

THE COMPETITION TRIBUNAL

IN THE MATTER of an application by the Director of Investigation and Research for orders pursuant to section 92 of the Competition Act, R.S.C. 1985, c.C-34, as amended;

AND IN THE MATTER of the direct and indirect acquisitions by Southam Inc. of equity interests in the businesses of publishing The Vancouver Courier, the North Shore News and the Real Estate Weekly;

B E T W E E N:

THE DIRECTOR OF INVESTIGATION AND RESEARCH,

Applicant,

- and -

SOUTHAM INC., LOWER MAINLAND PUBLISHING LTD., RIM PUBLISHING INC., YELLOW CEDAR PROPERTIES LTD., NORTH SHORE FREE PRESS LTD., SPECIALTY PUBLISHER INC., ELTY PUBLICATIONS LTD.,

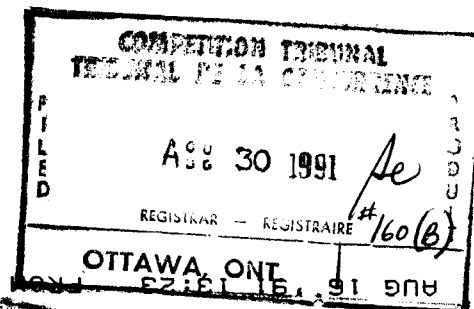
Respondents.

AFFIDAVIT

I, DAVID E. STANGER, of the City of Richmond, in the Province of British Columbia, MAKE OATH AND SAY:

A. Background

1. I have been the Media Director of Baker Lovick Advertising in Vancouver since 1982. I was appointed Vice-President of the company in 1986 and Senior Vice-President in 1990. I am currently part of a three-man agency team that has been responsible for leading Baker Lovick to a prominent position in the international advertising field. Excerpts from



a recent firm brochure describing Baker Lovick are attached as Exhibit A.

2. In addition to my role at Baker Lovick, I am a part-time instructor of Marketing Communications at the British Columbia Institute of Technology ("BCIT") and I have co-written a media textbook for BCIT. I teach Introduction to Media and Advanced Media Planning at BCIT. I am also the chairman of BCIT's Marketing and Tourism Advisory Council.

3. In 1989, I completed a two-year term as President of the Vancouver Media Director's Council, and am currently the Education Chairman of that body. I am also Education Chairman of the Advertising Agency Association of British Columbia.

4. For the 2-1/2 years prior to joining Baker Lovick, I was a partner in Canadian Media Corporation, a Toronto-based media buying service. Before that, I had a number of years experience in advertising agencies in Toronto and Montreal. As well, I have had in-house media buying experience in a senior capacity with a major advertiser.

5. I have been retained by Southam Inc. to advise them on the way that retail advertising is carried out in the Lower Mainland of British Columbia. In providing such advice I have relied on my business experience, my knowledge of the advertising activities of my clients and my competitors in the advertising industry and my study of advertising, both for my job and for my teaching activities.

B. Overview of Advertising Media

6. I have reviewed the affidavit of Joya Dickson in this matter and agree that it accurately describes the advertising vehicles available in the Lower Mainland.

C. Devising a Media Plan

7. My first step in developing an advertising plan for any client is to precisely identify the business objectives of that client. I do this by interviewing the client and analyzing his business.

8. The promotional activities which a retailer desires to undertake may reveal one or more business objectives. Discounts, for example, may be designed to satisfy one of two objectives: to reward existing customers or to increase traffic in a particular location. If the business objective is to increase traffic, but more specifically to draw new customers into the store, the focus of advertising may extend outside of the normal trading area of the retailer. If, on the other hand, the retailer wants simply to reward existing customers, I would suggest rewarding them on a local store level by giving them something as they enter the store. Some other common business objective are: launching new products, promoting new store openings and announcing sales.

9. After identifying the business objectives, I typically consider a broad range of advertising vehicles in formulating a media plan. The options range from handing out coupons in a store, all the way to doing a week's worth of broad-based multi-media advertising in Vancouver (e.g., a daily newspaper ad campaign combined with radio remote from a particular location) to attempt to drive people from all over the city to go to that particular location. The radio ads might tell people to look in the newspaper for specific details about where the event would be held.

10. If the business objectives indicate a narrow geographic trading zone (e.g., a television and radio repair store wishes to keep its name in front of potential customers),

for example, I have numerous vehicles at my disposal. I may buy one outdoor board, 10 transit shelters, or one specific bus route. I never decide between simply one form of media such as community newspapers and another like dailies. Those are ever the sole options for me.

11. If the business objective indicates a need for price and item advertising, print media is one option, but far from the only option available to me. Radio is just as effective, just as fast and far more economical than newspapers in terms of price and item advertising. For example, B.C. Cellular and Cantel are constantly battling over the price of their cellular phones. Cantel may come out with a newspaper advertisement on Monday advertising that their phones may be leased-to-own for \$39.00 a month for three years. In addition, the purchaser would get 200 free minutes a month. B.C. Cellular would hear about that at noon on Monday, ask us to write a radio spot that afternoon, and beat the price in a radio advertisement ready for the drive home that evening. This is price and item advertising, and its use is not limited to print media.

12. If a small, single outlet retailer selling electronics came to me and asked me to help him write a media plan, I would begin by asking him about his customers. I would ask him to give me his receipts for the past year so that I could look at the addresses of those who have made purchases at his store. This would tell me how far away from the store his customers generally come from. I would plot on a map how far away his customers come from so that I would know his retail trading area. That would tell me whether I was wasting my money or not going into a broad-based advertising vehicle, such as a daily ROP advertisement that will go to the entire Lower Mainland. If the trading area turned out to be very localized, I would look at advertising vehicles which are local in nature, perhaps

located entirely within the community within which the store was located, e.g., Richmond. These vehicles would be more suitable to driving traffic from the target geographic trading area to his store. My options would include transit shelters along key high traffic routes within the target area; door-to-door flyer delivery - for example, I could go to the local Boy Scout troupe and ask them to deliver flyers or door hangers in a particular area (door hangers are simply a small sheet with a hole punched in it to hang on the door); coupon packs called Val Packs; Ad Mail using postal walks; the community newspapers; and the Yellow Pages; (including talking Yellow Pages, which can be used to give a number to call for a weekly special). No particular medium has a clear advantage over the others at this stage.

13. If the outlet was in West Vancouver, which is an upscale area, potential customers may be reached quite effectively without using newspaper print advertising. Many of the people who live in West Vancouver work downtown. Consequently, they can be reached quite effectively by purchasing one or two key outdoor locations at the Vancouver end of the bridge, where people are going to see it commuting back and forth across the bridge to work everyday. A couple of outdoor signs along these routes could be very effective.

14. Another alternative would be to run exterior transit signs on the buses that are on the routes that simply go to the North Shore and back. These buses make their way all the way through North Vancouver and West Vancouver.

15. For a single retailer, I probably would not think about radio. The coverage area of a radio station is simply too broad when compared to a single retailer's trading area. Consequently, the effective cost of radio for reaching the

target audience is much too high. For the same reasons, I also would not consider daily newspaper, or television. Therefore, in the case of a small single location retailer, the choice of advertising vehicles is not between dailies and weeklies, but rather between weeklies and a number of other creative ways of meeting the retailer's business objectives. The only examples that I can see where a single location retailer located in North or West Vancouver would use a broad-based medium such as daily newspapers or radio or television would be when the retailer's product is unique or when the retailer's trading area is unusually large. These cases would be extremely rare, however.

16. In the case of multiple retail outlets, economies of scale begin to come in to play and it becomes possible to look at all media, including radio, the dailies, the community papers and television, depending on the kind of store. The magic number in my mind for Vancouver is five. When a retailer grows to five locations, and those locations are located in different Lower Mainland communities, the cost of the line rates of five Lower Mainland community newspapers, by the time you add them up, is the same as running an advertisement in the dailies and reaching far more people. The kind of budget that a retailer would generate out of five stores on an advertising to sales ratio is enough that the retailer could be considering radio, dailies, and/or outdoor billboards, i.e., the whole range of broader-based media.

Examples of Media Plans

17. Some of my clients advertise in both the dailies and the weeklies. In some cases this usage is designed to support local sales force activities. That is to say, sometimes an advertiser's business objective is not only to talk to

consumers but also to motivate the retailer's sales force. For example, the publisher of Yellow Pages may run television commercials to remind people to look in the Yellow Pages; however, when its sales people are out knocking on doors in Richmond to try to generate advertisements for the next year's directory, I advise the head office to run advertisements in the local community newspaper to help those salesmen in their particular activities at a particular point in time.

18. B.C. Tel, with its PhoneMarts, will use the daily newspapers to convey a general message (e.g., "Do not forget to drop into your local PhoneMart to pick up a gift certificate"). Weeklies, or alternatively, mall flyers, will be used to remind people where the particular locations of the PhoneMarts are, as well as the products and services available at those locations. This latter advertising activity supports individual local retailers. Thus, while ads from an advertiser may well appear in both dailies and weeklies, the adds serve completely different retail business objectives.

19. A&W uses the same advertisements in both the Province and the community newspapers. The Province is selected because A&W's target audience is primarily adults aged 18 to 34, and that is the primary readership group that the Province appeals to. The same advertisements are then run in the community newspapers where the individual stores are located to increase the reach in the areas and to remind the public at large that A&W exists. Both advertisements are aimed at general awareness, but on entirely different levels; the daily newspaper ad is aimed at general awareness of all stores, while the community newspaper is aimed at awareness of the particular local outlet. If the price of advertisements in the Province and in the weeklies were increased a non-negligible amount, I would step back and review all of the alternative vehicles

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available to A&W. These alternatives would include radio, television, outdoor billboards, and others. Depending on the particular needs of each individual store, I would quite likely shift some or all of each store's advertising dollars out of the newspaper media.

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23. In my experience a flyer insert is identical to a free standing flyer. Our clients play flyer delivery systems, including the newspapers, Ad Mail and independents, off one against another. They switch back and forth among these delivery systems in order to discipline each. If the daily and community newspapers chose to increase their prices for inserts materially, I believe that the scales would be tipped in favour of retailers moving away from the newspapers to other alternatives, such as unaddressed Ad Mail or independent flyer delivery.

24. Many of my clients now believe that the fact that a flyer is inserted in a newspaper (of any sort) is a detriment rather than a benefit. Newspapers have become full of inserts. Moreover, the inserts all tend to be delivered on the same few days. My clients believe that too many readers treat all inserts alike; if they don't read one, they won't read any. My clients tell me, therefore, that they believe that a flyer now has a better chance of being read if it is delivered

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by itself. This leads me to believe that free-standing flyers not only compete with inserts, they represent the delivery system of choice.

25. Flyers stay around for a long time. In this age of computerized cash registers, where prices may be literally changed instantaneously, the competition also can and do react almost instantaneously to a print advertisement. This reaction largely defeats the purpose of the advertisement in the first place. This has caused the food chains to begin to rethink the value of price and item advertising in newspapers and other print media. In other words, technological innovation has made broadcast media even closer substitutes to newspaper advertisements than they were a few years ago.

26. In my opinion, therefore, even if all of the daily and community newspapers got together and attempted to raise the price of their display ads and/or their flyer inserts, they would end up losing more money than their increased prices would generate.

27. In my opinion, anyone who buys a group of community newspapers as a package simply because it is presented as a package, is buying the newspapers for the wrong reason. A group buy of community newspapers is a convenient way to place an insertion, since I can book 11 advertisements at once dealing with one person; apart from that, it is merely creative packaging. However, I am not prepared to take inferior papers in certain communities for the convenience of shopping at one place. If community papers is my overall choice, I prefer to buy the strongest paper in each community regardless of affiliation, rather than making a single buy from a particular group. I am not prepared to "underserve" five or six of the 11 communities in the Lower Mainland that I am targetting simply

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for sake of convenience. Nobody forces me to buy the AM and FM station in an AM/FM partnership if both stations are not in my target group. They may try to make it attractive, and may lower their rate on the station that I would not normally buy to take money away from the competition, but that does not mean that I will turn to them. In fact, when I have selected the community newspaper option, I have chosen the strongest newspapers in each community. This invariably translates into a 5-paper buy from one group and a 6-paper buy from the other.

28. In my opinion there is a trend away from conventional media execution. Over the past 10 years, flyers, value coupons, and other non-traditional advertising vehicles have stripped a considerable amount of advertising revenue from the conventional vehicles. The conventional vehicles have begun to respond by becoming much more flexible. For example, over the last two years, the lead time to book magazine space has moved from as much as two months to as little as two weeks. Second, advertisers typically would erect a billboard with a static message and leave it in place for the entire advertising campaign. Today, messages can be changed overnight; further, some billboards have incorporated electronic messages. Attached as Exhibit C to this Affidavit are pictures of billboards which illustrate this point. This increased flexibility at competitive prices has allowed billboards to move into price and item advertising, thereby placing them back into the range of media alternatives available to advertisers to accomplish this type of business objective. By introducing this greater flexibility, the conventional vehicles are beginning to eat back into the advertising dollars that were stripped out of the them by the non-conventional vehicles.

29. Every time that the business objectives of an advertiser change, I must go back to the full range of media

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alternatives. The choices of media alternatives that I have as a planner are as long as a pad of paper that you want to write them on. If any particular vehicle or combination of vehicles attempted to manipulate their prices, I would simply shift all or part of that advertising to an alternate vehicle or combination of media.

E. Response to Media Price Changes

30. If the daily newspapers attempted to raise their prices relative to other media, for example, I believe that a number of things would happen. Most advertisers would continue advertising in the dailies, but would reduce the frequency of their ads. For them, then, the price increase would generate no additional revenue for the newspaper. A smaller, but significant number of advertisers would pull all or a part of their advertising dollars out of the dailies and move to their second choice or choices, whatever they might be. Some of these advertisers might switch to a number of community newspapers, but the proportion would not be overwhelming. Finally, a much smaller number of advertisers would maintain their existing newspaper advertising and expenditures in the dailies, either by increasing their advertising budget, or more likely by diverting money from another medium. In my view, however, the amount of advertising dollars lost from migration to other media would far outweigh the marginal dollars generated by the price increase.

31. The results would be much the same if the relative prices of the community newspapers increased, even by as little as 5%. However, there is one important difference. I do not believe that anyone currently advertising in the North Shore News or the Courier would move to the dailies in the event of a relative price increase in the community newspapers. Rather,

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the second choices for those advertisers who would cease (or cut back) advertising would be to move to more geographically targetted media like Ad Mail, billboards, direct mail, and so on.

32. If both dailies and weeklies attempted to raise their prices relative to all the other media, even by 5%, the result would simply be a combination of the two scenarios sketched out above. Enough advertisers would either cut back their advertising frequency or migrate to alternative media (or delivery systems, in the case of flyers) to render the price increase unprofitable.

E. Real Estate Advertising

33. Royal LePage is the largest single purchaser of advertising in the Real Estate Weekly. Real estate agents use the Real Estate Weekly as a hook to gain listings. The buying and selling public has been conditioned, at least in the realtors' perception, to believe that the Real Estate Weekly listings are important. Surveys have shown that advertising is not really important to the people who are actually using the services. In spite of these studies, however, none of the real estate agencies want to be the first to stop listing in the Real Estate Weekly.


34. I would not be surprised if the realtors began their own publication similar to the Real Estate Weekly within the next two years. Right now this is happening over and over in the United States, and I believe that it is just a matter of time before Canadian realtors follow suit. Specialized equipment now exists that allows an individual to go out with a Beta Cam and take footage of homes that are being listed in the publication, bring that footage back, take black and white stills out of the footage, scan them into a Macintosh computer,

and produce material that is ready for lay out in the publication's pages. Not only is this process user-friendly, it is also very inexpensive. The first of these types of scanners just arrived in Vancouver approximately two weeks ago. They are all across the United States, and real estate agents are buying them to lay out their own pages for their own publications which resemble the Real Estate Weekly.

35. I have read the Director's Amended Application and it is my opinion that the facts alleged in it in respect of the retail advertising industry in Vancouver demonstrate a total lack of understanding about the industry and how it operates.

SWORN BEFORE ME at the City)
of Vancouver, British Columbia,)
this 15 day of August, 1991)

A Commissioner for Taking)
Affidavits for British Columbia)



DAVID E. STANGER