Mergers in convergent markets

– two Hungarian case studies concerning media and electronic communication markets

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www.gvh.hu

Outline

1. Common issues
2. Tabloid daily newspaper merger case (the Blikk/Bors case)
3. Telecom networks' (PSTN-CableTV) merger case (the Telekom/Vidanet case)

Common issues

- Merger control: Aiming at a moving target, especially in markets with high level of innovation and convergence.
- Convergence: within the media, and within the telecom markets (convergence between media and electronic communication was not an issue in these cases)
- Converging products: substitute or complement?

Newspaper (the Blikk/Bors) case main questions

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- In media markets “content is the king” – Do the features of the specific media (which convey the contents) count at all?
- Degree of convergence between print and electronic media?
- Relationship between the two sides (readers’ and advertising sides) of the market?

Blikk/Bors case

Market of tabloid dailies: 3 players

Blikk: (74-72%), Bors (19-23%), Napi Ász (4-5%). This case: the merger of Blikk and Bors

Main features of the tabloid daily papers:

1. They provide information/content
   - Dominance of tabloid-like contents
   - Other contents – tabloid-like editing and style
2. They are printed and paper-based (way of consumption is reading, mobility)
3. Daily frequency
4. Countrywide coverage/accessibility
5. Prices 80-90 HUF/copy

Blikk/Bors case

Parties' views: **relevant market** on the readers' side includes all media products (printed and electronic) with tabloid-like contents:

- Daily tabloids
- Tabloid magazines
- Daily general nation-wide nwespapers
- Free paper - Metropol
- Daily regional newspapers
- Online - tabloid web pages
- Tabloid TV programme
- Tabloid Radio programme

and the advertising side of the market is even broader.

Blikk/Bors case

Market definition (on the readers' side) rested on 3 main pillars:

- Comparison of basic features of media products
- Consumer research
- Market players' views

They all supported the same conclusion.

Blikk/Bors case

Comparison of basic features

Other media products: similar in regard to many aspects, but important differences, which could constrain substitution, e.g:

- **Other newspapers** problems with content, frequency, price, or accessibility
- **Online:** problems with accessibility, less mobility in space
- **Radio, TV:** different way of consumption, less mobility in space and time, do not provide similar bundle of content

Blikk/Bors case

Consumer research ordered by the GVH:

more questions on actual consumption habits:

- Instead of or beside? - substitute or complement?
- Degree of similarity from the point of view of content, style etc.?

a few hypothetical questions

- Tabloid dailies would be unreachable
- The price of tabloid dailies would increase

Results: Not only the content counts, other products rather as complements (even the online verison of tabloid dailies), readers are loyal to the tabloid dailies and consider them distinct from other products, inelastic demand.

Blikk/Bors case

Data provided by market players

We ask them to estimate (with numbers from 1 to 10) the strenght of the relationship between the tabloid dailies and other media products from the point of view of the readers

- similarity of content?
- similarity of target group?
- degree of substitution (To what extent does the other media product substitute for the tabloid dailies? Not the other way!)
- degree of parallel consumption (To what extent do the consumers use the other media product beside the tabloid daily?)

Blikk/Bors case

Countervailing effects?

Entry

- Large entry (sunk) cost of marketing
- No successful entries, no plans of entry
- 3 players in the last 20 years
- Parties' intention to maintain the 2 differentiated product

Interactions between the 2 sides of the market

– Readers' demand: inelastic (parties' data, consumer survey

– Advertising side does not react to smaller changes in the sales

– Most of the revenues from the readers

→ No (or very limited) pass-through effects, thus the readers' side can be considered as a one-sided market

No justified efficiencies

Blikk/Bors case - Conclusions

- Other media products: not substitutes

→ **Narrow market** (of tabloid dailies):

Blikk+Bors >95% market share

No conlclusion on the extension of the advertising side

- A merger of the closest competitors, would create a dominant position (not yet SLC test) and increase prices.
- No countervailing effects

<u>Preliminary standpoint:</u> proposal of blocking, parties withdrew their application before the final decision.

Telecom networks' case

Proposed transaction:

End of 2008: incumbent fixed line operator, Magyar Telekom intended to acquire sole control over the parallel cable TV operator, Vidanet.

- **Vidanet:** cable operator, active in 20 towns in Hungary. Provides triple play (cable TV, Internet, voice) on its network mostly for residential customers.
- **Magyar Telekom (MTelekom):** the largest triple play (IPTV/cable TV/satellite, Internet, voice) provider, except in one settlement where Magyar Telekom has the parallel fixed line telephone (PSTN) networks.

MTelekom/Vidanet case

Parties argument:

The planned concentration would not restrict the competition on either of the relevant markets (voice, Internet access, TV):

- appearance of alternative infrastructures (parallel cable-, mobile-, and satellite networks) and services,
- Internet market: service-based competition is efficient, ensured by the regulator,
- consumers benefit from the integration,

In case of competition concerns identified by the investigation: commitment to pricing.

MTelekom/Vidanet case

Key questions of the investigation:

- Substitution between the converging networks?
- Competition on the relevant markets?
- Effects of the concentration: advantages and disadvantages, outcome of the dominance test (not yet SLC test)?

MTelekom/Vidanet case

Degree of substitution between the converging networks:

PSTN and Cable TV networks: convergence is basically completed (triple play).

Fixed networks and satellite: very limited degree of convergence (satellite-Cable-IPTV).

Fixed networks and mobile network: ability of 3G networks to provide BB Internet access and Mobile TV.

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Degree of convergence of the fix-mobile networks depends on the substitutability of their services

MTelekom/Vidanet case

Current market processes:

Mobile Internet: in the last year dynamic increase of the mobile BB Internet penetration,

Mobile TV is in an initiative phase, can provide only a very limited range of service.

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We focused on the question of the fix and mobile BB Internet substitution for residential customers

MTelekom/Vidanet case

Information we asked for the Internet market analysis:

Parties and other market players:

- technological attributes,
- guaranteed bandwidth,
- existence of possibly transfer limits,
- average data transfer/customer,
- other customer habits,
- opinion about the fix-mobile substitutability,
- consumer research made in this subject.

Consumer research ordered by the GVH:

- customer habits,
- fix/mobile internet user satisfaction,
- consumer opinion of bundled products,
- importance of triple-play ability,
- consumer reactions of a possible rise in prices.

MTelekom/Vidanet case

The most significant differences between fix and mobile BB Internet identified by the market analysis

Aspects	Fix Internet	Mobile Internet
Guaranteed bandwidth	512/128 kbps*	150/40 kbps
Data transfer limits	(typically) no	yes
Monthly average data transfer	10-20 GB/subscriber	2,25-3/subscriber
Intended use	Use of browser, e-mail, chat, download of video, music and other contents	Use of browser, e-mail, chat

*even in the basic package

MTelekom/Vidanet case

Further aspects identified by the investigation:

- using mobile Internet mostly <u>with</u> (and not instead of) fix Internet access,
- prices are not comparable without considering the differences in quality and data transfer limits.

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Mobile Internet proved not to be substitute rather complementary

Mobile Internet is not part of the relevant product market

MTelekom/Vidanet case

Competition concerns on the relevant markets:

Fix BB Internet market:

- after the concentration MTelekom would control both of the fix networks on the relevant geographic market,
- market barriers: high costs of building a new fix network, the only reasonable way is through MTelekoms' network,
- retail Internet providers: no real competition pressure, high dependence of MTelekom,
- MTelekom can easily internalize a potential price increase,
- according to our regression analysis pricing of MTelekom would result in higher retail prices for Vidanet customers.

Voice and TV markets: no definite answer pro/con to the fix-mobile telephony-, and to the satellite-cable/IPTV substitution, but even on the widest product markets were the parties' market shares over 50%.

MTelekom/Vidanet case

New commitments after the first hearing

- **commitment to access:** providing access to certain part of the infrastructure for the first undertaking,
- **commitment to pricing:** giving the most favourable prices of MTelekom until a new provider appears with its parallel network, at latest in the next two years,
- **commitment to development:** in the next three years establishment of EuroDocsis 3.0. technology on Vidanets’ network.

MTelekom/Vidanet case

Final decision:

The proposed concentration would eliminate the infrastructure-based competition between fixed line telephone and cable TV networks and would lead to a dominant position at least on the Internet market

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The Competition Council has blocked the acquisition

MTelekom/Vidanet case

Arguments for the rejection:

- in the telecom sector infrastructure has a strategic importance,
- wholesale services in the telecom sector exist in fact only due to the regulatory enforcement,
- importance of the parallel cable infrastructure is radically increased with the triple play ability,
- the investigation could not identify any merger specific advantage,
- commitments were not eligible for outweighing the competition concerns (real competition based on the infrastructure v. potential access).

www.gvh.hu / press releases

- Ringier renounces intentions to acquire Bors (26.06.2009)
- ViDaNeT - Magyar Telekom merger blocked (10.08.2009)

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Thank you for your attention!