC estimates that the merged PMP-IPMG would have 50 - 66 per cent market share by revenue.
68. There appears to be a limited number of alternative suppliers to PMP and IPMG. Market participants consistently identified the following alternative suppliers to PMP and IPMG:
- Catalogue printing – Franklin Web and AIW (now both part of IVE)
  - Magazine printing – IVE (Blue Star)
69. A minority of customers also indicated that they consider Graphic Print (formerly Cadillac) and Spotpress as actual or potential competitors.
70. The extent to which customers consider these suppliers to be a viable alternative, and therefore the level of competitive constraint they are likely to impose on a merged PMP-IPMG, varies:
- Some large customers have indicated that PMP and IPMG are the only suppliers capable of meeting their print volumes and turnaround times, so they have limited or no alternative options.
  - Some customers who split their printing requirements between multiple printers have suggested that they may be able to move part or all of their volume requirements to one or more alternative suppliers, if those suppliers have available capacity.
  - Some customers consider that their options are limited to suppliers that are based in the same state as their principal operations, due to the time and cost to transport printed materials.

71. There is a risk that a merged PMP-IPMG could price discriminate between those customers that do have viable alternatives, and those that do not. For example, a customer with a low-volume quarterly magazine is likely to have several alternatives to PMP-IPMG, including potentially overseas printers. A merged PMP-IPMG could price keenly to such customers, while increasing prices for large customers that have few alternatives (due to turnaround times and volumes).

#### **IVE's acquisition of Franklin and AIW**

72. As noted, on 13 December 2016 IVE announced the completion of the acquisition of Franklin and AIW. The ACCC considered these transactions and decided that a public review was not required.
73. Most of the market feedback received by the ACCC about the proposed PMP-IPMG merger was obtained before IVE announced these transactions.
74. The ACCC is seeking feedback from market participants on whether the IVE transactions change the level of competitive constraint imposed on PMP and IPMG. According to various estimates, IVE's recent acquisitions make it of a comparable size to each of PMP and IPMG respectively in heatset web offset printing services (see Table 1 above). However, its print operations will be focussed in Melbourne and Sydney.
75. IVE states that the acquisitions will make it "a leading player in the large format web offset sector and establish it as a low cost and highly efficient specialist catalogue producer through:
- the acquisition of Franklin and integrating AIW's operations into Franklin's market leading facility in Victoria over the next 12 months and
  - enhancing the combined group's national coverage through the establishment of a catalogue production capability in IVE's Blue Star Web facility in Sydney."<sup>2</sup>
76. PMP and IPMG submit that IVE will continue to be a significant and growing constraint in the long term.
77. The ACCC's preliminary view is that the combined IVE, Franklin and AIW has the potential to compete more directly with PMP and IPMG for major contracts. Industry participants have suggested that IVE will have a low cost base and modern heatset web offset equipment.

#### **Newspaper publishers**

78. The ACCC has considered submissions from PMP and IPMG that they compete against newspaper publishers including Fairfax, WAN, APN News & Media and News Corp.
79. The parties submit that Fairfax and WAN already compete to supply 'long' print-run customers. They consider that Fairfax and WAN are effective constraints

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<sup>2</sup> IVE Investor presentation, 5 December 2016, p 7.

now and that as newspaper volumes continue to rapidly decline, they will become even stronger constraints over the next two years.

80. The ACCC is considering the extent of competition between newspaper publishers and PMP-IPMG and how it is likely to evolve.
81. Heatset web offset printing is the core part of the business of PMP and IPMG. Each has the ability to produce catalogues and magazines in a variety of sizes and formats, the ability to quickly turn around 'long' print runs of catalogues, a wide geographic footprint, and specialised finishing equipment such as equipment for perfect binding.
82. In contrast, newspaper businesses, whose primary business is newspaper publishing, may have a more limited ability to meet third-party customers' commercial printing requirements for catalogue and magazine printing, particularly for high quality or high volume work. Further, it appears that the focus of at least some of the newspaper publishers is on materials that will be distributed as an insert in their newspapers.
83. While some newspaper publishers also utilise capacity for other printing work to a degree, they may need to make significant investments into a new printer or new printers, or converting coldset printers into hybrid printers, to compete for more third party work.
84. The ACCC is continuing to investigate the extent to which newspaper publishers compete with PMP or IPMG in the supply of heatset web offset printing and whether they may be a significant constraint if PMP and IPMG merge.

The ACCC invites comments from market participants on the following:

For customers

- Do PMP and IPMG compete more intensely in certain circumstances, for example, for larger volumes, for particular types of printing or in particular geographic locations?
- Have you switched between different suppliers, for example, PMP, IPMG, Franklin, AIW, IVE, Spotpress, Graphic Print (formerly Cadillac)? What do you take into account when considering whether to switch, for example, pricing, costs, geographic location and/or track record?
- Do you split your printing between different suppliers? Why/why not? If yes, which suppliers?
- Have you invited newspaper publishers to tender for your printing requirements? If so, who? Were they a credible alternative to PMP and IPMG?
- Have newspaper publishers tried to win your printing requirements, for example, through a particular pricing or service offering? If so, who?
- Which alternative businesses and / or alternative services put the most 'pressure' on IPMG and, separately, PMP to keep their heatset web offset printing prices lower and/or service levels higher than they might otherwise be?

- How have IPMG and PMP's printing prices compared with each other in the last five or so years? How have the prices of IPMG and, separately, PMP, compared with the prices of other printers? If there are differences, why do you think this is so? Please use examples of actual tenders, price submitted etc.
- In what way, if any, does IVE's acquisition of Franklin and AIW affect competition in the market for heatset web offset printing? In what way, if any, is the combined entity a greater or otherwise different competitive constraint on PMP and IPMG?

For suppliers

- What is the minimum scale to be able to compete effectively with a merged PMP-IPMG in magazine and/or catalogue printing?
- Have you won or lost catalogue and/or magazine printing jobs to the newspaper publishers? If so, which newspaper publishers? Which customers?
- In what way, if any, does IVE's acquisition of Franklin and AIW affect competition in the market for heatset web offset printing? In what way, if any, is the combined entity a greater or otherwise different competitive constraint on PMP and IPMG?

### **Barriers to entry and expansion**

85. The ACCC is considering the extent to which the threat of new entry or expansion in the relevant market or markets might constrain a merged PMP-IPMG.
86. In particular, the ACCC is examining the significance of claims that there is excess heatset web offset printing capacity in the industry, and the effect this may have on the likelihood of new entry or expansion.
87. Excess capacity in an industry can be a deterrent to new entry or expansion, as a firm considering entering or expanding may be concerned about incumbents with excess capacity deploying it quickly and at low cost to retain customers and defend market share. As noted earlier, having spare capacity can also give incumbents stronger incentives to price more keenly than they otherwise might.
88. In addition to excess capacity, the following factors have led to the ACCC's preliminary view that the threat of new entry or expansion may not be sufficient to constrain the merged PMP-IPMG:
  - Entry or expansion requires high fixed-cost, long-term investments in installed presses and equipment. Such investments require a long period of foreseeable demand to justify them. As the demand for printing appears to be declining, new investment in printing capacity appears to involve substantial commercial risks.
  - The equipment requires skilled operators (albeit less staff as automation increases) who require specialist initial and ongoing training.
  - There are competitive advantages from having a proven track record of reliability and good customer relationships.

- Some customers have suggested that it may not be cost effective or practical to regularly switch between suppliers.

89. However, the ACCC has also received information that:

- The presses and equipment needed are readily available either as new or second hand (particularly given excess capacity worldwide).
- The costs of the printers can be recovered, to a degree, at exit by selling equipment.
- The lead times to manufacture and install the equipment are measured in months. As an example, IVE acquiring a new heatset web offset press in November 2016, for \$12 million, to bring online in late 2017.<sup>3</sup>
- Contracts are typically around one to three years, so contracts are coming up for renewal fairly frequently, which creates opportunities for entry or expansion.

90. The ACCC is continuing to investigate and consider the issue of barriers to entry and expansion.

The ACCC invites comments on potential barriers to entry and expansion in heatset web offset printing.

- Please set out your understanding of the costs a printer without heatset web offset printing capability would have to consider in deciding whether to enter the heatset web offset sector; of these costs, what proportion are fixed versus variable; what proportion are “sunk” versus “recoverable on exit”.
- Please set out your understanding of the costs an existing heatset web offset printing firm would need to consider in making a decision to expand; of these costs, what proportion are fixed versus variable? What proportion is “sunk” versus “recoverable on exit”?
- How easy is it to expand heatset web offset printing capacity? How long does it take?
- What volumes or representative customers could, for example, a single extra 16-page heatset web offset press service? Or, for example, a 96-page press? Please provide historical examples where possible of the use of newly installed presses.
- Is a longer term reputation important to customers to operate successfully as a heatset web offset printer, or can new firms easily gain this?
- For a firm to enter into or expand in heatset web offset printing, what investments would it have to make in things like sales and marketing, customer service and relationship building to successfully and sustainably maintain the entry or expansion? Where possible, please provide historic or otherwise specific examples in terms such as sales staff added or marketing campaigns mounted.

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<sup>3</sup> <http://www.proprint.com.au/News/390735,blue-star-in-12m-heatset-investment.aspx>



- What, if anything, do the history of the entry, expansion and merger of IVE, AIW and Franklin indicate about potential barriers to entry and expansion in heatset web offset printing?

### Countervailing power

91. Another question that the ACCC is continuing to consider is the level of competitive constraint imposed by the threat of customers exercising ‘countervailing power’ against PMP and IPMG. This could involve a customer sponsoring new businesses to enter the market or the expansion of printers active in the market now (such as effectively underwriting a new press or site). It could also involve a customer in-sourcing printing.
92. Possible examples include:
- a medium-sized retailer helping underpin the formation and entry of AIW into heatset web offset printing in 2001, and
  - some newspaper publishers moving printing in-house for magazines inserted into their newspapers.
93. The ACCC is still investigating this issue. Countervailing power may exist in some circumstances, but may not generally be a strong constraint on PMP or IPMG. This is because:
- Most customers consider that their volume requirements are insufficient to sponsor new entry or expansion and in any event would be a risky commercial decision in the current printing market.
  - Customers generally do not consider it feasible to move printing services in-house.

The ACCC invites comments from market participants on the prospect of customers exercising countervailing power. In particular market participants may wish to comment on the following:

- If you are a customer, have you considered sponsoring the entry of a new supplier into heatset web offset printing or the expansion of an existing heatset web offset printer (by, for example, effectively underwriting some or all of a new press or site investment)? If so, please provide details. If not, why not? Would you do so in future?
- Are there any examples of customers sponsoring entry or expansion or in-sourcing printing in the Australian heatset web offset market? If so, please provide details and your view of how successful these exercises have been.
- Which particular customers could credibly threaten to sponsor entry or expansion?
- How large would a customer’s print needs have to be to support efficient and sustainable entry or expansion of a heatset web offset printing firm? Over what time period would a customer have to commit to support such entry or expansion? Please explain the basis for your views (for example, if your firm examined a business case at some point).

### Increased risk of coordination

94. Coordinated conduct involves competing suppliers of heatset web offset printing services recognising and accommodating their mutual interdependence by not competing as aggressively as they otherwise would. The ACCC does not consider that such coordination would 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.
95. The ACCC's preliminary view is that the reduction in the number of major suppliers of heatset web offset printing services from three to two may increase the likelihood that the remaining suppliers will individually 'decide' not to compete as aggressively as they otherwise would. This could affect key commercial decisions, such as price increases, customer retention and production capacities.
96. Feedback obtained by the ACCC to date indicates that the market for the supply of heatset web offset printing services has some characteristics that may encourage coordination, such as:
- The proposed merger will result in two large players, the merged PMP-IPMG and IVE, with capabilities across both catalogues and magazines, with a limited number of smaller market participants.
  - The products produced by heatset web offset printers are relatively homogenous. There is not a high degree of differentiation within the magazine and catalogue categories. While innovations occur at the smaller end of the market, for large scale magazine and catalogue printing there does not appear to be high demand for innovation by customers.
  - Customers of heatset web offset printing services often have a preference not to obtain printing services from a supplier that also supplies printing services to a competitor, particularly for catalogues. This reduces the incentive for suppliers to vigorously compete for customers (particularly customers that compete with each other), and would make it easier for suppliers to allocate customers to each supplier.

The ACCC invites comments from market participants on the following:

- Have you observed any behaviour by suppliers of heatset web offset printing services which may suggest that coordinated conduct would be likely if PMP and IPMG merge?
- How might price-based coordination occur between the merged PMP-IPMG and IVE?
- How might customer allocation occur between the merged PMP-IPMG and IVE?

## Issue that may raise concerns: foreclosure of rival distribution providers

97. The ACCC is considering the extent to which the proposed merger may substantially lessen competition in catalogue distribution services. There are two key distribution networks to deliver printed catalogues to end-consumers' letterboxes. These are owned by PMP and Salmat. The ACCC understands that some customers prefer to split their catalogue printing and distribution requirements between different service providers to mitigate risk.
98. PMP is already vertically integrated with catalogue printing and distribution and already has the *incentive* to foreclose rivals. However, the ACCC is concerned that a merged PMP-IPMG would be able to leverage its market power and large market share in printing to discriminate in favour of PMP's downstream distribution services, particularly through a bundled print and distribution service offering. In other words, the merger may give the merged PMP-IPMG the *ability and incentive* to engage in a foreclosure strategy.
99. The merged PMP-IPMG may be able to prevent its customers using Salmat or other potential new providers of distribution services, which would reduce competition in distribution and raise barriers to entry and expansion. This may ultimately lead to higher prices for distribution.

The ACCC invites comments from market participants on the following:

- If you are a customer, do you currently separate your printing and distribution requirements between different service providers? Why/why not?
- If PMP and IPMG merge, are you concerned that your distribution provider choices would be limited? How do you think the proposed merger would impact on prices and service levels? Would you change your current printing and distribution model? Please provide examples where possible.

## ACCC's future steps

100. As noted above, 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. Submissions are to be received by the ACCC no later than **9am on 31 January 2017** and should be emailed to [mergers@acc.gov.au](mailto:mergers@acc.gov.au).
101. The ACCC will finalise its view on this matter after it considers submissions invited by this Statement of Issues.
102. The ACCC intends to publicly announce its final view by 23 February 2017. However the anticipated timeline may change in line with the *Informal 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 to explain its final view.