The New Zealand Media Ownership Report 2011

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This New Zealand Media Ownership Report is the first published by AUT's Centre for Journalism, Media and Democracy (JMAD). In March 2011, JMAD took over the New Zealand media mapping project over from Bill Rosenberg, who delivered his last media ownership report in 2008.

This report finds that New Zealand media companies are increasingly dominated by global and pan-regional media corporations, and that they are vulnerable to commercial and shareholder pressures. In response to these pressures, New Zealand media companies have continued to economise and started to digitalise. These developments have led to the closure of a 20 year old weekly business paper, job losses for journalists, printers, advertising and distribution workers, and government loans for a conglomerate with major broadcast holdings. Secondly, with APN's and Fairfax's withdrawal from New Zealand Press Association NZPA, and the government's funding cut for the state owned digital TV channel TVNZ7, public media space is shrinking as commercial influence has expanded.

Key events and trends which have shaped New Zealand media space most recently are:

- **Closure of the 130 year old NZPA news service**
- **Government loan to radio and TV giant MediaWorks**
- **The end of funding of TVNZ7 and TVNZ6 and the removal of TVNZ Charter obligations**
- **Pay TV provider Sky expanding to the internet**
- **Fairfax and APN – economising & digitalising**
- **Non-media corporates entering local news markets with online directory services**

Global context – ownership convergences

Since the 1980s companies such Time-Warner, Bertelsmann, Disney and News Corporation have become media-entertainment conglomerates with worldwide holdings. For example, in 1985, News Corporation merged with Twentieth Century Fox, Disney acquired the ABC network in 1995 and CBS merged with Viacom in 1999. During the early 21st century, ICT corporations intermeshed with media-entertainment companies through the convergence of technology, content and cultural consumption. Advances in Internet applications, digital television, and, more recently, mobile telephony have blurred traditional separations between broadcasting, computing, telecommunications, and consumer electronics. This became evident in the evolving structures and strategies of corporate ownership. (Hope, 2011, p. 525).

Recently we have witnessed major changes in the ownership structures of the media-entertainment industry and the ICT sector. In January 2011, Comcast, the largest cable TV company in US, completed its takeover of NBC Universal "cementing one of the largest media mergers in recent history" (Pew Research Center, 2011). The deal gives Comcast 51 percent control of NBCU for a cost of $14 billion. In February 2011, the web service company AOL bought online news and blogging site Huffington Post for $315 million. According to Pew Research Center, before the purchase AOL was the 3rd or 4th most visited news site in the USA (Pew Research Center, 2011).

Ownership convergence between hardware and software providers was also evident during 2011. In May, the global software company Microsoft bought Skype - which offers free phone calls over the internet - with a cash offer of $8.6 billion (Bright, 2011). According to Arthur (2011), the acquisition reflects Microsoft's ambition to expand within the consumer and smart phone market. Before that, in February 2011, Microsoft publicised its strategic partnership with Nokia, the worldwide mobile phone manufacturer (Microsoft, 2011). Nokia's President and CEO, Stephen Elop, stated in a joint press conference:

> Today, developers, operators and consumers want compelling mobile products, which include not only the device, but the software, services, applications and customer support that make a great experience. Nokia and Microsoft will combine our strengths to deliver an ecosystem with unrivalled global reach and scale. It's now a three-horse race. (Microsoft, 2011).

The global search engine firm Google, announced in August 2011, that it would buy Motorola's mobile phone operations for $12.5 billion. As the media reports point out, Google's acquisition is "a major change for a company that until now put its focus entirely on smartphone software rather than hardware" ("Google Buys Motorola for

$12.5 Billion, Moves Into Hardware", 2011). In recent years, both Microsoft and Google have expanded their presence in the social media sector. In October 2007, Microsoft bought a 1.6 per cent stake in a social networking site Facebook for $240 million ("Microsoft buys stake in Facebook", 2007). Google was also interested investing in Facebook after purchasing video sharing site YouTube. Google bought YouTube in 2006 for $1.65 billion ("Google buys YouTube for $1.65 billion", 2006).

At the same time Rupert Murdoch's News Corporation has decreased its exposure to social media. In June 2011, the company sold by its social networking site MySpace to the advertising targeting company Specific Media for £35 million. In 2005, News Corporation paid $580 million for MySpace (Brown, 2011). Earlier this year, in February 2011, News Corporation entered into a partnership with Apple by launching its first newspaper designed specifically for the Apple's iPad platform ("News Corp., Apple Join to Launch iPad-Exclusive News App 'The Daily'", 2011). The iPad newspaper – *The Daily* – is based on a subscription fee of 99 cents per week. The Chairman and CEO of News Corporation, Rupert Murdoch, is convinced that *The Daily* revolutionises global news business and brings it to the digital age.

> New times demand new journalism. So we built *The Daily* completely from scratch -- on the most innovative device to come about in my time -- the iPad. In short, we believe *The Daily* will be the model for how stories are told and consumed in this digital age. (News Corporation, 2011).

Local context – ownership convergence

In New Zealand, one of the most noticeable changes in the broader communication structure is Telecom NZ's decision to pull out of Yahoo!Xtra. In April 2011, Telecom NZ announced (2011) that after four years it was selling its stake to its majority owner Yahoo7. After the sale the Yahoo!Xtra business was rebranded to Yahoo!New Zealand – somewhat of a misnomer since the company is owned by the American Yahoo and Australia's Seven Network. Earlier, in May 2010, Telecom NZ launched free mobile browsing on the Facebook site to its customers (Telecom NZ, 2010).

Otherwise, owners of New Zealand media companies have been busy expanding their operations to group-buying sites. In February 2011, MediaWorks launched its own group-buying website to compete with those of Yellow Pages, Yahoo7 and APN News & Media ("MediaWorks site adds to competition", 2011). The site, called Cudo, offers customers discounted products and services each day. It is a joint venture among MediaWorks, Microsoft, Australian media firm Nine Entertainment and Cudo Australia. Stuff quoted MediaWorks director of interactive services, Siobhan

McKenna, saying: "The group-buying model is just a new way of paying for advertising and whoever can give you most bang for your buck will win." (“MediaWorks site adds to competition”, 2011)

In March 2011, media group APN increased its ownership of New Zealand based GrabOne from 50 to 75 percent (Apostolou, 2011). According to Apostolou, the move is a sign that APN has jumped onto the “hyper-local bandwagon” by targeting audiences in communities which are matching its regional radio and newspaper footprint (Apostolou, 2011). In August , APN announced that it had bought a New Zealand sports tipping site Jimungo, and that it was intending to buy a controlling stake in Australian online catalogue digital distribution business CC Media (“APN buys NZ sports tipping site”, 2011). According to APN chief executive Brett Chenoweth, these deals were “a clear pointer to APN's strategy in terms of connecting its existing media assets with high growth digital businesses.” (“APN buys NZ sports tipping site”, 2011).

In March 2011, Fairfax bought Occupancy, which operates Australian websites listing holiday rental properties (Canning, 2011). It already owned a holiday rental site Stayz, and online travel operations Holidayhomes.co.nz and Bookit.co.nz. According to Fairfax’s CEO Greg Hywood, Occupancy matches well to the company’s business model: “Occupancy is an online transactional business that is growing strongly and has huge market potential.” (Canning, 2011).These recent buys exemplify the company’s strategic push into online and digital businesses. In 2009, Fairfax purchased an Australian babysitting website FindABabySittter.com.au, and it took over New Zealand's online tender notification service provider TenderLink in 2010.

As anticipated, Fairfax announced in August 2011 that it would sell 30-35 percent of its online trading site TradeMe in order to reduce its debt and increase dividend payments. The partial flotation of TradeMe is expected to raise more than $200 million for the company (Chessell, 2011a).

New Zealand media ownership structure

In 2011, the ownership structure of New Zealand’s news media is not dramatically different to that in 2008 when Rosenberg delivered his last media ownership report (Rosenberg, 2008). As he observed three years ago:

> Four companies, all overseas owned, dominate the New Zealand news media. There is a near duopoly in two of the three main media – print and radio – a monopoly in pay television, and only three significant competitors in free-to-air television including the state-owned channels. (Rosenberg, 2008).

In 2009 Rosenberg noted that his earlier observation was still valid:

> It is remarkable that ownership of the media has remained largely stable during the year. This is as much a result of the credit crunch as despite it: one of the major owners tried to sell and failed. The ownership continues to be highly concentrated with further acquisitions and centralisation by the major owners. (Rosenberg, 2009, p.186).

In 2011 there are still four major players in the New Zealand media market: APN News & Media, Fairfax Media, MediaWorks and News Corporation/Sky. New Zealand news media is dominated by overseas companies and these companies are primarily owned by international financial institutions and a handful of foreign media moguls: Australian/American Rupert Murdoch (News Corporation), Irish Tony O'Reilly (Independent News & Media) and Australian mining billionaire Gina Rinehart, who in 2010 bought an AUD$50 million stake in Fairfax Media, equivalent to 1.5 percent of the company's stock at the time (Lee & Kruger, 2010). Fairfax's Chairman Roger Corbett commented on the share purchase: ''The company welcomes the interest, investment and show of confidence from all our shareholders.'' (Lee & Kruger, 2010). Under the stock market rules Rinehart doesn't need to flag her ownership unless it exceeds five percent of company's shares.

The biggest shareholder of APN News & Media is Irish Independent News & Media (INM) which owns 31.6 percent of the company's shares (APN, 2011). In 2009 the Irish owner tried to sell its majority stake in APN, but failed to do so ("INM can't find buyer for its APN stake", 2009). In June 2011, APN's owner hit the headlines after a "dramatic" annual general meeting in Ireland (O'Carroll, 2011). According to media reports (O'Carroll, 2011), Denis O'Brien who is a majority shareholder of INM and the company's CEO Gavin O'Reilly (the son of Sir Tony O'Reilly) had a very public "war of words" after O'Brien's nominee was removed from the INM board (O'Carroll, 2011). As O'Carroll remarked "the peace that existed between the two camps over the past two years is well and truly over." After this public arm wrestling the Irish press speculated that O'Brien was getting ready to make a full takeover bid of INM which had seen its value badly damaged after the global financial crisis. In early 2007, the company had a market valued at 2.4 billion Euros, but in June 2011 it was just over 310 million Euros ("Split down the middle at INM", 2011).

The following tables reveal the major ownership stakes within Fairfax Media and APN News & Media and Sky TV NZ. Any owner of five percent or more of the company's shares is required to disclose this information to the stock exchanges. Nominee share holders are normally companies which hold shares for a group or groups of shareholders.

Ownership of Fairfax Media

National Nominees Ltd.	18.75%
JP Morgan Nominees Australia Ltd.	16.75%
Marinya Media Pty Ltd.	9.68%
HSBC Custody Nominees	8.81%
Citicorp Nominees Pty Ltd.	6.08%
Substantial owners (5% or more of total number of shares)	
Marinya Media	
National Australia Bank	
Commonwealth Bank of Australia	
Maple-Brown Abbot Ltd.	

Source: Fairfax Media (2010). Annual Report.

Ownership of APN Media

Independent News & Media Australia	21.7%
News & Media	9.9%
Orbis Investment Management	8.4%
Perpetual Investments	8.3%
MLC Investment Management	5.9%
Paradice Investment Management	5.9%
Maple-Brown Abbott	4.9%

Source: APN (2011a). Major shareholders.

Ownership of MediaWorks

Ironbridge Capital	Around 87%
Goldman Sachs JB Were	Not disclosed
ABN Amro	Not disclosed
Royal Bank of Scotland	Not disclosed

BOS International	Not disclosed

Source: MediaWorks, Vaughn, G. 2010.

Ownership of Sky TV NZ

Nationwide News Pty Ltd	43.65%
Todd Communications Ltd	11.11%
Commonwealth Bank of Australia and subsidiaries	4.43%
AXA Asia Pacific Holdings Ltd.	5.15%
ABN Amro Asset Management	5.11%

Source: Sky TV NZ, 2011a.

The media ownership discussion in New Zealand is often centred on media moguls, but it is increasingly important to realise that the moguls are accountable to their investors, shareholders, international investment banks, funds and venture capitalists whose primary objective is to maximize their return. As Dwyer points out, financial institutions and especially private equity firms, show an increasing interest in media companies (2010, p. 62-63). These institutions are not bound by the same disclosure rules as stock market listed companies and, as a result, are not required to be as open and transparent. According to Winseck, banks, equity and other financial firms are no longer simply backers of media companies; they also have "positions on the boards of directors at media companies" (2008, p. 40).

Does ownership matter then? According to a worldwide poll by the BBC World Service (2007), 59 percent of those surveyed regard media ownership as a major issue because often the owner's political views are often aired in their news media and news stories. As Doyle puts it:

> .. one of the main concerns surrounding concentrations of media ownership is the risk for democracy and to the wider political system when individual voices gain excessive control over the media. Democracy is threatened if individual media owners, with the power to propagate a single political viewpoint, are allowed to predominate over the supply of media. (Doyle 2002, p. 171- 172).

There are some signs that media ownership matters to New Zealander's as well. In May 2011, the 'Save TVNZ7' site on Facebook had 1,683 people "liking" it and 'Save NZPA' had 180 supporters on this social networking site. The founder of the "Save TVNZ7"-group, Myles Thomas, claimed that the government's decision to close

down the TV channel would reduce New Zealand's public broadcasting to third world levels (Abandonment of public service TV 'tragic' for New Zealand, 2011).

> Next year there will be no such thing as public service TV in New Zealand. Not only does that put us behind the rest of the developed world, it also puts us behind much of the third world. Every other developed nation can provide it - even Estonia, and many third world countries. (Abandonment of public service TV 'tragic' for New Zealand, 2011).

Drinnan claims New Zealand government is making decisions with media companies behind the scenes and without any input from the New Zealand public (2011a):

> The issue is not so much about whether this Government is making bad decisions. It is that it is making decisions in secret with industry players that help some commercial interests over others. (Drinnan, 2011a, p. 7).

Recent developments within the New Zealand media landscape:

1. *NZPA: End of a 130 year old institution*

Shock waves went through the New Zealand media sector in April 2011 when Fairfax and APN, the biggest shareholders of the New Zealand Press Association (NZPA), announced that they were pulling out. The doors of the news agency closed on August 31st with a loss of 40 jobs of reporters, sub-editors and editors. For 130 years NZPA provided tailored news services to New Zealand's media markets. It was founded in 1880 as the United Press Association, but adopted its present name in 1942. The Engineering, Printing and Manufacturing Union (EPMU), which covers journalists, described the closure as a "huge loss for news journalism in New Zealand" (NZPA, 2011a). As the EPMU national industrial officer Paul Tolich commented:

> A national news agency is an essential part of a healthy democracy... The loss of so many journalistic positions means there will be less news gathering and researching in New Zealand… This represents a decline in diversity in New Zealand's news media. ("NZPA closure a huge loss for news journalism – union," 2011).

The conservative author David Farrar's *Kiwiblog* raised particular concerns about the NZPA closure. "I think the decision is a disaster for parliamentary reporting, and bad for the overall news industry. NZPA is the news agency in parliament that covers every bill before the House." ("Fairfax kills NZPA," 2011). The agency's other perceived strength was 24 hour news coverage with a non-commercial focus: "The other agencies naturally focus on stories which sell – which will make for good television, can run on a front page etc. but NZPA is not about "sexy" stories."

(“Fairfax kills NZPA,” 2011). NZPA was 60 percent owned by the Australian Fairfax Media and 40 percent by the Australian APN. Fairfax Media’s Chief Executive Allen Williams justified the withdrawal by emphasizing Fairfax’s investment in its own live news services (“News agency under review,” 2011). He also argued that the NZPA was not providing the content required by Fairfax:

> News should not be treated as a commodity - media companies can and should establish points of difference with their coverage… Fairfax has made a choice to concentrate on development of its own unique content rather than subscribing for non-exclusive content from NZPA. (“News agency under review,” 2011).

APN stated publicly that it was keen to keep NZPA going, but couldn’t do it without Fairfax’s backing. Radio New Zealand quoted APN’s CEO Rick Neville as saying: "We've been working quite hard around the board table for many, many months to try to persuade Fairfax that the NZPA model is a good one and should be supported. But it was becoming more and more apparent that Fairfax was expanding its own content resources." (“Media giant says it wanted to save NZPA”, 2011). NZ Scoop claimed the board of NZPA asked the news agency to stop selling some of its news services to all clients, which led to the poorer financial situation and the agency’s increased reliance of Fairfax and APN (NZ: Probable NZPA closure sends media shockwaves, 2011). Scoop warned that the closure of the national news agency threatened news coverage and democracy:

> The biggest risk to the national news discourse – and the democratic process – of NZPA closing down will be that readers will be dependent on news sources that are not truly national. Both Fairfax and APN have blind spots in their national coverage, provincial regions where they don’t own newspapers to feed into their internal news networks. (NZ: Probable NZPA closure sends media shockwaves, 2011).

In May media commentator John Drinnan (2011b) observed that APN and Fairfax were planning to launch their own news services after the closure of NZPA. In August 2011, the Australian owned media companies were ready to start new services to fill the gap. On September 1st, APN launched APNZ, its news service for 50 New Zealand newspapers including its own news papers and the *Otago Daily Times*, *Greymouth Star*, *Ashburton Guardian*, *Westport News* and *Gisborne Herald*. The agency employs 17 people, some of them hired from the former NZPA (Stone, 2011).

The new Fairfax service is called Fairfax New Zealand News, or FNZN, which is run through its existing newsrooms. It has hired one senior NZPA journalist as its national content editor. In early September, the Australian news agency AAP started its own new service, NZ Newswire (NZN) with ten journalists in Wellington and Auckland (Stone, 2011). Taking all this into account, it seems fair to state that the New Zealand news media is being further absorbed by Australian media, and

especially by APN and Fairfax Media. In his final story, the senior NZPA journalist Max Lambert wrote:

> The closedown means the newspaper industry has lost a truly independent source of New Zealand news. NZPA has a proud tradition of producing straight-up-and-down news stories unflavoured by bias, comment or opinion. (Lambert, 2011).

2. *MediaWorks: Government backs the venture capitalist owner*

MediaWorks is a New Zealand based media company which owns television, radio and interactive media outlets such as TV3 and FOUR and ten radio networks including RadioLive, The Rock and Kiwi FM. It is owned by a foreign venture capital firm and other financial institutions. The Australian private equity group, Ironbridge Capital, gained full control of MediaWorks in 2007, after which the company was delisted from the New Zealand Stock Exchange, NZX (MediaWorks, 2011a).

In June 2011, chief of the MediaWorks television, Jason Paris, resigned after a year in the position – a move that surprised the media and the markets. Quoting unnamed sources, Bond and Nippert (2011) claimed that there was a rift between Paris and Ironbridge Capital over the funding for programming. Outsiders commenting on the departure claimed that Paris had lost his confidence in the company, because there was no money for programming (Bond and Nippert, 2011). In 2009 MediaWorks was heavily indebted and forced to recapitalize. After getting $70 million of new capital, new investors stepped into MediaWorks: Goldman Sachs JBWere took a 12.9 percent stake in the company as a part of the new arrangement (Vaughan, 2010). After restructuring MediaWorks' debts, its Chairman, Brent Harman, stated that the media company was in good shape financially:

> The recapitalisation, combined with the restructure of the Company's banking arrangements, has placed the Company on a sound financial footing. This, together with the improving ad market conditions, places the Company in an excellent position for 2010 and beyond. (Ironbridge Capital, 2009).

In light of this comment, it was not surprising that the New Zealand government was criticized for deferring the $43million debt MediaWorks owed for its radio licenses after "some serious lobbying" from the media company ("Govt lends MediaWorks $43m against advice", 2011). Critics attacked the government's decision mainly because MediaWorks is principally owned by a venture capital company. Media commentators and politicians have found it hard to understand why the New Zealand government was assisting MediaWorks' venture capital owner. Labour party's MP Trevor Mallard voiced displeasure on his blog:

> At a time when many Kiwi companies are struggling, taxpayers will want to know why a private company was given a $42 million low interest deferred payment scheme for

> radio licensing agreement, and so far ICT Minister Steven Joyce has failed to provide any reasonable answers to that question. (Mallard, 2011).

The New Zealand First's leader, Winston Peters, also called on the government to explain why it was using taxpayer's money to back a privately and foreign-owned enterprise.

> The government is running around telling New Zealanders how public expenditure has to be slashed while at the same time it is bailing out its mates in the media industry…There seems to be a different set of standards for private enterprise under this government. We are sure there are far more worthy causes to support in New Zealand at present. ("Winston calls on govt to explain 'bail-out' of MediaWorks, owned by Johnny Foreigner", 2011).

Prime Minister John Key defended the government's decision to use taxpayer's money to help MediaWorks and insisted that the government's loan scheme was tailored to help the whole radio industry, not just MediaWorks. "Frankly I'd rather see people paying over a longer period of time if it means they stay in business." ("Prime Minister defends loan to MediaWorks", 2011). The Prime Minister first publicly denied that he had talked with MediaWorks or its representatives - including MediaWorks former head Brent Impey- about the deferred payments, but later admitted that: "In early August 2009 I ran into Brent Impey at a social event in Auckland where he briefly raised the issue with me. I passed his comments on to the responsible Minister." (Key, 2011)

The government insisted that MediaWorks was not the only beneficiary of deferred payment. In his answer to a parliamentary question, the Minister of Communications and Information Technology, Steven Joyce, revealed that the government had decided, in October 2009, to offer all New Zealand radio broadcasters deferred payment terms on their spectrum license renewals (2011). The deal allowed radio companies to pay 20-year leases to frequencies in five installments rather than in one lump sum. It is interesting to note that Joyce was the founder and owner of Radio Works for 18 years before the company was bought out by CanWest and became MediaWorks (Kedgley, 2011a). In his answer to a parliamentary question Joyce insisted that the government was not bailing out MediaWorks (Joyce, 2011) since the company was paying 11.2 percent interest on its loan.

> All I can say is that it is a deferred payment for frequencies, and the member needs to understand that. I point out too that, ultimately, if the Government had not offered it and radio broadcasters had gone broke, then the member and his friends would have been accusing us in the House of not doing anything to help save jobs in the broadcasting industry. (Joyce, 2011).

Keown claims that Joyce first rejected the loan proposal after receiving advice from economic development officials, but that MediaWorks then asked the cabinet to push the decision through to help the company recapitalize (2011). Cabinet looked at the proposal in early October 2009. After further representations were made to the Prime

Minister John Key, the Broadcasting Minister Jonathan Coleman and the Economic Development Minister Gerry Brownlee, it was decided to support MediaWorks and other radio stations. It appears that the government's arrangement with MediaWorks was against the advice received from the Treasury and the Ministry of Economic Development. Documents released under the Official Information Act reveal that the Treasury was against the government decision because it feared that the other license holders might request similar treatment (Keown, 2011). Treasury noted that based on the modelling by Deloitte, the radio license prices for MediaWorks and TRN were affordable and were not unlikely to undermine network viability.

It should be noted that MediaWorks is not the only broadcaster which has benefitted from the government's initiative: Overall nine broadcasters have made use of the deferred payment scheme since it was introduced in October 2009. The scheme allows broadcasters to pay their licenses over a period starting 2011 and finishing in 2031 ("MediaWorks whacked with 11.2% interest on deferred payments to govt", 2011).

The significance of this episode concerns the relationship between the New Zealand government, a privately owned company and its venture capitalist investors. As Drinnan remarks, the loan deal between the MediaWorks and the government gives the latter unusual powers over the company (2011c). If the owners of MediaWorks decide to sell the company, the government can decide if the agreed loan arrangement is passable to the new owner. If the company's ownership structure changes without government's approval, the media company would default on the loan and be obliged to pay the outstanding balance. If it failed to do so the government would be able to take back the frequencies. This could mean government ownership (at least for a short period of time) for networks such as RadioLive, More FM, The Edge, The Rock, Solid Gold and The Breeze.

After recapitalization and deferred payments, MediaWorks indicated in 2011 that it was in a sound financial state and in no need of government money. In March 2011, the company published a press release with the heading "Statement On A Misleading NZ Herald Article Re MediaWorks." (MediaWorks, 2011b). In a press release, signed by Ironbridge Capital's Operating Partner Kerry McIntosh and Partner Mike Hill, the company states:

> … the financial position of the Company is good, earnings have improved and debt has been reduced… MediaWorks generated Earnings Before Interest and Tax and Depreciation (EBITDA) of $50.1 million in FY10. That represented an increase of 11%. We consider this to be a credible result in a tough market and compares favorably with our peers. (MediaWorks, 2011b).

3. *Closing down TVNZ7: State broadcaster needs to make money*

Around the world, publicly owned and managed television companies are under cost-cutting pressure. In Britain, the British Broadcasting Corporation (BBC) is considering closing down its BBC3 and BBC4 channels and has already restructured its radio services.The BBC Trust chairman Sir Michael Lyons warned in January 2011 that the corporation had to find £300 million of savings after changes to its license fee policies (Plunkett, 2011). In New Zealand, the government has put an axe to the public service channel TVNZ7 after three years of operation. Funding will end in June 2012 with the loss of 20-30 fulltime positions. After this dateTVNZ7 can apply for the NZ On Air funding if it wants to continue broadcasting its programmes, such as Media7 and Talk Talk (Cheng, 2011), but will have to compete with other broadcasters including commercially run TV3, Prime and Sky TV. NZ On Air is a government broadcast funding agency which invests in local TV, radio and new media content.

TVNZ7 was launched in March 2008 as a commercial-free digital channel and with 24-hour news and information coverage. This is currently available via Freeview and Sky platforms. The channel's annual running cost is $15 million (Cheng, 2011). The New Zealand government spends around $231 million a year on all forms of broadcasting, including Maori Broadcasting, Radio New Zealand, community radio and television stations, Freeview and NZ on Air (which received about $81 million last year) (Watkins, 2011).

In a statement confirming the closure of TVNZ7, the Chief Executive of TVNZ, Rick Ellis, stated that TVNZ7 has been "providing New Zealanders with unique perspectives on the issues of today in ways that we cannot otherwise provide through our core channels of TV ONE and TV2." ("TVNZ7 to close as govt confirms no more funding", 2011). The Broadcasting Minister Jonathan Coleman said that the government would continue its support for New Zealand based programming through the NZ On Air. While defending government's decision he commented:

> Sinking money into a public broadcasting infrastructure which continues to suck up money in the long-term doesn't make sense ... It's important to fund the content, not some monolithic public broadcaster. ("TVNZ7 to close as govt confirms no more funding", 2011).

In response media academic Peter Thompson (2011) criticized the government for having double standards on broadcasting policy. He referred to the fact that the government had been involved in funding privately owned MediaWorks, as it announced a funding withdrawal from commercial-free public service television. He also stated that the National led government had a "less sympathetic approach" to public broadcasting. "The Government's failure to continue funding for TVNZ7 is underpinned by a long history of tensions between ministerial policy priorities, with details often misrepresented by politicians and news media." (Thompson, 2011).

In April 2011, a group of sixty New Zealand academics wrote an open letter to the government in which they opposed the closing down TVNZ7 and TVNZ6, and

expressed concern about the government's intention to "dismantle the little that is left of public broadcasting in our country." ("Open letter on NZ public broadcasting policy", 2011). The letter warned the government against relying on Sky to fill the gap left in programming after the closure of TVNZ7. It observed that public service television was crucial to a small country like New Zealand because commercial channels could not provide the whole range of programmes "that viewers want and should be able to access in the interests of democracy as well as cultural identity."

> Pay television cannot satisfy the same needs. It would be wrong to assume that Sky provides a range of programming that can replace the role of a public service channel. Sky provides relatively little in the way of local content other than sports, Sky having effectively monopolised the rights to the latter. ("Open letter on NZ public broadcasting policy", 2011.).

The signatories pointed out that TVNZ7 and TVNZ6 had provided the public with content which the commercial channels could not provide. For example, TVNZ7 and TVNZ6 had produced local, advertising free, high quality programs for children as well as in-depth news and current affairs programmes. The government was urged to reconsider its funding withdrawal from TVNZ7 and to reassess broadcasting policy priorities. The fate of TVNZ7 and broader broadcasting policy was debated in the New Zealand Parliament in May 2011 as politicians pondered imminent changes to be made for the TVNZ Amendment Bill. The bill will replace the current TVNZ Charter and will give the company powers to determine its own priorities. Anticipating changes to TVNZ's mandate, Forsyth Barr analyst Rob Mercer commented that "The new TVNZ, under National's leadership, will have a clear mandate to re-establish profit as its primary objective and for the senseless taxpayer funded projects to be axed." (Keall, 2011). On the other hand, the Green Party MP Sue Kedgley described the bill as "shocking" (Kedgley, 2011b).

> It will turn TVNZ into a nakedly commercial broadcaster that is focused solely on chasing ratings and advertising revenues and is indistinguishable from any other commercial broadcaster. Once this bill is passed, TVNZ will exist for the sole purpose of returning a dividend to the Government, and it will not be expected to deliver anything other than a profit to the Government. (Kedgley, 2011b).

Coleman, in his response to the parliamentary questions, pointed out that TVNZ was a state owned enterprise with over 90 percent of its income already coming from commercial revenue. Yet at the same time he admitted that TVNZ had not been able to keep its obligations to its main shareholder – the government.

> TVNZ has struggled to return a consistent dividend to the Government. This has been due, in part, to the uncertainty created by the Government's long-term expectations of it. Removing the charter is being honest and not trying to pretend that TVNZ is something that it plainly is not. (Coleman, 2011).

Coleman gave assurances that TVNZ would continue to provide relevant, local content to the New Zealand public. However, he also said:

> TVNZ will have the flexibility it needs to effectively pursue commercial objectives and to continue its transition from a traditional broadcaster to a multi-platform digital media company with diverse income-streams and services. (Coleman, 2011).

The New Zealand government wants to save taxpayer's money, but the decision to close down TVNZ7 and TVNZ6 is beneficial for one operator: Sky TV and its shareholders. Rob Mercer, an analyst at Forsyth Barr, regards the news of the TVNZ7 closure as good news for the long term success of pay TV (Keall, 2011).

Evidence to support Mercer's argument is mounting. In March 2011, Sky TV New Zealand announced that TVNZ was launching a 24 hour Kidzone channel on the Sky platform (Sky TV NZ, 2011b). The popular pre-school children's Kidzone- program is publicly available on TVNZ7 until next June, but already the new TVNZ Kidzone24 is "available as part of the SKY Basic Digital Package." (Sky TV NZ, 2011b). The TVNZ Chief Executive, Rick Ellis, commented on the partnership deal:

> Kidzone has been an increasingly popular block of programming, providing educational and entertaining content for young New Zealanders, with a significant amount of locally produced programming. It is fantastic that we are now able to offer a commercially-viable, expanded Kidzone channel, on the SKY platform. (Sky TV NZ, 2011b).

The TVNZ7's sister channel, TVNZ6, has now been discontinued and replaced with U, described by TVNZ as "a ground-breaking new channel which integrates online social networking with broadcast content for the first time on New Zealand screens." In general, U is said to be a commercial, free-to-air digital channel which features a mix of real life and factual entertainment programming and is aimed at all Kiwis aged 15-24." (TVNZ, 2011). U is broadcast on Freeview and Sky TV and as a commercial channel, its main purpose is to sell advertisements and attract a young audience.

4. *Dominating Sky seeks growth on internet*

At the time of writing this report, there is speculation that Sky TV might buy TV3, owned by MediaWorks. According to an article published by *NZ Herald*, the Australian owners of TV3 are looking for "a way out of the channel's crippling $560 million debt" (Glucina & Hurley, 2011). MediaWorks owner, Ironbridge, has not confirmed reports of an imminent sale. According to the *NZ Herald* article, Ironbridge partner Mike Hill "indicated it would be willing to sell if the right offer came along." Sky on the other hand issued a five-word statement: "We don't comment on speculation." (Glucina & Hurley, 2011).

Sky TV's satellite services already cover 51 percent of New Zealand homes. As the Chief Executive of Telecommunications Users Association of New Zealand, Paul

Brislen observes, Sky “appears to be a monopoly” (Drinnan, 2011d). He also states that “on the other hand I do not know of any country that only has one unregulated pay-TV provider and one that also owns a free-to-air-channel.” (Drinnan, 2011d). In February 2006, Sky expanded its activities into free-to-air television by purchasing the business of the free-to-air broadcaster Prime Television New Zealand Limited for approximately NZ$ 30 million.

Sky’s dominant position has benefitted company’s shareholders. In August 2011, Sky TV said it will pay a special dividend to its shareholders after reporting a 17 percent increase in full year profit to $120 million. Sky’s advertising income rose almost 17 percent and subscriptions were up 3.4 percent. They had a record number of 829,421 subscribers at the end of June 2011 (Sky TV NZ, 2011c). In a press release Sky Chief Executive John Fellet said:

> Sky has had another excellent year, continuing to show gains across all key areas including growth in subscriber numbers, increased average revenue earned per subscriber and a continued reduction in churn. We have also been pleased with the performance of our free-to-air channel, Prime, which has continued to increase its share of advertising revenue. (Sky TV NZ, 2011c).

Sky launched iSky in 2010 in partnership with a number of New Zealand internet service providers including Vodafone, Orcon, Slingshot, Woosh, Xnet and Farmside. iSky is the company’s new online TV service which gives its subscribers access to online content streamed directly to personal computers including PCs and Macs. (Sky TV NZ, 2011d). With the government intending to build an ultra-fast broadband network covering 75 percent of New Zealand’s population, iSky is aiming to be the first delivery choice for the content. Sky TV has also utilised popularity of the iPhones and iPads by launching its own application. Four weeks after its Sky TV-app launch, in May 2011, the company announced that 50,000 New Zealanders had downloaded its application, making it the most popular free application for iPad and iPhone. (Sky TV NZ, 2011e).

To date, Sky TV has been able to operate in an unregulated market environment, but as Drinnan points out, this might change. The Commerce Commission will be looking to see if Sky’s dominance is likely to restrict the activities of other pay-TV providers once the ultra-fast broadband network is operational (Drinnan, 2011d).

> A big reason for Sky’s success is unwillingness by successive governments to examine the broadcasting market – let alone regulate it – protecting a listed company while ignoring warnings it is undermining competition. (Drinnan, 2011d).

5. *Fairfax and APN – economising, digitising and monetising*

The two leading New Zealand media companies – Fairfax Media and APN News & Media – are in a process of economising, digitising and monetising. There is a clear pressure on both companies to economise: cut costs, close down their non-profitable businesses, sell non-core assets, outsource expensive work and reduce their overall workforce. Both companies warned in May 2011 that a drop in advertising income was hitting their profits. Advertising revenues of printed newspapers were certainly falling overseas. In the first quarter of 2011, the advertising revenue for US newspapers was the lowest in 27 years. According to *Huffington Post*, the weak economy and a shift by advertisers to internet based outlets had damaged US newspapers revenue streams ("Newspaper Ad Revenue Falls to Lowest Level in 27 Years", 2011).

In August 2011, the notes to the company's accounts showed that APN had suffered an A$ 98 million loss in the first half of the year. According to Nippert, APN had to writedown 20 percent of the value of its New Zealand metropolitan print assets including *the NZ Herald* (Nippert, 2011). Also in August 2011, Fairfax reported an A$400 million loss for the financial year ending June 2011. This compares to a net profit of $270 million the previous year (Chessell, 2011a). The CEO of Fairfax Media, Greg Heywood, commented on the results: "We have a new model in place that covers culture, revenue and now costs. This represents a step change in approach and pace of change. Will you see massive movements in revenue really quickly? No, it will take some time to move up." (Chessell, 2011a).

In June 2010 Fairfax Media decided to close down *The Independent* – the Auckland-based business newspaper – after 20 years of existence. The eight journalists working for the paper were transferred to work on the company's "Businessday" brand. In a press release entitled "Best in the Business at Business" the company said that the announcement meant "further strengthening the business journalism in both its daily newspapers and online through Businessday.co.nz." (Fairfax, 2010). Fairfax Group Executive Editor, Paul Thompson, argued in a press release that the move strengthened the media company's business coverage to the larger audience online. Thompson stated: "We believe it is particularly important to provide stronger business coverage online as that is where most readers of business news go first for reliable and agenda-setting stories." (Fairfax, 2010).

The closure of *The Independent* made only a few headlines, but Fairfax Media has since been in the media spotlight for other reasons. In April 2011, the company confirmed that it was withdrawing from the NZPA, and just a month later it appointed John Crowley as the editor of Fairfax New Zealand News to oversee its "journalism development" as the company started to plan ahead before NZPA's closure in

August 2011 (“Fairfax appoints NZ news head”, 2011). In a separate appointment, *Timaru Herald* editor David King was named as general manager for editorial services. Fairfax Media NZ chief executive Allen Williams said the appointments reflected the company's commitment to deliver high quality news:

> Our priority is to invest in our respected, independent journalism. As part of his new role, John Crowley is recruiting new reporters and editors who will significantly strengthen our editorial ranks. We are also focused on improving the effectiveness of the staff who produce our newspapers and websites. (Fairfax appoints NZ news head, 2011).

Fairfax’s publishing portfolio in New Zealand includes metropolitan newspapers *The Dominion Post*, *The Press* and *The Waikato Times*; Sunday papers *Sunday News* and *Sunday Star-Times*; magazines such as *NZ Life & Leisure* and *NZ House & Garden* as well as online news site stuff.co.nz. In a press release, published in February 2011, the company claimed that its media brands reached 85 percent of New Zealand’s population aged over 15 years (Fairfax, 2011a). The press release reads**: “**CEO of Fairfax Media, Allen Williams, said that the positive results reflect the significant on-going investment into quality journalism and a ‘content first, channel second’ approach.” In its own press release, also released in February 2011, APN went on to claim that its brand portfolio gives the “company unrivalled reach into the important Auckland market” (APN, 2011b). According to the release, 80 percent of Aucklanders connected at least once a week with at least one of its brands. The press released also said: “APN is hitting the ground running in 2011 with strong results in both readership and circulation for its portfolio of newspaper, online and magazine brands.” APN claimed that more than two million New Zealanders read its newspapers “on a typical day” (APN, 2011c). APN is the publisher of the *NZ Herald* and Sunday title *the Herald on Sunday*, online news site nzherald.co.nz , ten regional newspapers and magazines such as *Woman's Weekly*. It also owns The Radio Network in New Zealand.

Despite their very positive readership statements in early 2011, both Fairfax Media and APN claimed later that their profits were partly hit by the Christchurch earthquakes, Queensland floods and the strong Australian dollar (BusinessDesk, 2011). The squeeze on each company’s revenues has forced both groups to cut costs. In a trading statement Fairfax CEO, Greg Hywood, said that the “revenue declines have been experienced in Australian metropolitan and NZ publishing businesses.” (Fairfax, 2011b). In the same trading statement he promised that despite the cost cutting the company would invest in journalism:

> Fairfax will be investing in more high calibre reporters and writers, an expanded trainee program and multi-media training and equipment. Quality journalism and content will be key to maintaining and developing new markets and audiences. (Fairfax, 2011b).

A few weeks after this statement, it was reported that Fairfax was planning 100 redundancies in its New Zealand operations and a further 160 in Australia, including regional pre-press centers and national printing, distribution and advertising operations (Jackson and Sinclair, 2011). On May 12th 2011, Hywood confirmed in a staff e-mail that Fairfax was outsourcing its Melbourne and Sydney based sub-editing production to Pagemasters with 82 job losses (Chessell, 2011b).

Also in May 2011, Fairfax Media decided to sell its radio assets in Australia to pay down debt and increase corporate flexibility (“Fairfax to sell radio stations”, 2011). The stations for sale included metropolitan newstalk stations: Sydney (2UE), Melbourne (3AW), Brisbane (4BC) and Perth (6PR), and three metropolitan music stations in Melbourne, Brisbane and Perth along with nine regional radio licences in Queensland and South Australia. For Fairfax’s CEO, Greg Hywood, the sale reflected strong demand for the assets at a time that required a “review of opportunities to maximise shareholder value and the mix of assets we own,” (“Fairfax to sell radio stations”, 2011). According to Ahmed there has been strong demand for Fairfax’s radio assets from private equity groups, particularly Archer Capital and Ironbridge Capital – which owns MediaWorks – as well as from Lachlan Murdoch’s private investment company Illyria (2011).

Although, Fairfax and APN are fierce competitors in a cost cutting environment, they are also exploring ways to converge their operations. According to Chessell and Ahmed the companies are seeking to combine their New Zealand printing operations, where they mutually dominate the newspaper market (2011). The two companies have not officially confirmed this, but APN Chief Executive, Brett Chenoweth, has confirmed that the company is looking for a lighter business model: "The industry is changing. In a digital world it makes sense for media companies to look at infrastructure-light business models. We need to focus on content, editorial, sales and marketing through a range of different platforms," (Chessell and Ahmed, 2011).

APN News & Media had already begun streamlining its New Zealand printing operations in 2010. In that year it announced the closure of its Manukau printing plant with the loss of 150 jobs (“APN to close printing plant, 150 jobs lost”, 2010). The company admitted then that its New Zealand gloss printing operations were no longer core to its business strategy. APN has also announced that it was planning to restructure after earnings for the first half of 2011 were substantially less than in the previous year. The company’s Chairman, Gavin O'Reilly, told investors at their annual general meeting that APN would implement "a round of restructuring initiatives" in response to the earnings fall (“APN to restructure as earnings slashed”, 2011). At the time of writing this report, the company had not publicly announced what kind of restructuring policies it would implement. In his presentation at the APN News & Media annual general meeting the CEO, Brett Chenoweth, could only state that “building robust digital capabilities is critical to APN’s success” and as the media

landscape is rapidly changing, “all decisions are made from a digital perspective” (Chenoweth, 2011).

In a press release published in February 2011, Fairfax announced that its publications in New Zealand held a 57 percent market share of the domestic online audience (Fairfax, 2011c). Fairfax’s CEO Allen Williams attributed the result to cross-channel platform integration across its newspapers, online, mobile and digital TV. In the release, Williams stated that the company would continue to invest and develop its digital offerings as well as invest in social media: “More Apps are in the pipeline, and our investment is also in social media. We have New Zealand’s first Social Media Editor and have a large Facebook presence with 130,000+ followers with a further 38,000+ via Twitter.” (Fairfax, 2011c).

Developing new applications and offerings isn’t cheap, and in June 2011 Fairfax stated publicly that it would introduce paywalls for some of its Australian publications later on the year. Fairfax’s *The Australian Financial Review* is already charging for its content. Earlier in June, Rupert Murdoch's News Corporation had said that it would start charging for online access to national broadsheet *The Australian* from October, although it was anticipated that some content would remain free. (“Fairfax says online paywalls 'needed for business' - Greg Hywood “, 2011). Fairfax’s CEO, Greg Hywood, argued that paywalls were needed purely for business reasons:

> We've said that our new app will be a paid product. We will have payment... perhaps behind some paywalls for very special material...What we do with our business now across print and online and tablets is that we use our content, our journalism to create audiences. And the new model is about creating those audiences and creating advertising, not just in print, but across audiences. (“Fairfax says online paywalls 'needed for business' - Greg Hywood “, 2011).

In July 2009, NBR – the New Zealand business daily – put around 20 percent its online content behind a paywall. Some bloggers, including Lance Wiggs, argued that after the paywall was introduced, NBR’s pages impressions fell, and people spent 38 percent less time on the site. Wiggs concluded that:

> “38% is extremely worrying given that competition has grown in the meantime, and thus NBR’s overall share of media attention has fallen away sharply. Advertisers care about that sort of stuff, so the revenue from advertising should be expected to fall accordingly,” (Wiggs, 2009).

NBR’s publisher, Barry Colman, responded to Wiggs in an open letter. He stated that after the paywall was implemented, 7500 customers signed up for the paid services and that “number was growing,” (Keall, 2009). Colman wrote:

> “The real access number based on the computer-enabled employees among the corporate subscribers is in the region of 21,000. But the access rights purchased are being heavily used by the senior executives and partners and not the by junior staff, which make up the majority of the employees. Hence our internal estimate is 7500.” (Keall, 2009).

NBR, which is privately owned, has not recently announced any readership or subscription numbers, and therefore it is difficult to judge if the introduction of its paywall has paid off.

6. *Tapping into local news markets*

The US Federal Communications Commission (FCC) delivered an interesting report in June 2011 about the information needs of communities (FCC, 2011). In the report, the FCC warned that there was a shortage of in-depth local journalism in the US. The FCC claimed that the absence of local journalism had left a hole in news reporting about local issues including government waste, health dangers and local elections (FCC, 2011). In a recent publication by Nieman Reports, Skoler claimed that the future business model for news was in community reporting. He writes:

> We have long known communities are powerful and that local media thrive when they bring together and serve their community. Somehow though when it comes to the challenge of online media, we forget this. We search for new business models that involve paywalls, more video, the iPad, and wealthy donors, while the most powerful emerging business driver in the new economy is community. (Skoler, 2011).

According to Skoler, news outlets need to "support and empower people", not just gather and produce news that people will consume (Skoler, 2011). He argues that public radio is a good example of media which has created "a huge virtual community of people who feel they have shared interests and values". As Harman (2011) notes, so far hyperlocal news sites based overseas have failed to make enough money to make them sustainable as a business. For example, AOL invested $US 40 million into its network of hyperlocal news sites in the first quarter of 2011, but "it will almost certainly lose well in excess of $100 million on the venture this year." ("AOL to Lose $100 Million on Patch, Forbes Says", 2011).

In New Zealand, big corporates entered the local news markets in 2011 to secure their share of local advertising income. The new entrants, Yellow Local and Localist, are providing local news as well as business and community information. According to Keall (2011b), Yellow Local is spending around $NZ 8 million for hiring extra staff and launching its services, and Localist has hired over 100 staff to launch its services. The first New Zealand hyperlocal site, Locally Informed, was founded by Kiwi entrepreneurs Shane Redlick and Andrew Ross. The site started its operations in February 2010; and it searches and organises news and local knowledge from existing internet sources, updates content and offers users a platform to share news stories and information. Redlick explained the idea:

> From the get-go, Locally Informed presents two compelling opportunities for everyone in New Zealand to earn extra income and become more locally aware and connected

> … If it’s online and has something to do with your neighborhood, city or region, our aim is to provide access to it.” (NZ "Local Knowledge" Website Launched, 2011).

The second entrant - Yellow Local - is owned by directory services group Yellow Pages Group NZ and its private equity holders CCMP Capital and Teachers’ Private Capital (Telecom gets $2 billion for Yellow Pages, 2007). Yellow Local, launched in May 2011, is offering news, information about events, community, shopping and restaurants into 205 Auckland geographic areas. As Yellow’s digital director Peter Crowe observes: "YellowLocal.co.nz is where locals can talk to local," (Fahy, 2011).

The third entrant is Localist – launched in June 2011 - another directory service which is owned by New Zealand Post. The Localist website combines listings and content which is mainly generated by its users. As Harman (2011) observes, Localist is the underdog in the marketplace, because it is “starting without the benefit of an existing advertising business and with a large cost base that already includes around 100 staff.” In July 2011, Fairfax launched its dedicated Auckland news, sport and entertainment website *Auckland Now.* In a press release, Fairfax Media CEO Allen Williams stated: “We are without peer in the Auckland market in terms of having the largest network of editorial staff to provide high quality content for the *Auckland Now* web site audience.” (Fairfax, 2011d). As Localist and Yellow Local are mainly operating in the Auckland area, they are competing for the same advertising dollars in already competitive markets.

Conclusion:

The basic ownership structure of New Zealand’s news and entertainment media hasn’t dramatically changed since Bill Rosenberg’s 2008 report on this subject. However, it seems that the New Zealand media environment is becoming further integrated into the global media system. Within media operations themselves, financial holdings have increased significantly. This is especially the case for APN, Fairfax and MediaWorks. During 2011 Fairfax, APN and Sky expanded their influence at the expense of public broadcasting provision and independent, nationwide news services.

In the light of these developments, it is clear that New Zealand’s public media space is shrinking as commercial imperatives prevail. News stories are informed by fewer sources meaning that fewer voices are heard. Broadly speaking there are fewer mainstream content providers and less choice for consumer-citizens.

The emerging hyperlocal news sites may encourage alternative public spheres of communication, alongside a growing acceptance of user-generated news-like content and the rising popularity of blogs, social media and alternative news

websites. At this stage it is too early to tell whether or not the public sphere potentials of these emerging spaces will be realised. For the corporate players now managing media assets globally, this online and local space is also a fertile ground for sales and advertising.

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