Terms of reference and conduct of the inquiry

1. On 11 October 2012, the OFT sent the following reference to the CC:

    1. In exercise of its duty under section 22(1) of the Enterprise Act ('the Act') to make a reference to the Competition Commission ('the CC') in relation to a completed merger, the Office of Fair Trading ('the OFT') believes that it is or may be the case that:

        (a) a relevant merger situation has been created in that:

            (i) enterprises carried on by or under the control of Global Radio Holdings Limited have ceased to be distinct from enterprises previously carried on by or under the control of GMG Radio Holdings Limited; and

            (ii) as a result, the conditions specified in section 23(4) of the Act will prevail, or will prevail to a greater extent, with respect to the supply of commercial radio based on listening hours in the UK and the supply of radio advertising services in London, the West Midlands, the East Midlands, the North West, Yorkshire, the North East, Central Scotland, South Wales and North Wales; and

        (b) the creation of that situation has resulted or may be expected to result in a substantial lessening of competition within any market or markets in the UK for goods or services, including the supply of non-contracted radio advertising services in North Wales, the East Midlands, South Yorkshire and Cardiff.

    2. Therefore, in exercise of its duty under section 22(1) of the Act, the OFT hereby refers to the CC, for investigation and report within a period ending on 27 March 2013, on the following questions in accordance with section 35(1) of the Act:

        (a) whether a relevant merger situation has been created; and

        (b) if so, whether the creation of that situation has resulted or may be expected to result in a substantial lessening of competition within any market or markets in the UK for goods and services.

    [SIGNED]
    Clive Maxwell
    Office of Fair Trading
    11 October 2012

Conduct of the inquiry

2. On 11 October 2012, we posted on our website an invitation to comment on the merger and on 19 October 2012, we published biographies of the members of the Group conducting the inquiry together with a disclosure of interest statement which we subsequently updated on two occasions: 12 December 2012 and 4 January 2013.

3. We received 13 responses to our invitation to comment which were posted on our website.

4. On 1 November 2012, we posted an administrative timetable for our inquiry and published an update on 22 January 2013.

5. We invited a wide range of interested parties, in particular competitors and customers of Global and RSL, to comment and to fill out a questionnaire on the merger. We gathered oral evidence through hearings with a number of third parties. Summaries of these hearings are on our website. Evidence was also obtained through further written requests.

6. On 21 November 2012, we posted an issues statement on our website setting out areas of potential concern on which the inquiry would focus. We received three submissions in response. Non-confidential versions of these responses are also published on our website.

7. All members of the Inquiry Group, accompanied by staff, visited RSL's facilities in Wales and Global's facilities in London on 7 and 19 November 2012 respectively.

8. We received a written submission from Global and posted a non-confidential version on our website on 29 and 30 November 2012.

9. During the course of our inquiry, we sent Global a number of working papers for comment and considered a number of additional submissions from Global and other parties.

10. A non-confidential version of the provisional findings and notice of possible remedies was placed on the CC website on 15 February. We held response hearings with several third parties and the main parties between 4 and 21 March 2013. We also published 121 responses to the notice of possible remedies and provisional findings on our website.

11. We sent a remedies working paper to the main parties on 11 April 2013 for comment.

12. On 21 May 2013, we published a non-confidential version of the final report on our website.

Interim measures

13. On 18 October 2012 we accepted interim undertakings given by This is Global Limited and Global Radio Holdings Limited. These undertakings included a commitment to continue to retain the services of the Monitoring Trustee appointed by Global Radio Holdings Limited on 29 June 2012, in a manner consistent with the directions in Appendix B of the interim undertakings. The interim undertakings were published on our website on 25 October 2012.

Industry background

Introduction

1. This appendix sets out details of the commercial radio industry in the UK and its regulatory framework.

Analogue and digital radio broadcasting platforms

Analogue

2. Analogue commercial and BBC radio stations broadcast in the UK on both AM (LW and MW) and VHF (FM). MW carries the majority of AM stations on frequencies between 558 and 1611 MHz with VHF/FM stations broadcasting on frequencies between 87.5 and 108 MHz. Stations' services are transmitted via a network of transmission sites across the UK with each station using a subset of this network. These transmission sites are generally owned by a third party (the majority owned and operated by Arqiva) with whom the station must negotiate and pay for broadcast transmission services and network access. The quality of radio reception progressively degrades the further it is from the relevant transmitter as the signal strength decreases and it encounters interference from other radio signals.[1]

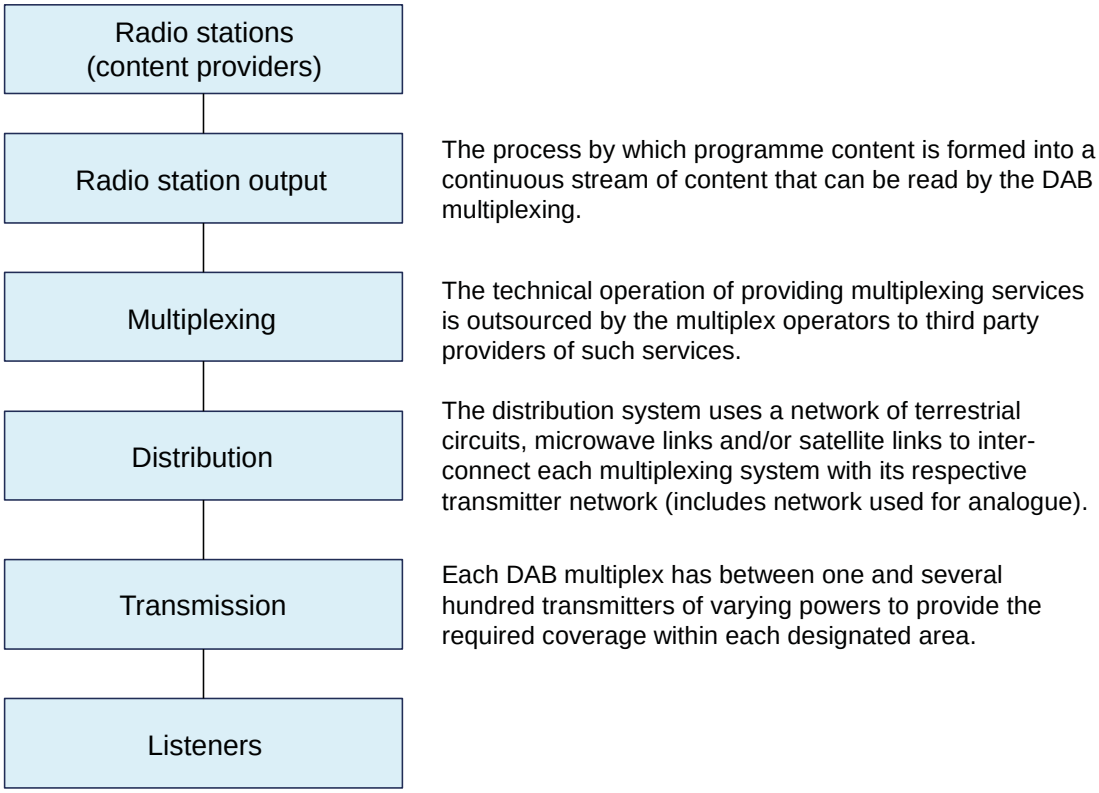
DAB

3. DAB is a digital transmission system whereby one or more analogue audio streams are converted to a digital format. The signals are then combined into a single digital stream. This process is called multiplexing. The multiplexed signal is then conveyed to the transmitter sites via fixed line, microwave or satellite where the digital stream is converted into a digitally encoded frequency. The radio frequencies are allocated in 1.536 MHz blocks. The frequency band used for DAB is 217.5 to 230 MHz.To listen to a desired radio station, the listener requires a DAB radio to receive and decode the multiplexed signal and split out the individual stations. A simplified supply chain for DAB radio is shown below.

[1] In darkness hours (approximately the period starting 1 hour before dusk and ending half an hour before dawn), 'sky-wave' interference from other transmitters will mean that the coverage area will decrease.

FIGURE 1

DAB radio supply chain



Source: CC.

4. DAB allows a number of different radio stations (or other radio signals) to be delivered over the same bandwidth. This increases the number of stations potentially available to the listener and decreases the bandwidth resource requirement in any given area. Also, a DAB radio is capable of receiving and decoding signals from more than one multiplex (ie on a number of frequencies), further increasing the number of stations that a listener can receive.[2]

5. The number of radio channels on a given multiplex depends on the type of channel transmitted. This is because each frequency 'block' has a set available capacity and a radio station's capacity requirements are different according to its output (eg a music station typically requires greater capacity than a talk station). Multiplexes operated in the UK are each able, at present, to accommodate around 10 to 12 radio stations.

6. There are relatively few digital-only radio stations/services in the UK, with most services broadcast digitally being a 'simulcast' of the analogue service. However, not all analogue services are simulcast on the DAB platform.

Digital switchover

7. While the transition to digital television services completed in 2012, the switchover to digital for radio is progressing at a slower rate. Nevertheless, the Government has

[2] Depending on their location, a listener may be able to receive signals from the BBC multiplex, a national commercial multiplex, a regional multiplex and one or more local multiplexes (depending on overlaps between frequencies at this level).

said that it is committed to a digital future for radio,[3] and it believes that a switchover process is the most likely way to deliver a transition to digital radio in a coordinated way.[4]

8. The Government will make an in-principle decision by the end of 2013 on digital radio switchover. In the event of a positive decision, a date for switchover would be set once listening and coverage criteria are met. The criteria are:

(a) 50 per cent of all radio listening being via digital platforms; and

(b) national DAB coverage being comparable to FM, and local DAB reaching 90 per cent of the population and all major roads.

9. Once these criteria are met, a date for switchover will be set but any such date will be at least two years after such an announcement. Switchover will mean that all national and large local BBC and commercial services will become digital only, leaving only small-scale commercial and community services on FM.

10. Ofcom's Communications market: Digital Radio Report 2012[5] shows that currently only 30 per cent of all radio listening is via digital platforms and that although DAB multiplex coverage of households in terms of BBC national radio services is over 90 per cent (94.3 per cent), it is only 84.6 per cent for national commercial services and 66.4 per cent for local multiplexes.[6] Table 2 shows the share of listening hours across digital and analogue platforms from Quarter 1 2008 to Quarter 1 2012. Ofcom told us that, based on current trends, the listening criteria could be met in 2016.[7]

TABLE 1 **Share of listening hours across analogue and digital platforms**

per cent

	Q1 2008	*Q1 2009*	*Q1 2010*	*Q1 2011*	*Q1 2012*
Analogue	72.7	67.5	66.7	65.4	63.1
Unspecified	9.5	12.5	9.3	8.1	7.7
Digital	17.8	20.1	24.0	26.5	29.2

Source: Ofcom Communications Market Report 2012, Section 3, Figure 3.37.

Note: Unspecified relates to listening where the radio platform was not confirmed by the listener.

Other radio platforms

11. Radio services may also be distributed via digital television (DTV) platforms (cable, satellite and Freeview) as well as online. However, we are not aware of any significant services that are provided solely in this way.

[3] The Government considers that digital offers opportunities for radio to innovate and grow as the increased capacity of digital allows for more content and functionality, connecting radio with listeners in new ways and opening up new business opportunities for broadcasters.
[4] The latest version of the Government's Digital Action Plan, designed to provide Government with the information necessary to enable it to make an informed decision on whether to proceed with a radio switchover and broadly how to implement it, was published on 7 October 2012 by the Department for Culture Media and Sport: www.culture.gov.uk/what_we_do/broadcasting/7228.aspx.
[5] http://stakeholders.ofcom.org.uk/market-data-research/other/radio-research/digital-radio-reports/digital-radio-2012/.
[6] Ofcom—*The Communications Market: Digital Radio Report*, 17 October 2012.
[7] Ofcom noted that the listening criteria for digital switchover could occur before 2016 as a result of industry initiatives which encourage take-up, eg in June 2012 the Government, the BBC, Arqiva, commercial multiplex licensees and Ofcom signed an Memorandum of Understanding concerning the funding of build-out of local DAB coverage to match FM. This funding would commence upon a positive in-principle Government decision on switchover in 2013.

BBC and not-for-profit community radio

12. In paragraphs 13 and 14 we set out details of the two categories of radio broadcasting service provider outside of commercial radio in the UK: the BBC and not-for-profit community radio providers.

BBC

13. The BBC commenced broadcasting on AM in 1922 and on FM in 1955. It provides UK-wide, national and regional/local radio through a combination of AM and FM services (30 AM and 50 FM[8]), as well as digital stations. The principal UK-wide stations are BBC Radio 1, 2, 3, 4 and 5 Live. The BBC refers to its national stations as Nation stations: these comprise Radio Scotland, Radio Wales, Radio Cymru, Radio nan Gàidheal, Radio Ulster and Radio Foyle. All of the BBC's national analogue services are simulcast on digital platforms, but the BBC also has six services/stations that are available on digital only: BBC Radio 1Xtra, Radio 5Live Sports Extra, BBC Radio 4 Extra, BBC Asian Network, BBC World Service and BBC 6 Music. All of the BBC's national radio output broadcast in digital is also available via the DTV platform and all BBC services are available via the Internet.

Community radio

14. Not-for-profit community radio stations tend to be local in nature, typically covering a small geographical area with a radius of up to 5 kilometres and generally on an analogue platform. There are 201 community radio stations on air.[9]

Relative size of commercial radio, BBC and community radio

15. Table 2 shows the percentage share of listening hours over the period 2007 to 2011 between the BBC, commercial radio and other (community radio). It shows that the BBC over the period has consistently around 55 per cent of UK listening hours. The Other category is immaterial at around 2 per cent compared with the BBC and commercial radio.

TABLE 2 **Share of listening hours, 2007 to 2011**

per cent

	2007	*2008*	*2009*	*2010*	*2011*
BBC	55.1	55.7	55.3	55.2	54.7
Commercial	42.7	42.2	42.3	42.6	43.0
Other	2.1	2.1	2.4	2.2	2.3

Source: Ofcom Communications Market Report 2012 Section 3 figure 3.32.

16. Table 3 shows the split of listening hours for the BBC and commercial radio by sector.

[8] BBC www.bbc.co.uk/radio/info/frequencies.shtml. In determining the number of AM stations, we have split Radio 4 into ten separate stations (one LW and nine MW representing the different distinct areas covered on different frequencies). Where an AM or FM station has multiple frequencies but only covers one distinct area (eg BBC Radio Leeds has two FM frequencies), this has been counted as one station.

[9] Ofcom Communications Market Report 2012, Section 3. Figures as at May 2012.

TABLE 3 **Share of all listening hours (analogue and DAB), by sector, for Q1 2011 and 2012**

per cent

	All BBC radio	*All commercial*
Q1 2011	54.7	43.0
Q1 2012	55.4	42.3

	*BBC network**	*BBC Nations†/ Local‡*	*National commercial*	*Local commercial*	*Other*
Q1 2011	46.0	8.7	11.8	31.2	2.3
Q1 2012	45.9	9.4	12.0	30.3	2.4

Source: Ofcom Communications Market Report 2012 Section 3 Figure 3.32.

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* National radio stations, eg Radio 1 to 5 Live, digital stations such as Radio 6 Music.
† Includes BBC's Radio Scotland, nan Gàidheal, Wales, Cymru, Ulster and Foyle.
‡ BBC local radio, eg Essex, Tees, Bristol etc.

17. The relative size of the three broadcasting groups can also be seen in their respective expenditure/revenue figures for 2010 and 2011 as shown in Table 4. The primary source of revenue for the BBC is the licence fee.

TABLE 4 **Radio industry revenue and spending, 2010 and 2011**

£ million

	2010	*2011*
BBC expenditure (estimated*)	685	706
Total commercial revenue†	438	456
Community radio revenue‡	10	10.5
Total	1,133	1,172.5

Source: Ofcom Communications Market Report 2012, Section 3, Figure 3.1.

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*BBC expenditure figures are estimated by Ofcom based on figures in Note 2c of the BBC Annual Report (www.bbc.co.uk/annualreport).
†Broadcasters' return to Ofcom.
‡Community broadcasters' returns to Ofcom. Community radio is funded mainly through a mixture of advertising revenue (average of 26 per cent) and grants (average of 33 per cent). Remaining revenue is a mixture of local authority funding (through Service Level agreements), donations and other revenue. Advertising revenue is limited to 50 per cent of a community radio station's income.

Commercial radio regulation

18. The following section sets out the process for obtaining a commercial radio broadcast licence, both analogue and digital, and the requirements with regard to content within a licence.

Commercial analogue licences

19. A commercial radio licence allows a licence holder to broadcast to a specific licensed area in accordance with a specified format for a set period of time. Details of the features of a commercial licence are set out in the following section. A map of UK analogue commercial radio licences by size, ownership and licence area is shown at Annex 1.

Licence awards and renewals

20. Licences for national radio services are awarded by Ofcom by auction in principle to the highest bidder.[10] Licences for local radio services are awarded via a beauty parade. Applications are judged by reference to four statutory criteria:[11]

    (a) the licensee's ability to maintain the service;

    (b) the extent to which the service would cater for local people's tastes and interests;

    (c) the extent to which the service would broaden the range of programmes in the area; and

    (d) the extent to which there is evidence of local demand or support for the service.

21. The prospective licensee must also not fall within the categories of persons that are disqualified from holding licences under the Broadcasting Act.[12]

22. Ofcom told us that it did not plan to advertise any new national or local analogue licences for commercial radio. The last new local commercial licence to be awarded was in 2008 for North and Mid Wales.[13]

23. Licences are awarded for a set period of time. The three national licences run until 2018 and may be renewed on two occasions (first for 12 years and then for a further 7 years).[14] This process is essentially automatic provided the licensee is already or commits to simulcasting the service in DAB. Local analogue radio licences are awarded for up to 12 years, after which they are, in principle, readvertised. However, again if an analogue station also broadcasts on DAB, the licence can be renewed automatically.[15] Local licences may also be renewed automatically for 12 years and then a further 7 years if they broadcast on a relevant local multiplex.[16,17]

Licensed area

24. Every commercial radio licence relates to a specific licensed area over which the licensee is permitted to broadcast. In practice and for marketing purposes, the area

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[10] Section 100 of the Broadcasting Act 1990 provides Ofcom with an ability to prefer applicants who propose simulcast services. Before the cash bid is considered, the applicant must fulfil the requirements set out in Ofcom's notice inviting applications as to the character of the service and, if there is an existing licensed national service, cater for different tastes and interests. Ofcom will also have to be satisfied that the prospective licensee will be able to maintain the service and any proposed simulcast service throughout the licence period.

[11] Section 105 of the Broadcasting Act 1990.

[12] The rules on disqualification are set out in Schedule 2 to the Broadcasting Act 1990 and apply to certain licences held under both the Broadcasting Act 1990 and the Broadcasting Act 1996. Broadly, the categories of persons who may be disqualified are: *(a)* local authorities; *(b)* bodies wholly or predominantly political in nature; *(c)* religious bodies (in the case of national radio licences and radio multiplex licences); *(d)* publicly-funded bodies; *(e)* the BBC and the Welsh Authority; and *(f)* advertising agencies. There is also a general ground of disqualification on the grounds of undue influence, essentially owners whose influence may cause concern. The Secretary of State has a power to make an order prohibiting the holding of more than a specified number of local sound broadcasting licences, or of just one local sound broadcasting licence. This power has been used to prevent a body corporate from holding more than one community radio licence at a time (Community Radio Order 2004 (SI 2004/1944)). There is a separate power to limit the number of local digital sound programme services that a person is permitted to provide.

[13] The FM local commercial radio licence for North and Mid Wales was awarded on 9 December 2008 to Real Radio Limited.

[14] Sections 103A and 103B of the Broadcasting Act 1990.

[15] Sections 104A and 104B of the Broadcasting Act 1990.

[16] Should the Secretary of State determine in the case of digital switchover that it was no longer appropriate for these services to continue to be broadcast on analogue, a two-year notice period would be served on the licensee thereby shortening the duration of the analogue licence.

[17] When licences that are not to be renewed automatically reach the end of their term, they are generally pre-advertised to assess likely demand. If the incumbent licensee is the only body to declare an interest, then a 'fast-track' re-award process is implemented.

within which an adequately audible signal is heard, the TSA, is larger than the licensed area, the measured coverage area (MCA).[18] Beyond this area, the radio signal steadily degrades as the receiver increases in distance from the transmitter antenna. Only the MCA is protected from interference, not the TSA.[19]

Format

25. The output of every commercial radio station is regulated by a one-page format document which is part of the licence. This encapsulates the overall 'character of the service' a station is obliged to deliver as a condition of its licence, and also sets out the station's minimum hours of locally originated programming and its local news requirements. It also provides details of any programme-sharing and/or co-location arrangements that may be in place.[20]

26. Under section 106(1A) of the Broadcasting Act 1990, Ofcom can consent to changes to the character of licensed services, if it is satisfied that:

(a) the change would not substantially alter the character of the service;

(b) the change would not narrow the range of programmes available by way of relevant independent radio services to persons living in the area or locality for which the service is licensed to be provided;

(c) in the case of a local licence, the change would be conducive to the maintenance or promotion of fair and effective competition in that area or locality;

(d) in the case of a local licence, there is evidence that, among persons living in that area or locality, there is a significant demand for, or significant support for, the change; or

(e) in the case of a local licence:

(i) the change would result from programmes included in the licensed service ceasing to be made at premises in the area or locality for which the service is provided; but

(ii) those programmes would continue to be made wholly or partly at premises within the approved area.[21]

27. In considering the character of a service from this perspective, Ofcom must have regard, in particular, to the selection of spoken material and music included in the service.[22] Only one of the five criteria needs to be met by the request, but even if that

[18] The vicinity in which the signal strength from a service is strong enough to deliver adequate reception for potential listeners.
[19] This has the effect of maintaining the station's quality and ability to broadcast on its given frequency.
[20] The formats of each station may be found on Ofcom's website: www.ofcom.org.uk/static/radiolicensing/amfm/analogue-main.htm. For example, Global's capital FM Birmingham station's format sets out: licensed area Birmingham; MCA population 1,223,555; frequency 102.2 MHz; digital simulcast no; service duration (hours) 24; studio location local; local weekday daytime hours 7; local weekend daytime hours 4; programme sharing no; standard local news requirements yes; character of service a rhythmic-based music-led service for 15–29-year-olds supplemented with news, information and entertainment. The service should have particular appeal for listeners in their 20s and at least 12 hours a week of identifiable specialist music programmes and include programmes of specific appeal to listeners of African or Afro-Caribbean origin.
[21] An approved area is defined in section 314(7) of the Communications Act 2003 and essentially refers to the wider areas approved by Ofcom for co-location and programme sharing.
[22] Section 106(1B) of the Broadcasting Act 1990.

is the case, Ofcom still has the discretion to reject it.[23] Ofcom must carry out a public consultation unless it believes that the proposed change would not substantially alter the station's character of service or it relates to a change to a station's location within an 'approved area'.[24]

Localness

28. Ofcom has a duty to secure that local commercial radio stations provide an appropriate amount of programmes including local material and, where such programmes are included in the service, that a suitable proportion of them are locally made (localness).[25]

29. Ofcom publishes localness guidelines, as required by the Communications Act 2003.[26] These explain that local content can be delivered in a number of ways with the balance for each station to determine. For example, it can include local news, local information, comment, outside broadcasts, charity involvement, airplay for local musicians, local arts and culture and sports coverage. Locally-made programmes are those made within a station's licensed area or an area approved by Ofcom under the Digital Economy Act 2010.[27] Where Ofcom has approved a wider area within which programming can be shared (see paragraph 34 below), this requirement would apply with respect to that wider area. The extent of licence requirements in relation to locally-made programmes depends on the licensed format of the station.

30. Regulatory requirements in relation to localness were relaxed in 2010, following the entry into force of the Digital Economy Act 2010, having regard to falling revenues in the sector, the fact that a number of licences had been surrendered[28] and more generally a concern for the financial viability of some local commercial radio stations.[29]

31. As a result of these changes, each local FM station is required to produce a minimum of 10 hours a day of locally-made programmes during weekday daytimes including breakfast.[30] However, where an FM station provides an enhanced news service,[31] that station need only produce a minimum of 7 hours a day of locally-made programmes during weekday daytimes. FM stations are also required to produce a minimum of 4 hours a day of locally-made programmes at weekends (in daytime).

32. Ofcom told us that most commercial stations took advantage of this change, reducing local hours on FM stations from between 13 and 20 a day on weekdays to between 7 and 10.

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[23] In reaching its decision, Ofcom will take a number of factors into account, including: the extent of the impact of the change on the character of the service, the length of time since the award of the licence, the considerations taken into account when the licence was originally granted, the views of listeners and stakeholders, the avoidance of 'format creep', whether the station is AM or FM, and other statutory obligations (for example, in relation to localness): http://stakeholders.ofcom.org.uk/broadcasting/radio/formats-content/changes/.

[24] Section 106ZA of the Broadcasting Act 1990.

[25] Section 314 of the Communications Act 2003. Section 314 defines 'local material' *as* material which is of particular interest to those living or working within (or within part of) the area or locality for which the service is provided or to particular communities living or working within that area or locality (or a part of it).

[26] Ofcom's guidelines on localness can be found at http://stakeholders.ofcom.org.uk/broadcasting/radio/localness/localness-guidelines.

[27] Section 314(7).

[28] Eight licences were surrendered in the period 2008 to September 2009.

[29] Media ownership rules in relation to local radio were also relaxed at around the same time (see the Media Ownership (Radio and Cross-media) Order 2011, SI 2011/1503).

[30] 6am–7pm.

[31] An enhanced news service should broadcast local news at least hourly during daytime on weekdays (6am–7pm) and throughout peak-time (late breakfast) at weekends.

33. AM stations generally need not produce locally-made programmes or broadcast local material. However, at a national level, each AM station should produce a minimum of 10 hours of programmes during weekday daytimes from within the nation where the station is based.[32]

34. Ofcom's localness guidelines were also changed to allow FM local stations to co-locate and request to share all of their programming within areas approved by Ofcom, effectively allowing them to come together to become larger, more viable stations. These 'approved' areas were approximately county-sized although some extended over two or more counties. Stations with around 100 licences (within a total of 296 licences) took advantage of this. For example, Global's Heart-branded services are broadcast in 33 licensed areas. Previously, each of these had to carry separate local programming. As a result of the regulatory changes introduced following the Digital Economy Act 2010, these were consolidated into 13 services.[33]

35. As a further deregulatory measure, Ofcom allowed existing regional analogue stations to share all of their programming: in return for providing a version of their programme service on a national DAB multiplex,[34] all local programming requirements were removed from the relevant licences. Two services have taken advantage of this: Smooth (operated by RSL) and Kiss (Bauer).

Change of control of a radio licensee

36. Licensees are required to notify Ofcom of proposed changes of control relating to the licence. When control of an analogue radio licence changes,[35] Ofcom must carry out a review of the effects or likely effects of the change on:

    (a) the quality and range of programmes included in the service;

    (b) the character of the service; and

    (c) the extent to which Ofcom's duty relating to securing localness under section 314 of the Communications Act 2003 is performed in relation to the service.[36]

37. Ofcom must determine whether the change of control would be prejudicial to any of the three matters listed above. If it decides that it would, then it must amend the licence to prevent such prejudice. However, any amendments may only reflect what the previous owner was actually delivering during the three months before the change of control.[37]

DAB licensing

38. Unlike analogue radio where there is no separate licence to operate the broadcast platform, there are two tiers of DAB licence. First, those wishing to provide a multi-

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[32] No station was required to produce more programming from within each nation than it did at the time the changes were introduced.
[33] For example, there were separate Heart services in Plymouth, Exeter, South Hams and Barnstaple, which have now been consolidated into a single Heart service for the whole of Devon.
[34] Ofcom considered that such a development could bring competition and choice in national services, a greater range and diversity of content for consumers, and the potential for new investment in programming. When carried on national DAB, these stations' local content would become less of a defining characteristic.
[35] Change of control can occur either as a result of transferring the licence out of one entity and into another or, more commonly, a change in ownership of the licence-holding company resulting from a share transaction.
[36] Section 355 of the Communications Act 2003.
[37] A different three-month period within the 12 months prior to the change may be used if the three-month period immediately prior to the change of control was not typical.

plex service in a given area must apply to Ofcom for a multiplex licence. There is generally one local multiplex licence in each part of the UK and these are generally about the same size as a county. Second, those wishing to provide a radio service must apply to Ofcom for a (DSP) licence. The DSP licensee must apply to the multiplex licence holder to broadcast on the multiplex platform.

Multiplex licences

39. Multiplex services are provided and licensed in terms of national, regional and local (typically county-wide) coverage. Multiplexes currently licensed and in operation together carry over 160 stations. In summary, the national, regional and local licences are as follows:

(a) National. There are two multiplex licences, one of which is used by the BBC and the other, Digital One, is used by commercial stations.[38] The Digital One licence carries 12 stations.[39]

(b) Regional. There are currently six regional multiplex licences (in north-west England, north-east England, Yorkshire, West Midlands, the Severn Estuary and Central Scotland). The first five of these are held by MXR Limited (a wholly-owned subsidiary of MXR Holdings Limited, a joint venture in which Global and RSL have a combined stake of 88 per cent[40] and Arqiva has a 12 per cent stake). The last regional multiplex licence is held by Switch Digital, which is owned by UTV. MXR has decided not to renew four of its five licences which expire in 2013,[41] which will reduce the number of regional licences to two. [✂] Ofcom said that the frequencies released by the closure of the MXR regional multiplexes will not be readvertised but will be used to reinforce the coverage of the local multiplexes around the UK, allowing DAB to match FM coverage and meet the digital radio switchover criteria.[42] The services currently carried on these licences will be likely to move to local DAB multiplexes reducing the current capacity at this level.

(c) Local. There are 40 local multiplex licences, each of which has approximately the same coverage as the original local FM service in that area. There is one multiplex per area, except for London which has three. Many of the local multiplexes in the Midlands and South of England are held by NOW Digital, owned by Arqiva (which bought the licences from Global in 2009). Most of the multiplexes in the North of England, Scotland and Northern Ireland are held by Bauer. A few local multiplexes are held by UTV and 12 multiplexes have been licensed but have not yet launched (eg Oxfordshire, Northamptonshire, North Wales). These were awarded either to Arqiva or to an independent company, MuxCo. Over the next

[38] Digital One is owned and operated by Arqiva.
[39] Classic FM, talkSPORT, Absolute Radio, Absolute 80s, Absolute 90s, BFBS (British Forces Broadcasting Service), Premier Christian Radio, UCB (United Christian Broadcasters), Smooth Radio (simulcast service only in certain parts of the UK), Smooth 70s, Jazz FM and Planet Rock. A second national commercial multiplex licence was awarded to 4 Digital Group (led by Channel 4) in 2008 but this was never launched and the licence was handed back.
[40] Global 51 per cent, RSL 36.8 per cent.
[41] The licences which will not be renewed and their expiry dates are: North-East expires on 29 July 2013; North-West expires on 24 September 2013; West Midlands expires on 27 August 2013; and Severn Estuary expires on 29 July 2013. The only remaining MXR regional licence is Yorkshire, which expires on 25 June 2015.
[42] This is consistent with Ofcom's 2009 proposals which contemplated allowing, if spectrum could be secured, the six existing regional multiplexes (plus one of the three London multiplexes) to combine and extend their areas to form a single national multiplex with the ability to offer regional opt-out programming and advertising.

two years, Ofcom expects these multiplexes to launch their services,[43] which would almost complete the layer of local multiplexes across the UK.

40. Ofcom told us that in the major metropolitan areas, capacity on existing multiplexes was fully used, while in more rural areas there was spare capacity.[44]

41. At Annex 2 is a map showing current UK regional and local multiplexes.

42. Multiplex licences are for an initial duration of 12 years, with a right to renew generally for a further 12 years, subject to providing Ofcom with an acceptable technical coverage plan.[45] The last multiplex licence awarded was for North Wales in June 2008 (MuxCo Wales Limited). Ofcom told us that the only remaining unlicensed areas would be Cumbria, Suffolk, the Scottish Borders and the west coast and islands of Scotland. There are plans to advertise local multiplexes in Cumbria and Suffolk, but not in the west coast and islands of Scotland.

43. Ofcom may advertise a second national commercial multiplex at some point, but there are no plans to do so at present. As a result of this, there is little scope for any further services to launch, particularly at a national or quasi-national level.

44. Ofcom does not determine which stations should be carried on a multiplex. It is for the multiplex operator to contract with individual service providers. However, a multiplex licence includes conditions requiring the broadcast of services with the characteristics described in the initial application. For example, MuxCo proposed to launch six digital sound programme services, a podcast service, BBC Radio Wales and BBC Radio Cymru on the new North Wales multiplex.

DSP licences

45. Individual stations need a DSP licence[46] to broadcast either a national or local service on a digital multiplex. There are no content requirements and, subject to Ofcom judging the prospective licensee to be a 'fit and proper person', the licensee need only ensure that it is not disqualified from holding a licence under the Broadcasting Act. DSP licences do not have a fixed duration. One licence covers all the DSP provided by the licensee on any number of multiplexes but a separate licence is required for local and national services.

46. A licence does not grant a 'right' to broadcast; and carriage on a multiplex is dependent on agreement with the multiplex operator. However, multiplex operators are required by the terms of their licences not to show undue discrimination either against or in favour of a particular DSP licensee,[47] in addition to the standard condition not to enter into arrangements prejudicial to fair and effective competition in the provision of licensed services or of connected services.[48]

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[43] Oxfordshire, Gloucestershire, Herefordshire & Worcestershire, Northamptonshire, north-east Wales & West Cheshire, north-west Wales, mid and west Wales, Surrey & north Sussex, north Yorkshire, Somerset, Lincolnshire, and Herts, Beds & Bucks.
[44] Global told us that currently there was some spare capacity on the London 2 and London 3 multiplexes.
[45] Section 58 of the Broadcasting Act 1996.
[46] Section 60 of the Broadcasting Act 1996. See also DSP guidance notes: http://licensing.ofcom.org.uk/binaries/radio/digital/dsp_das.pdf.
[47] Section 54(1)(e) of the Broadcasting Act 1996.
[48] Reflecting Section 316 of the Communications Act 2003.

Licence costs

47. All local analogue licences and DAB multiplex licences are awarded through a 'beauty contest'. All applicants must pay an application fee to Ofcom based on the analogue commercial radio population (aged 15+) in the MCA. A national AM or FM licence application fee is £100,000 with applications for local licences costing between £1,500 and £21,200 for FM and between £1,000 and £14,500 for AM licences. The national DAB multiplex licence application fee is £50,000, with application fees for local multiplexes ranging from £1,000 to £25,000.

48. On award, the successful applicant pays an annual broadcast licence fee, which is calculated as a percentage of relevant turnover of the licensee.[49] Analogue fees are based on three bands by reference to the licensee's relevant turnover: £0 to £1 million, £1–£5 million and over £5 million, whilst annual multiplex fees are fixed at £10,000 for national and £500 for local multiplexes. In addition, an annual Wireless Telegraphy Act 2006 licence fee in respect of access to the radio frequency spectrum[50] is payable based on the population served by the station.

49. Tables setting out licence, broadcast and spectrum fees are at Annex 3.

50. There are no other regulatory costs directly levied on commercial radio broadcasters. However, the Government requires Ofcom to publish a Broadcasting Code which applies to the broadcasts by television and radio operators in the UK. Licensees may incur costs in complying with the Code and/or penalties including financial penalties for failure to do so.[51] There are also licence obligations to broadcast local programming and be based in an approved area, as appropriate, based on section 314 of the Communications Act 2003 and implemented via licensees' own proposals in their applications. These proposals may be subsequently amended.

51. Table 5 sets out the fees paid and payable for each of the last five new or re-advertised licences issued by Ofcom. All of these are new analogue licences.

TABLE 5 **Last five commercial station awards fees charged**

					Licence fees
New licence awards	*Year*	*MCA*	*Application fee £*	*Broadcast % of RT**	*Wireless Telegraphy Act £*
Bath†	2011	82,433	1,500	0.212	339
North & Mid Wales	2008	650,000	5,000	0.212	2,884
Plymouth	2008	248,076	1,500	0.212	848
South Wales	2007	1,237,568	11,800	0.318	5,938
Manchester	2007	1,518,948	11,800	0.212	7,465

Source: Ofcom.

*Relevant turnover.
†Readvertised licence.

52. In respect of digital entry costs, a new entrant needs to pay the multiplex licence holder for use of the licence spectrum. Bauer told us that the cost of a standard stereo station slot on a regional digital multiplex could range from approximately £[✂] to £[✂], depending on the location. A slot on the national commercial multiplex

[49] Definition of relevant turnover can be found at: http://stakeholders.ofcom.org.uk/binaries/consultations/socp/statement/charging_principles.pdf, Annex C.
[50] Fee is based on the analogue commercial radio population in the relevant MCA.
[51] http://stakeholders.ofcom.org.uk/broadcasting/broadcast-codes/broadcast-code/.

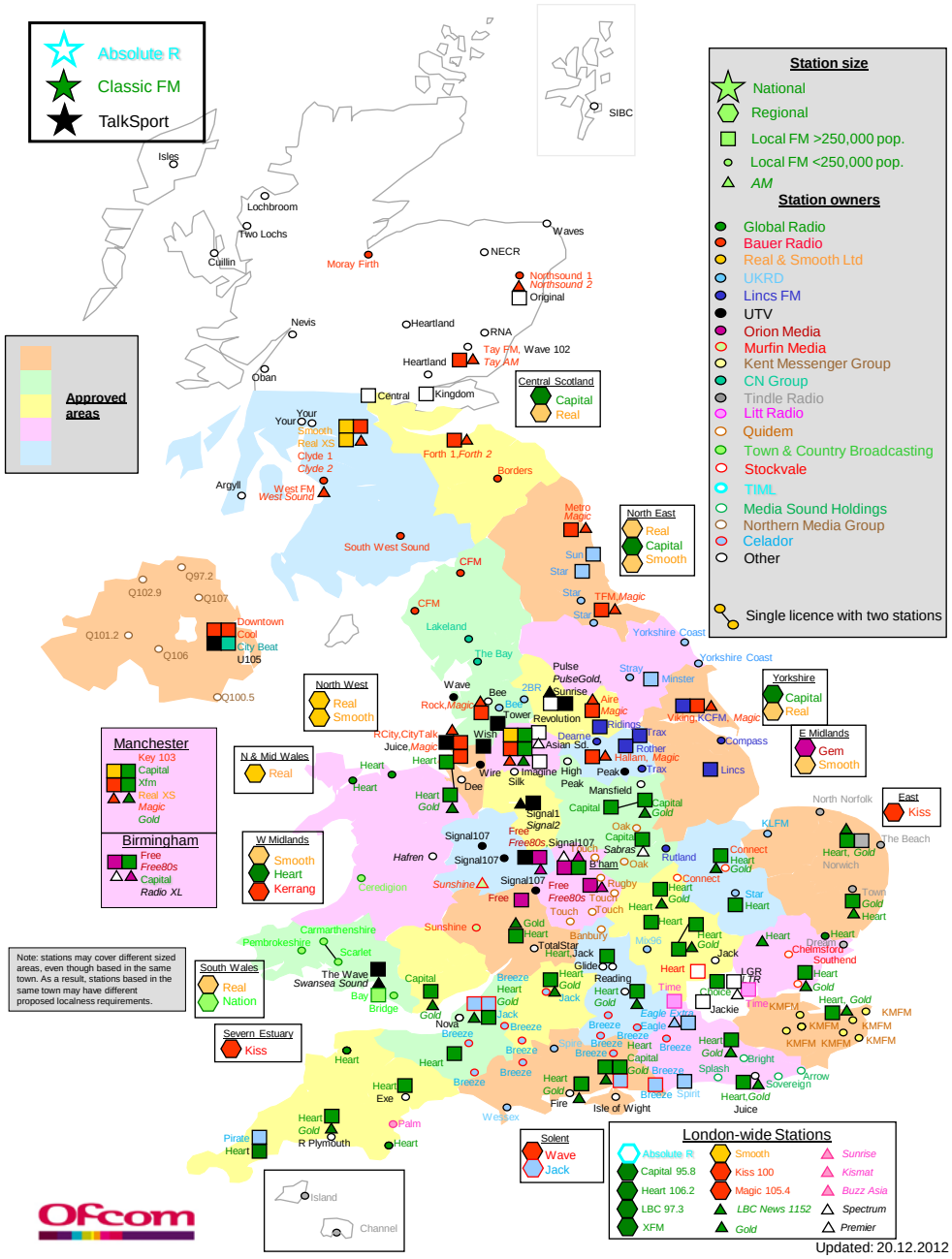
would be likely to cost in the region of £[✂] or more (the actual price normally being determined by auction).

53. We note that section 54(1)(e) of the Broadcasting Act 1996 provides that the regulatory regime for each licensed service shall include the conditions that Ofcom considers appropriate for securing:

> that in the terms on which the holder of the licence contracts, or offers to contract, for the broadcasting of digital sound programme services or digital additional services, he does not show undue discrimination either against or in favour of a particular person providing such a service or a class of such persons.

54. In addition, section 316 of the Communications Act 2003 provides that the regulatory regime for each licensed service must include conditions that Ofcom considers appropriate for ensuring fair and effective competition in the provision of licensed services or of connected services. Each local multiplex licence contains a condition relating to 'fair and effective competition' which is derived from these two statutory provisions. As such, although the fees charged may be set by auction, a licence holder cannot unduly discriminate against a new entrant who is willing to pay the going rate for that licence's spectrum.

Analogue commercial radio licences by size, control and approved area

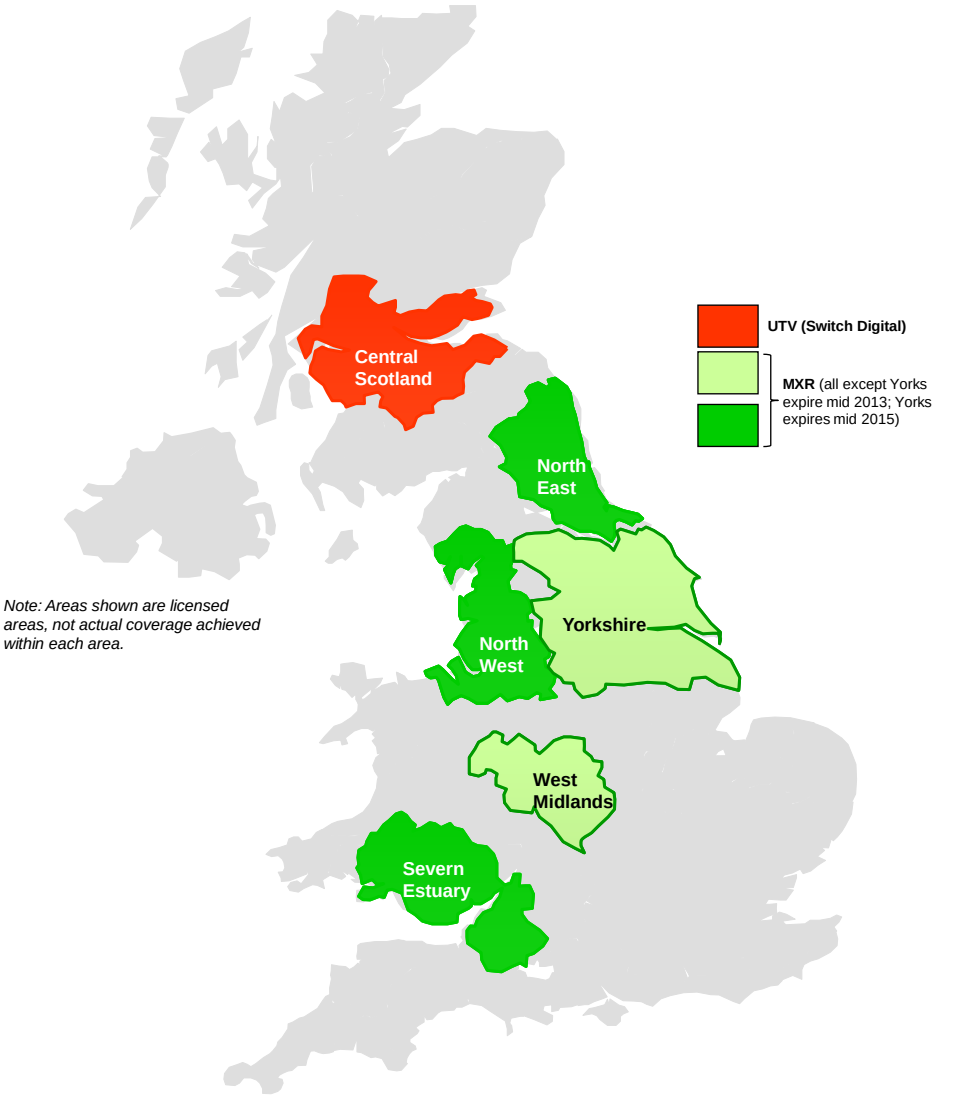


Source: Ofcom.
Note: Map shows individual licences, regardless of whether they are sharing programmes.

UK current regional and local multiplexes

FIGURE 1

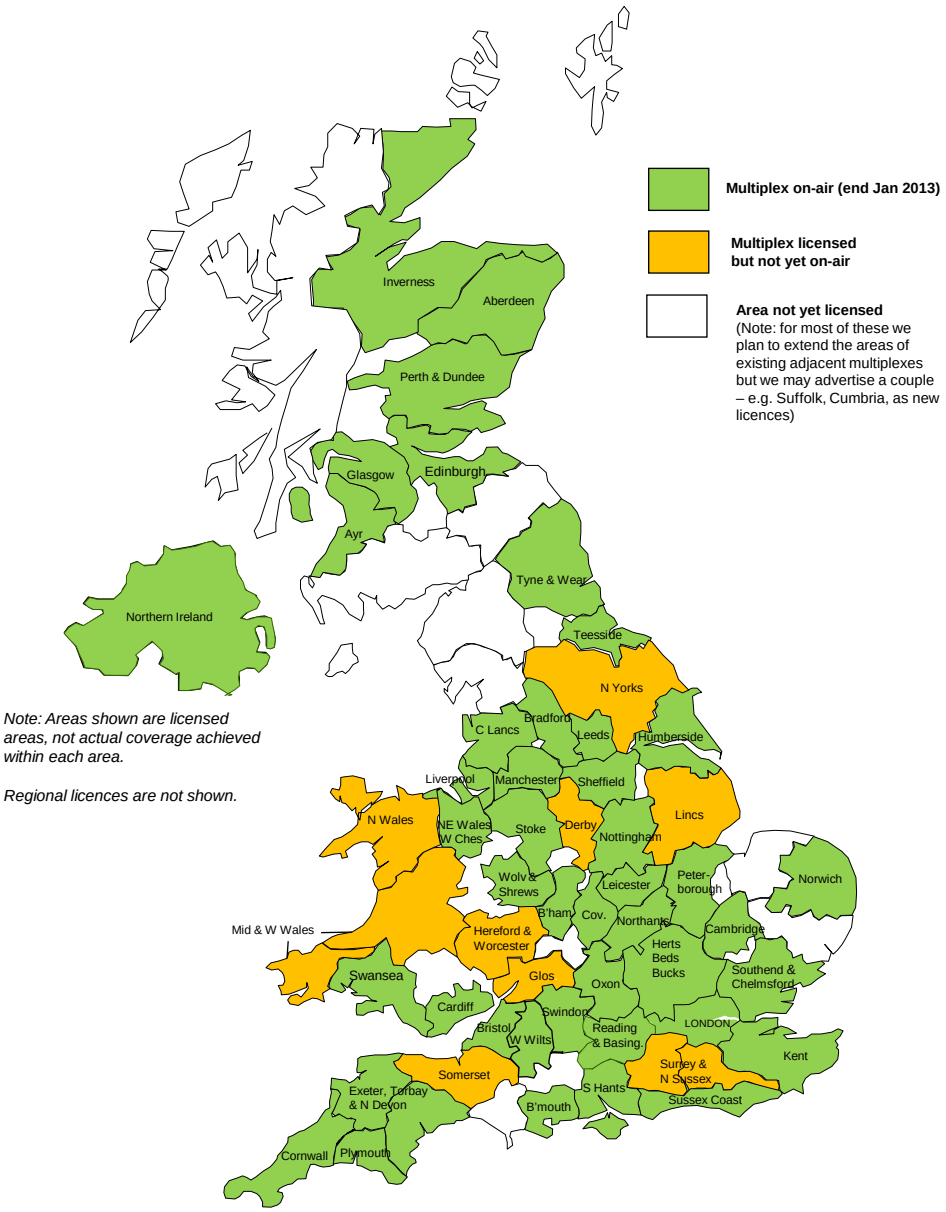
DAB—Current regional multiplexes



Source: Ofcom.

FIGURE 2

DAB—Current local multiplexes



Note: Areas shown are licensed areas, not actual coverage achieved within each area.

Regional licences are not shown.

Updated: 20.12.2012

Source: Ofcom.

Ofcom fees

TABLE 1 **Licence application fee tariff, 2011/12**

			Analogue commercial radio	
	Population (aged 15+)	*DAB £*	*FM £*	*AM £*
National				
All licences			100,000	100,000
Local				
Cat A	4,500,000 +		21,200	14,500
Cat B	1,000,000–4,500,000		11,800	8,000
Cat C	400,000–1,000,000		5,000	3,500
Cat D	0–400,000		1,500	1,000
Multiplex				
National			50,000	
Cat A	4,500,000 +	25,000		
Cat B	1,000,000–4,500,000	15,000		
Cat C	400,000-1,000,000	5,000		
Cat D	0-400,000	1,000		

Source: Ofcom.

TABLE 2 **Broadcast licence fees payable to Ofcom**

Relevant turnover of licensee	*Analogue Fee (% of turnover)*
£0–£1m	0.212
£1–£5m	0.318
Over £5m	0.476
Multiplex	Annual fee
National (£)	10,000
Local (£)	500

Source: Ofcom.

TABLE 3 **Wireless Telegraphy Act licence fees payable to Ofcom**

Population	*FM fee £*	*AM fee £*
Fewer than 100,000 adults	339	229
For each complete 100,000 adults	509	339

Source: Ofcom.

Note: Fees are not charged in respect of Mux/DAB broadcasting.

Transaction

1. This appendix sets out the timeline of the transaction and the interested parties; Global's proposed strategy post-acquisition; and the valuation of GMG Radio by Global.

Transaction timeline and interested parties

2. GMG told us that [✂].

3. [✂]

TABLE 1 **Offers and indications of interest for GMG Radio between July 2011 and May 2012**

Party	*Date*	*Offer*	*Status*
	[✂]		

Source: GMG.

4. GMG told us and [✂] Bauer told us that it had become aware of the potential sale of GMG Radio on or around 12 June 2012 as a result of an article in the *Guardian* newspaper. [✂]

5. Bauer said its rationale for seeking to acquire GMG Radio was:

   (a) its strong belief that a merged Bauer/GMG Radio would enable Bauer to compete more effectively with Global on a national level; and

   (b) [✂]

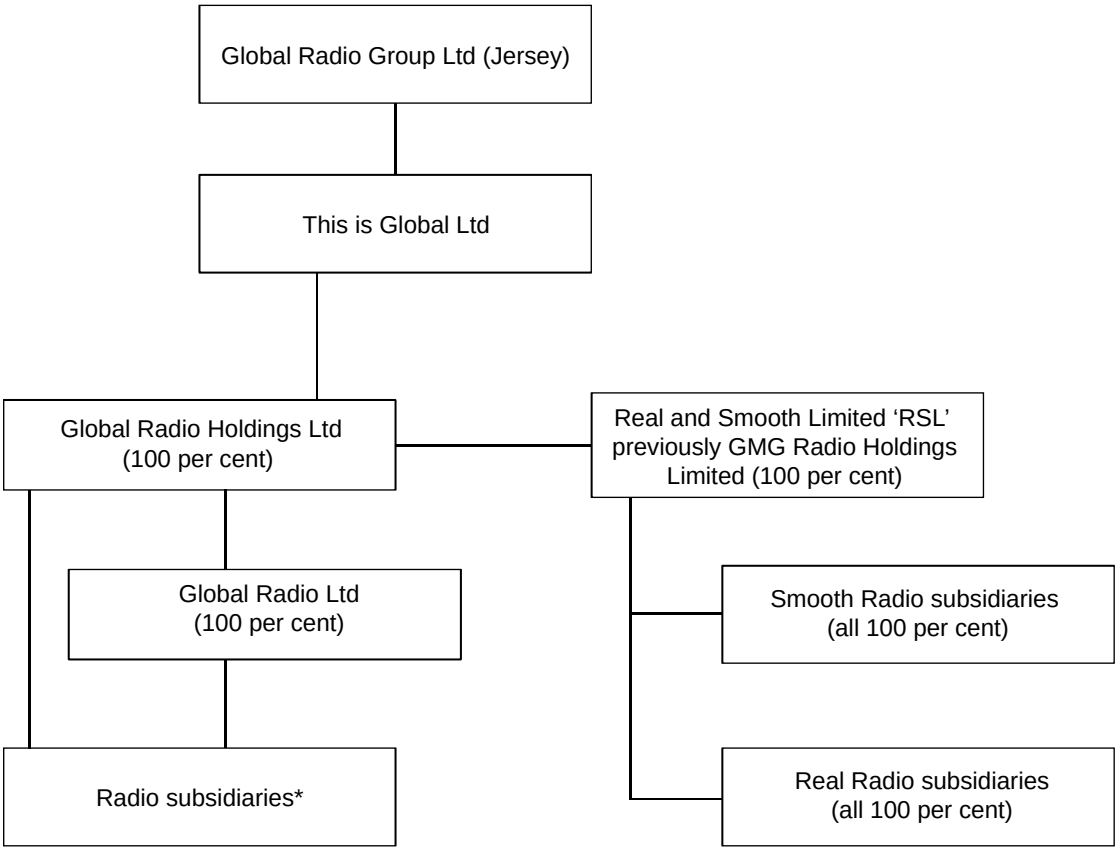
6. Global [✂]. The transaction was subsequently signed on 24 June 2012 and the acquisition of GMG Radio completed on that date.

7. GMG said that it [✂].

8. Global's simplified post-merger group structure is set out in Figure 1.

FIGURE 1

Post-merger group structure (simplified)



Source: Global.
*Includes associates and joint ventures.

Global's proposed strategy post-acquisition

9. Global said that it planned to [✂].[1]

10. The [✂] would result in Global having [✂].

11. Global argued that it had attracted more listeners by adopting successful [✂] strategies in the past. These included:

    (a) In 2009, Global launched its 'national brands delivered locally' strategy, which involved rebranding the majority of the stations in GCap's 'One Network' to 'Heart' and thus forming the Heart network. Global said that it invested heavily in improving local programming quality, local marketing and in establishing a high-profile DJ team (among other things). Global said that this led to a growth of 400,000 Heart listeners since the GCap merger (from 7,073,000 in Q2 2008 to 7,484,000 in Q1 2012[2]).

    (b) Between 2008 and 2010 Global said that it invested in the repositioning of 95.8 Capital FM in London, for example, in refocusing the Capital playlist, hiring new

[1] [✂]
[2] RAJAR.

presenters and launching an extensive television marketing campaign. This resulted in an increase of approximately 700,000 listeners (from 1,607,000 in Q2 2008 to 2,269,000 in Q1 2012[3]) for Capital in London alone.

(c) In early 2011 Global rebranded the Galaxy network and some One Network stations to form the Capital Network. Global said that as a result of its investments in 2008 and 2011, in ensuring that Galaxy delivered high-quality programming to its core young demographic and in the launch of a high-profile marketing campaign upon rebranding, the rebranded stations comprising the current Capital network (excluding Capital in London) had increased their audience by 1 million listeners from the time of the GCap merger (from 3,777,000 in Q1 2008 to 4,779,000 in Q1 2012[4]).

12. Global argued [✂]:

(a) a better range of differentiated stations targeted at specific audiences: [✂];

(b) better content through Global's 'national brands delivered locally' strategy: quality programming [✂] and an improved radio experience including better station 'sounds' (eg better jingles and positioning messages);

(c) better presentation with listeners [✂];

(d) better production with the [✂] stations benefiting from access to Global's superior systems and infrastructure;

(e) [✂]

(f) better geographic reach, [✂].

13. Global believed that this strategy would result in increased benefits to advertisers [✂]. In particular advertisers would benefit from:

(a) a larger audience and the opportunity to be associated with Global's brands;

(b) a much simpler purchasing process; and

(c) a clear understanding of what they were purchasing (high-quality, coherent and recognizable brands) and a clearer, more defined target demographic.

Global's valuation of GMG Radio

14. [✂][5]

15. [✂]

TABLE 2 [✂]

[✂]

16. [✂]

[3] RAJAR.
[4] RAJAR.
[5] [✂]

17. [✂][6,7]

TABLE 3 [✂]

[✂]

[6] [✂]
[7] [✂]

Global and RSL financial performance

Global

1. [✂] A summary profit and loss account for the three years is set out in Table 1.

TABLE 1 **Global summary profit and loss account for the three years ended 31 March 2012**

	£'000		
	Year ended 31 March		
	2010	*2011*	*2012*
Commercial revenue	[✂]	[✂]	[✂]
Other revenues	[✂]	[✂]	[✂]
Revenue	[✂]	[✂]	[✂]
Sales costs	[✂]	[✂]	[✂]
Programming costs	[✂]	[✂]	[✂]
Royalty costs	[✂]	[✂]	[✂]
Direct costs	[✂]	[✂]	[✂]
Gross profit	[✂]	[✂]	[✂]
Transmission & technical	[✂]	[✂]	[✂]
Other operating costs	[✂]	[✂]	[✂]
EBITDA	[✂]	[✂]	[✂]
EBITA	[✂]	[✂]	[✂]
Operating profit	[✂]	[✂]	[✂]
		per cent	
Ratios			
Gross margin	[✂]	[✂]	[✂]
EBITDA	[✂]	[✂]	[✂]
EBITA	[✂]	[✂]	[✂]
Operating profit	[✂]	[✂]	[✂]

Source: Global management accounts.

2. The following paragraphs describe the changes in revenue and costs in more detail.

3. Global's revenue [✂] per cent between 2010 and 2012 from £[✂] million to £[✂] million, although it [✂] to £[✂] million. Global's revenue split by activity is shown in Table 2.

4. Commercial revenue [✂] per cent of total revenue between 2010 and 2012. National and local airtime make up around [✂] per cent of commercial revenue; national being around [✂] per cent and local [✂] per cent. National and local S&P make up around [✂] per cent of commercial revenue; national being around [✂] per cent and local [✂] per cent. Gross revenue generated by IRN from selling airtime slots around news bulletins of between £[✂] million and £[✂] million contributed around [✂] per cent of commercial revenue.[1] A further £[✂] million ([✂] per cent) of revenue is generated from contractual arrangements with third parties for selling airtime slots around travel news bulletins with the remaining commercial revenue generated by advertising on its radio station websites and providing creative solutions to customers. None of these percentages has changed materially year on year during the period.

[1] Net revenue for the three-year period was between £[✂] and £[✂].

5. Other revenue is made up principally of commission income from selling third party airtime and S&P (Global's contracts with RSL and Orion), events revenues and directory enquiry services. This generated revenue of between £[✂] million and £[✂] million a year over the period. Transmission fee and management fee income on digital multiplexes contributed £[✂] million in 2010. This [✂] around £[✂] million in 2011 and 2012.

TABLE 2 **Global's revenue for the three years ended 31 March 2012**

£'000

	Years ended 31 March		
Commercial revenue	*2010*	*2011*	*2012*
National airtime	[✂]	[✂]	[✂]
Local airtime	[✂]	[✂]	[✂]
National S&P	[✂]	[✂]	[✂]
Local S&P	[✂]	[✂]	[✂]
Newslink	[✂]	[✂]	[✂]
Interactive	[✂]	[✂]	[✂]
Creative revenue	[✂]	[✂]	[✂]
Global Traffic Network	[✂]	[✂]	[✂]
Commercial revenue	[✂]	[✂]	[✂]
Commercial revenue	[✂]	[✂]	[✂]
Other revenues	[✂]	[✂]	[✂]
Revenue	[✂]	[✂]	[✂]

Source: Global management accounts.

6. Global's gross margin [✂] per cent between 2010 and 2012 (see Table 1). Table 3 shows the breakdown of Global's direct costs. Sales costs have [✂] per cent of total revenue in 2010 to [✂] per cent in 2012 with sales staff and bonuses costs representing the majority of these costs (between £[✂] million and £[✂] million, [✂] per cent of total revenue). Programming costs have [✂] per cent of total revenue to [✂] per cent over the period reflecting Global's changes to more centralized content provision. Royalty costs have [✂] per cent over the period.

TABLE 3 **Global's direct costs for the three years ended 31 March 2012**

£'000

	Years ended 31 March		
	2010	*2011*	*2012*
Sales			
Sales staff & bonuses	[✂]	[✂]	[✂]
Capitalized development costs	[✂]	[✂]	[✂]
Events costs	[✂]	[✂]	[✂]
Sponsorship costs	[✂]	[✂]	[✂]
Creative costs	[✂]	[✂]	[✂]
Enterprises costs	[✂]	[✂]	[✂]
Other sale costs	[✂]	[✂]	[✂]
IRN rebates	[✂]	[✂]	[✂]
Sales costs	[✂]	[✂]	[✂]
Programme costs			
Programming staff	[✂]	[✂]	[✂]
Freelance staff	[✂]	[✂]	[✂]
Other programming	[✂]	[✂]	[✂]
Programming costs	[✂]	[✂]	[✂]
Other			
Royalty costs	[✂]	[✂]	[✂]
Direct costs	[✂]	[✂]	[✂]

Source: Global management accounts.

7. Global's transmission & technical and other operating costs are set out in Table 4. Analogue and digital transmission costs are fixed costs based on fixed-term transmission contracts. During the period analogue costs [✂] by £[✂] million whilst digital costs [✂] by £[✂] million. Other operating costs [✂] by £[✂] million over the three-year period. Within other operating costs, the largest costs category, administration and support staff, saw [✂] over the period of £[✂] million with the other cost categories showing [✂].

TABLE 4 **Global other costs for the three years ended 31 March 2012**

£'000

	Years ended 31 March		
	2010	*2011*	*2012*
Transmission & technical			
Transmission—analogue	[✂]	[✂]	[✂]
Transmission—digital	[✂]	[✂]	[✂]
Technical costs	[✂]	[✂]	[✂]
Transmission & technical	[✂]	[✂]	[✂]
Other operating costs			
Admin & support staff	[✂]	[✂]	[✂]
Marketing cash	[✂]	[✂]	[✂]
Street marketing	[✂]	[✂]	[✂]
Travel & accommodation	[✂]	[✂]	[✂]
Occupancy costs	[✂]	[✂]	[✂]
Admin & regulatory costs	[✂]	[✂]	[✂]
Allocation to disposed stations	[✂]	[✂]	[✂]
Other operating costs	[✂]	[✂]	[✂]

Source: Global management accounts.

8. Table 5 shows Global's depreciation, amortization & exceptional costs over the three-year period. Global acquired the radio interests of Chrysalis Group in 2007 and GCap in 2008 resulting in goodwill of £[✂] million and an annual amortization charge of around between £[✂] million and £[✂] million a year.

TABLE 5 **Global depreciation, amortization and exceptional items**

£'000

	Years ended 31 March		
	2010	*2011*	*2012*
Depreciation	[✂]	[✂]	[✂]
Goodwill amortization	[✂]	[✂]	[✂]
Exceptional costs	[✂]	[✂]	[✂]

Source: Global management accounts.

RSL

9. [✂] A summary profit and loss account for the three years is set out in Table 6.

TABLE 6 **RSL summary profit and loss for the three years ended 31 March 2012**

£'000

	Years ended 31 March		
	2010	*2011*	*2012*
Advertising	[✂]	[✂]	[✂]
S&P	[✂]	[✂]	[✂]
Other	[✂]	[✂]	[✂]
Total revenue	[✂]	[✂]	[✂]
Direct costs	[✂]	[✂]	[✂]
Gross profit	[✂]	[✂]	[✂]
Overheads	[✂]	[✂]	[✂]
EBITDA	[✂]	[✂]	[✂]
Depreciation	[✂]	[✂]	[✂]
EBIT	[✂]	[✂]	[✂]
		per cent	
Ratios			
Gross margin	[✂]	[✂]	[✂]
EBITDA	[✂]	[✂]	[✂]
EBIT	[✂]	[✂]	[✂]

Source: RSL management accounts.

Note: [✂].

10. RSL's revenue [✂] per cent between 2010 and 2012 from £[✂] million to £[✂] million, although it [✂] in 2012 by £[✂] million ([✂] per cent) over 2011. RSL's revenue split by activity is shown in Table 7.

11. Local advertising revenue has shown [✂] year on year. Regional advertising showed [✂] per cent in 2011 [✂] per cent in 2012; [✂] of £[✂] million over the period. There are significant differences in national advertising revenues year on year, [✂] per cent from 2010 to 2011 and then [✂] per cent in 2012 ([✂]). S&P experienced [✂] in 2011 ([✂] per cent) but only [✂] per cent in 2012, [✂] over the period of £[✂] million. Other revenue representing mainly commercial production and internet advertising revenue was at a similar level in 2012 to that in 2010; around £[✂] million.

TABLE 7 **RSL revenue for the three years ended 31 March 2012**

£'000

	Years ended 31 March		
	2010	*2011*	*2012*
Revenue			
Local advertising	[✂]	[✂]	[✂]
Regional advertising	[✂]	[✂]	[✂]
National advertising	[✂]	[✂]	[✂]
S&P	[✂]	[✂]	[✂]
	[✂]	[✂]	[✂]
Other	[✂]	[✂]	[✂]
	[✂]	[✂]	[✂]

Source: RSL management accounts.

12. Direct costs have [✂] as a percentage of revenue from [✂] to [✂] per cent of total revenue over the period. Sales commission has [✂] as a percentage of local and regional advertising revenue from [✂] per cent in 2010 to around [✂] per cent in 2011 and 2012. Sales house commission has [✂] over the period from [✂] per cent

of national advertising revenue.[2] S&P costs have [✂] but remain around [✂] per cent of S&P revenue.

TABLE 8 **RSL direct costs for the three years ended 31 March 2012**

£'000

	Years ended 31 March		
	2010	*2011*	*2012*
Sales staff commission	[✂]	[✂]	[✂]
Sales house commission	[✂]	[✂]	[✂]
S&P costs	[✂]	[✂]	[✂]
Production	[✂]	[✂]	[✂]
Royalties	[✂]	[✂]	[✂]
Other	[✂]	[✂]	[✂]
	[✂]	[✂]	[✂]

Source: RSL management accounts.

13. Overheads have [✂] from £[✂] million in 2010 to £[✂] million in 2012, [✂] of £[✂] million. The individual overhead costs are shown in Table 9. The [✂] has been in publicity and marketing which [✂] by £[✂] million followed by staff costs which have [✂] by £[✂] million. The [✂] over the period was transmission costs, which [✂] by £[✂] million.

TABLE 9 **RSL overheads for three years ended 31 March 2012**

£'000

	Year ended 31 March		
	2010	*2011*	*2012*
Staff costs	[✂]	[✂]	[✂]
Freelance costs	[✂]	[✂]	[✂]
Transmission costs	[✂]	[✂]	[✂]
Engineering & IT	[✂]	[✂]	[✂]
Sales dept costs	[✂]	[✂]	[✂]
Programme costs	[✂]	[✂]	[✂]
Sports costs	[✂]	[✂]	[✂]
Internet costs	[✂]	[✂]	[✂]
Promotions & prizes	[✂]	[✂]	[✂]
Publicity & marketing	[✂]	[✂]	[✂]
Research costs	[✂]	[✂]	[✂]
Administration costs	[✂]	[✂]	[✂]
Establishment costs	[✂]	[✂]	[✂]
Transport/motor expenses	[✂]	[✂]	[✂]
Bank & credit control charges	[✂]	[✂]	[✂]
NTR department costs	[✂]	[✂]	[✂]
Bad debts	[✂]	[✂]	[✂]
	[✂]	[✂]	[✂]

Source: RSL management accounts.

[2] RSL told us that [✂]. The sales percentage figures are based on these figures.

Counterfactual

1. In this appendix we set out details of the parties other than Global that were involved in the GMG Radio sales process and evidence of the potential for competition concerns associated with an acquisition of GMG Radio by each party. We also summarize the strategic options considered by GMG at the time of its decision to sell GMG Radio to determine the likelihood that GMG Radio would have been retained in the absence of the merger. Finally, we set out the history of GMG Radio's use and its overall rationale for using a third party sales house to sell airtime to national advertisers and summarize the key terms of its existing agreement for such sales with Global Radio.

Potential alternative acquirers

2. There were four parties other than Global [✂].[1]

   (a) Orion Media Holdings Ltd;

   (b) Bauer Radio Ltd;

   (c) [✂]

   (d) [✂]

Bauer

3. Bauer [✂].

Orion

4. Orion [✂].

[✂]

5. [✂][2]

[✂]

6. [✂][3]

Status of alternative offers

7. At the time of the acquisition of GMG Radio by Global, the only other bidder that was in advanced negotiations with GMG was Bauer.

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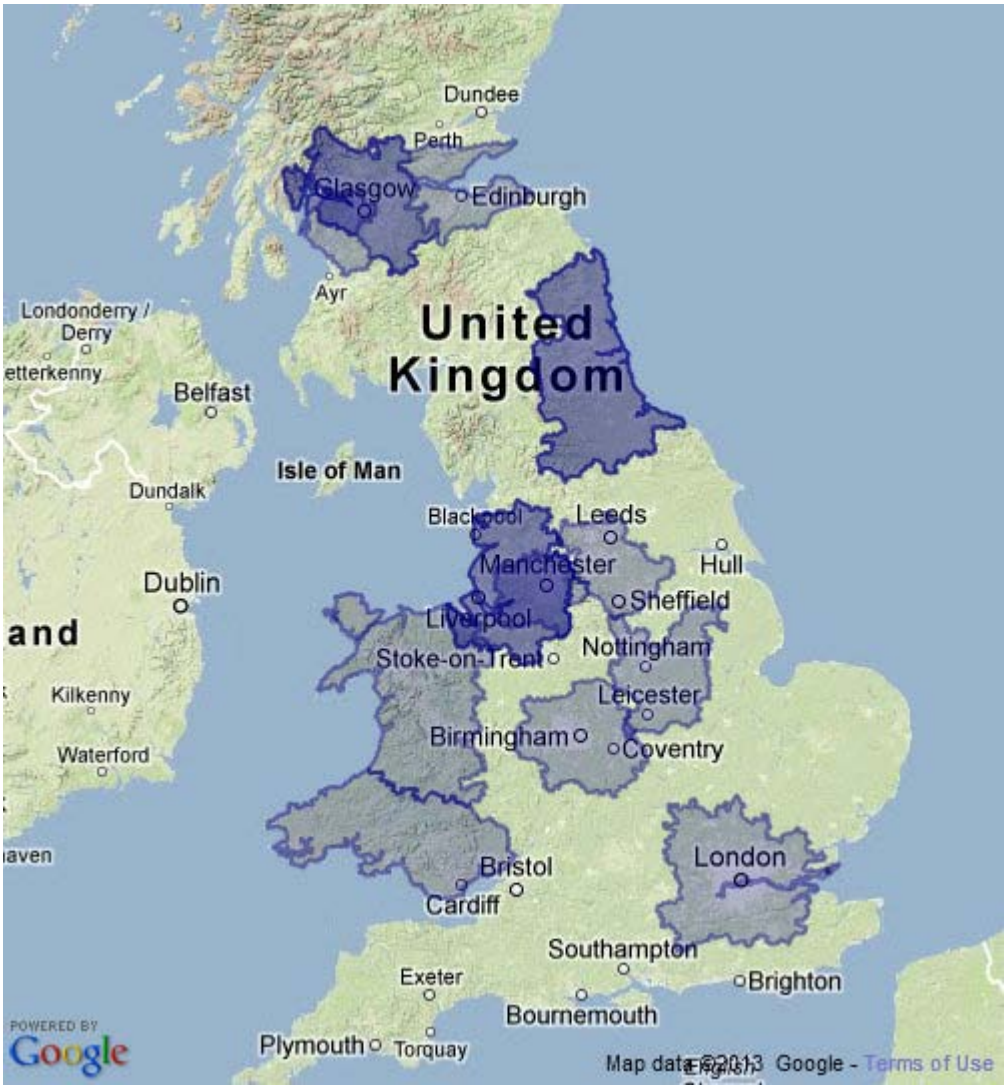
[1] [✂]
[2] [✂] these issues first arose in November 2011 and were partly triggered by board-level discussions around a potential acquisition of GMG Radio. [✂] told us that these governance issues have now been substantially resolved by the appointment of a new Chairman and three non-executive directors.
[3] [✂]

Consideration of any potential for competition concerns

8. In paragraphs 9 to 19 we assess the potential for competition issues to be raised by each of the four potential alternative acquirers detailed. We did not undertake a comprehensive analysis for these purposes equivalent to that undertaken by the OFT during a first-stage competition review, but we have sought views of the parties concerned as well as Global and GMG and considered as part of this analysis, GMG Radio's coverage as shown in Figure 1.

FIGURE 1

GMG Radio analogue local radio stations



Source: Radio Advertising Bureau mapping.

Bauer

9. Global submitted that a sale of GMG Radio to Bauer would give rise to competition concerns and that the OFT would have referred this acquisition to the CC absent remedies.[4]

10. Specifically, Global argued that an acquisition by Bauer would have given rise to high combined shares for non-contracted radio advertising in a number of regions and cities including, in particular, the North-West, the North-East and Scotland, where the merged entity would have had a share of [✂], [✂] and [✂] per cent of non-contracted radio advertising respectively. In each case, Global estimated that the increment to market share would have been be significant (greater than 20 per cent). Global submitted that Bauer and GMG Radio were also close competitors in these overlap areas, with both radio broadcasters' core stations targeting a similar demographic (listeners aged 25 to 44).

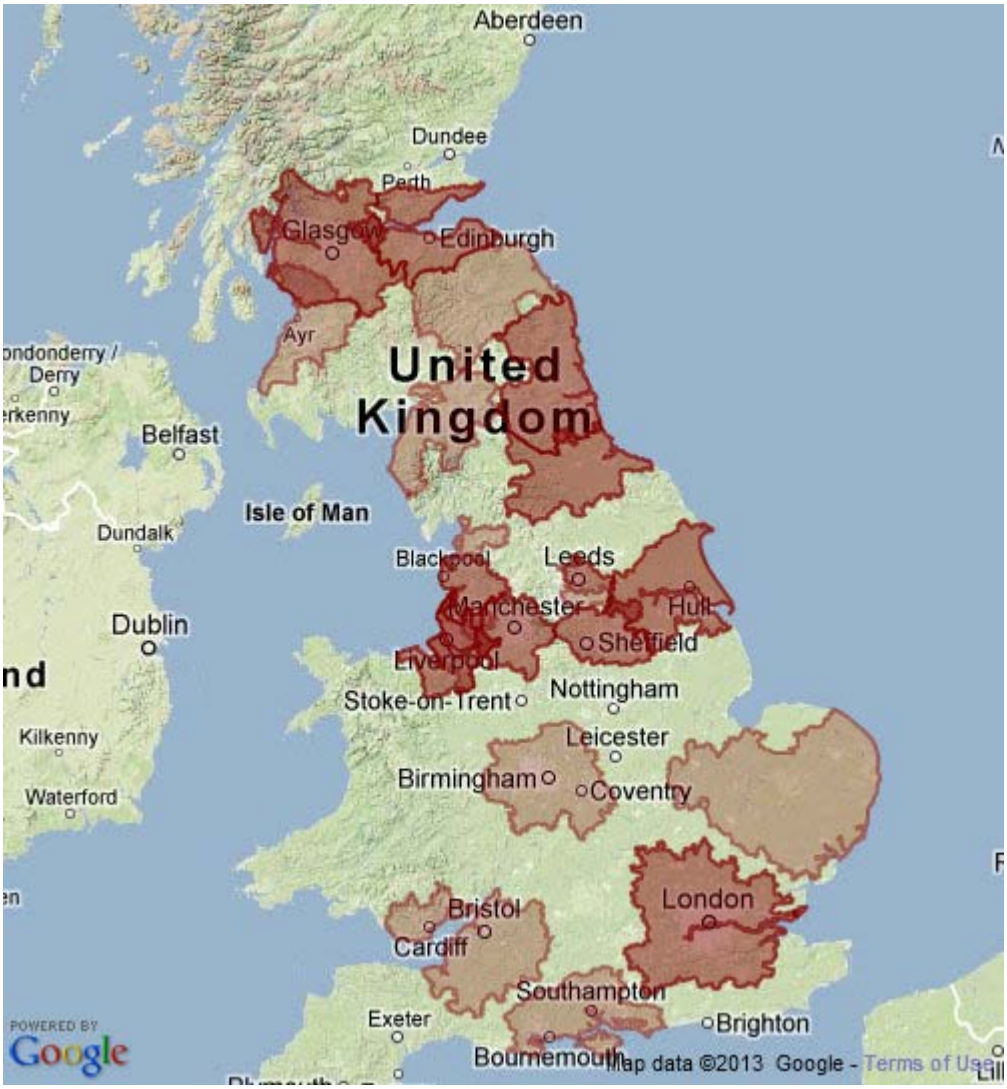
11. Bauer told us that it had [✂].

12. Figure 2 shows the TSAs for Bauer's[5] stations. It shows in comparison with Figure 1 areas of overlap in Scotland, North-East England and North-West England as well as around Cardiff.

[4] Global initial submission.
[5] The figure excludes Northsound (Bauer Inverness) and Moray Firth Radio in Scotland, and Cool FM and Downtown in Northern Ireland. RSL has no overlapping stations in these areas.

FIGURE 2

Bauer's UK local analogue radio stations' TSAs



Source: Radio Advertising Bureau mapping.
Note: The figure excludes Northsound (Bauer Inverness) and Moray Firth Radio in Scotland, and Cool FM and Downtown in Northern Ireland.

[✂]

13. Global submitted that a sale of GMG Radio to [✂] would give rise to competition concerns and that the OFT would have referred this acquisition to the CC absent remedies. Global argued that an acquisition by [✂] would have given rise to high combined shares for non-contracted radio advertising in [✂] (in particular in [✂], where Global estimated that the merged entity would have had a share of non-contracted radio advertising in excess of 90 per cent). Global submitted that [✂] and GMG Radio's stations in [✂] were also close competitors, targeting a similar demographic (GMG Radio's Real targets listeners aged 25 to 44 and [✂] targets listeners aged under 40).[6]

[6] Global initial submission.

14. [✂] told us that it had undertaken internal analysis of a hypothetical acquisition of GMG Radio in August 2010 and again in November 2011. This analysis informed its consideration of the acquisition opportunity, as well as scenario planning associated with the business being acquired by one of its competitors. It considered that a [✂] acquisition might have prompted competition issues in [✂] and accepted that this might have prompted one or more disposals, for example there was a risk that it would be required to divest [✂] in [✂]. The possibility of needing to make such disposals did not deter [✂] from proceeding with a potential acquisition of GMG Radio.

15. [✂]

FIGURE 3

[✂]

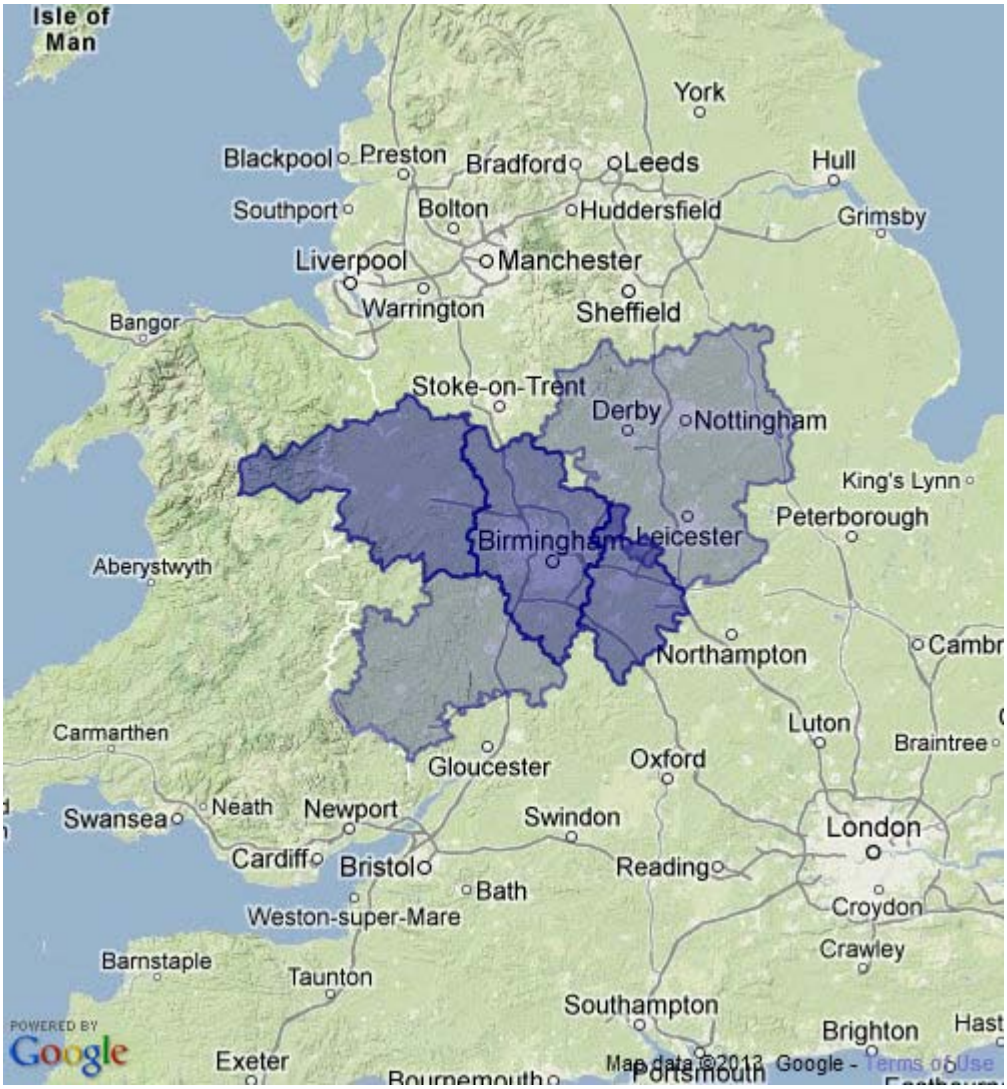
Orion

16. Orion Media's Free Radio and Gem 106 stations and GMG Radio's Smooth station overlap in the Midlands. [✂]

17. Figure 4 shows the TSAs for Orion's UK radio stations. It shows an area of overlap in comparison with Figure 1 in the Midlands.

FIGURE 4

Orion's UK local analogue radio stations' TSAs



Source: Radio Advertising Bureau mapping.

[✂]

18. [✂]

Retention of GMG Radio by GMG

19. [✂][7]

20. [✂]

National sales agreement

21. In the following section we set out:

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[7] [✂]

(a) the history of GMG Radio's use of a national sales house and the key terms of the current Agreement (paragraphs 1 to 28); and

(b) the rationale for GMG Radio using a third party national sales house (paragraphs 29 to 34).

History and rationale of GMG Radio's use of a national sales house

History of GMG Radio's use of a national sales house

22. GMG Radio has always used a third party national sales house to sell its airtime to London-based agencies. Chrysalis Radio Group represented GMG Radio in the national advertising market from [✂]. [✂] the contract moved to GCap. [✂][8] Bauer told us that for timing reasons, Bauer chose not to proceed with discussions since its strategy at the time was to focus on growing its own business.[9]

23. [✂][10]

24. [✂]

25. [✂][11]

26. [✂]

27. [✂][12,13]

Rationale for the agreement with Global

28. GMG considered [✂]. GMG Radio said that its reasons for using a national sales agent to sell airtime to London-based agencies were as follows:

(a) It was common practice for a small radio group, such as GMG Radio, to use a sales agent when selling airtime to the London-based agencies (which were individually large and owned by media groups).

(b) GMG Radio would incur significant costs if it were to set up its own London agency sales team. It estimated that the annual cost would be £[✂] compared with the current annual cost of hiring Global of £[✂]. GMG Radio argued that, given its lack of experience (as well as the other reasons set out above), it was unlikely that it would generate more revenues than already generated by Global acting as its sales agent. [✂][14]

(c) GMG Radio lacked the scale and presence in London to negotiate with London-based agencies. It argued that generally its stations only covered a limited part of the UK, and in London specifically its only brand, Smooth, ranked 19th in popularity with audiences in London in terms of reach and 25th in terms of listening hours.[15] Without a strong London presence, radio brands such as Real

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[8] [✂]
[9] Bauer told us [✂].
[10] It is terminable on [✂].
[11] [✂]
[12] [✂]
[13] [✂]
[14] [✂] estimate related to the first year without taking into account the incremental cost of GMG Radio establishing its own national sales team.
[15] Calculated by reference to share of listening hours in London. RAJAR Q2 2012.

and Smooth would struggle to feature on the schedules of London-based planners from the large London-based agencies. GMG Radio similarly told us that Global's and GMG Radio's brands were highly complementary. As such, combining both parties' brands created a more attractive proposition for London-based agencies than GMG Radio selling its brands by itself. In particular, London-based agencies were likely to buy Real and Heart together to launch a national campaign given that both stations targeted the same demographic but were geographically complementary (with Real being in the North and Heart being in the South).[16] Additionally, Global could sell Smooth with Heart and Capital, all of which targeted complementary audiences. GMG Radio's stations therefore benefited from being sold with Global's stations. These significant benefits could not be achieved by GMG Radio selling directly or using another sales house.

29. Global argued that GMG Radio's brand awareness was lower among major advertisers and media planners based in London than for stations which had a stronger London presence. In addition, its regional/local stations accounted for just 10.4 per cent of commercial radio listening hours,[17] compared with 36.7 per cent for Global, 24.7 per cent for Bauer and 10.4 per cent for FRS[18] (the only three suppliers of airtime across portfolios of local and regional stations).

30. GMG Radio said that it used Global as its agent because:

(a) Global delivered the maximum benefits for GMG Radio. It considered that no other radio groups were as viable a sales house as Global:

(i) [✂] Specifically it did not have the nationally recognized brands that could be offered as a complement to Real and it did not have the skills or market presence required to market GMG Radio brands to the London agencies. As a result, FRS generated [✂].[19]

(ii) Although a large radio group, Bauer had never acted as a sales agent. It therefore lacked the experience to do so. Additionally, as Bauer was a close competitor to Real in the North, and did not offer a geographic complement to Real in the South, it was not a viable sales house for GMG Radio. Selling GMG Radio brands with Bauer's brands would not offer a more attractive proposition to London-based agencies.

(b) Global created a more efficient negotiation and sales process for the London-based agencies that could negotiate with one radio group rather than Global and GMG Radio separately—this was also for the benefit of GMG Radio which otherwise might not be able to secure a direct contract with the London-based agencies given its lack of scale, presence and recognizable brand in London.

31. [✂] GMG Radio decided to enter into a new agreement with Global, which ran from [✂].

32. Where the GMG Radio board [✂].

33. GMG Radio's board minutes show [✂].

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[16] [✂] per cent of contracted revenues on Real are attributable to campaigns that are also on the Heart network.
[17] RAJAR Q2 2012.
[18] FRS is owned jointly by UTV and The Local Radio Company.
[19] RSL said that FRS generated £[✂] of revenues for Real XS (then Rock Radio) in the period [✂]. In comparison, Global generated revenues amounting to £[✂] for Real XS in the period from [✂].

Competition for listeners

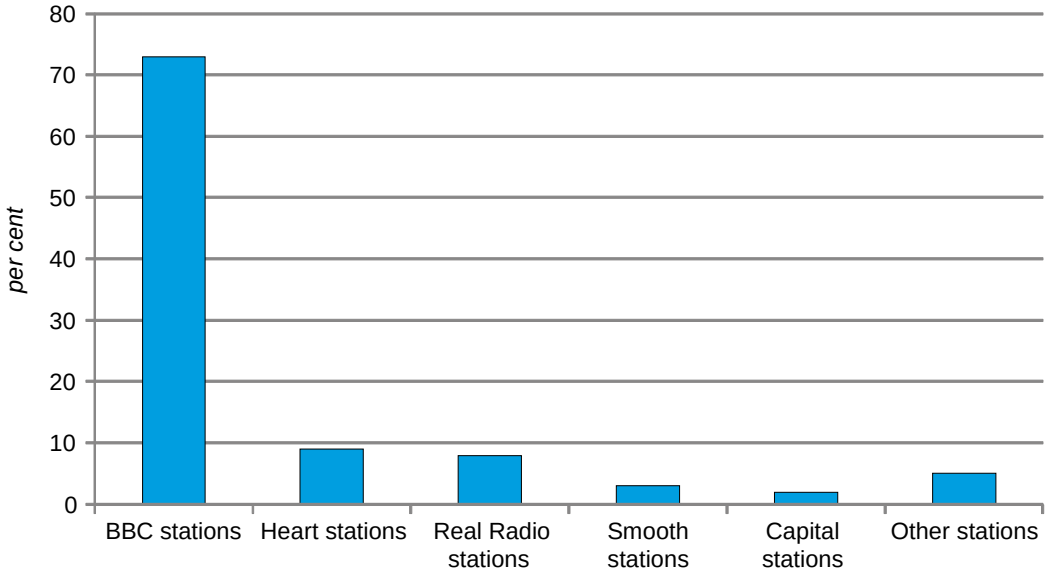
1. Global told us that its main brands competed with BBC radio stations for listeners much more closely than with other commercial radio stations. RSL told us that its main brands were closer competitors with the BBC stations for listeners than they were with other commercial radio stations.

2. We asked other radio companies to list the five closest competitors for listeners to each of their radio stations.[1] The results are shown below. These results include some radio companies that did not include any BBC stations in their list of competitors (possibly because they interpreted the question as relating only to commercial radio station competitors). The stations of these companies represented 7 per cent of all stations on which we obtained information.

3. Figure 1 shows the percentage of stations that stations listed as their closest competitor. We note that the percentage for which a BBC station is listed as their closest competitor is significantly larger than the percentage for which non-BBC stations are listed.

FIGURE 1

Closest competitor station (percentage)



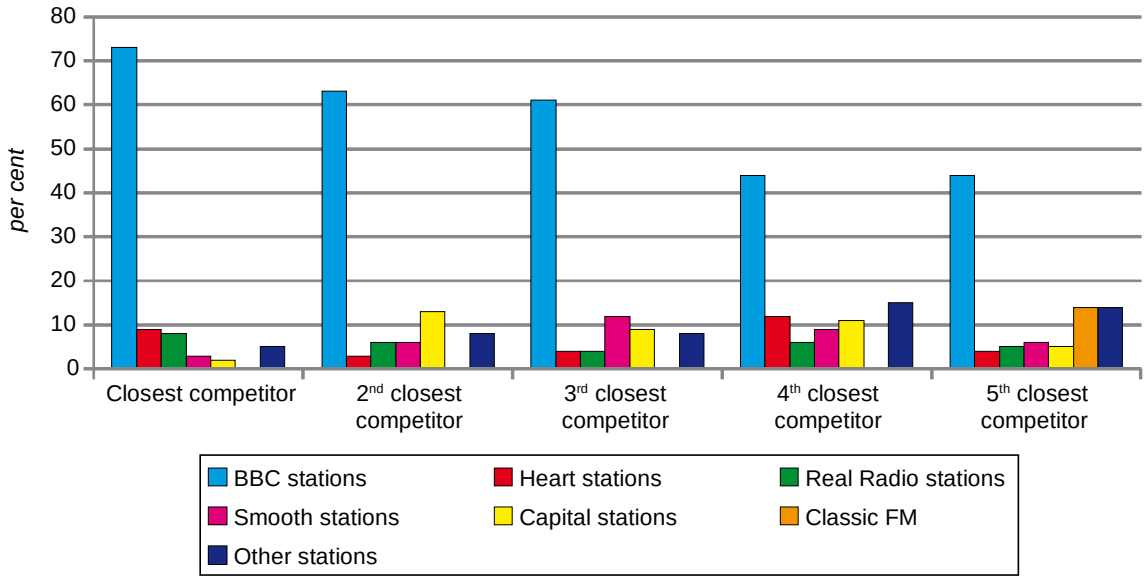
Source: CC analysis.

4. Figure 2 combines the above chart with those for second- to fifth-closest competitors. Again, the percentage of stations for which BBC stations are listed as second- to fifth-closest competitors remains significantly larger than the percentage for which other non-BBC stations are listed.

[1] We asked a similar question of Global and RSL, but they pointed us to their previous statements that the BBC was their main competitor.

FIGURE 2

Closest competitors (percentage)

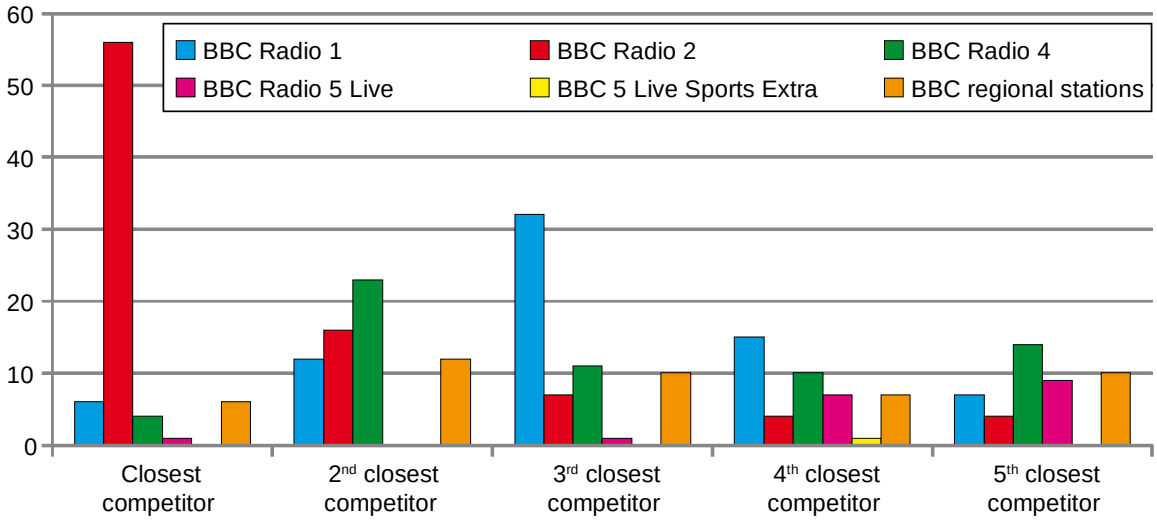


Source: CC analysis.

5. Figure 3 shows the percentage of stations for which particular BBC stations are named as their closest to fifth-closest competitors. Radio 2 is overwhelmingly regarded as stations' closest competitor, whereas for second- to third-closest competitors, Radio 4 and Radio 1 are more significant.

FIGURE 3

Closest competitors—BBC stations (percentage)



Source: CC analysis.

Surveys of customers

Introduction

1. In this appendix we review the two customer surveys that Global commissioned for the purposes of our investigation.

2. The 'lost opportunities' (LO) survey covered non-contracted advertisers who had requested a campaign proposal from Global (between March 2011 and June 2012), but who had eventually declined it. The 'existing customer' (EC) survey covered advertisers who did advertise on Global (between January 2011 and March 2012) or RSL (between April 2011 and March 2012).

3. Global told us that it focused on contacting potential (LO) or actual (EC) clients who advertised directly or through a small agency. For advertisers purchasing via a small agency, Global said that survey interviewers had contacted the advertiser rather than the agent because the advertiser was most likely to make the final decision regarding its media usage.

4. Broadly the same line of questioning was followed in both surveys but, due to the different samples, the precise questions asked were different. The questionnaires are shown at the end of this appendix.

5. Initially the surveys covered six regions (London, the North-East, the West Midlands, the East Midlands, South Wales and North Wales). Following the start of our inquiry, Global extended both surveys to cover three further regions (Scotland, Yorkshire and the North-West) where both Global and RSL had radio stations. The fieldwork for the first six regions was carried out during mid May to mid July 2012 (LO) or early July to early August 2012 (EC) with additional boost during September to October 2012. Fieldwork for the other three regions was carried out in November to December 2012. The total sample size achieved was 698 (LO survey) and 548 (EC survey).

6. In the remainder of this appendix we discuss the methodological issues surrounding these surveys and then discuss the results.

Methodology

7. This section discusses the weight that we consider can reasonably be attached to the results of the two surveys. In doing so, we seek to approach issues around the robustness of these surveys by applying the same principles that we would apply to surveys that we have commissioned ourselves.

8. However, we note two important differences resulting from the fact that the surveys were commissioned, and fieldwork started, before the reference to the CC. First, we were not involved in the decisions about the population to be sampled or the questions to be asked. Secondly, in cases where the CC has commissioned a survey, the survey moderator is involved from the beginning in the survey design and observes the early stages of the fieldwork. This enables the fieldwork to be adjusted to take into account issues arising from the survey moderator's observations.

9. The CC did not commission its own survey of customers. The parties' surveys already attempted contact with all customers in the overlap areas and we considered that it was likely to be difficult to persuade customers to respond to a second, similar

survey. Furthermore, the responses of customers who had participated in the parties' survey would be likely to be conditioned by their having done so, which would make the results of the later survey difficult to interpret.

Lost opportunities survey

10. The parties commissioned YouGov to carry out the lost opportunities survey. The fieldwork for the first six regions (London, the North-East, the West Midlands, the East Midlands, South Wales and North Wales) was conducted by RSM Research (RSM). The fieldwork for the subsequent three regions (Scotland, Yorkshire and the North-West) was conducted by Independent Fieldwork Company Ltd (Indiefield). Indiefield also conducted a small follow-up boost to the sample in the initial six regions, adding another 36 interviews.

11. The total sample size for the lost opportunities survey was 698 advertisers. We recognized that the pre-reference commissioning of the survey meant that there was a longer period to carry out fieldwork than is generally available in a CC merger inquiry. For example, the market research company was able to obtain data from a relatively large number of respondents. The achieved response rate of around 25 per cent is a relatively high response rate for this type of survey. The achieved sample for the seven areas where we have found adverse effects (all except London and the West Midlands) excluding the interviews by the two poor quality interviewers was 461. There are no known issues of under-coverage in the lists provided by Global although it should be noted that the survey only covered Global customers; advertisers who had requested a campaign proposal from RSL were not surveyed.

12. The number of responses achieved for each region varied widely, from 21 in Scotland and 51 in North Wales, to 105 in Yorkshire and in the East Midlands. The confidence intervals around responses for each local area would be much wider than those based on the sample aggregated across all areas. For example, a sample size of 50 would result in a confidence interval of 2 to 18 per cent around a central estimate of 10 per cent, whereas a sample size of 450 would result in a confidence interval of 7 to 13 per cent.

13. The CC's survey moderator visited RSM and Indiefield to assess the quality of the fieldwork by listening to a small sample of interview recordings and asking questions of managers at the two companies. She concluded that the fieldwork had been conducted to a good standard by RSM.[1] However, two of the seven interviewers listened to at Indiefield were very poor, with questions being asked incorrectly both in terms of the question script and the level of prompting of responses. Furthermore, some interviewers appeared to start by asking respondents whether they had advertised on radio in the last three years. It was not clear why this was being done. Indiefield had used one interviewer for approximately half the interviews it conducted for the lost opportunities survey. The survey moderator listened to three of this interviewer's interviews and judged them to be of an acceptable quality.

14. Subsequent information from YouGov confirmed that the two interviewers who the survey moderator identified as having conducted poor quality interviews had, between them, conducted 74 interviews; they had conducted 35 of the 36 boost interviews in the initial sample areas and 39 interviews in the second stage local areas.

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[1] 'Global-GMG Survey Quality Moderator Report' April 2013, Sheila Robinson Associates.

15. YouGov was unable to give the survey moderator any explanation for the additional question before the questionnaire started. However, we were subsequently told that this was due to a programming error of Indiefield (mistakenly screening out those who had not advertised in the last three years due to retaining this screening from the EC survey questionnaire which Indiefield had adapted for the LO survey). It therefore appears that Indiefield did not interview those who had not advertised in the last three years.

16. The LO survey was a relatively simple survey which did not involve hypothetical questions. However, 74 interviews were conducted by the interviewers identified as conducting poor quality interviews, and we consider these should be excluded from consideration. Moreover, the sample is not consistent, as advertisers who had not used radio in the last three years were screened out in interviews carried out by Indiefield but not in those carried out by RSM. For consistency, we consider that analysis should be restricted to advertisers who have advertised on radio in the last three years. We consider that the remaining results, aggregated across all areas, are of reasonable quality.

Existing customer survey

17. The parties commissioned YouGov to carry out the EC survey. The fieldwork was carried out by Indiefield.

18. In the following paragraphs, we consider:

    (a) sample;

    (b) coverage;

    (c) question design; and

    (d) fieldwork.

    We then set out our view of the robustness of the EC results.

(a) Sample

19. The overall achieved sample for the EC survey was 548 out of a total of 2,592 advertisers in the sampling frame, giving an overall response rate of 21 per cent.[2] The achieved sample for the seven areas where we found adverse effects (all except London and the West Midlands) was 461. We noted that it is often difficult to achieve good response rates in business surveys and the survey moderator noted in her report that much work had gone into maximizing the number of responses.

20. We considered the aggregate response rates, absent any other relevant factors, to provide a reasonable number of responses across the nine surveyed areas and across the seven areas where we found adverse effects. The number of responses for each of the nine local areas is relatively small, ranging from 37 in London to 93 in South Wales.

[2] The achieved sample for the LO survey was 698, out of 3,002.

(b) Coverage

21. The sample of customers contacted for the EC survey excluded a segment of Global advertisers who may have been 'marginal customers'. Existing customers who during the period had actively considered advertising on Global's stations for another campaign, but eventually declined Global's offer for that campaign, were included in the LO sampling frame but excluded from the EC sampling frame. Accordingly, we consider that some potential 'marginal' customers, who may have been expected to show a different pattern of responses to the other customers in the EC survey, were excluded from the EC sample.

(c) Question design

22. Our review of the survey design, taking into account the responses, highlighted potential issues with the wording of a key question. Question 11a asked what the respondent would have done with the relevant budget if they had been unable to use the radio station in that period and offered the example 'if there had been no airtime slots available'. 39 per cent of the respondents to this question who gave an answer other than 'don't know' chose the response 'I wouldn't have spent the money at all (ie I would have reduced my overall campaign spend)'.[3]

23. The wording of the first two responses to question 11a is 'Increase my advertising spend on the other media that I also used for that campaign' and 'Increase my advertising spend on different media to those that I used for that campaign'. In our view a reasonable interpretation of the words 'other media' and 'different media' is that they refer to media other than, or different to, radio. Respondents interpreting them in this way, but who would have viewed other radio, including the other merger party, as the next best alternative, would not have found a response to question 11a that accommodated this choice. Some may therefore have answered 'don't know' or 'I wouldn't have spent the money at all' instead.

24. If at question 11a, a respondent interpreted 'other media' and 'different media' as including radio, the questionnaire design is such that they may not necessarily have been given radio as an option in subsequent questions, even if this was their intended choice. For example, consider an advertiser that had responded in question 10[4] that their advertising campaign had used a Global radio station and the local

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[3] See Table 9 below. Q11a of the existing customer survey reads:
I would now like you to think back to the time when you were planning how to allocate your media budget for the last campaign where you used [Insert Global stations identified at Q8]. If you had been unable to use [Insert Global stations identified at Q8] in that period (for example if there had been no airtime slots available at all), what would you have done with the budget you would have spent on [that station/those stations]? [multiple responses allowed, prompted question].
Increase my advertising spend on the other media that I also used for that campaign.
Increase my advertising spend on different media to those that I used for that campaign.
I wouldn't have spent the money at all (ie I would have reduced my overall campaign spend).
I don't know.

[4] Question 10 of the existing customer survey reads:
'**And what media did you end up using in addition to [insert stations identified at Q8]for that campaign (if any)?** [multiple responses allowed, prompted question]
ROTATE CODES
Cinema
Coupon sites – e.g. Living Social, Groupon, Woucher etc
Direct Mail
Directories e.g. Thomson/Yellow pages
Local press
Magazines
Posters and outdoor media
Other radio
Search engines – e.g. Google
Social media – e.g. Facebook

press. If, in the scenario set out in question 11a, they would have spent the budget on another radio station then they may have chosen the response of 'Increase my advertising spend on the other media that I also used for that campaign' (on the basis that radio had already been used for that campaign). The question routing would then lead to question 11.b(i)[5] which would not offer radio as an option.

25. Another issue with this question is that a potential interpretation of the question is that respondents could defer their expenditure until the next time a slot on the same radio station becomes available. This was not the way the question was intended and could have led to an understatement of the proportion of customers choosing the first two options. We queried this with the parties. The parties suggested that the high proportion of respondents answering that they would not have spent the money at all was likely to have been driven by the fact that advertising campaigns were unique: a radio campaign may be tailored to a particular station such that other media alternatives may not be viable alternatives.

26. Our view is that the issues identified above may have reduced the estimated proportion of respondents responding that, if unable to use the Global/RSL station, they would have used other radio stations, including those of the other merger party.

(d) Conduct of the fieldwork

27. YouGov subcontracted the fieldwork for the EC survey to Indiefield. Following a visit to Indiefield during which she listened to five interviews and met with three interviewers and the fieldwork manager, the independent survey moderator raised concerns about the quality of the fieldwork. She subsequently asked for further investigation to be done. In response to this, the parties submitted an analysis of question 11 responses for all EC interviews. Drawing on all of this, the survey moderator advised that the CC should be very cautious in its use of this research in its decision making.[6] In particular we noted from her report that:

- In question 11 respondents were asked what they would do if the Global (or RSL) station used had not been available. Possible answers were not offered to respondents in a consistent manner and the question and the list of possible responses was not always read out. This failure to ask the question correctly and the inconsistency in the way it was asked gives rise to interviewer variance and potential response error.

- One interviewer conducted 205 of the 548 interviews on this survey, with two other interviewers conducting a further 143 interviewers between them. Such concentration of fieldwork is contrary to survey best practice and accentuates the risks of interviewer-induced error. An analysis of interviews conducted by the first interviewer showed a systematically different pattern of responses to those conducted by the other interviewers.

Trade sites relevant to your industry e.g. Rightmove for the property or Autotrader for the motor trade industry
TV
None
Other – specify
Don't know'

[5] Question 11.b(i) of the existing customer survey reads: '**[if 11.a = increase my advertising spend on the other media that I also used for that campaign] You have said that you would increase your advertising spend on the other media that you also used for that campaign. What other advertising media would you have been most likely to spend that money on?** [single response, prompted question]. [insert list of media chosen at 10, include don't know]'.

[6] Survey Quality Moderator Report, Marketing Research Consultancy.

- Survey interviews by the main three interviewers were not evenly distributed across local areas. For example, the first interviewer was responsible for 65 per cent of interviews in the London area, but conducted no interviews in some of the other areas.

28. The parties argued that their analysis suggested that any potential bias introduced by the failure to ask the questions in the right way or by having one interviewer conducting a large number of interviews would result in understating the importance of non-radio alternatives. They therefore concluded that the survey might be viewed as giving a lower bound on the significance of non-radio media as a competitive alternative to the parties' stations (to the extent that any interviewer effect exists).

29. We do not agree with these conclusions for two main reasons. First, the survey fieldwork was subject to a number of different problems which are likely to have introduced bias and made the findings harder to interpret than might otherwise have been the case. An analysis of results relating to individual issues is not therefore informative about the effects of a combination of different problems. Second, we noted that these conclusions related to the use of non-radio media as an alternative, rather than the proportion of customers who would consider one of the other merger party's stations to be their next best alternative (for which no analysis was provided). The parties' analysis of the impact of interviewer effects on customers who chose another radio station as the next best alternative is inconclusive. A finding of note in RBB's analysis was that question 11a was only read out in full as scripted in 11 per cent of interviews.

30. The parties subsequently appointed Philip Malivoire, a market research consultant, to review the findings of the survey moderator. His report[7] acknowledged that 'some interviewers have not followed the instructions accurately'. He listened to 124 interviews, 102 of which were conducted by 'main interviewer 2'. On this basis his view was that 'I believe that at least 90% of respondents have answered question 11 as a whole successfully'.

31. Given that we know the question was only read out as intended in 11 per cent of interviews, our interpretation of his reasoning is that interviewers tried to overcome problems with question 11 by asking questions differently to the questionnaire script. The unclear nature of the question explains why so few interviews were administered as written. While this may provide some reassurance that some of the effects detailed in paragraphs 23 to 25 may have been mitigated by interviewers, it confirms that the question was problematic and that there is likely to be wide variation in the way it was administered by interviewers in the field.

32. The report raises additional concerns about potential errors in the 205 interviews conducted by 'main interviewer 2'. The report asserts that in 76 cases this interviewer had wrongly coded responses to question 11a, coding both 'Increase my advertising spend on the other media that I used for that campaign' and 'Increase my advertising spend on different media to those that I used for that campaign' when only one of these responses was appropriate.

33. Mr Malivoire's report states that: 'In the majority of cases, as I indicated above , the respondent did not answer giving one or other of the options read out to them but told the interviewer what they would have done and the interviewer coded the options available to her as she was best able.'

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[7] 'Global – GMG: Response to Survey Moderator Report', Philip Malivoire, March 2013.

34. This may be true, but the incorrect double coding in question 11a would, in each of the 76 interviews involved, have led to responses needing to be entered for questions 11b(i) and 11c(i). It is unclear whether this would have affected the weight given to intended responses. However, the analysis of 'next best alternative' by interviewer provided by RBB shows an exceptionally high percentage of 'don't know' responses from interviews conducted by this interviewer; 26 per cent compared with 11 per cent across all other interviewers. This would be consistent with this interviewer coding 'don't know' as the response, in some cases, to either question 11b(i) or 11c(i) and this response being treated as a chosen option in the final results.

The robustness of the existing customer survey results

35. Taking into account sample sizes and the issues with the fieldwork in relation to the EC survey, we consider that the survey results need to be interpreted with a great deal of caution. Nevertheless, given the sample size at an aggregate level, we consider that the results are sufficiently robust at this level to attach some weight to them if considered in the context of the other evidence available.

36. We attach minimal weight to the aggregate results from question 11. In our view, this question was badly designed, and, had it been asked as scripted, we believe that it would have led to a downward bias in the proportion of advertisers stating radio as the next best alternative. However, problems in the field meant that interviewers found their own ad hoc ways of asking the question—most abandoned the prompted responses in question 11a that are the main potential source of bias. In view of the problems with both the design and the conduct of the fieldwork for this question, we consider there is so much uncertainty around the responses to this question 11 that we can only attach minimal weight to the results.

37. We do not consider that it is appropriate to attach weight to the local area results, even in relation to the other questions. Samples were small and there are likely to be significant unquantifiable interviewer differences which account for some of the variation in local results. It is therefore difficult to see how meaningful comparisons can be made of results in different local areas and we do not consider that they add informational value beyond the broadly indicative findings in the aggregated results.

Results

38. In this section, we summarize the main results from the surveys. We focus on aggregate results for all nine regions covered by the survey and for the seven regions where we found adverse effects.[8] In relation to the LO survey, we exclude interviews carried out by the two interviewers who the survey moderator identified as having conducted poor quality interviews. As in our provisional findings, as far as possible we exclude 'don't know' responses and any other responses which are unclear.[9]

39. Generally, we consider that the surveys are potentially useful for addressing two linked issues:

    (a) How far advertising on other media is a substitute for advertising on radio (this is relevant to market definition and assessment of competitive effects).

[8] The East Midlands, South Wales, North Wales, the North-West, Yorkshire, the North-East and Scotland.
[9] Provisional findings, Appendix G, paragraph 6.

(b) How far the parties' stations are next best alternatives for each other (this is relevant to assessment of competitive effects).

40. In explaining the reasons for carrying out the LO survey, the parties said that asking respondents about actual choices made would overcome problems of bias and measurement error that hypothetical questions could introduce. In support of this statement, they referred to the OFT/CC joint guidance on good practice in survey design,[10] and to two previous CC merger inquiry reports in which the CC had expressed concerns regarding the reliability of hypothetical questions and where the CC had consequently avoided using such questions.[11]

41. In considering this point, we recognized that our interest is in whether the merger results in a loss of competition. Advertisers who have used radio in the past are more likely than others to be affected by the merger as they are more likely to wish to use Global and RSL stations in future. For instance, an advertiser may have requested a campaign proposal from Global simply to find out more about radio and, in the light of information received, decided that radio is not suited to its needs. Consequently, as we noted in our provisional findings,[12] the responses of advertisers who have used radio in the past are likely to be more informative about the effects of the merger than the responses of other advertisers who had requested a campaign proposal from Global. In any event, the need for a consistent LO sample across all regions requires us to exclude respondents who have not used radio in the last three years (see paragraph 16 above).

42. In considering the effects of the merger on advertisers, a main issue is that advertisers' negotiating position may be weakened for campaigns where the parties' stations are next best alternatives to each other. The EC survey focused on campaigns where advertisers had used a Global or RSL station and is directly relevant to this issue as it is a sample drawn from advertisers who had used a Global or RSL station. The LO survey focused on campaigns where advertisers had considered using a Global station but decided not to, and is also relevant but may be less representative of relevant campaigns if 'lost opportunity' advertisers differ from 'existing customer' advertisers. Excluding LO respondents who had not used radio in the last three years reduces, but does not necessarily eliminate, concern about the representativeness of the LO survey in relation to information on next best alternatives.

43. In sum, for the LO survey, we consider results for respondents who had used radio in the last three years (referred to below as LO R3 sample). We also consider the sub-sample of these respondents who had used Global in the last three years (referred to as LO GL sample). For the EC survey, we consider aggregate results for all respondents. We consider responses for all nine regions covered by the surveys and also responses for the seven regions where we found adverse effects.

Advertising media used in 2011

44. Table 1 shows that most respondents used a variety of advertising media. On average, respondents used almost six different media during 2011, counting 'other' as 1. A high proportion of those who used radio also used local press (80 to 90 per cent), posters and outdoor media (60 to 70 per cent) and magazines (60 to 70 per cent), with others such as social media, search engines and direct mail not far

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[10] OFT/CC, *Good practice in the design and presentation of consumer survey evidence in merger inquiries*, March 2011.
[11] Zipcar Inc./Streetcar Limited merger inquiry and Anglo American PLC/Lafarge S.A. merger inquiry.
[12] Provisional findings, Appendix H, paragraph 47.

behind. The fact that respondents to both surveys used a variety of different media does not indicate that they are substitutes since different media can play different roles for advertisers. Similarly, it does not indicate they are not substitutes at the margin, since advertisers may be able to vary the precise proportions in which different media are used despite their generally different roles. The media used by respondents to the LO survey were similar to media used by respondents to the EC survey, except that more of the latter had used radio. Median advertising spend of LO respondents is slightly above that of EC respondents (though this may be due to spend data from the EC survey being available for fewer respondents, 65 per cent rather than 80+ per cent).

TABLE 1 **Media used in 2011 (LO and EC Q2)**

	Nine regions			*Seven regions*		
	LO R3	*LO GL*	*EC*	*LO R3*	*LO GL*	*EC*
Cinema (%)	2	2	3	3	3	3
Coupon sites (%)	15	14	14	13	13	15
Direct mail (%)	57	57	51	57	55	50
Directories (%)	40	38	38	41	40	38
Local press (%)	86	86	82	89	90	83
Magazines (%)	66	63	60	67	64	57
Posters and outdoor media (%)	67	70	63	67	70	63
Radio (%)	78	84	96	78	85	95
Search engines (%)	54	53	54	54	54	53
Social media (%)	55	54	63	54	52	62
Trade sites (%)	34	28	33	36	29	33
TV (%)	14	16	13	13	17	12
Other (%)	12	13	10	13	13	10
Average number used*	5.8	5.8	5.8	5.8	5.8	5.7
Sample size†	460	167	547	378	136	461
Median ad spend (£'000)‡	25	30	23.5	25	30	23.5
Inter-quartile range (£'000)‡	*10–100*	*10–100*	*8.5–90*	*8.5–100*	*10–100*	*8.5–90*
Sample size for ad spend‡	*396*	*158*	*300*	*315*	*128*	*300*

Source: LO and EC surveys.

*Treats 'other' as 1.
†Sample size after excluding 'don't knows'.
‡Advertising spend on all media, not just radio.

45. In principle, advertisers could be using different media in different campaigns and/or they could be using a number of different media in each campaign. Responses from the EC survey suggest that advertisers do use a number of different media in each campaign but the total number used in an individual campaign is somewhat lower than the total number used in the year (see Table 2).

TABLE 2 **Media used for last campaign in addition to Global/RSL station (EC Q10)**

	Nine regions		*Seven regions*	
	Percentage of respondents	*Percentage of spend**	*Percentage of respondents*	*Percentage of spend**
Cinema (%)	1	3	1	1
Coupon sites (%)	6	10	6	11
Direct mail (%)	23	24	21	25
Directories (%)	11	10	10	13
Local press (%)	55	49	56	49
Magazines (%)	27	36	24	22
Posters and outdoor media (%)	38	43	36	36
Other radio† (%)	26	41	25	43
Search engines (%)	26	28	24	30
Social media (%)	37	38	36	39
Trade sites (%)	10	8	10	9
TV (%)	7	16	6	10
Other (%)	6	7	6	7
None (%)	21	13	21	15
None plus other radio and no other media (%)	25	21	26	27
Average number used‡ (%)	3.5		3.4	
Sample size§	536	479	452	407

Source: EC survey.

*Each respondent is weighted by spend with Global or RSL in the period January 2011 to September 2012.
†Used another radio station as well as the Global/RSL station.
‡Treats 'other' as 1 and includes radio for all respondents.
§Sample size after excluding 'don't knows'. Sample size is lower for percentage of spend as spend data is not available for all respondents.

46. The most popular other media were local press (used by about 55 per cent), posters/ outdoor and social media, with about 25 per cent of respondents using another radio station as well as the Global/RSL station.

47. We additionally analysed responses by respondents' spend (total for airtime and S&P) on Global or RSL stations in the period from January 2011 to September 2012. The results of this analysis suggested that other radio stations and television accounted for a greater proportion of spend, presumably because they were more likely to be used by larger respondents, while respondents answering local press or no other media accounted for a smaller proportion of spend, presumably because these responses were more likely to be made by smaller respondents. Respondents using another radio station accounted for about 40 per cent of spend.

48. Table 2 also suggests that in their last Global/RSL campaign, about 20 per cent of respondents (accounting for about 15 per cent of spend) did not use another medium or another radio station. 25 per cent of respondents (accounting for 20 to 25 per cent of spend) used only radio in the campaign (this comprises those who used only the Global/RSL station and those who used the Global/RSL station and one or more other radio stations but no other media.

Campaign objectives

49. Question 6 of the LO questionnaire and question 7 of the EC questionnaire respectively asked respondents what were their campaign objectives in using radio, prompting with six responses, and then asked which other types of media respondents could use to meet the same campaign objectives as radio. A high proportion of respondents said that their radio campaign objectives included four of the six prompted objectives. These were promoting general brand awareness; selling/ marketing a specific product; promoting a particular sale, launch or event; and

encouraging customers to visit a website. A high proportion of respondents then said they could use other types of media to meet the same campaign objectives as radio. It seems to us that the answers to these questions suggest that for most respondents there is not a rigid divide between their broad campaign objectives using radio and other media. However, these answers do not seem useful in addressing the extent to which other media could substitute for radio within a particular campaign.

50. Global said that responses to these questions showed that advertisers considered media to be interchangeable in meeting their marketing objectives, and that there was therefore no reason to consider that advertisers would not substitute some or all of their budgets between those media based on their relative competitiveness. We do not agree that this can be inferred simply from the fact that different media can meet the same *broad* campaign objectives.

Other media considered for the campaign

51. Question 8 of the LO questionnaire and question 9 of the EC questionnaire respectively asked respondents to think back to the campaign for which they had considered using a Global station and to say which other media they also considered using at the time.

52. We noted two issues with the question:

(a) It asked respondents about the 'other media' that they also considered using at the time, and respondents might not initially have interpreted that to include radio stations other than the Global station they had considered using (see paragraph 23 above). The interviewer instructions prompted for 13 media including 'other radio': if carried out correctly this should have ensured that respondents were aware that 'other media' included radio stations other than the Global station.

(b) The preamble to the question in the LO questionnaire referred to Global's interest in understanding what motivated the decision not to advertise on its station and what the respondent decided to do instead, so some respondents might have only included media used instead of the Global station. However, LO results show that respondents on average considered over four different media (slightly more than EC respondents, see Tables 2 and 3), suggesting that this concern is not borne out in practice (the preamble was not used in EC Q9 which simply asked respondents which other media they also considered using for their last campaign).

TABLE 3 **Other media considered for the campaign (LO Q8 and EC Q9)**

	Nine regions			*Seven regions*		
	LO R3	*LO GL*	*EC*	*LO R3*	*LO GL*	*EC*
Cinema (%)	6	5	4	5	6	3
Coupon sites (%)	10	8	7	9	7	6
Direct mail (%)	38	37	27	39	39	25
Directories (%)	18	14	12	19	16	12
Local press (%)	58	63	58	60	65	59
Magazines (%)	39	37	32	40	40	30
Posters and outdoor media (%)	45	41	39	46	43	36
Radio* (%)	57	49	47	58	53	46
Search engines (%)	32	26	31	32	27	29
Social media (%)	42	41	41	42	42	40
Trade sites (%)	17	13	14	18	15	14
TV (%)	13	13	13	12	13	12
Other (%)	10	10	6	9	8	5
None (%)	10	14	15	9	12	15
Average number used†	4.4	4.2	4.0	4.4	4.3	3.9
Sample size‡	456	166	537	374	135	453

Source: LO and EC surveys.

*Considered another radio station as well as the Global/RSL station.
†Treats 'other' as 1 and includes radio for all respondents.
‡Sample size after excluding 'don't knows'.

53. As illustrated in Table 2, advertisers typically use several different media in a campaign. A medium may appear in Table 3 either because it is a substitute for the Global station or because the advertiser was going to use it anyway (or both). The surveys made no attempt to distinguish between these two possibilities, so Table 3 is not informative of the extent to which respondents considered different media to be substitutes for the Global station. Table 3 suggests that a slightly higher number of media were considered by LO than EC respondents.

54. However, we noted that about 20 per cent of LO respondents only considered one other medium along with the Global station for the campaign. In such cases where the campaign went ahead, responses to LO Q8 are likely to be informative of whether the medium may be a substitute for the Global station.[13] Table 4 summarizes responses for advertisers only considering one other medium.[14] Table 4 suggests that these advertisers considered other radio stations far more often than they considered other media. However, the sample size is small and it is unclear whether these advertisers can be considered representative of all advertisers.

[13] An advertiser considering just two non-substitutable media would be likely to go ahead with advertising on both or neither—if the media are non-substitutable it is not clear why an advertiser would go ahead with a campaign on just one. Hence, if an advertiser does go ahead with a campaign on just one, the media are more likely to be substitutes. Global told us that this logic was obviously incorrect, but did not give reasons for its view.
[14] Results for Global users were similar to those in Table 4 but there were only a small number of respondents in this category and they are therefore not shown in the table.

TABLE 4 **Other media considered for the campaign by advertisers only considering one other medium (LO Q8)**

	Nine regions	*Seven regions*
Cinema (%)	0	0
Coupon sites (%)	3	3
Direct mail (%)	0	0
Directories (%)	0	0
Local press (%)	10	11
Magazines (%)	3	2
Posters and outdoor media (%)	3	2
Other radio* (%)	79	79
Search engines (%)	1	2
Social media (%)	0	0
Trade sites (%)	0	0
TV (%)	1	2
Other† (%)	0	0
Sample size‡	71	62

Source: LO survey.

*Considered another radio station as well as the Global/RSL station.
†Excludes respondents giving no meaningful answer.
‡Number of respondents giving only one other medium excluding any indicating in answer to Q9 that 'campaign never happened').

Media used for the campaign (lost opportunities survey)

55. Question 9 in the LO survey asked respondents what media they ended up using. As this question followed directly on from and referred back to question 8 which asked about the campaign, it cannot be interpreted as indicating which media respondents used as an alternative to the Global station (because, as shown in Table 2, advertisers typically use several different media in a campaign).[15]

56. Aggregate responses to LO Q9 are summarized in Table 5. The figures in Table 5 are percentages of respondents who went ahead with the campaign (and did not answer 'don't know'): this is consistent with our presentation of answers to other questions.[16] About 50 per cent of LO respondents used a radio station and 20 per cent used an RSL station.

[15] Global said that the questions in the LO survey asked advertisers to identify the media they used instead of Global for campaign that it pitched for but lost. In our view, neither Q8 nor Q9 of the LO survey does this: the phrasing of Q8 was ' ... which other media did you also consider using at the time' and the phrasing of Q9 was 'and what media did you end up using', both of which refer to all the media used in the campaign, not just that replacing the Global station. We noted above (see paragraph 52(b)) that respondents might have been influenced by the preceding statement in Q8 about Global's interest in what motivated the decision and what the respondent decided to do instead but we also noted that the data did not support this idea.

[16] The figures in Table 5 therefore exclude respondents not asked the question because they said in answer to LO Q8 that they had not considered any other media, those saying in answer to LO Q9 that they did not advertise and those answering 'don't know' to LO Q9.

TABLE 5 **Media used in the campaign (LO Q9)**

	Nine regions		*Seven regions*	
	LO R3	*LO GL*	*LO R3*	*LO GL*
Cinema (%)	2	2	2	3
Coupon sites (%)	6	1	6	2
Direct mail (%)	36	37	38	38
Directories (%)	13	8	13	9
Local press (%)	55	61	57	63
Magazines (%)	34	30	34	31
Posters and outdoor media (%)	40	42	41	44
Other radio* (%)	50	47	52	49
Of which RSL† (%)	*17*	*19*	*18*	*23*
Search engines (%)	28	24	28	23
Social media (%)	38	39	38	40
Trade sites (%)	12	10	13	12
TV (%)	5	5	5	5
Other (%)	9	10	8	9
Sample size‡	386	135	318	112

Source: LO survey.

*Used a radio station other than the Global station.
†Estimated proportion of relevant respondents who used RSL station (reallocating respondents for which there is no information on the radio station according to responses where there is such information).
‡Respondents who went ahead with the campaign and did not answer 'don't know'—see text.

57. Results for the individual regions surveyed by RSM are shown in Table 6 (LO R3 sample).[17] After excluding respondents who did not go ahead with the campaign, sample sizes are small and we consider we can attach minimal weight to them. We therefore focus on the aggregate results in Table 5.

TABLE 6 **Media used in the campaign (LO Q9, R3 sample)—regional data**

	London	*East Midlands*	*West Midlands*	*North-East*	*South Wales*	*North Wales*
Cinema (%)	0	0	0	2	0	3
Coupon sites (%)	4	4	12	7	2	12
Direct mail (%)	33	48	27	33	46	36
Directories (%)	15	13	12	24	20	15
Local press (%)	52	63	41	56	59	82
Magazines (%)	33	37	32	35	34	36
Posters and outdoor media (%)	37	43	37	45	37	52
Other radio* (%)	41	65	46	58	44	21
Of which RSL† (%)	*4*	22	15	19	34	15
Search engines (%)	37	37	27	27	41	27
Social media (%)	44	43	37	36	54	58
Trade sites (%)	7	24	7	18	10	12
TV (%)	7	2	7	13	5	3
Other (%)	15	4	12	5	17	15
Sample size‡	27	46	41	55	41	33

Source: LO survey.

*Used a radio station other than the Global station.
†Estimated proportion of relevant respondents who used RSL station (reallocating respondents for which there is no information on the radio station according to responses where there is such information).
‡Respondents who went ahead with the campaign and did not answer 'don't know'—see text.

[17] Results for the LO GL sample are not shown as sample sizes are very small. In line with our survey moderator's recommendation, results for the LO R3 sample for three regions surveyed by Indiefield are not shown due to the lower quality of interviewing.

58. For the reason already stated (advertisers typically use several different media in a campaign). Table 5 does not show what advertisers did instead of advertising on Global. In particular, it is not useful for comparing radio with other media (since relatively fewer advertisers use a second radio station in the campaign than use other media, see Table 2). For example, comparing Table 5 (LO R3) and Table 2 for the seven regions: 52 per cent used another radio station in a campaign without the Global station compared with 25 per cent in a campaign with a Global station (increment of 27 per cent) whereas 57 per cent used local press in a campaign without the Global station compared with 56 per cent in a campaign with a Global station (increment of 1 per cent).

59. Global disagreed with our view that the responses to LO Q9 shown in Table 5 could not be used to assess the media that were close substitutes for Global's stations because LO Q9 did not ask respondents what they did instead of advertising on a Global station. Global said that the preamble that preceded both LO Q8 and Q9—two questions which were asked together as a set—stated that Global was interested in understanding what advertisers did instead of using its stations. Therefore, Global said, our assessment of the LO survey was based on an assumption that respondents failed to understand the context of this suite of questions; Global also noted that the survey moderator's report made no mention of this concern, nor was mention made when the CC encouraged Global to extend the scope of the LO survey to a wider range of areas. We do not agree with these points. Whatever was said in the preamble, the question asked of respondents was 'what media did you end up using'. There is no reason to suppose that respondents answered any other question, particularly in view of the number of media considered (see paragraph 52b). Consequently, there was no reason for the survey moderator to mention this point. In regard to the extension of the survey to more areas, we note that the survey had already been carried out for the majority of areas and that it was important for there to be consistent data across all areas, so comment on the drafting of individual questions at this stage would have been pointless.

60. As already noted (see paragraph 56), Table 5 suggests that about 50 per cent of lost opportunities to Global who went ahead with the campaign subsequently advertised on another radio station, and about 20 per cent on a RSL station. This is not a simple estimate of the extent to which advertisers used RSL stations instead of Global stations because the campaign might have included the RSL station even if the advertiser had used the Global station (see paragraph 55).

61. In its response to our provisional findings, Global said that we had failed to use the most recent data from the LO survey, which clearly demonstrated that only 8 per cent of respondents had used an RSL station having declined a proposal by Global.[18] The reasons for our figure of about 20 per cent exceeding the 8 per cent figure quoted by Global are:

(a) The 8 per cent Global figure is incorrectly calculated as it excludes from the numerator advertisers saying they used an RSL station in the three regions covered by the most recent survey work but includes all respondents in the denominator.

(b) The Global figure also did not take into account a small number of responses which mentioned an RSL station as an 'other' radio station at Q9c.

[18] Global's response to the provisional findings, paragraph 4.12.

(c) We have excluded from the analysis 'don't knows' and respondents who did not proceed with the campaign (and those who were not asked the question because they said they did not consider any other media in answer to LO Q8).

(d) Our figures cover only respondents who used radio in the last three years.

Media that would have been used if respondents had been unable to use Global/RSL station

62. In this section, we set out information from the surveys on the media that respondents would have used if unable to use a Global/RSL station.[19]

63. As already discussed, the LO survey did not include a question asking respondents what they did instead of advertising on the Global station. It is unclear to us why it did not do so (any concern that respondents would have recalled advertising on other radio stations more readily than other alternatives could have been dealt with by probing for other media). However, we considered using data from the two surveys to cast light on the question of what respondents did instead of advertising on the Global station. We did this by subtracting from the proportion of advertisers who advertised on each medium when they did not advertise on a Global station (ie the LO survey result) the proportion of advertisers who used each medium as well as the Global station when they did advertise on the Global station (from the EC survey Q10, see Table 2),[20] and adding in the estimated proportion who increased advertising on a medium they used anyway (from the EC survey Q11). See Annex 1 for more detail. The results of this analysis are in Table 7. We regarded this as a possible alternative to simply taking the results from EC Q11 (shown below in Table 9).[21] However, the last step in Table 7 still uses the EC Q11 results (albeit to a lesser extent than the results in Table 9) and an additional margin of error arises from combining data from two independent samples (LO respondents and EC respondents). The analysis also assumes that the LO and EC respondents are similar (except for sampling variation) which may not be valid. In the light of these points, we regard the results as too uncertain to place more than minimal weight on, but we report them for the sake of completeness.

[19] In this section, we only report results for the seven regions where we found a competition problem.
[20] We also adjusted the EC Q10 proportion for differences between the LO and EC samples as reflected in responses to the question on media considered (see Table 3).
[21] It is not possible to carry out the same analysis just for RSL stations because the EC survey did not include a question asking respondents which other radio station they used in addition to the Global station.

TABLE 7 **Media used to replace advertising on Global (CC estimates)**

	LO R3	*LO GL*
Cinema (%)	0	1
Coupon sites (%)	1	1
Direct mail (%)	7	7
Directories (%)	0	0
Local press (%)	10	12
Magazines (%)	2	1
Posters and outdoor media (%)	5	5
Other radio* (%)	33	32
Search engines (%)	3	2
Social media (%)	2	4
Trade sites (%)	1	1
TV (%)	1	2
Other (%)	0	0

Source: CC estimates based on LO and EC survey responses.

*Used a radio station other than the Global station.

64. Question 11 of the EC survey asked respondents what they would have done with the budget spent on the Global/RSL station if they had been unable to use that station. As already noted (see paragraph 36), we consider that there is so much uncertainty around the responses to this question that we can only attach minimal weight to the results. We nevertheless include the results for the sake of completeness. As with the LO survey (see paragraph 63), it is unclear why the EC survey did not include a simple question asking respondents what they would have done if they had not advertised on the Global/RSL station (with any concern that respondents would have recalled advertising on other radio stations more readily than other alternatives dealt with by probing for other media).

65. Table 8 shows respondents' use of existing media and the extent to which they would have used their existing media if the Global/RSL station was not available. For example, 56 per cent of respondents said they used local press in the campaign and 9 per cent of all respondents (17 per cent of those using local press in the campaign) said that if they had been unable to use the Global/RSL station they would have increased their advertising spend on other media used in the campaign and would have been most likely to increase spending on local press. And 25 per cent of respondents said that they used other radio in the campaign with 10 per cent of all respondents (41 per cent of those using other radio in the campaign) saying that if they had been unable to use the Global/RSL station they would have increased their advertising spend on other media used in the campaign and would have been most likely to increase spending on other radio stations.

TABLE 8 **Existing media used if Global/RSL station not available (EC Q11a and 11b, seven regions)**

	*Used in campaign**	*Increased spending†*	
	Percentage of respondents	*Percentage of respondents*	*Percentage of those using this media‡*
Cinema (%)	1	0	0
Coupon sites (%)	6	0	8
Direct mail (%)	21	1	5
Directories (%)	10	0	2
Local press (%)	56	9	17
Magazines (%)	24	1	4
Posters and outdoor media (%)	36	4	10
Other radio§ (%)	25	10	41
Search engines (%)	24	2	7
Social media (%)	36	2	5
Trade sites (%)	10	0	4
TV (%)	6	1	21
Other (%)	6	0	0
No answer to first 3 options at Q11a (%)		9	
Sample size¶	452	452	

Source: CC calculations based on EC survey responses.

*Percentage of respondents who used media in campaign (see Table 2).
†Percentage of respondents who said that they would have increased spend on the other media used in the campaign and said that this was the media on which they would have been most likely to increase spending. The data shows that 86 respondents answered 'don't know' to Q11b(i). For these respondents we checked the media shown in response to Q11c(i), but in none of these cases was a medium chosen that the respondent said was used at Q10. We note that the Malivoire survey moderator report identifies problems with the coding of responses to Q11, which may explain an incorrect coding of 'don't know' answers to Q11b(i).
‡Percentage of respondents using this media who would increase spending if the Global/RSL station was not available.
§Used a radio station other than the Global/RSL station.
¶Excludes 'don't know' responses to Q10. Respondents answering no to the first three options at Q11a are included for consistency with Table 2.

66. Table 9 shows an analysis of responses to all parts of question 11. The first three columns show respectively the percentage of respondents choosing each medium in response to the first option in question 11a (increase advertising spend on other media used in the campaign), to the second option (increase advertising spend on different media to those used in the campaign) and to either the first or second option. The fourth column shows the percentage of revenue accounted for by respondents choosing either the first or second option. The final two columns then present further 'adjusted' results which down-weight responses from respondents stating they would use more than one medium or more than one radio station.[22] For example, if respondents said that they would use two radio stations a weight of half was attached to each.[23]

[22] A small proportion of respondents said that they would both increase spending on the other media used in the campaign and on different media not used in the campaign, so there is only a small difference in the percentage for each media between the fifth/sixth and third/fourth columns. There is a larger difference in the percentage of respondents stating they would use a station of the other merging party since responses for the radio stations given by respondents who said 'other radio' were multiple-coded (even though responses for each media were single-coded).
[23] Our analysis in the final two columns also removes some inconsistencies in responses, which may be attributable to the coding errors referred to in the Malivoire report (see note to the table).

TABLE 9 **Media used if Global/RSL station not available (EC Q11, seven regions)**

	Existing media	*New media*	*Existing and new media*		*Existing and new media (adjusted data)**	
	Percentage of respondents	*Percentage of respondents*	*Percentage of respondents*	*Percentage of spend†*	*Percentage of respondents*	*Percentage of spend†*
Cinema (%)	0	1	1	0	1	0
Coupon sites (%)	0	0	1	0	1	0
Direct mail (%)	1	1	2	3	2	2
Directories (%)	0	0	0	0	0	0
Local press (%)	10	3	13	8	12	7
Magazines (%)	1	2	3	3	3	2
Posters and outdoor media (%)	4	2	6	4	6	3
Other radio‡ (%)	11	15	25	43	24	41
Other merging party (%)			*14*	*22*	*10*§	*17*§
Search engines (%)	2	1	3	3	3	3
Social media (%)	2	1	3	3	3	3
Trade sites (%)	0	0	0	0	0	0
TV (%)	1	1	3	8	3	6
Other (%)	0	7	7	5	6	6
Wouldn't have spent the money (%)			39	28	37	26
Sample size¶	420	420	420	372	420	372

Source: CC calculations based on EC survey responses.

*Where respondents answered yes to both the first two options in Q11a and provided responses to both Q11b and Q11c, a weight of half is attached to the most likely media at Q11b and Q11c. Responses of 'don't know' to Q11a and 'don't know' or 'none' to Q11b and Q11c are excluded. Where respondents gave another media in answer to the first or second option at Q11a, a consistent response to the third option (ie that they would have spent some money) is imposed.
†Each respondent is weighted by spend with Global or RSL over the period January 2011 to September 2012.
‡Used a radio station other than the Global/RSL station.
§Where respondent gave more than one radio station, equal weights have been allocated to each (eg if the respondent gave two stations each has been weighted half). Where a respondent answered other radio but did not give the name of the radio station or gave another station owned by the same company as used for the campaign, responses have been distributed equally between the other merging party and third party radio companies.
¶Excludes respondents answering no to the first three options at Q11a and respondents who answered yes to one or both of the first two options at Q11a but gave no other media in response to Q11b and Q11c. Hence percentages in second column are slightly higher than those in second column of Table 7 above (which included these respondents unless they answered don't know to Q11b. Also excludes two respondents who said they would increase spend on different media but gave as the different media only another radio station owned by their existing provider. Sample size is lower for percentage of spend as spend data is not available for all respondents.

67. The interpretation of the unadjusted and adjusted results in Table 9 is slightly different.

(a) The unadjusted results (third and fourth column of Table 9) simply show the percentage of respondents (and spend accounted for by these respondents) saying that, if the Global/RSL station was unavailable, they would use each other medium and each radio station. These results suggest that, if they had been unable to use the Global/RSL station, 25 per cent of respondents (accounting for 43 per cent of total spend) said that they would have been most likely to use other radio stations, with 14 per cent of respondents (accounting for 22 per cent of total spend) saying they would use a radio station of the other merging party. The next highest percentage is for local press—13 per cent of respondents (accounting for 8 per cent of total spend) said that they would use local press.

(b) The adjusted results (fifth and sixth column of Table 9) down-weight responses where more than one medium or radio station was given and hence sum to 100 per cent (for reasons set out in the footnote to the previous paragraph, the adjustment mainly affects responses for individual radio stations). These results suggest that, if they had been unable to use the Global/RSL station, 24 per cent of respondents (accounting for 41 per cent of total spend) said they would have been most likely to use other radio stations, with 10 per cent of respondents

(accounting for 17 per cent of total spend)[24] saying they would use a radio station of the other merging party. The next highest percentage is for local press—12 per cent of respondents (accounting for 7 per cent of total spend) said they would use local press.

68. Global said that the EC survey showed that 24 per cent of the parties' customers viewed other radio stations as their next best alternatives but 39 per cent took this view of other media (sum of non-radio media from Table 9, fifth column).[25] Global said this implied that non-radio media alternatives competed more closely with the parties than other radio stations. However, we do not think this would be a sound inference, even if the results had been sufficiently reliable to place more than minimal weight on:

(a) This point does not emerge from the analysis by spend in the fourth and sixth columns of Table 9.

(b) It also does not emerge clearly from the other comparisons: it does not emerge from Table 4 nor clearly from Table 7 (where the two are approximately equal).

(c) The surveys are less useful for comparing radio with all non-radio media than with any individual non-radio media. The interviewers prompted for a list of 13 media of which only one was 'other radio', suggesting a framing bias against other radio (also, respondents would be more likely to choose another media by mistake as there were 12 opportunities to do so).[26] A fair comparison of 'other radio' with a total for non-radio media would have required respondents to be offered two options—radio and other media—and then a further question for those saying yes to one or both, asking which other media/other radio station respondents would have used.

69. Global also said that the survey responses showed that non-radio media, and press even taken on its own, were a more important competitive constraint than the other party's stations. In relation to all non-radio media this is supported by Table 9, though we would note again the point made in paragraph 68(c). It is not supported by Table 9 for press taken on its own (see third, fourth, fifth and sixth columns of Table 9).[27]

Importance of cost and reaction to hypothetical price changes

70. In question 3 of both surveys, respondents were asked in respect of each medium they had used in 2011 the importance of cost in deciding which media to use. A high proportion of respondents considered that cost was very important for each medium—at least 45 per cent for LO respondents and 60 per cent for EC respondents—with most of the remaining respondents in both surveys considering cost somewhat important for all media. The figures for radio were close to the average for all media in both surveys.[28]

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[24] Our current estimate that respondents saying they would be most likely to increase spending on a station of the other merging party account for 17 per cent of total relevant respondents' spend with Global/RSL compares with our estimate of 9 to 11 per cent in our provisional findings. The reasons for the difference are that our current estimate covers only the seven regions where we have found adverse effects and that for this report we have made a more precise calculation of respondents' spend.
[25] Global's response to the provisional findings, part 2, paragraph 3.6(iv).
[26] This assumes the list of media was read out on at least some occasions.
[27] Tables 4 and 7 do not include information about respondents considering the stations of the other merging party, due to the relevant questions not having been asked.
[28] The results quoted in this section relate to the seven regions.

71. Question 10 of the LO survey asked respondents what they would have done if the Global station had been 5, 10 and 15 per cent cheaper, and question 12 of the EC survey asked respondents what they would have done if the Global/RSL station had been 5, 10 and 15 per cent more expensive.

72. Results for the LO survey suggest that a 5 per cent lower price would have made no difference to many respondents, see Table 10, while results for the EC survey suggest that a 5 per cent higher price would have prompted most respondents either to switch spend away or to reduce the amount of advertising with Global/RSL so that total spend did not increase, see Table 11. For larger price changes, the likelihood of switching increased.

TABLE 10 **What respondents would have done if Global's campaign proposal had been [X] per cent cheaper (LO Q10, seven regions)**

	LO R3 sample		
Price reduction (%)	*5*	*10*	*15*
I would have been very likely to choose the Global Radio station (%)	5	16	28
I would have been somewhat more likely to choose the Global Radio station (%)	28	38	37
It would have made no difference (%)	64	46	31
No answer (%)	2	0	3
Sample	378	378	378
	LO GL sample		
I would have been somewhat more likely to choose the Global Radio station (%)	26	36	29
I would have been very likely to choose the Global Radio station (%)	10	27	38
It would have made no difference (%)	57	37	24
No answer (%)	6	0	9
Sample	136	136	136

Source: CC calculations based on LO survey responses.

TABLE 11 **What respondents would have done if the cost of advertising on Global/RSL had increased by [X] per cent (EC Q12, seven regions)**

	per cent		
Price increase	*5*	*10*	*15*
Switch the majority of my spend away	38	67	82
Switch a proportion of my spend away	11	10	7
Continue advertising but with less airtime for the same budget	41	18	9
Continue advertising and pay the additional amount	7	3	2
Don't know	2	2	1

Source: CC calculations based on EC survey responses.

73. We noted that as mentioned in paragraph 40 above and as noted in the OFT/CC guidance on survey best practice,[29] one of the main sources of bias in a survey is hypothetical bias, where a consumer may indicate a willingness in principle to spend money or change behaviour, which does not reflect their likely real response to the situation described.

74. We believe that there is a particular problem about such hypothetical questions when prices are negotiated since answering the questions requires respondents to ignore the usual negotiation over prices and assume the radio company makes a take-it-or-

[29] Op cit. The guidance refers specifically to price increases, but similar points would apply to questions about price reductions.

leave-it price offer. Moreover, respondents may regard acceptance of higher prices as a reflection of their individual negotiating skill. In relation to the EC survey, respondents may be reluctant to indicate acceptance of higher prices to Global/RSL as this might weaken their bargaining position with Global/RSL in future negotiations (respondents were informed earlier in the questionnaire that the interviewer was working on behalf of the owner of the station concerned). Overall, we consider that the interpretation of responses to the price sensitivity questions (particularly the EC survey, where respondents were asked about higher prices) is unclear.

Summary

75. Based on our survey moderator's report, we consider that some of the interviews for the LO survey were of poor quality. However, after excluding these interviews we consider the remaining LO results, aggregated across all areas, to be of reasonable quality. Unfortunately, interpretation of the LO responses is difficult because respondents were not asked what they did instead of advertising on the Global survey.

76. Turning to the EC survey, we noted issues with the fieldwork which mean the survey results are subject to a wide and unquantifiable margin of error and need to be interpreted with a great deal of caution. Nevertheless, given the sample size at an aggregate level, we consider that some weight can be attached to the results if considered in the context of the other evidence available.

77. Within the EC survey, we noted the excessively complex approach to asking respondents what they would have done if the Global/RSL station was not available and that responses to this question (EC Q11) were subject to particular uncertainty. Accordingly, we attach minimal weight to these responses in reaching our conclusions.

Estimate of media used to replace advertising on Global

1. We estimated the media used to replace advertising on Global using data from the LO and EC surveys as follows.

   (a) We adjusted the percentage of respondents using each medium in the EC survey (see Table 2 above) for the difference between LO and EC respondents in the percentage considering each medium for the campaign. This was, as far as possible, to remove differences between the samples.

   (b) We calculated the difference in the percentage of respondents using each medium in campaigns with and without Global by subtracting the adjusted percentage of respondents in the EC survey from the percentage in the LO survey.

   We need to allow also for the fact that some of those who use each medium as well as Global stations may increase their use of this media if Global is not available.

   (c) We therefore calculate the proportion of respondents who increase spending on each medium due to Global stations not being available (see Table 7 which uses data from the EC survey).

   (d) Finally, we calculate the total use of each medium to replace Global as the sum of *(b)* and *(c)*.

2. Table 1 shows step *(a)*—adjusting the percentage of respondents using each medium in the EC survey for the difference between LO and EC respondents in the percentage considering each medium for the campaign. Taking social media as an example, the EC survey showed that 36 per cent used social media for the campaign when 40 per cent had considered using it for the campaign, and the LO survey showed that a slightly higher percentage considered social media for the relevant campaign (42 per cent): the adjusted figure is then 36 per cent multiplied by the ratio of those considering using social media in the LO survey to those considering using it in the EC survey (42/40=1.06), ie about 38 per cent.[1]

[1] Percentages quoted may be affected by rounding.

TABLE 1 **Adjustment of EC results for difference between LO and EC respondents in the percentage considering each medium for the campaign**

per cent

	Percentage considering each medium		
	EC	*LO R3*	*LO GL*
Cinema	3	5	6
Coupon sites	6	9	7
Direct mail	25	39	39
Directories	12	19	16
Local press	59	60	65
Magazines	30	40	40
Posters and outdoor media	36	46	43
Other radio†	46	58	53
Search engines	29	32	27
Social media	40	42	42
Trade sites	14	18	15
TV	12	12	13
Other	5	9	8

	Percentage using each medium	*Adjusted EC percentage using each medium* based on sample for*	
	EC	*LO R3*	*LO GL*
Cinema	1	2	2
Coupon sites	6	9	7
Direct mail	21	33	33
Directories	10	16	14
Local press	56	56	62
Magazines	24	33	32
Posters and outdoor media	36	46	43
Other radio†	25	32	29
Search engines	24	27	23
Social media	36	38	38
Trade sites	10	13	11
TV	6	7	7
Other	6	10	9

Source: CC calculations based on EC and LO survey responses.

*The adjusted percentage using each medium is the per cent using each medium from the EC survey multiplied by the ratio of the percentage considering each medium from the LO survey to the percentage considering each medium from the EC survey.
†Used a radio station other than the Global/RSL station.

3. Table 2 shows step *(b)*—subtracting the adjusted percentage of respondents in the EC survey using each medium from the actual percentage using each medium in the LO survey. So, for social media in the LO R3 sample, we subtract the 38 per cent adjusted percentage calculated in Table 1 for the EC survey from the 38 per cent figure shown as using social media in the LO survey (see Table 5 above), giving 0 per cent as shown in Table 2. For the LO GL sample, we subtract the 38 per cent adjusted percentage calculated in Table 1 for the EC survey from the 40 per cent shown in Table 5 as using social media), giving 2 per cent as shown in Table 2.[2]

[2] If the Table 1 adjusted EC percentage is larger than the Table 5 LO percentage, the result is constrained to zero.

TABLE 2 **Difference between LO and EC respondents (adjusted) in the percentage using each medium for the campaign**

	per cent	
	LO R3	*LO GL*
Cinema	0	1
Coupon sites	0	0
Direct mail	5	5
Directories	0	0
Local press	1	2
Magazines	1	0
Posters and outdoor media	0	1
Other radio*	20	21
Search engines	1	0
Social media	0	2
Trade sites	0	1
TV	0	0
Other	0	0

Source: CC calculations.

* Used a radio station other than the Global station.
Note: Figures in the above table reflect the difference between the per cent of respondents in the LO survey (see Table 5) and the adjusted EC percentage (see Table 1).

4. Table 3 shows step *(c)*—estimating the proportion of respondents using each medium in the absence of Global who would increase spending on that medium if Global was not available. We take the adjusted percentage of respondents using each medium from Table 1 and multiply it by the proportion of respondents who would increase if Global was not available (see third column of Table 7). So, for social media, we multiply the 38 per cent adjusted percentage using social media calculated in Table 1 by the 5 per cent shown in Table 7 who would increase spending on social media if Global was not available, giving 2 per cent.

TABLE 3 **Estimated per cent of LO respondents (adjusted) who would increase spending on each medium**

		per cent	
	Proportion	*LO R3*	*LO GL*
Cinema	0.00	0	0
Coupon sites	0.08	1	1
Direct mail	0.05	2	2
Directories	0.02	0	0
Local press	0.17	9	10
Magazines	0.04	1	1
Posters and outdoor media	0.10	5	5
Other radio*	0.41	13	12
Search engines	0.07	2	2
Social media	0.05	2	2
Trade sites	0.04	1	0
TV	0.21	1	2
Other	0.00	0	0

Source: CC calculations.

* Used a radio station other than the Global station.
Note: The estimated per cent is the adjusted percentage from Table 1 multiplied by the proportion of those increasing their use of each medium to all users of the media in the EC survey (see third column of Table 7).

5. Table 4 shows step *(d)*: adding together the figures in Tables 2 and 3 to give the estimated total use of each medium as a replacement for the Global radio station. So for social media for the LO R3 sample we have 0 per cent from Table 2 plus 2 per cent from Table 3 giving 2 per cent and for the LO GL sample we have 2 per cent from Table 2 plus 2 per cent from Table 3 giving 4 per cent.

TABLE 4 **CC estimates of the media used instead of Global**

per cent

	LO All	*LO R3*	*LO GL*
Cinema	0	0	1
Coupon sites	1	1	1
Direct mail	8	7	7
Directories	0	0	0
Local press	12	10	12
Magazines	3	2	1
Posters and outdoor media	5	5	5
Other radio*	25	33	32
Search engines	3	3	2
Social media	2	2	4
Trade sites	1	1	1
TV	1	1	2
Other	0	0	0

Source: CC calculations.

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* Used a radio station other than the Global station.
Note: Figures in the above table are the sum of those in Tables 2 and 3. The figure shown in Table 4 is not necessarily the sum of the rounded figures in Tables 2 and 3 due to rounding errors.

Appendices 1 and 2 from YouGov technical report showing copies of the lost opportunities and existing customer questionnaires

Appendix 1: Lost Opportunities Questionnaire

Example of introduction: *"Hello. My name is ….. I am calling from [YouGov], the independent market research company. We are currently carrying out a survey to understand how advertisers make advertising decisions. We are acting for a media company which we understand you expressed an interest in advertising with in the past year. I will disclose the media company's name during the survey, but first I would like to ask you a few general questions. The whole survey should take no longer than 10 minutes and I assure you that all your answers will be completely anonymous and treated in the strictest confidence." [If respondent pushes back reveal identity of media company]*

No	
Q1A	**INTERVIEWER INSTRUCTION: ASK 50% OF SAMPLE Q1 UP FRONT AND ASK 50% AFTER Q4** **Can you tell me approximately what your total advertising spend was in 2011?** Numeric Range: Permitted Range 0 TO 10000000 (Numeric Range) Don't Know [If 0 end questionnaire]
2	**Thinking about your total advertising spend in 2011, what did you spend that budget on?** [multiple responses allowed, prompted question] ROTATE CODES Cinema Coupon sites - e.g. Living Social, Groupon, Woucher etc Direct Mail Directories - e.g. Thompsons /Yellow pages Local press Magazines Posters and outdoor media Radio Search engines – e.g. Google Social media – e.g. Facebook Trade sites relevant to your industry e.g Rightmove for the propertyor Autotrader for the motor trade industry TV Other – specify Don't know
3	**You have told me that you used [insert options specified at 2]. How important was cost in deciding which media to use?** [single response, prompted question] Very important Somewhat important Not very important Not at all

	Don't know
4	**And what other types of media did you consider using in addition to those that you have told me about?** [multiple responses, prompted answer. Respondents allowed to not choose any options] INSERT LIST OF OPTIONS SPECIFIED AT QUESTION 2 MINUS OPTIONS CHOSEN IN RESPONSE TO QUESTION 2
Q1B	**Can you tell me approximately what your total advertising spend was in 2011?** Numeric Range: Permitted Range 0 TO 10000000 (Numeric Range) Don't Know [If 0 end questionnaire]
5	**[*If Radio not chosen in Question 2*] Have you advertised on radio at all in the last three years?** Yes No Don't know **[If no or don't know proceed to Question 8]**
6	**[If radio=yes at Question 2 or 5] What are your campaign objectives in using radio?** [multiple responses allowed, prompted question] To promote general brand awareness To sell/market a specific product To promote a particular sale, launch or event To encourage customers to visit a website To encourage customers to visit a local store To communicate a not for profit message Other, please specify
7	**What other types of media could you use to meet the same campaign objectives as radio?** [multiple responses, prompted answer. Respondents allowed to not choose any options] ROTATE CODES Cinema Coupon sites - e.g. Living Social, Groupon, Woucher etc Direct Mail Directories e.g. Thompsons /Yellow pages Local press Posters and outdoor media Magazines Search engines – e.g. Google Social media – e.g. Facebook Trade sites relevant to your industry e.g Rightmove for the propertyor Autotrader for the motor trade industry TV Other – specify

	Don't know
8	**As I mentioned earlier, we are acting on behalf of a media company. That media company is Global Radio which owns the [INSERT STATIONS' NAMES DEPENDING ON AREA, SEE ATTACHED SPREADSHEET] radio stations. We understand that you discussed advertising on one of these stations in the last year but decided not to go ahead and book a campaign. Global Radio is interested in understanding what motivated that decision and what you decided to do instead (if anything). Thinking back to that campaign - which other media did you also consider using at the time?** [multiple responses, prompted answer. Respondents allowed to not choose any options] ROTATE CODES Cinema Coupon sites - e.g. Living Social, Groupon, Woucher etc Direct Mail Directories e.g. Thompsons /Yellow pages Local press Magazines Posters and outdoor media Other radio Search engines – e.g. Google Social media – e.g. Facebook Trade sites relevant to your industry e.g Rightmove for the propertyor Autotrader for the motor trade industry TV Other – specify None of these
9.a	**And what media did you end up using?** [multiple responses allowed, prompted question] ROTATE CODES Cinema Coupon sites - e.g. Living Social, Groupon, Woucher etc Direct Mail Directories e.g. Thompsons /Yellow pages Local press Magazines Posters and outdoor media Other radio Search engines – e.g. Google Social media – e.g. Facebook Trade sites relevant to your industry e.g Rightmove for the propertyor Autotrader for the motor trade industry TV Nothing (i.e. did not advertise) Other – specify
9.b	**[If multiple responses to 9.a] Roughly what proportion of your budget did**

	you spend on each alternative? ROTATE CODES, ONLY READ OUT CODES SELECTED AT Q9A. Cinema [0%-100%] Coupon sites - e.g. Living Social, Groupon, Woucher etc [0%-100%] Direct Mail [0%-100%] Directories e.g. Thompsons /Yellow pages [0%-100%] Local press [0%-100%] Magazines [0%-100%] Posters and outdoor media [0%-100%] Other radio [0%-100%] Search engines – e.g. Google [0%-100%] Social media – e.g. Facebook Trade sites relevant to your industry e.g Rightmove for the propertyor Autotrader for the motor trade industry [0%-100%] TV [0%-100%] Other – specify [0%-100%]
9.c	**[If 9.a = other radio] Which other radio stations did you use?** [prompted, multiple responses allowed] [SEE ATTACHED EXCEL SPREADSHEET FOR LIST OF STATIONS BY REGION EXCLUDING GLOBAL STATIONS] Instruction to interviewer: Please list the stations in the particular region (as per the sample spreadsheet) but also include an "other" prompt at the end of the list.
10	**ASK 50% OF SAMPLE Q10 AND 50% OF SAMPLE Q10A-C** **If the campaign proposed by the Global radio station that you thought of advertising on had been 10% cheaper (i.e. if it had offered you the same slots with a discount of 10% off the quoted price) how would that have affected your decision?** [single response, prompted] I would have been very likely to choose [INSERT GLOBAL STATION'S NAME] I would have been somewhat more likely to choose [INSERT GLOBAL STATION'S NAME] It would have made no difference
10A	**ASK 50% OF SAMPLE Q10 AND 50% OF SAMPLE Q10A-Q10C** **If the campaign proposed by the Global radio station that you thought of advertising on had been 5% cheaper (i.e. if it had offered you the same slots with a discount of 5% off the quoted price) how would that have affected your decision?** [single response, prompted]

	1. I would have been very likely to choose [INSERT GLOBAL STATION'S NAME] 2. I would have been somewhat more likely to choose [INSERT GLOBAL STATION'S NAME] **3.** It would have made no difference
10B	**ONLY ASK Q10B IF SELECTED CODES 2-3 AT Q10A** **If the campaign proposed by the Global radio station that you thought of advertising on had been 10% cheaper (i.e. if it had offered you the same slots with a discount of 10% off the quoted price) how would that have affected your decision?** [single response, prompted] 1. I would have been very likely to choose [INSERT GLOBAL STATION'S NAME] 2. I would have been somewhat more likely to choose [INSERT GLOBAL STATION'S NAME] **3.** It would have made no difference
10C	**ONLY ASK Q10C IF SELECTED CODES 2-3 AT Q10B** **If the campaign proposed by the Global radio station that you thought of advertising on had been 15% cheaper (i.e. if it had offered you the same slots with a discount of 15% off the quoted price) how would that have affected your decision?** [single response, prompted] 1. I would have been very likely to choose [INSERT GLOBAL STATION'S NAME] 2. I would have been somewhat more likely to choose [INSERT GLOBAL STATION'S NAME] **3.** It would have made no difference

Appendix 2: Advertisers Questionnaire

Example of introduction: *"Hello. My name is ..... I am calling from [YouGov], the independent market research company. We are currently carrying out a survey to understand how advertisers make advertising decisions. We are acting for a media company which we understand you have advertised with in the last 18 months. I will disclose the media company's name during the survey, but first I would like to ask you a few general questions. The whole survey should take no longer than 10 minutes and I assure you that all your answers will be completely anonymous and treated in the strictest confidence." [If respondent pushes back reveal identity of media company]*

No	
Q1	**Can you tell me approximately what your total advertising spend was in 2011?** Numeric Range: Permitted Range 0 TO 10000000 (Numeric Range) Don't Know [If 0 end questionnaire]
2	**Thinking about your total advertising spend in 2011, what did you spend that budget on?** [multiple responses allowed, prompted question] ROTATE CODES Cinema Coupon sites - e.g. Living Social, Groupon, Wowcher etc Direct Mail Directories - e.g. Thomson /Yellow pages Local press Magazines Posters and outdoor media Radio Search engines – e.g. Google Social media – e.g. Facebook Trade sites relevant to your industry e.g Rightmove for the property or Autotrader for the motor trade industry TV Other – specify Don't know
3	**You have told me that you used [insert options specified at 2]. How important was cost in deciding which media to use?** [single response, prompted question] Very important Somewhat important Not very important Not at all Don't know
4	**And what other types of media, if any, did you consider using in 2011 in addition to those that you have told me about?** [multiple responses, prompted answer. Respondents allowed to not choose any options] INSERT LIST OF OPTIONS SPECIFIED AT QUESTION 2 MINUS OPTIONS CHOSEN IN RESPONSE TO QUESTION 2
5	**[*If Radio not chosen in Question 2*] Have you advertised on radio at all in the last three years?**

	Yes No Don't know **[If no or don't know end questionnaire]**
6	**[If radio=yes at Question 2 or 5] What are your campaign objectives in using radio?** [multiple responses allowed, prompted question] To promote general brand awareness To sell/market a specific product To promote a particular sale, launch or event To encourage customers to visit a website To encourage customers to visit a local store To communicate a not for profit message Other, please specify
7	**What other types of media could you use to meet the same campaign objectives as radio?** [multiple responses, prompted answer. Respondents allowed to not choose any options] ROTATE CODES Cinema Coupon sites - e.g. Living Social, Groupon, Woucher etc Direct Mail Directories e.g. Thomson /Yellow pages Local press Posters and outdoor media Magazines Search engines – e.g. Google Social media – e.g. Facebook Trade sites relevant to your industry e.g Rightmove for the property or Autotrader for the motor trade industry TV None Other – specify Don't know
8	**As I mentioned earlier, we are acting on behalf of a media company. That media company owns [INSERT STATIONS' NAMES DEPENDING ON AREA, SEE ATTACHED SPREADSHEET]. We understand that you advertised on one or more of these stations since in the last 18 months and the media company is interested in understanding what motivated that decision.** **FOR MULTI STATION REGIONS ONLY: Thinking back to the last campaign where you advertised on one or more of these stations, can you confirm which stations you used** [Insert list of **[Global/GMG]** radio stations available in area] **FOR SINGLE STATION REGIONS: Can you confirm that you have used [insert station in region] in the last 18 months** [If no to either question end survey]
9	**For the last campaign where you advertised on [insert stations identified at Q8], which other media, if any, did you also consider using at the time?** [Multiple responses, prompted answer. Respondents allowed to not choose any options]

	ROTATE CODES Cinema Coupon sites - e.g. Living Social, Groupon, Woucher etc Direct Mail Directories e.g. Thomson /Yellow pages Local press Magazines Posters and outdoor media Other radio Search engines – e.g. Google Social media – e.g. Facebook Trade sites relevant to your industry e.g Rightmove for the property or Autotrader for the motor trade industry TV None Other – specify Don't know
10	**And what media did you end up using in addition to [insert stations identified at Q8]for that campaign (if any)?** [multiple responses allowed, prompted question] ROTATE CODES Cinema Coupon sites - e.g. Living Social, Groupon, Woucher etc Direct Mail Directories e.g. Thomson /Yellow pages Local press Magazines Posters and outdoor media Other radio Search engines – e.g. Google Social media – e.g. Facebook Trade sites relevant to your industry e.g Rightmove for the property or Autotrader for the motor trade industry TV None Other – specify Don't know
11.a	**I would now like you to think back to the time when you were planning how to allocate your media budget for the last campaign where you used [Insert [Global/GMG] stations identified at Q8]. If you had been unable to use [Insert [Global/GMG] stations identified at Q8] in that period (for example if there had been no airtime slots available at all), what would you have done with the budget you would have spent on [that station/those stations]?** [multiple responses allowed, prompted question] Increase my advertising spend on the other media that I also used for that campaign Increase my advertising spend on different media to those that I used for that campaign I wouldn't have spent the money at all (ie I would have reduced my overall campaign spend) I don't know If Don't know go to Question 12]
11.b(i)	**[if 11.a = increase my advertising spend on the other media that I also used for that campaign] You have said that you would increase your advertising spend on the other media that you also used for that campaign. What other advertising media would you have been most**

	likely to spend that money on? [single response, prompted question] [insert list of media chosen at 10, include don't know]
11.b(ii)	**[If 11.b(i) = Other radio] You have said that you would have spent the money that you were going to spend on [Insert [Global/GMG] stations identified at Q8] on other radio. Which other radio station or stations would you have been most likely to spend that money on?** [multiple responses allowed] [Insert list of alternatives depending on area, include don't know]
11.c(i)	**[if 11.a = increase my advertising spend on different media to those that I also used for that campaign] You have said that you would increase your advertising spend on different media to those that you used for that campaign. What other advertising media would you have been most likely to spend that money on?** [single response, prompted question] ROTATE CODES Cinema Coupon sites - e.g. Living Social, Groupon, Woucher etc Direct Mail Directories e.g. Thomson /Yellow pages Local press Magazines Posters and outdoor media Other radio Search engines – e.g. Google Social media – e.g. Facebook Trade sites relevant to your industry e.g Rightmove for the property or Autotrader for the motor trade industry TV None Other – specify I don't know
11.c(ii)	**[If 11.c(i) = Other radio] You have said that you would have spent the money that you were going to spend on [Insert [Global/GMG] stations identified at Q8] on other radio. Which other radio station or stations would you have been most likely to spend that money on?** [multiple responses allowed] [Insert list of alternatives depending on area, include don't know]
12.a	**I would now like to ask you some general questions about the cost of advertising on [Insert [Global/GMG] stations identified at Q8]. If the cost of advertising on [Insert [Global/GMG] stations identified at Q8] increased by 5% how would that most likely have affected your advertising spend for your last campaign on [Insert [Global/GMG] stations identified at Q8]?** [single response, prompted] I would be likely to switch the majority of my spend away from **[Insert [Global/GMG] stations identified at Q8]** I would be likely to switch a proportion of my spend away from **[Insert [Global/GMG] stations identified at Q8]** I would be likely to continue advertising on **[Insert [Global/GMG] stations identified at Q8]** with the same slots/airtime etc. and pay the additional amount I would be likely to continue advertise on **[Insert [Global/GMG] stations**

	identified at Q8] but with fewer slots/less airtime/shorter ads for the same overall radio campaign budget I don't know
12.b	**[if 12.a does not equal "I would be likely to switch the majority of my spend from the [Global/GMG] station that I used in my radio campaign] If the cost of advertising on [Insert [Global/GMG] stations identified at Q8] increased by 10% how would that most likely have affected your advertising spend for your last campaign on [Insert [Global/GMG] stations identified at Q8]?** [single response, prompted] I would be likely to switch the majority of my spend away from **[Insert [Global/GMG] stations identified at Q8]** I would be likely to switch a proportion of my spend away from **[Insert [Global/GMG] stations identified at Q8]** I would be likely to continue advertising on **[Insert [Global/GMG] stations identified at Q8]** with the same slots/airtime etc. and pay the additional amount I would be likely to continue advertise on **[Insert [Global/GMG] stations identified at Q8]** but with fewer slots/less airtime/shorter ads for the same overall radio campaign budget I don't know
12.c	**[if 12.b does not equal "I would be very likely to switch the majority of my spend from [Global/GMG] station] If the cost of advertising on [Insert [Global/GMG] stations identified at Q8] increased by 15% how would that most likely have affected your advertising spend for your last campaign on [Insert [Global/GMG] stations identified at Q8]?** [single response, prompted] I would be likely to switch the majority of my spend away from **[Insert [Global/GMG] stations identified at Q8]** I would be likely to switch a proportion of my spend away from **[Insert [Global/GMG] stations identified at Q8]** I would be likely to continue advertising on **[Insert [Global/GMG] stations identified at Q8]** with the same slots/airtime etc. and pay the additional amount I would be likely to continue advertise on **[Insert [Global/GMG] stations identified at Q8]** but with fewer slots/less airtime/shorter ads for the same overall radio campaign budget I don't know

Pricing efficiencies

Introduction and summary

1. The parties told us that Global would have an incentive post-merger to offer lower prices [✂]. Global told us that such demand-side pricing efficiencies arose when products were complements such that lowering the price of one product increased demand for it and for other products that were used with, but not instead of, the first product. Global gave the example of airtime on geographically or demographically complementary radio stations.

2. This appendix sets out the economic theory of pricing efficiencies (also known as 'Cournot effects') and the conditions necessary for such efficiencies to arise. These necessary conditions provide the theoretical framework for our assessment in paragraphs 9.256 to 9.282. This appendix is only concerned with demand-side pricing efficiencies and not with other potential pricing effects following the merger, such as rebranding.

3. Pricing efficiencies would arise if the following conditions are met:

   (a) the products are complements according to the strict economic definition; and

   (b) there is a single price for the product (charged to every customer for every unit of product purchased). Or, more generally, if the price paid by a customer for buying one more unit (the 'marginal price') exceeds the cost to the firm of producing one more unit (the 'marginal cost').[1]

4. In the following paragraphs we set out the guidelines on pricing efficiencies and then consider the necessary conditions in greater detail.

The Guidelines

5. The Guidelines (paragraphs 5.7.15 and 5.7.17) refer to these effects as a type of demand-side efficiency.

> Demand-side efficiencies may arise in a conglomerate merger when the merger firms' products are complements, so that lowering the price of one product increases demand for it and for other products that are used with it. Bringing products that are complements under common ownership may allow the merged firm to obtain the positive effect of a fall in the price of one on sales of the others. Achieving this effect through a merger may result in lower prices for all products in the bundle, because it may become profit-enhancing for the firm which sells all the complements to sell them at a lower combined price than the sum the customer would have paid to assemble the same package from different suppliers before the merger.

6. The Guidelines suggest that these effects may arise in a conglomerate merger. However, they might also arise in a horizontal merger if the merging parties' products are complements for at least some of the customers.

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[1] A further condition is that demand increases with a lower price (downward sloping demand curve).

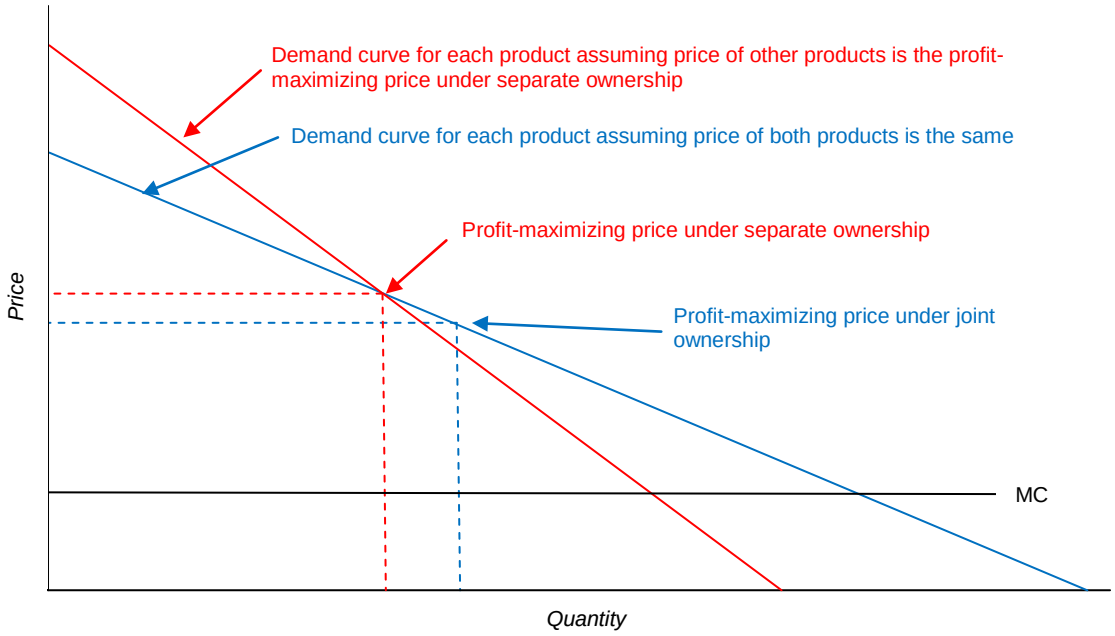
7. The diagram below illustrates a situation where there is a merger between two suppliers of products that are complements for at least some of the consumers of both products, and where both suppliers charge a price above marginal cost and which is the same to all of their consumers.[2]

8. For example, a merger of two airports, A and B, where there is significant demand for flights between those two airports. Airlines will fly both from A to B and from B to A. Hence, a change in the landing charge at B affects demand at both A and B and likewise for a change in the landing charge at B.

9. Figure 1 illustrates the pricing of two products which are demand-side complements under separate ownership (red) and joint ownership (blue), assuming single linear price is charged to all customers.[3]

FIGURE 1

Pricing of demand-side complements



Source: CC.

10. Demand under separate ownership (shown in red) depends on the price charged by the other supplier. In assessing the profit-maximizing price to charge, each supplier assumes that the price charged by the other supplier remains constant and therefore faces the red demand curve.

11. However, following a merger, the merged company can vary both prices simultaneously (the resulting demand curve for each product is shown in the diagram by the blue line). Hence, it can take into account that a reduction in the price of B increases demand for A and vice versa (this is illustrated in the diagram by the blue line lying outside the red line for prices lower than the profit-maximizing price under separate

[2] This latter point is not always made clear in discussion of Cournot effects. Nevertheless, it is potentially important. For instance in a discussion of bundling, Nalebuff states: 'the Cournot basic result depends on an unstated assumption: that firms set a single price in the market to all customers. This is a quite reasonable assumption for a typical consumer good, such as Microsoft Office. But it is not a reasonable assumption for many business-to-business applications.' (DTI Economics Paper No. 1, Bundling, Tying, and Portfolio Effects, Professor Barry Nalebuff, Yale University, February 2003.)

[3] For simplicity, the two services are assumed to be similar, ie have the same demand curve and the same marginal cost.

ownership).[4] As a result, the profit-maximizing level of prices is lower for the merged company than for separate companies (profit for the merged company is shown in the diagram by the rectangle formed by the blue dotted lines and the axes: this is greater than profit under separate ownership, shown by the rectangle formed by the red dotted lines and the axes). Under the assumptions made, merger results both in higher profits and lower prices (through 'internalizing the externality' which exists under separate ownership whereby a reduction in each supplier's price increases demand for the other supplier's product).

Necessary conditions

12. As set out in paragraph 3, the pricing efficiencies described in the previous example may arise if the products are strict economic complements and if marginal price exceeds marginal cost. We discuss each of these conditions further.

Necessary condition 1: demand side complementarity

13. The first necessary condition is that the products must be complements according to the strict economic definition. Two products are complements if a reduction in the price of one causes an increase in demand for another, eg the example referred to above of two airports with significant demand for flights between them; a further possible example is gin and tonic.[5] It is not sufficient that two products are complements in the looser sense that they are sometimes purchased together (for example, bread and milk are frequently purchased together but are not economic complements).

14. The strength of any pricing externality will depend on the degree of complementarity between the products. Pricing effects are likely to be greater the stronger the degree of complementarity for the products.

15. In some cases, products may be complements for some customers and substitutes for other customers. The total effect of a merger involving products with these characteristics will depend on the relative size of the price-increasing effects for whom the products are substitutes and price-reducing effects on customers for whom the products are complements.

Necessary condition 2: marginal price exceeds marginal cost

16. The second necessary condition is that the price paid by a customer for buying one more unit of the product (the 'marginal price') must be above the cost to the firm of producing one more unit of the product (the 'marginal cost').

17. When a consumer pays a marginal price above marginal cost and there is a demand complementarity, a merger can internalize the 'externality' whereby when considering its own prices each separately-owned company does not take into account the effect of lowering its prices on the other firm's profits.[6]

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[4] Similarly, for prices above the profit-maximizing level under separate ownership, demand is lower if both prices are changes and the blue line lies inside the red line in the diagram.

[5] In this example, the complementarity may be significant if demand to drink gin and tonic together accounts for a significant proportion of the total demand for gin or tonic or both. And a complementarity between gin and tonic products would not necessarily imply a complementarity between each brand of gin and each brand of tonic.

[6] Lower price due to internalizing this externality is only one possible effect of a merger on prices. Other possible effects in the opposite direction can arise if a merger facilitates price discrimination and if the products of the merging firms are substitutes for some customers as well as complements for others.

18. However, when prices are negotiated, sellers have the incentive and ability to offer each customer a marginal price near to marginal cost. A seller has the incentive to reduce marginal price to near marginal cost since any incremental volume at above marginal cost increases its operating profits.[7] Radio companies such as Global may also have the ability to offer customers a marginal price near to marginal cost. We discuss first non-contracted customers and then contracted customers.

19. When negotiations with non-contracted customers cover both price and volume, a seller has the ability to vary its offer to each customer according to the volume the customer agrees to purchase—for example, if a radio company's marginal cost[8] is around half of rate-card price it can offer a non-contracted customer, say, 10 per cent more airtime for a 5 per cent greater overall payment, and its marginal price would then be half of its rate-card price (and similar to assumed marginal cost). In such a situation, a seller has the ability to reduce marginal price without altering its price for intra-marginal volume.

20. Radio company contracts with contracted customers set out an explicit pricing schedule for each radio station over a contract period. These pricing schedules include incentive terms related to share of radio advertising and/or volume and thus have marginal price lower than average price.

21. Since, under negotiated pricing, sellers already have the ability and incentive to offer each customer a marginal price near to marginal cost, there is no clear reason why there should be any significant 'externality' to be internalized through a merger of companies selling complementary products.

22. Global suggested to us that such an 'externality' would remain unless sellers were able to engage in perfect price discrimination (ie knew each customer's reservation value). In our view, Global's point is only valid if negotiations are limited to a single price or if campaign size is fixed, with the result that marginal price is not linked to amount of airtime purchased. In the more general case, when negotiations cover both price and volume (or result in agreement on a pricing schedule which links price to volume), a seller has the ability as well as the incentive implicitly or explicitly to offer a price for incremental volume near to marginal cost (see paragraph 17 above).

23. Global said that our analysis was entirely theoretical. However, we noted that the idea that lower prices resulted from a merger of companies selling demand-side complements was itself entirely theoretical, and therefore we considered it was important to set out the conditions under which that theory was valid.

24. Global also said that, whilst its non-contracted campaigns may include higher or lower volume options [✂], the price of additional airtime was [✂]. Global added that [✂].

25. In considering these points, we noted that offering a non-contracted advertiser additional volume to 'seal a deal' [✂]. We also noted that [✂].[9]

26. We did not suggest that, in all cases, Global and RSL offered advertisers a marginal price equal to marginal cost, [✂]. However, we considered it was likely that the price of additional radio advertising to many advertisers was below the average price, and that this reduced the scope for demand-side efficiencies to arise as a result of the merger.

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[7] This follows from the definition of marginal cost.
[8] Marginal cost for a radio company would include the value of alternative advertising if a customer does not agree a deal.
[9] [✂]

27. Global also said that our discussion of pricing efficiencies indicated intense competition for advertising budgets with advertisers receiving highly competitive prices. We do not agree. In our discussion we made the point that radio companies may have the ability as well as the incentive to set marginal price equal to marginal cost. This is not dependent on the extent of competition between radio companies—it would remain the case even if there was only one radio company. Nor does it mean that the prices paid by advertisers for radio campaigns are in any sense low, since this depends also on factors other than marginal price (ie average price is different from marginal price).

Quantitative assessment of the effects of competition for non-contracted customers

Introduction and summary

1. In this appendix, we set out our quantitative assessment of the effects of competition for non-contracted customers. We analysed whether average price for non-contracted advertisers is related to measures of radio station alternatives.

2. We have employed several specifications and also considered the parties' arguments. The results suggest that the presence of fewer good radio alternatives, and/or where the radio alternatives are not as good, is associated with higher prices. Across all campaigns, we found that a 10 per cent higher company share was associated with a [✂] per cent higher weighted average price.

3. We noted that the current study had some limitations. Most notably, the limited variability in the data restricts the specifications that can usefully be employed. In addition, the available proxies for the alternatives available to advertisers have limitations. We discuss these limitations in the text. However, we did not believe that the limitations invalidated the positive relationship found between company share and the prices advertisers pay. We considered that the analysis suggested that higher average prices were associated with higher company share of whichever of Global and RSL owned the station concerned. We considered that this analysis was informative, though recognized that care should be taken in applying the results to the potential effects of the merger on individual local areas.

4. This appendix has the following structure:

   (a) We begin by setting out our regression techniques and discussing some theoretical issues.

   (b) We then describe our data.

   (c) We discuss our results in more detail.

   (d) We set out full results in a technical annex (Annex 1).

Theory and econometric specification

Theory

5. Radio companies and their customers agree prices through bilateral negotiations. The price a customer is able to achieve is affected by the alternatives available.

6. We would expect the average price emerging from a radio station's negotiations with all of its customers to be related to the alternatives available to its customers. In particular, how good other media, including other radio stations, under different ownership are as alternatives to that radio station. All else equal, a radio station whose customers have few good alternatives is likely to achieve a relatively high average price, while a radio station whose customers have lots of good alternatives is likely to achieve a relatively low average price.

7. We are particularly interested in the extent to which radio companies are good alternatives for the merging parties' customers. We would expect a relationship between a station's average price and the number and quality of radio station alternatives if some customers have a preference for radio. If other media, such as newspapers, are good alternatives for all customers of radio stations, we would not expect to see such a relationship.[1]

Methodology

8. We used standard econometric regression techniques (ordinary least squares (OLS)). We regressed station average price for non-contracted customers on variables indicating the availability of radio station alternatives and other control variables that may influence the price advertisers pay.

9. In the following paragraphs we set out the dependent and explanatory variables in our econometric specification, including the control variables. We then describe some of the possible methodological issues that might arise in this type of analysis.

Dependent variable

10. Our dependent variable is a weighted average cost per thousand impacts (CPT) for non-contracted customers of Global and RSL.[2] We have not included other radio companies in our analysis because we only have complete data to calculate weighted average CPT for the merging parties.[3]

11. We focus on non-contracted customers because the price paid by a non-contracted customer will tend to reflect the specific alternatives that were available to it for that campaign. This is because, unlike contracted customers, non-contracted customers negotiate on a campaign-by-campaign basis, often to purchase advertising from a single station.[4,5]

Customers' alternative radio stations

12. We have little information on the radio stations that individual customers regard as alternatives to the Global and RSL station or stations that they purchase advertising on.[6] However, our review of the evidence[7] suggests that customers of a given radio station can be expected to regard stations broadcasting to a similar geographic area

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[1] We define alternatives as radio stations under different ownership from the station of interest. These are relevant because it is only these to which a customer with a preference for radio for a particular campaign can switch (or threaten to switch) in order to achieve a lower price.
[2] For each station in each quarter, this is calculated as the sum of adjusted net revenues (revenues are adjusted to correspond to a 30-second advertisement) divided by the sum of the number of corresponding impacts. Impacts record the number of times an advertisement is estimated to have been heard by a particular category of listeners (in the vast majority of cases this category is all adults 15+). One impact relates to one listener hearing the advertisement one time. Two impacts can either relate to one listener hearing the advertisement two times, or two different listeners each hearing the advertisement one time.
[3] Global's national station (Classic FM) is excluded from the analysis.
[4] Between Q4 2011 and Q3 2012, [✂] per cent of campaigns by Global's non-contracted customers only ran on one station representing [✂] per cent of their non-contracted revenues. For RSL, [✂] per cent of campaigns were single station campaigns, representing [✂] per cent of RSL's non-contracted revenues. In comparison, only [✂] per cent of Global's contracted campaigns only ran on one station, making up only [✂] per cent of their contracted revenue. Also for RSL, only [✂] per cent of contracted campaigns were run on only one station, accounting for [✂] per cent of their contracted revenues.
[5] Prices for contracted customers are the result of negotiations across all stations in a radio company's portfolio, so the price for any specific station may not closely reflect the alternatives to that station. This is because both sides of the negotiations are more likely to be concerned with the overall outcome than the outcome for specific stations.
[6] For many customers we have information on the postcode recorded by the parties, but this is not necessarily an indicator of the area of the country in which the customer is seeking to advertise. For a few customers, we have information from the parties' existing customer survey.
[7] See Section 6.

as alternatives. A possible measure of alternatives would therefore be the number of commercial radio stations broadcasting to the same area. However, the areas to which commercial radio stations target their advertising (TSAs)[8] are not necessarily similar, and radio stations with few listeners are less likely to be a good alternative than those with many listeners. Bearing in mind also that we are interested in alternatives under different ownership, we therefore measure for each Global (RSL) station the total share of commercial radio listening hours in that station's TSA held by all Global (RSL) stations.[9] We describe this as the company share. We consider that the higher this company share, the fewer alternatives customers will in total tend to have to the Global or RSL station concerned. We use listening hours as the basis for measuring company share for the following reasons: first, a radio station's appeal to advertisers depends on its appeal to listeners; second, listening hours are available on a consistent basis for stations of the major companies from an independent source (RAJAR); and third, an alternative measure (revenue) is not suitable as it is affected directly by the price of advertising.

13. The company share does not reflect the distribution of commercial radio listening hours held by other companies. For example, if the company share is 40 per cent, the alternative radio stations might be owned by one radio company which has 60 per cent of listening hours in the station's TSA, two companies with 30 per cent each or three companies with 20 per cent each. To take account of this, we also use the HHI[10] (a measure of market concentration) for commercial radio listening hours as a further measure.

14. We regard company share and HHI as potential proxies for the strength of the radio station alternatives available to a radio station's customers. These measures do not capture strength of alternatives exactly. We note that a rival company's station is likely to be a closer alternative the more closely its TSA (or one or more of its split transmission areas) matches the TSA of the Global or RSL station. In addition, our assessment of the evidence[11] suggests that a rival company's station will be a closer alternative the more closely its demographics match those of the Global or RSL station(s) depending on the type of campaign being bought.

15. Figure 1 illustrates the relationship between HHI and company share. It shows that HHI takes a wide range of values when the company share is below 50 per cent.

FIGURE 1

Comparison of company share and HHI concentration measures for the parties' stations

[✂]

Source: CC analysis of RAJAR figures.

[8] Total survey area, ie the area over which the station has requested its listeners are measured by RAJAR.
[9] Within each station's TSA, we considered the number of hours people spent listening to stations owned by the following radio groups: Global; RSL; Bauer; Orion; UTV and Absolute. Since our interest is only in local/regional stations, we made a number of adjustments to these figures. For Global the share of hours relating to Classic FM was subtracted from the company total. Similarly, the share relating to talkSPORT was removed from UTV's figure. We also only considered Absolute's share in relation to Absolute Radio London. The sum of the listening hours held by these six radio groups was then taken as the basis for calculating the party's percentage shares, ie the share of listening hours held by other local and national stations and any independent stations were not included.
[10] Hirschmann-Herfindahl index of concentration. This is calculated as the sum of the squares of the market shares.
[11] See Section 6.

16. For [✂], HHI and company share are closely positively correlated. For the remainder of the Global stations and [✂] RSL stations, company share is at an intermediate level such that no clear relationship can be seen between company share and HHI.[12]

17. As an initial analysis, Figure 2 shows stations' average price for non-contracted customers against company share. Higher company shares appear to be associated with higher average prices. This initial analysis does not take into account the effects of other factors, such as brand, on average price. Our main analysis did take such other effects into account, as we describe in the next section.

FIGURE 2

Average price for non-contracted customers against company share for the parties' stations

[✂]

Source: CC analysis of parties' data and RAJAR figures.

Control variables

18. We included several control variables on the grounds that they may affect weighted average CPT. These included controls for the characteristics of the station's audience (average age of the station's listeners, a proxy for income of the station's listeners[13] and percentage of listening hours accounted for by female listeners) and for time (quarters to capture any changes in advertising prices over time). As a further control we include the individual station's share of listeners in its TSA, as it might be that advertisers prefer stations with a higher or lower share of listening and, if so, the listening share of the individual station might be expected to have an effect on its average price. Station share is included in addition to the company share, ie the share of all the company's local radio stations.[14]

19. We also controlled for the station's brand by including brand dummies. This allowed for different brands to have different appeal to the audience and to advertisers. Brand dummies could also function as a further proxy for station audience demographics.

20. We included a control for the region in which the station is located. This allowed for the possibility that there could be underlying differences in advertising prices between regions, for example because of differences in the strength of the constraint from other media. It could also be a further proxy for income.

21. We noted the introduction of brand and regional dummies meant that the results reflected the variation in average CPT within each brand and region.

22. We also included a control for the population within the radio station's TSA since TSAs with a large population could have higher or lower average price than TSAs with a small population. The population variable could reflect differences within regions in the strength of the constraint from other media; for example, a wider range of other advertising media might be expected in areas of high population and this might suggest a stronger constraint from non-radio media in such areas.

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[12] We note that there are [✂] stations in the sample with low company shares (below 20 per cent) in areas of relatively high radio concentration (HHI between 0.4 and 0.5). These are [✂].
[13] We used percentage of the station's listeners in ABC1 socio-economic group as a proxy for income of the station's listeners.
[14] We also regarded the inclusion of station share as a robustness check to ensure that the company share effects were not being driven by station shares, since the two variables are highly correlated.

23. The average effect of the constraint from other media on average CPT will be captured in our equation in the constant term. Any differences in the strength of the constraint from other media across regions, or across TSAs with different population levels, will be captured via the regional and population effects respectively. We were not able to include further controls for non-radio media as none were readily available.

24. In our final analysis, we did not distinguish between campaigns on the basis of whether they had been booked directly by the advertisers or through an agency.[15]

Data

25. In the following paragraphs we describe the data used in our analysis.

Construction of average CPT

26. We used Global and RSL transaction data to construct our dependent variable (non-contracted weighted average CPT).[16] This was available on a monthly and quarterly basis. Global and RSL submitted data from Q1 2007 until Q3 2012. We dropped observations that were prior to Q4 2008 because Global told us that its data for the period Q1 2007 to Q3 2008 was [✂].[17] We made some adjustments to the data (See Annex 2).

27. [✂] We took two alternative approaches to the allocation of revenue across stations:

(a) In the first approach, we removed those multi-station campaigns where there was most likely to have been a misallocation of revenue and/or impacts. We took care to minimize the risk of misallocation via our process of data cleaning (see Annex 2). We describe this as all-campaign (bundled and unbundled) average CPT data. This is our preferred approach, as we consider that the risk of any remaining misallocation is outweighed by using as much as possible of the available transaction data.

(b) In the second approach, we removed all multi-station campaigns, ie restricted the average CPT data to single station campaigns only. We describe this as 'unbundled' campaign average CPT data. This approach removes all data for which revenue or impacts may have been misallocated, but at the expense of reducing the number of campaigns in the analysis.

28. The cleaned all-campaign data on weighted average CPT [✂]. The cleaned unbundled data [✂].[18]

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[15] In our provisional findings, we allowed for the possibility that average prices differed between direct and agency customers by calculating average prices for both direct and agency bookings. In their response, the parties said this approach was unjustified. We accepted there was no evidence that splitting the data in this way provided additional informational value. As a check that this altered approach was valid, we estimated a regression without the direct dummy but including a variable indicating the proportion of revenue at each station made through direct sales each quarter. The coefficient on this indicator was not significant.

[16] Weighted average CPT is calculated as revenue divided by impacts, ie it is a weighted average of individual campaign CPTs where the weights are impacts achieved in each campaign.

[17] The parties told us that data [✂]. It was therefore not possible to calculate CPT [✂].

[18] Weighted average CPT is calculated from data on revenue and impacts. Revenue from advertisements that are longer or shorter than 30 seconds is adjusted to the equivalent revenue for a 30-second advertisement at that time of day, week and year. Data on adjusted revenue (see previous footnote) and impacts is not available for all campaigns. Hence, weighted average CPT is not available for all campaigns. Also, outlying observations have been excluded as well as observations where revenue or impacts had been misallocated between stations and stations/quarters where there were not a sufficient number of observations.

Construction of explanatory and control variables

29. We used RAJAR figures downloaded using the software Ralf II to calculate station and company shares of listeners and HHI. We excluded national commercial radio stations from the RAJAR station share and company share figures because these are likely to be a weak alternative for most non-contracted advertisers. We also only considered the shares held by the six large commercial radio groups: Global; RSL; Bauer; Orion; UTV and Absolute.

30. We also used RAJAR figures to calculate demographics, ie station average age, company average age, gender proxy, income proxy and population. RAJAR figures are available on a quarterly basis.

31. Summary statistics for these variables are provided in Annex 1.

Results

32. The results of the regression analysis are set out in Annex 1. As already noted, we used two datasets. The first included all campaigns and the second included only unbundled campaigns. We had three main specifications.

    (a) In specification 1, we included both company share and HHI as explanatory variables since, as set out above see paragraph 13, each captured slightly different aspects of the availability and strength of other radio options: company share, the strength of the company in the area, and HHI, the concentration of the market overall. The coefficient on company share was significantly different from zero at the 5 per cent confidence level. However, the coefficient on HHI was not significantly different from zero. These results suggested that a company's own share of listening in its TSA was a more important explanator of its price than the concentration of shares among other radio companies.

    (b) To check whether the results were sensitive to the inclusion of station share we looked at a further specification removing station share as a control variable (specification 2).

    (c) We also looked at further specifications including only company share (but not HHI), and only HHI (but not company share) as explanatory variable (specifications 3 and 4).[19]

    Company share remained statistically significant at the 5 per cent level in specifications 2 and 3. HHI remained not statistically significant in specifications 2 and 4.

33. The estimated effects of company share are summarized in Table 1 below and indicate a statistically and economically significant association between company share and average CPT. For all campaigns a 10 per cent higher company share is associated with [✂] per cent higher average CPT. The effect for unbundled campaigns is larger: a 10 per cent higher company share is associated with [✂] per cent higher average CPT.[20]

[19] The impact of dropping company share and HHI from the regression was similar whether or not station share was included as a control variable in each of the regressions.
[20] In our provisional findings, we estimated an equation with a linear relationship between company share/HHI and average CPT. We subsequently estimated a log-log relationship between average CPT and company share, and a log-linear relationship between average CPT and HHI (see Annex 1). The reasons for this were that: when all variables are in logs, coefficients

TABLE 1 **Estimated impact of a 10 per cent increase in company share on average CPT***

Data set	*Specification*	*Central estimate*	*95 per cent confidence interval*
All campaigns	1	[✂]	[✂]
	2	[✂]	[✂]
	3	[✂]	[✂]
Unbundled campaigns	1	[✂]	[✂]
	2	[✂]	[✂]
	3	[✂]	[✂]

Source: CC calculations based on regression results in Annex 1.

*Effect in £ per thousand impacts of 10 per cent increase in company share in TSA.

34. In relation to the other explanatory factors included in the equation (see paragraphs 18 to 22), the results suggest the following:

(a) Radio station brand is an important explanation of differences in non-contracted average CPT: [✂].

(b) TSA population is negatively related to the CPT prices.

(c) In a few of the specifications company average age of listeners is positively associated with higher prices.

(d) No relationship is found for share of listeners in the ABC1 socio-economic groups, share of female listeners or the average age of listeners to the station.

(e) There is also some evidence that some regions are different to others with respect to the average CPT. The clearest results are seen for [✂], where statistically significant higher CPTs are found. No other regions had statistically significant coefficients across all model specifications.

35. The coefficient on the station share is found to be negative and significant. That is, given the company share, brand, region and other effects, stations with a larger share of listening tend to have lower average prices. We are unclear on the correct interpretation of this negative station share coefficient, but we note that the company share coefficient is robust to the addition or exclusion of station share from the specification, ie it remains statistically significant and positive whether or not station share is included. Hence including a station share variable is not pivotal to our overall finding. We also note that the negative relationship between station share and prices is contrary to the suggestion that, other things equal, advertisers are willing to pay more for stations with a higher share of listening (this point was made by Global, see paragraph 45). Nevertheless, it seemed to us that there were possible explanations for the negative coefficient on station share. These included:

(a) Stations with lower share tend to have listeners with distinctive demographic characteristics which may be desirable for advertisers to reach. If so, advertisers may be prepared to pay more for smaller radio stations than for larger 'main-stream' radio stations.

can be interpreted as elasticities; logarithmic transformations also help in transforming skewed variables into more approximately normal ones; and that residuals will usually have a more normal distribution than otherwise. We noted that the main results for a linear formulation, as in our provisional findings, were similar to those in Annex 1. The company share coefficients remained significant at the 5 per cent level (or greater) for specifications 1 to 3. In addition, the HHI coefficient became significant at the 10 per cent level in specification 1 for all campaigns, and significant at the 1 per cent level in specification 4 for both all campaigns and the unbundled campaigns. The coefficient for population lost significance in a number of specifications, but significance for the other control variables stayed comparable to the log-log results.

(b) Other things equal, the cost of a campaign of a given length and size will be less on a station with a lower share and therefore more affordable for smaller advertisers who may tend to pay higher CPT (for instance because they have a weaker negotiating position). For example, a smaller advertiser may only be able to afford a very short campaign or a campaign with very few advertising spots per week on a large station and may therefore prefer to book a longer campaign and/or one with more advertising spots per week on a small station. If smaller advertisers tended to prefer smaller stations and tended to pay higher CPT than larger advertisers, that would potentially imply that smaller stations have higher average CPT.

Interpretation of the results

36. We would make three main points about the interpretation of the regression results.

(a) We interpret the results as indicating a tendency for fewer good radio station alternatives and/or where other radio alternatives are not as good (as reflected in higher company share) to be associated with a higher average non-contracted price. We consider that the results are relevant to our assessment of the merger.

(b) Any tendency for higher company share to be associated with a higher average non-contracted price may only be manifested over the longer term. On the basis of general information about the market, we consider that the results may occur because of long-standing differences between stations in terms of rate-card and average price. The results indicate that these are associated with differences in company share, which in many cases may also have existed for a considerable time. This suggests that an increase in company share would lead to an increase in average non-contracted price, but the effect would build up over time and the full effect would only occur over the longer term.

(c) We do not consider that the results can be used to simulate the effects of a specific merger on average price, even over the longer term. This is because the estimated effect of higher company share represents an average effect across all areas and additional analysis is required to take into account the individual characteristics of stations within their local areas.

37. It is also important to consider whether there are other explanations for an association between company share and average price. For instance, this could be the case if a company's average price to non-contracted advertisers had an effect (within the same period) on the listening share of its stations, or if another factor or factors omitted from the regression equation affected both average price and company share. We noted that a station's or company's policy regarding advertising minutes per hour might affect both its price and its share of listening hours. For example, other things equal, we might expect a station or company which has fewer target minutes of advertising per hour to have higher advertising prices (because it has less advertising to sell) and more listeners (if listeners prefer stations with fewer advertising minutes).

38. However, our data relates to Global and RSL over Q4 2008 to Q3 2012, and over this period our understanding is that [✂] have had a policy of seeking to fill [✂] or [✂] minutes of advertising per hour on all their stations. We therefore do not consider that there are material differences in target advertising minutes per hour between the stations or companies that are included in our data. Additionally, we note that Global told us that all of its and RSL's stations competed for listeners with the BBC, which carries no advertising. It seems to us that the constraint from the BBC is similar across stations and over time and that is a further reason why we would not expect

differences in target advertising minutes per hour to have material effects on the analysis.

Further methodological issues and robustness

39. In the following paragraphs we discuss a number of methodological issues and comments with regard to the analysis that were raised by Global during the course of our investigation.

40. Global said our analysis was subject to a number of methodological shortcomings that undermined its value as an analytical tool. Global also said that our core finding—that there existed a statistically and economically significant relationship between price and concentration—was demonstrably non-robust.

Listener share as a measure of concentration

41. Global said that we had focused on a measure of concentration relating to the listener side of the market rather than the more obvious advertiser side of the market. It added that, because our measures of concentration in a station's TSA included all stations with listeners in that TSA, it did not accurately reflect the genuine radio options available to advertisers in each station's TSA and was not fit for purpose.

42. In our view, measures based on listening share are suitable because a radio station's appeal to advertisers depends on its appeal to listeners. This point was noted by Global in its initial submission, where it stated:

> The relationship between listener numbers and competition for advertisers is direct. The majority of radio advertising is bought and sold on the basis of the cost per thousand impacts (or CPT). The higher the number of listeners, the more valuable the slot becomes as the impacts of each slot increase.[21]

43. Non-contracted advertising revenue is not suitable as a basis for measuring company share and concentration because it is potentially affected directly by the price of advertising to non-contracted customers, leading to problems in estimating the relationship.[22]

44. As noted in paragraph 14 above, in our view, our measures are suitable proxies for the strength of the radio station alternatives available to a radio station's customers. We have not seen any evidence to suggest that they are not reasonable as approximate indicators of the average strength of the radio station alternatives available to advertisers.

Interpretation of listener share as a measure of concentration

45. Global said that our focus on 'listener shares' as a measure of concentration made any results difficult to interpret. In its view, a radio station with a greater audience would be likely to command a higher price because a station with a larger audience could guarantee advertisers a larger base of 'unique' listeners to each advertising

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[21] Global initial submission, paragraph 5.5.
[22] Global refers to this in its comments, stating that using revenue share may suffer from endogeneity bias due to the fact that prices and advertising shares were likely to be simultaneously determined. Global also said that an instrumented model would therefore most likely be required to remove this bias, but in our view, the most obvious instrument for revenue share is listening share.

slot, reducing the prospect of hitting the same listeners multiple times if an advertisement was repeated to increase the total number of impacts. Hence, Global said, any observation that prices were linked to stations' shares of audience might in fact simply be driven by efficiency, and not by the result of stations facing different competitive constraints.

46. We agree that a radio station with a greater audience is likely to be able to command a higher price *per slot* because a station with a larger audience can offer advertisers more listeners to each advertising slot. However, we measure the price of advertising by CPT, not price per slot, and it is far from clear that it is reasonable to expect CPT, as well as price per slot, to be higher for a station with a larger share of audience. It is not obvious that campaign spend by non-contracted advertisers tends to be so high that advertisements would need to be repeated excessively on stations with smaller audience shares, and even if so this might be addressed by lengthening campaign period and by advertising on more than one station. We noted above (see paragraph 35) that there are also some possible reasons why higher CPT might tend to be associated with lower station share.

47. Furthermore, we included the station's share (as well as the company's share) of listening hours as an explanatory variable. We therefore allow for the possibility that weighted average CPT is linked to stations' shares of audience as well as, or instead of, company share (though, as discussed above (see paragraph 35), we in fact find that higher average CPT is associated with lower station share).

Competitive constraint from non-radio media

48. Global said that our analysis made the unrealistic assumption that the non-radio competitive constraint was constant across local areas and across advertisers. It added that it was in order to address these issues that it had commissioned two surveys to assess the strength of regional competition from non-radio media. In Global's view, survey evidence, unlike the price/concentration approach, was able to take account of the heterogeneous nature of advertiser choices and to allow for variation in the competitive constraint of non-radio media. We discuss the parties' surveys in Appendix G.

49. We have not assumed that competition from other non-radio media is constant across all advertisers. We used the parties' transaction data to calculate weighted average CPT, which will reflect averages across customers of each station. In addition, any differences in the strength of the constraint from other media across regions or TSAs with different levels of population will be captured via the regional and population effects respectively (see paragraph 23).

50. We see nothing in Global's response to suggest that we would falsely observe a positive relationship between concentration and price. Variations in the strength of competition from non-radio media would only explain our results if areas with weak competition from non-radio media also had high radio concentration (and vice versa) and therefore 'took away' the power of radio concentration to explain differences in CPT. In this context, we have seen no evidence that areas with weak competition from non-radio media also have high radio concentration (and vice versa), and note that Global provided no evidence that this was the case. In most of its submissions and other evidence, we understood Global to suggest that the constraint from non-

radio was strong in all areas[23]—for example, Global told us 'almost all non-contracted advertisers are likely to – and in the case of Global's non-contracted customers do – actually switch to non-radio media if a radio station's proposal is not sufficiently compelling (eg if it is not priced sufficiently competitively)'.

51. For these reasons, in our view our specification is adequate to capture the competitive constraint from non-radio media.

A priori expectations

52. Global said that many of the variables that, a priori, it would expect to influence prices were found to have no statistically significant relationship with prices in the CC's model, suggesting that the model did not provide a good basis for identifying the factors that actually affected prices. In this context, Global mentioned that it would expect *(a)* stations' share of listeners to show a positive relationship with prices (see previous subparagraph); and *(b)* the affluence of an audience to exhibit a strong positive relationship with advertisers' willingness to pay for a campaign. However, Global noted that our analysis *(a)* had not shown a positive relationship between stations' share of listeners and prices; and *(b)* had not identified a significant relationship between our income proxy and price.

53. We did not necessarily agree with Global's a priori reasons for expectations about the effect of certain variables on CPT.

(a) As noted in paragraphs 35 and 46 above, stations with a higher listener share may not be more attractive to all advertisers, in particular those with a smaller budget or those looking to advertise to a niche demographic. Hence, it may not be associated with higher CPT.

(b) The relationship between income and CPT is also not obvious, since CPT is likely to depend on supply-side factors as well as advertisers' willingness to pay for a station's airtime. This would be the case even if advertisers have a higher willingness to pay to reach stations with a higher income audience, which seems to us unclear.[24] Any effect on price would depend also on the audience of competitor stations: if all stations appeal to the higher-income audience, competition to reach the higher-income audience would be stronger and there would be no reason to expect prices to be higher.

54. Additionally, even if we accepted Global's a priori expectations about the effect of certain variables on CPT, Global's conclusion (ie that our analysis does not provide a good basis for identifying the factors that actually affect prices) would not follow. Such a criticism would have been valid if these factors were left uncontrolled. We believe that any effects of those factors should be captured via the controls in our equations, ie the effect of brand or the average age of stations' listeners on price, or by regional effects.

[23] An exception was Global's April 2013 submission on the price concentration analysis in which it suggested that [✂] faced very strong and low-priced competition from other media (though we note [✂] is not an area where Global has high company share).

[24] We might expect advertisers to have a higher willingness to pay to reach a station with a higher-income audience if the higher-income audience spent more and were at least as likely to be influenced by advertisements compared with a lower-income audience and if sellers of products purchased by the higher-income audience spent proportionately at least as much on radio advertising as sellers of products purchased by a lower-income audience. It is unclear that all these conditions are met.

Influence of HHI on CPT

55. Global noted that HHI was not significant in the regressions, indicating that the results were not robust to changes in the measure of concentration.

56. Our view is that, a priori, it is plausible that higher price is associated with both higher company share and higher HHI (see paragraphs 12 to 14).[25] We have found a statistically significant association with company share; we have not found a further statistically significant association with HHI. We do not consider that this result invalidates our finding in relation to company share because each measure proxies slightly different aspects of the availability and strength of alternatives in a TSA. The implication of our findings is that a station's CPT is higher if its own company share is higher but, given its company share, the evidence is inconclusive on whether its price is higher if the concentration of other company shares is higher.

57. We also found that, when company share was excluded from the analysis, the effect on average CPT of HHI remained statistically insignificant (see specification 4 in Annex 1). We noted that, when company share was excluded, the relationship between HHI and average CPT for Global and RSL stations could be ambiguous since there were two offsetting considerations. First, if the alternatives to the Global or RSL stations were relatively weak, both company share and HHI would be relatively high and average CPT of the Global or RSL station would also tend to be relatively high. However, second, if the market position of Global or RSL was relatively weak because there were one or two powerful competitor radio companies, the Global or RSL company share would be low but HHI would still be high: in that case average CPT of Global or RSL may be relatively low. In the second case, relatively high HHI may tend to be associated with relatively low average CPT of the Global or RSL station, potentially offsetting any positive association between HHI and average CPT from areas where the first case applied.

Station-specific unobserved effects

58. Global said that the estimated effects of the company share on weighted average CPT might be biased because there might be station-specific unobserved effects. Global provided a list of station-specific unobserved effects that were likely to have a significant effect on pricing at certain stations and which were not controlled for in the CC's model.[26] Global provided examples of how removing observations determined by these factors (in relation to [✂]) rendered the company share coefficient insignificant.

59. Global proposed an alternative econometric specification to control for any station-specific unobserved effects. Global proposed a fixed-effects model that exploits only the variation in company shares over time to identify the effects of company share on weighted average CPT. This specification renders the company share coefficient insignificant in our model.

60. We have controlled for many important station characteristics (see paragraphs 18 to 23). We do not believe that there are important station-specific unobserved effects

[25] In our earlier work, we considered specifications with either company share or HHI, but not both. However, we concluded that the most appropriate specification included both company share and HHI (specifications 1 and 2 in Annex 1), though we also considered specifications with only company share and only HHI (specifications 3 and 4 in Annex 1).
[26] These were: the ability of stations to split their transmission; the quality of content; the degree to which the brand is promoted within an area; the quality of local sales teams; the nature of price setting (ie whether prices are set on a cost-per-slot basis or a CPT basis); audience trends, and how they interact with price; whether the station has a TSA which covers a well-defined locality that advertisers want to reach; the desirability of the station among contracted advertisers; and pricing of other non-radio media alternatives which may vary region to region and within regions.

that are left uncontrolled and thus may significantly bias the coefficient of the company share in our model. In addition, Global's proposed specification would not identify the effects of company share on weighted average CPT as company shares do not vary very much over time (see the 'within variation' figures in Tables 4 and 8 in Annex 1).[27] Our preferred specification uses variation in company share between radio stations as well as changes over time. We consider Global's points about [✂] below (see paragraphs 66 to 68).

Global and RSL treated as separate samples

61. Global said that the two companies were different in many respects and therefore responded differently to all the factors driving CPT rates. Furthermore, Global noted that if radio companies were able to set a higher price when they had a higher share of radio audiences then it would be expected that both samples (ie the Global samples and the RSL sample) would exhibit a positive relationship between price and concentration. Global therefore proposed that we split the sample in two and run the analysis for each group separately. By splitting the data in this way the company share coefficient loses its significance. Global said that this showed the company share results were not robust.

62. Our view is that, although the groups may be different, it is not clear on theoretical grounds why they would negotiate the prices differently when presented with higher company share or a higher female audience proportion, etc. In addition, splitting the sample in two reduces the variability in the company share which then makes identification of its effect on CPT difficult. Global tends to have stations with higher company share whereas RSL's stations exhibit lower company share.

63. In addition, given that in several regions each group has only one station, splitting the sample is similar to running a fixed-effects regression for the two companies separately (see section on station-specific unobserved effects above). That is, for several stations we end up only taking into account the time series variation in company shares and not the variation across TSAs in company shares.

Radio company region-specific unobserved effects

64. Similarly to the argument above, Global noted that the specification does not allow for the behaviour of Global and RSL to be different within a region. Therefore, one needed to allow for different regional dummies for the two groups. In addition, Global said that this model was preferable because it explained a higher proportion of the variation in CPT rates and because the additional terms introduced were statistically significant. Global said this was further evidence that the company share results were not robust.

65. As already discussed above, several regions have only one station per each group. By introducing separate regional dummies for the two groups, the econometric specification for some stations takes into account only the time series variation in company shares and not the variation across TSAs in company shares.

[27] In addition, some of the explanatory variables may be measured with some error. The measurement error may vary significantly from quarter-to-quarter and especially compared to the variation of the true level of the respective explanatory variables. The fixed-effects model may then exacerbate the effects of the measurement error on the coefficients of the explanatory variables because it only focuses on the time variation. Our specification should not be prone to such a weakness because it primarily focuses on the differences in the levels of the explanatory variables across stations.

Exclusion of specific stations

66. Global told us that [✂]. It suggested that this was because [✂]. Global noted that if [✂] was dropped from the regression then the coefficient on the company share became insignificant in one of our specifications and said this was further evidence that our results were driven by a small number of price observations that were determined by factors affecting station level pricing that were not controlled for in the model and as such could not be used to infer the existence of a causal relationship between concentration and price. Global said this was further evidence that the company share results were not robust.

67. We note that [✂] is a station with [✂] company share, and hence there is value in having it in the regression. In addition, inspection of the residuals does not provide evidence that it is an outlier. Hence, it seems arbitrary to exclude it from the regression.[28]

68. We appreciate that the size of the coefficient on the company share and/or the HHI may be sensitive to the removal of some stations. This is a limitation of the current study which reflects the limited variation available in the data.

Conclusion on methodological issues and robustness

69. In conclusion, our methodology makes best use of the available data. The results suggest that company share is positively related to the prices radio stations pay. We appreciate that there are some limitations to the analysis. The proxies for the strength of the radio station alternatives available to a radio station's customers (ie company share and HHI) are not perfect. In addition, we only have access to the data provided by Global and RSL, which inevitably reduces data variability. However, these limitations do not invalidate the positive relationship we find between the company share and the prices advertisers pay.

[28] Global also said that the results were affected by the inclusion or exclusion of [✂]. We make the same point about [✂] as about [✂]—that we see no evidence justifying its exclusion from the regression, which would seem arbitrary.

Estimation methodology

1. We estimated the following pricing equations:

2. **(1)** $log(CPT_{i,t}) = CONSTANT + \mathbf{log(COMPANY_SHARE_{i,t})\ \beta_1} + \mathbf{HHI_{i,t}\ \beta_2} + log(STATION_SHARE_{i,t})\ \beta_3 + BRAND_i\ \beta_4 + log(L_{i,t})\ \beta_5 + QUARTER_t\ \beta_6 + REGION_i\ \beta_7 + \varepsilon_{i,t}$

   (2) As (1) but with $log(STATION_SHARE_{i,t})$ excluded

   (3) $log(CPT_{i,t}) = CONSTANT + \mathbf{log(COMPANY_SHARE_{i,t})\ \beta_1} + log(STATION_SHARE_{i,t})\ \beta_3 + BRAND_i\ \beta_4 + log(L_{i,t})\beta_5 + QUARTER_t\ \beta_6 + REGION_i\ \beta_7 + \varepsilon_{i,t}$

   (4) $log(CPT_{i,t}) = CONSTANT + \mathbf{HHI_{i,t}\ \beta_2} + log(STATION_SHARE_{i,t})\ \beta_3 + BRAND_i\ \beta_4 + log(L_{i,t})\ \beta_5 + QUARTER_t\ \beta_6 + REGION_i\ \beta_7 + \varepsilon_{i,t}$

3. Where $CPT_{i,t}$ is the variable of interest. $CPT_{i,t}$ represents the weighted average cost per thousand impacts paid by non-contracted customers to radio station i in quarter t.

4. $COMPANY_SHARE_{i,t}$ represents the percentage of listening hours to Global[29] or RSL over the total commercial listening hours for Global, RSL and four other relevant radio groups (Bauer, Absolute, UTV and Orion) in each radio station TSA.

5. $HHI_{i,t}$ represents the Herfindahl Index for each radio station TSA and it equals the sum of squares of each of the company shares for Global, RSL and four other relevant radio groups (Bauer, Absolute, UTV and Orion) in each radio station TSA.

6. $BRAND_i$ is a dummy variable for each of the current Global/RSL local radio brands (Heart, Capital, Gold, Xfm, Choice and LBC/Real, Real XS and Smooth respectively).

7. $STATION_SHARE_{i,t}$ represents the percentage of listening hours to each radio station divided by the total commercial listening hours for Global, RSL and four other relevant radio groups (Bauer, Absolute, UTV and Orion) in each radio station TSA.

8. The rest of the variables are further controls in the pricing equation. $L_{i,t}$ is a vector that represents the demographics for each radio station and other characteristics of the station's TSA. $L_{i,t}$ ={$POPULATION_{i.,t}$, $INCOME_{i,t}$, $GENDER_{i,t}$, $COMPANY_AGE_{i.,t}$, $STATION_AGE_{i,t}$} where $POPULATION_{i.,t}$ gives the size of the population living within the station's TSA, $INCOME_{i,t}$ and $GENDER_{i,t}$ are a proxy for income and gender for the station's listeners, $COMPANY_AGE_{i.,t}$ is the average age of the company's audience across their different stations within the radio station's TSA and $STATION_AGE_{i.,t}$ is the average age of the audience for the radio station. $INCOME_{i,t}$ is calculated through the ratio of the total listening hours by ABC1[30] listeners over total listening hours for each radio station. $GENDER_{i,t}$ is calculated through the ratio of the total listening hours by female listeners over total listening hours for each radio station.

9. Finally, we added $QUARTER_t$ and $REGION_l$ as time and regional controls.

[29] Excluding listening hours to Classic FM.
[30] ABC1 demographics range from lower to upper middle class consumers.

10. These pricing equations were estimated first for all campaigns and second including only unbundled campaigns.

11. Descriptive statistics and results are set out below.

Descriptive statistics—all campaigns

TABLE 1 **Descriptive statistics—all campaigns, Global & RSL. Period Q4 2008–Q3 2012**

Variable	*Observations*	*Mean*	*Standard deviation*	*Minimum value*	*Maximum value*
Non contracted CPT (£)	[✂]	[✂]	[✂]	[✂]	[✂]
Station listeners share by TSA (%)	[✂]	[✂]	[✂]	[✂]	[✂]
Company listeners share by TSA (%)	[✂]	[✂]	[✂]	[✂]	[✂]
HHI by TSA	[✂]	[✂]	[✂]	[✂]	[✂]
Income (proxy)	[✂]	[✂]	[✂]	[✂]	[✂]
Gender (proxy)	[✂]	[✂]	[✂]	[✂]	[✂]
Company age audience (years)	[✂]	[✂]	[✂]	[✂]	[✂]
Station age audience (years)	[✂]	[✂]	[✂]	[✂]	[✂]
Population	[✂]	[✂]	[✂]	[✂]	[✂]

Source: CC analysis of Global and RSL's transaction data and RAJAR listening data.

TABLE 2 **Descriptive statistics—all campaigns, Global. Period Q4 2008–Q3 2012**

Variable	*Observations*	*Mean*	*Standard deviation*	*Minimum value*	*Maximum value*
Non contracted CPT (£)	[✂]	[✂]	[✂]	[✂]	[✂]
Station listeners share by TSA (%)	[✂]	[✂]	[✂]	[✂]	[✂]
Company listeners share by TSA (%)	[✂]	[✂]	[✂]	[✂]	[✂]
HHI by TSA	[✂]	[✂]	[✂]	[✂]	[✂]
Income (proxy)	[✂]	[✂]	[✂]	[✂]	[✂]
Gender (proxy)	[✂]	[✂]	[✂]	[✂]	[✂]
Company age audience (years)	[✂]	[✂]	[✂]	[✂]	[✂]
Station age audience (years)	[✂]	[✂]	[✂]	[✂]	[✂]
Population	[✂]	[✂]	[✂]	[✂]	[✂]

Source: CC analysis of Global and RSL's transaction data and RAJAR listening data.

TABLE 3 **Descriptive statistics—all campaigns, RSL. Period Q4 2008–Q3 2012**

Variable	*Observations*	*Mean*	*Standard deviation*	*Minimum value*	*Maximum value*
Non-contracted CPT (£)	[✂]	[✂]	[✂]	[✂]	[✂]
Station listeners share by TSA (%)	[✂]	[✂]	[✂]	[✂]	[✂]
Company listeners share by TSA (%)	[✂]	[✂]	[✂]	[✂]	[✂]
HHI by TSA	[✂]	[✂]	[✂]	[✂]	[✂]
Income (proxy)	[✂]	[✂]	[✂]	[✂]	[✂]
Gender (proxy)	[✂]	[✂]	[✂]	[✂]	[✂]
Company age audience (years)	[✂]	[✂]	[✂]	[✂]	[✂]
Station age audience (years)	[✂]	[✂]	[✂]	[✂]	[✂]
Population	[✂]	[✂]	[✂]	[✂]	[✂]

Source: CC analysis of Global and RSL's transaction data and RAJAR listening data.

TABLE 4 **Descriptive statistics—variation in concentration variables: all campaigns, Global & RSL. Period Q4 2008–Q3 2012**

Variable		*Mean*	*Standard deviation*	*Minimum value*	*Maximum value*	*Observations*
Non-contracted CPT (£)	overall	[✂]	[✂]	[✂]	[✂]	[✂]
	between		[✂]	[✂]	[✂]	[✂]
	within		[✂]	[✂]	[✂]	[✂]
Company listeners share by TSA (%)	overall	[✂]	[✂]	[✂]	[✂]	[✂]
	between		[✂]	[✂]	[✂]	[✂]
	within		[✂]	[✂]	[✂]	[✂]
Station listeners share by TSA (%)	overall	[✂]	[✂]	[✂]	[✂]	[✂]
	between		[✂]	[✂]	[✂]	[✂]
	within		[✂]	[✂]	[✂]	[✂]
Income (proxy)	overall	[✂]	[✂]	[✂]	[✂]	[✂]
	between		[✂]	[✂]	[✂]	[✂]
	within		[✂]	[✂]	[✂]	[✂]
Gender (proxy)	overall	[✂]	[✂]	[✂]	[✂]	[✂]
	between		[✂]	[✂]	[✂]	[✂]
	within		[✂]	[✂]	[✂]	[✂]

Source: CC analysis of Global and RSL's transaction data and RAJAR listening data.

Descriptive statistics—unbundled campaigns

TABLE 5 **Descriptive statistics—unbundled campaigns, Global & RSL. Period Q4 2008–Q3 2012**

Variable	*Observations*	*Mean*	*Standard deviation*	*Minimum value*	*Maximum value*
Non contracted CPT (£)	[✂]	[✂]	[✂]	[✂]	[✂]
Station listeners share by TSA (%)	[✂]	[✂]	[✂]	[✂]	[✂]
Company listeners share by TSA (%)	[✂]	[✂]	[✂]	[✂]	[✂]
HHI by TSA	[✂]	[✂]	[✂]	[✂]	[✂]
Income (proxy)	[✂]	[✂]	[✂]	[✂]	[✂]
Gender (proxy)	[✂]	[✂]	[✂]	[✂]	[✂]
Company age audience (years)	[✂]	[✂]	[✂]	[✂]	[✂]
Station age audience (years)	[✂]	[✂]	[✂]	[✂]	[✂]
Population	[✂]	[✂]	[✂]	[✂]	[✂]

Source: CC analysis of Global and RSL's transaction data and RAJAR listening data.

TABLE 6 **Descriptive statistics—unbundled campaigns, Global. Period Q4 2008–Q3 2012**

Variable	*Observations*	*Mean*	*Standard deviation*	*Minimum value*	*Maximum value*
Non contracted CPT (£)	[✂]	[✂]	[✂]	[✂]	[✂]
Station listeners share by TSA (%)	[✂]	[✂]	[✂]	[✂]	[✂]
Company listeners share by TSA (%)	[✂]	[✂]	[✂]	[✂]	[✂]
HHI by TSA	[✂]	[✂]	[✂]	[✂]	[✂]
Income (proxy)	[✂]	[✂]	[✂]	[✂]	[✂]
Gender (proxy)	[✂]	[✂]	[✂]	[✂]	[✂]
Company age audience (years)	[✂]	[✂]	[✂]	[✂]	[✂]
Station age audience (years)	[✂]	[✂]	[✂]	[✂]	[✂]
Population	[✂]	[✂]	[✂]	[✂]	[✂]

Source: CC analysis of Global and RSL's transaction data and RAJAR listening data.

TABLE 7 **Descriptive statistics—unbundled campaigns, RSL. Period Q4 2008–Q3 2012**

Variable	*Observations*	*Mean*	*Standard deviation*	*Minimum value*	*Maximum value*
Non contracted CPT (£)	[✂]	[✂]	[✂]	[✂]	[✂]
Station listeners share by TSA (%)	[✂]	[✂]	[✂]	[✂]	[✂]
Company listeners share by TSA (%)	[✂]	[✂]	[✂]	[✂]	[✂]
HHI by TSA	[✂]	[✂]	[✂]	[✂]	[✂]
Income (proxy)	[✂]	[✂]	[✂]	[✂]	[✂]
Gender (proxy)	[✂]	[✂]	[✂]	[✂]	[✂]
Company age audience (years)	[✂]	[✂]	[✂]	[✂]	[✂]
Station age audience (years)	[✂]	[✂]	[✂]	[✂]	[✂]
Population	[✂]	[✂]	[✂]	[✂]	[✂]

Source: CC analysis of Global and RSL's transaction data and RAJAR listening data.

TABLE 8 **Descriptive statistics—variation in concentration variables: unbundled campaigns. Global & RSL, Period Q4 2008–Q3 2012**

Variable		*Mean*	*Standard deviation*	*Minimum value*	*Maximum value*	*Observations*
Non contracted CPT (£)	overall	[✂]	[✂]	[✂]	[✂]	[✂]
	between		[✂]	[✂]	[✂]	[✂]
	within		[✂]	[✂]	[✂]	[✂]
Company listeners share by TSA (%)	overall	[✂]	[✂]	[✂]	[✂]	[✂]
	between		[✂]	[✂]	[✂]	[✂]
	within		[✂]	[✂]	[✂]	[✂]
Station listeners share by TSA (%)	overall	[✂]	[✂]	[✂]	[✂]	[✂]
	between		[✂]	[✂]	[✂]	[✂]
	within		[✂]	[✂]	[✂]	[✂]
Income (proxy)	overall	[✂]	[✂]	[✂]	[✂]	[✂]
	between		[✂]	[✂]	[✂]	[✂]
	within		[✂]	[✂]	[✂]	[✂]
Gender (proxy)	overall	[✂]	[✂]	[✂]	[✂]	[✂]
	between		[✂]	[✂]	[✂]	[✂]
	within		[✂]	[✂]	[✂]	[✂]

Source: CC analysis of Global and RSL's transaction data and RAJAR listening data.

Regression results for non-contracted CPT

TABLE 9 **OLS estimation of Global & RSL stations' non-contracted CPTs**

Dependent variable
CPT

	All campaigns				*Unbundled campaigns*			
Independent variables	*Specification 1*	*Specification 2*	*Specification 3*	*Specification 4*	*Specification 1*	*Specification 2*	*Specification 3*	*Specification 4*
Log of station share of listeners to commercial in its TSA (log(STATION_SHARE))	[✂]		[✂]	[✂]	[✂]		[✂]	[✂]
Log of company share of listeners to commercial in its TSA (log(COMPANY_SHARE))	[✂]	[✂]	[✂]		[✂]	[✂]	[✂]	
Radio concentration index in each TSA (HHI)	[✂]	[✂]		[✂]	[✂]	[✂]		[✂]
Log of population size in station TSA (log(POPULATION))	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]
Log of income proxy (log(INCOME))	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]
Log of gender proxy (log(GENDER))	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]
Log of company average age audience in its TSA (log(COMPANY_AGE))	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]
Log of station average age audience in its TSA (log(STATION_AGE))	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]
Dummy brand (BRAND, reference: Global:Capital)								
Global:Choice	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]
Global:Gold	[✂]	[✂]	[✂]	[✂]				
Global:Heart	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]
Global:LBC	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]
RSL:Real	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]
RSL:Real XS	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]
RSL:Smooth	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]
Dummy quarter (QUARTER, reference: 2008Q4)								
2009Q1	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]
2009Q2	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]
2009Q3	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]
2009Q4	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]
2010Q1	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]
2010Q2	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]
2010Q3	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]
2010Q4	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]
2011Q1	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]

Independent variables	*Bundled and unbundled campaigns*				*Unbundled campaigns*			
	Specification 1	*Specification 2*	*Specification 3*	*Specification 4*	*Specification 1*	*Specification 2*	*Specification 3*	*Specification 4*
2011Q2	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]
2011Q3	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]
2011Q4	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]
2012Q1	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]
2012Q2	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]
2012Q3	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]
Dummy region (REGION, reference: East Anglia)								
East Midlands	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]
London	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]
North-East	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]
North Wales	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]
North-West	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]
Scotland	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]
South-East	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]
South Wales	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]
South-West	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]
West Midlands	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]
Yorkshire	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]
Constant	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]
	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]
R^2	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]
Number of observations	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]

Source: CC analysis of Global and RSL's transaction data and RAJAR listening data.

Note: Significance at * 10%, ** 5%, *** 1%; Standard errors are clustered at the station level to allow for correlation across time. Allowing for correlation within regions by clustering at the region level did not change the results.

Adjustments to calculate weighted average CPT

1. We made the following adjustments to construct weighted average CPT: [✂].[1]

2. We checked whether alternative definitions of airtime resulted in different results. They did not. We obtained similar results, estimates of the company share coefficient, to those in Annex 1 if we calculated average CPT on the following alternative definitions: [✂].[2]

[1] [✂]
[2] [✂]

Analysis of agency questionnaire responses

Introduction

1. We sent a questionnaire to 14 agencies (see Annex 1 for a copy of the questionnaire). We received responses from 12 agencies,[1] of which ten have one or more contracts with Global and/or RSL for the purchase of airtime, and the other two purchase airtime on behalf of non-contracted advertisers. Some media buying groups buy on behalf of a number of agencies: in most cases, these groups submitted a response on behalf of all the agencies within their group.[2] In this appendix, where we refer to 'agencies', we mean media buyers, including all relevant respondents to our questionnaire.

2. In this appendix, we set out responses relating to advertisers' alternatives to Global and RSL and to agencies' price negotiations with radio companies. We deal first with responses on the sale of advertising airtime and then with responses on S&P.

Advertising airtime

3. First, we consider agencies' responses on the alternatives to Global and RSL stations. We then summarize agencies' other responses relevant to price negotiations. Finally, we summarize Global's comments and give our observations on these comments.

4. We note that Global sells both its own airtime and that of RSL to most, but not all, of the respondents to our survey.[3]

Alternatives to Global and RSL stations

5. Our questionnaire to agencies included questions on their clients' total spend and spend by their ten largest radio advertiser clients on all media, on radio in total, and on Global and RSL stations. For each of their ten largest radio advertisers, they were then asked to indicate the first, second and third closest media alternatives to airtime on *(a)* Global stations and *(b)* RSL stations. Agencies were asked to include in their consideration of the closest alternatives other media (eg cinema, direct mail, Internet, local and national press, magazines, outdoor and television) and all radio companies other than Global/RSL.[4] We received responses to these questions from nine of the ten contracted agencies that responded to our questionnaire. Eight of these agencies buy across all media and one is a radio specialist.[5]

6. These nine agencies provided information on 92 clients. Agency responses indicated that these advertisers in total spent £140.6 million on radio, of which £[✂] was on Global stations and £[✂] on RSL stations,[6] and that radio accounted for 6 per cent of

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[1] [✂]
[2] [✂]
[3] Global also sells airtime on behalf of Orion.
[4] Agencies were also asked if necessary to distinguish between different campaigns of each advertiser.
[5] For all responses [✂] assumed that the use of syndicated networks was not permitted in the answer to the question, so did not list multiple radio groups as an alternative to any of its campaigns. In addition to this, [✂] separated its answer into the three closest radio alternatives and three closest non-radio alternatives, with no indication of the relative ranking of the two—these have been counted twice in the unweighted results and had weighting split equally between the two answers in the weighted results; the tables in this appendix reflect these aspects of the respective responses.
[6] These figures are not comparable with others quoted in this report, for example because they include agency commission.

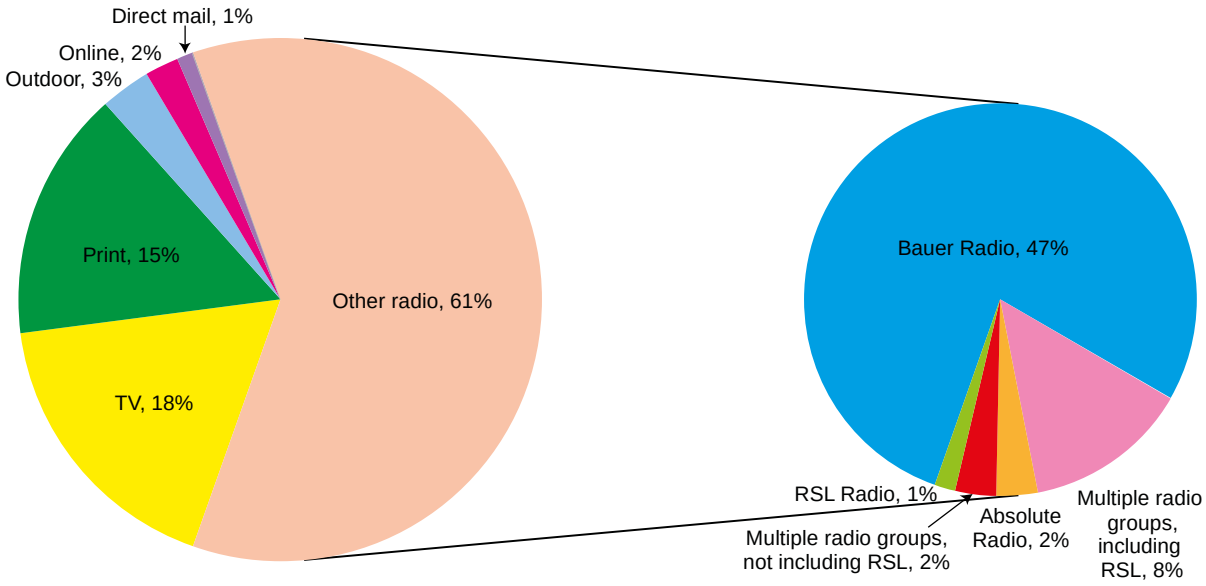
their total media spend. Of these 92 advertisers, 85 had advertised on Global and 70 had advertised on RSL.

7. To analyse the responses, we looked at both the number of advertisers for which the agencies listed each alternative and the radio spend by these advertisers. We analysed the first alternatives listed separately, since these results could be expected to indicate where spend would actually move to if prices increased. We then analysed the combined first, second and third alternatives listed to gain insights into the broader options being considered.

8. For Global, the main first alternative for advertisers was recorded as other radio (61 per cent of the responses)—see Figure 1. Among the radio groups, Bauer was by far the most prominent, being seen as the first alternative for 47 per cent of all advertisers. Some radio competition was also seen from contracting with multiple radio groups, or Absolute Radio which has national coverage. RSL was given as first alternative for only one advertiser; however, of the ten advertisers which gave multiple radio groups as the first alternative, eight included at least one RSL station. The small number of advertisers for which agencies saw RSL as first alternative may in part be driven by the question relating to the agencies' ten largest radio advertising clients, who are most likely to require comprehensive national coverage. A significant proportion of Global's first alternatives also came from other media (39 per cent), particularly from television (18 per cent of advertisers) and print (15 per cent of advertisers).

FIGURE 1

Global first alternatives, unweighted

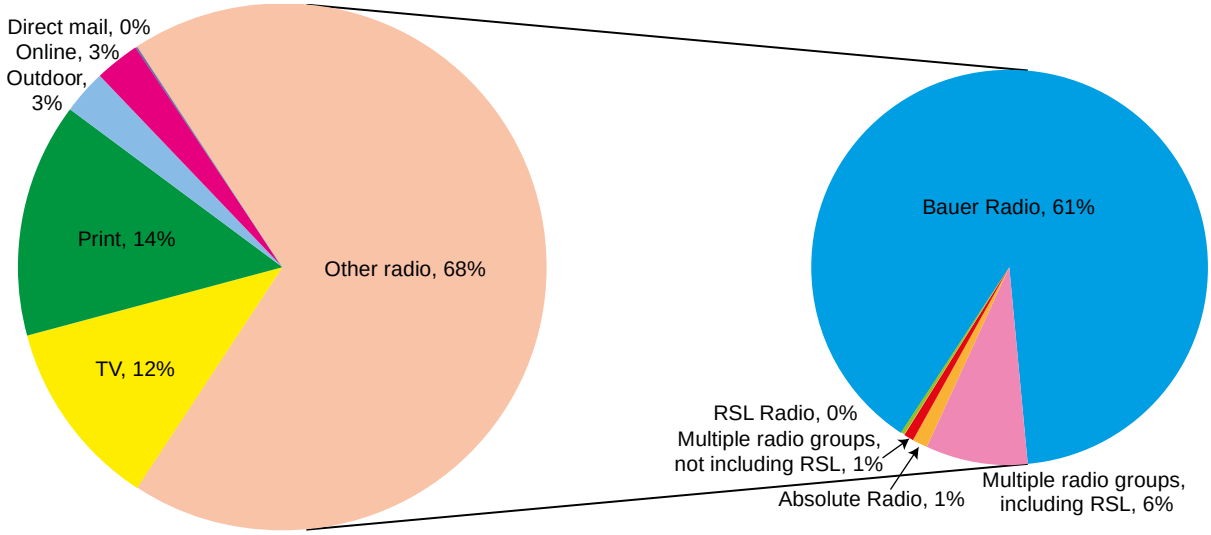


Source: Agencies.

9. Weighting the campaigns by size of radio spend by each of the media agency's customers, other radio becomes slightly more significant as a first alternative—see Figure 2. Bauer still emerges as the first alternative for 61 per cent of Global radio spend, followed by print at 14 per cent. The importance of using multiple radio groups including RSL decreases slightly to 6 per cent.

FIGURE 2

Global first alternatives, weighted

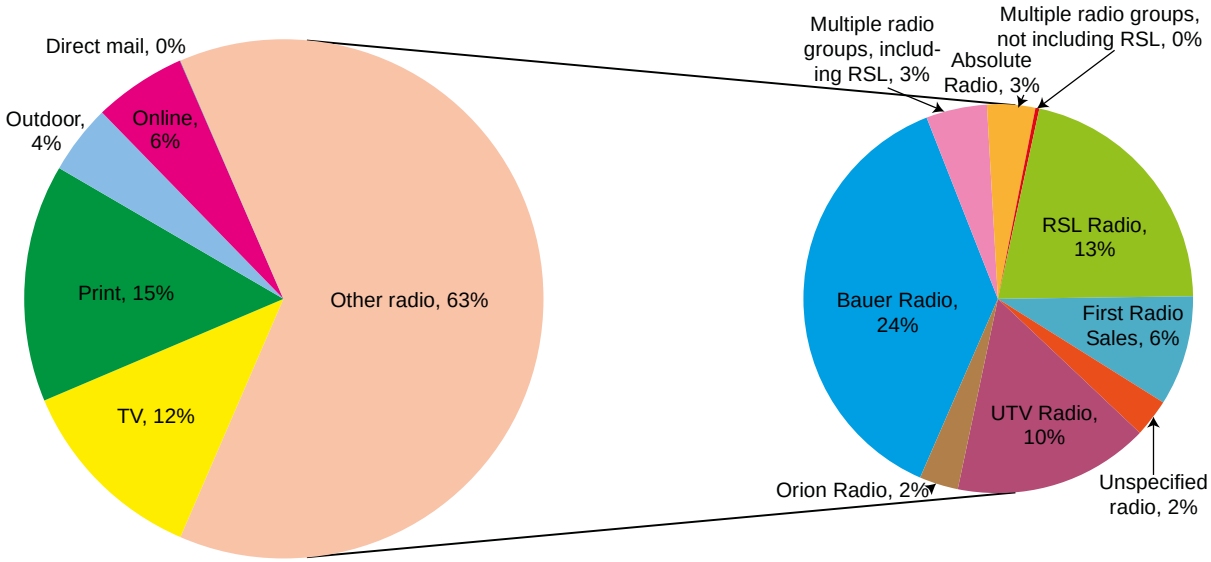


Source: Agencies.

10. When second and third, as well as first, alternatives are included, other radio accounts for a slightly smaller proportion of total alternatives, with a small increase in customers starting to see online, outdoor and print as potential substitutes for radio spend—see Figure 3. In addition, the agencies consider additional radio groups as potential substitutes and RSL now accounts for 13 per cent of all radio groups/other media mentioned as first, second or third alternatives.

FIGURE 3

Global first, second and third alternatives, weighted



Source: Agencies.
Note: Percentages are of total alternatives given and therefore do not show the percentage of advertising spend for which each radio or other media group is an alternative.

11. Table 1 shows these results in table format.

TABLE 1 **First second and third alternatives to Global (sorted by first column)**

per cent

	1st closest		*1st/2nd closest*		*1st/2nd/3rd closest*	
	Unweighted	*Weighted*	*Unweighted*	*Weighted*	*Unweighted*	*Weighted*
Bauer Radio	47	61	26	32	20	24
Television	18	12	16	13	15	12
Print	15	14	19	16	17	15
Multiple radio groups, including RSL	8	6	4	3	4	3
Outdoor	3	3	4	4	5	4
Absolute Radio	2	1	5	3	4	3
Online	2	3	3	3	6	6
Multiple radio groups, not including RSL	2	1	1	0	1	0
RSL Radio	1	0	7	16	9	13
Direct mail	1	0	1	0	0	0
First Radio sales	0	0	9	7	9	6
Unspecified radio	0	0	3	1	4	2
UTV Radio	0	0	2	1	5	10
Orion Radio	0	0	0	0	1	2
Total other radio	61	68	57	63	57	63
Total other media	39	32	43	37	43	37
Total	100	100	100	100	100	100

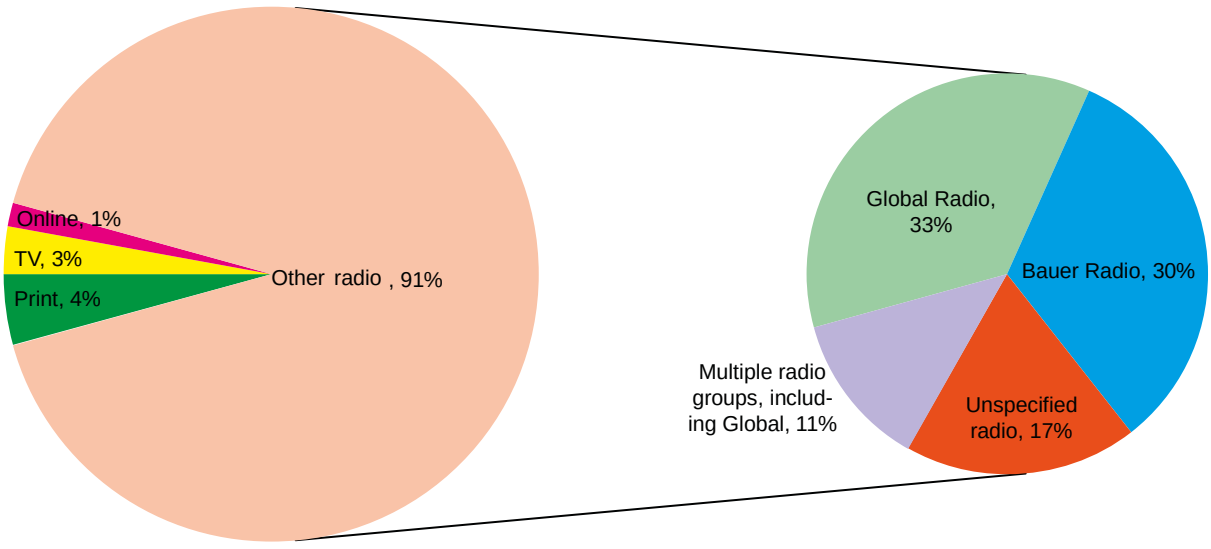
Source: Agencies.

Note: In relation to 1st/2nd and 1st/2nd/3rd the percentages are of total alternatives given and therefore do not show the percentage of advertisers or advertising spend for which each radio or other media group is an alternative.

12. For RSL customers, other radio is seen to represent by far the main first alternative to RSL radio spend, with other media representing only a small proportion (9 per cent)—see Figure 4. Global was the radio group given as a first alternative to RSL for the highest proportion of advertisers (33 per cent), with Bauer Radio a close second (30 per cent).

FIGURE 4

RSL first alternatives, unweighted



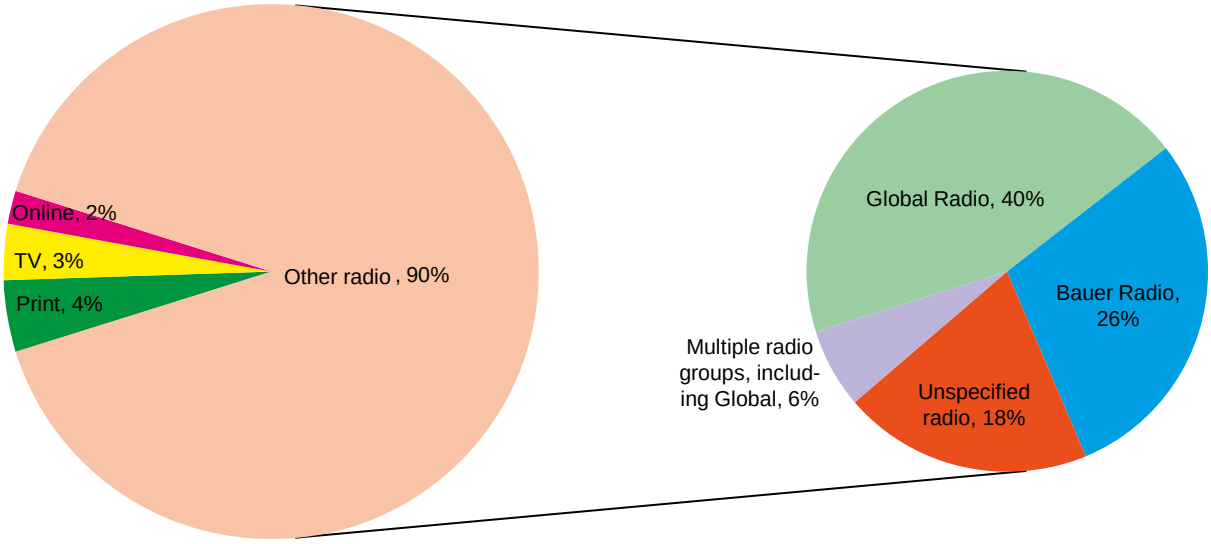
Source: Agencies.

13. Weighting the campaigns by size of radio spend by each of the media agency's customers, Figure 5 shows that other media remains a first alternative to RSL for a small proportion of advertisers. Global becomes a more significant first alternative, with its

share increasing to 40 per cent once responses have been weighted, indicating that larger advertisers are more likely to see Global as an alternative to RSL.

FIGURE 5

RSL first alternatives, weighted

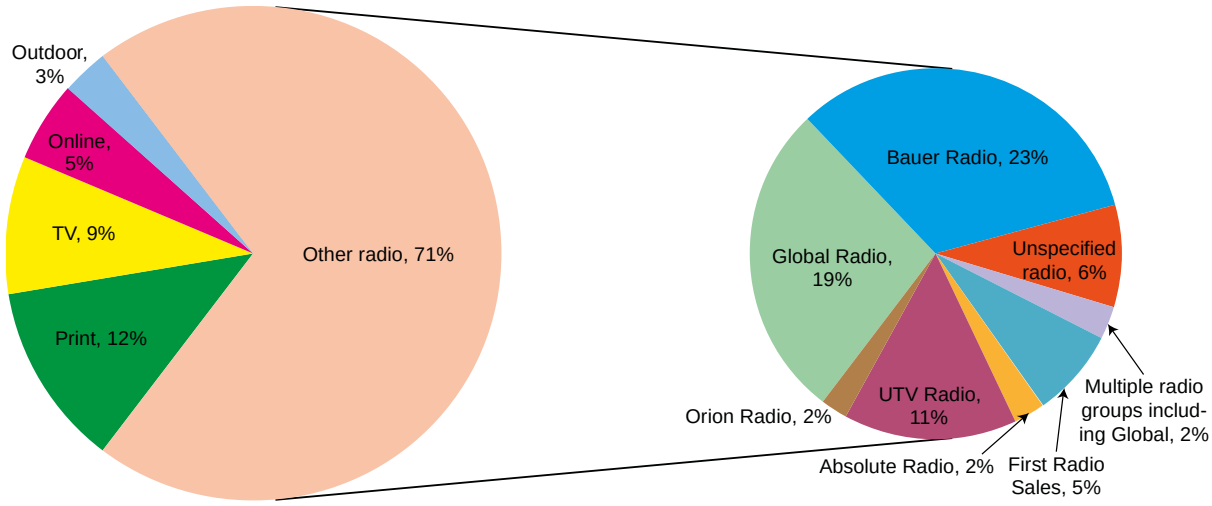


Source: Agencies.

14. Moving to looking at second and third as well as first alternatives, non-radio media accounts for a greater proportion of alternatives; in particular, print (12 per cent), television (9 per cent) and online (5 per cent)—see Figure 6 and Table 2. A number of smaller radio groups also appear more prominently.

FIGURE 6

RSL first, second and third alternatives, weighted



Source: Agencies.
Note: Percentages are of total alternatives given and therefore do not show the percentage of advertising spend for which each radio or other media group is an alternative.

15. Table 2 shows these results in table format.

TABLE 2 **First second and third alternatives to RSL (sorted by first column)**

per cent

	1st closest		*1st/2nd closest*		*1st/2nd/3rd closest*	
	Unweighted	*Weighted*	*Unweighted*	*Weighted*	*Unweighted*	*Weighted*
Global Radio	33	40	29	28	22	19
Bauer Radio	30	26	27	32	20	23
Unspecified radio	17	18	9	9	6	6
Multiple radio groups, including Global	11	6	6	3	4	2
Print	4	4	11	13	10	12
Television	3	3	6	8	7	9
Online	1	2	2	2	6	5
First Radio Sales	0	0	3	1	10	5
Absolute Radio	0	0	3	2	4	2
Outdoor	0	0	2	2	3	3
UTV Radio	0	0	1	1	6	11
Orion Radio	0	0	0	0	1	2
Total other radio	91	90	78	75	73	71
Total other media	9	10	22	25	27	29
Total	100	100	100	100	100	100

Source: Agencies.

Note: In relation to 1st/2nd and 1st/2nd/3rd the percentages are of total alternatives given and therefore do not show the percentage of advertisers or advertising spend for which each radio or other media group is an alternative.

16. Overall, this analysis suggests that RSL is relatively unimportant as a substitute for Global, being regarded as an alternative on its own in very few cases and an alternative in combination with other radio groups in only a small proportion of cases. Much more common first alternatives for Global are said to be other media (32 to 39 per cent) or Bauer (47 to 61 per cent).

17. In comparison, Global emerges as a more important substitute for RSL, listed as a first alternative for 33 per cent of advertisers representing 40 per cent weighted by spend. Along with Global, Bauer is also seen as an important first alternative to Global (26 to 30 per cent) and in general other radio is seen as the first alternative for RSL in the vast majority of cases (90 to 91 per cent). Other media are seen to be relatively unimportant as a first alternative for RSL stations (9 to 10 per cent) but become more important as second or third alternatives (27 to 29 per cent).

18. We note that these results are in line with what we would expect given that RSL stations operate in fewer areas of the country and account for a substantially lower share of total UK listening hours than Global stations.

Other responses from agencies relevant to price negotiations

19. Our questionnaire included questions about the advantages to advertisers of buying through an agency, rather than directly; about the process for negotiating prices with radio companies; and about how the alternatives to Global and RSL stations affected agencies' negotiations with Global and RSL (see Annex 1).

20. Agencies all said that their ability to achieve lower prices through being able to leverage their aggregate client base was a benefit to advertisers of using an agency. [Agency A] noted that the ability to combine volume across its client base to conduct negotiations as a group had become of greater importance since radio groups themselves had consolidated and grown in size.

21. [Agency Q] noted that media owners may sometimes feel that they have the upper hand in negotiations since they are aware that only in extreme circumstances would

agencies be able to remove all their client business from them. However, this power was mitigated by the share-based nature of agency deals, allowing agencies to drive revenues down overall whilst continuing to service the needs of all their clients. Hence, [Agency Q] noted that media owners needed to get the balance right to avoid losing a number of clients from an agency group due to price concerns from those particular clients, leaving them with a share of a much smaller pot and therefore lower revenues overall.

22. A number of agencies address individual clients' concerns within their overall contract, by allowing for different CPTs and/or contract terms for certain clients. [Agency Q] said that this allowed agencies to achieve scale from their client base, without tying clients to each other's terms, and retaining the flexibility for individual clients to walk away if the deal was not good enough.

23. The majority of agencies noted that the threat (explicit or implicit) of switching advertising to other radio stations or media was a common occurrence in annual contract negotiations. [Agency L] noted that (particularly in the case of Global) it had used the threat of switching to other media or using another station to try and limit proposed price increases rather than actually to reduce prices during negotiations. [Agency N] said that the opportunity of switching stations could be used to reduce prices, but felt that when this was done it reflected more a fair market assessment than a threat.

24. However, agencies also noted that the credibility of threats was very variable and depended on the availability of suitable alternatives in particular regions. Five agencies (one radio-only agency) noted that Global's strength in particular regions reduced the agencies' bargaining power in these areas, with Global being aware of where it was the only media option available to deliver quick, cost-effective reach on a city-by-city basis:

(a) [Agency A] highlighted the East of England, London, the Midlands, Southern and Wales & West as areas where Global Radio Sales held a market share of commercial listening hours of over 50 per cent.

(b) [Agency P] noted Heart West Midlands, Capital Birmingham and Free Radio Birmingham as an example of where the alternative radio stations in an area were sold by Global Radio Sales. [Agency P] also noted that it was easier to threaten to switch expenditure for national campaigns.

(c) [Agency N] noted that, where Global owned or handled the sales of more than one station in an area, it was less inclined to be competitive. [Agency N] gave the example of London as a competitive area, and Birmingham/Midlands as uncompetitive. Birmingham/Midlands was seen as uncompetitive since Global owned many stations in this area and also held the sales contract to sell Orion stations in this area. [Agency N] said that this allowed Global to hold prices for all stations it sold in Birmingham, and that it did this at rates that were generally higher than other comparable areas.

(d) [Agency F] said that, for certain clients, Global knew the strength it had where it was the only media option available to deliver cost-effective reach on a city-by-city basis.

(e) [Agency L] said that the threat of using another station when negotiating with a radio sales house was not always possible, since in some instances there would be no alternative stations available that attracted the listening audience that would satisfy its client's objectives.

25. [Agency F] noted that Global also made use of the fact that at certain times of day radio was the 'peak' advertising medium in terms of reach, which reduced agencies' ability to negotiate lower CPTs at these times. [Agency F] added that, for particular day parts and radio stations, this limited the ability of agencies to threaten the use of alternatives.

26. Also agencies noted the existence of certain advertisers and advertising campaigns for which other alternatives would not be suitable, for instance due to not being able to offer the same geographical coverage, the same advertising environment or because the costs of producing an advertisement would be unaffordable (eg television commercials being much more expensive to produce than radio commercials). [Agency Q] said that Global knew the strength of its brands and the campaigns it delivered, and some advertisers could appear 'captive' to radio. Although any threat that it made to move was taken seriously by Global, this threat was accepted not to be a real one for the whole of its portfolio, with the assumption that only a small percentage of advertisers would give up radio completely. [Agency Q] said that agencies would not be able to walk away from negotiations with Global completely due to its large total share of the radio market, without the consequence of having to move away from a position of media-neutral planning—advising their clients against using radio in campaigns. Three agencies noted that the large market share held by Global restricted their ability to make credible threats to switch expenditure.

27. [Agency G] noted that, outside annual contract negotiations, it was sometimes able to negotiate lower prices on a one-off basis for larger pieces of business. In these cases, price negotiation was done by explaining its position and the options being considered and using those to attempt to reduce prices further. Similarly, [Agency N] noted that it was sometimes able to negotiate lower prices for particular pieces of business during a contract period: in situations where radio stations were competing for a particular piece of business, and sales representation existed with two separate parties,[7] [Agency N] might request a more competitive deal. [Agency N] gave the example of Real Radio Yorkshire versus Capital Yorkshire for a client looking to advertise across a large area of Yorkshire. [Agency N] said that, if Capital Yorkshire's price was the higher of the two and higher than other comparable areas, then the client might opt for Real Radio Yorkshire, and that, at this point, it might counter-offer a pricing suggestion to Capital Yorkshire. [Agency N] noted that, in this case, if both stations were owned or sold by the same group, it would have no ability to gain a lower market price.

28. [Agency D] noted that, since it had a share deal with Global, during the course of the contract it did not have the option of threatening to switch expenditure to alternative radio stations in order to negotiate further reductions in prices between contract negotiations.

29. Agencies gave mixed responses on whether they had experienced any significant changes in airtime prices of radio companies (in particular, Global and RSL). Four agencies indicated that they had seen increases in prices, while four other agencies thought that prices had stayed roughly the same and three agencies indicated that they had seen decreases in prices.

30. Of those seeing an increase in prices, [Agency L] said that Global had been particularly bullish in its negotiating approach with regard to share commitments and/or price increases since its merger with GCap. [Agency L] said that Global had come into negotiations with offers considerably higher than any other sales house and on

[7] [✂]

some brands exceeding market expectations. In response to this, [Agency L] had not materially increased client radio spend, instead adapting its planning to downweight certain regions in order to secure an acceptable level of activity in regions considered a priority with its clients.

31. [Agency G] said that it had seen an increase in prices after Global rebranded Heart. At the point of that year's contract renewal, its rates for Heart went up and it had been led to believe that rates had been increased by a minimum of 5 per cent across all agencies.

32. [Agency D] said that it had experienced price rises across the Heart network over previous years and more specifically in the smaller regions which made up the 15 Heart super stations (stations which were formed from two or more previous Global stations). [Agency D] provided the example that Heart Northamptonshire previously cost £[✂] in 2010 prior to the formation of the super station but in 2012 it would now cost around £[✂] to buy the same region. [Agency D] also said that Heart Northamptonshire was no longer surveyed by RAJAR. [Agency D] felt that the consolidation of radio stations had led to the price of advertising increasing in smaller areas. [Agency N] said that it had seen price increases when Global Radio rebranded, renamed and purchased new stations to incorporate into the Heart and Capital brands.

33. Of the four agencies which said that prices had stayed roughly the same, [Agency A] said that the price fluctuations it had experienced over time were just as were to be expected during the normal ebb and flow of the negotiation process. [Agency P] said that the cost of radio airtime had remained fairly consistent across the market as a whole, or even slightly lowered over the last few years. [Agency P] thought this could be attributed to the agency increasing its investment in radio, thereby aiding its buying power; to changes in audience delivery and a better working relationship with radio groups.

34. Of those that indicated that prices had decreased, [Agency F] said that it had seen a step reduction in radio rates over the past year, with rates decreasing due to negotiation, smarter planning and its agency working more closely together as a radio team. [Agency F] said that these reductions in rates might in part be due to being relatively small and perhaps being seen as 'new' money.

35. [Agency N] thought that RSL had reacted in the last few years to competitive market conditions by reducing its prices in competitive areas to be able to compete on superior price efficiency with the more expensive Global and Bauer stations. This had allowed [Agency N] sometimes to use a combination of one or two stations (including one RSL station) to offer a similar weight and power alternative to the more expensive Global station.

Global's comments on agencies' responses to our questionnaire

36. Global said that the structure of decision-making within contracted agencies should be taken into consideration when analysing agency responses. It said that decisions were made at three 'tiers':

    (a) 'Tier 1': Trading Director. Global said that the Trading Director was only involved during contract negotiations over prices and share or volume, which took place in advance of campaign planning. It noted that, with a few exceptions, prices were negotiated on behalf of all advertising clients, rather than each client individually.

(b) 'Tier 2': Media Planner. Global said that the Media Planner planned how to apportion campaign budgets between media.

(c) 'Tier 3': Radio Planner/Buyer. Global said that the Media Planner planned how to apportion the radio portion of a campaign budget within radio.

37. Global said that Tier 1 was the relevant tier to consider when analysing the outside options available to contracted customers if Global tried to increase prices, and that decisions at the other tiers were not relevant to this issue.

38. In Global's view, the answers from agencies as to their outside options were likely to reflect decisions made at Tier 3, rather than Tier 1. It said that, as a consequence, these answers would be largely unable to address the question of whether an agency would be willing and able to switch to other media alternatives in response to an attempt by Global to increase prices during contract negotiations.

39. Global added that other evidence from agencies suggested that contracted customers would be willing to switch their advertising spend to non-radio media in response to an attempt by Global to increase Global and/or RSL prices.

40. Global also made the following points in relation to the questionnaire responses:

(a) One of the agencies that responded was a radio-only contracted agency, hence the responses provided would necessarily be radio-only. Global said that this agency should therefore be removed from the sample.

(b) The questionnaire was likely to provide biased results because of the radio-focused phrasing of the questioning.

(c) Responses related to each agency's ten largest radio advertisers and were unlikely to be representative of an agency's advertiser customer base.

(d) The approach of weighting responses by size of radio spend was likely to bias responses towards radio alternatives.

Response to Global's comments

41. We included questions in our questionnaire on agencies' alternatives to Global and RSL stations because we considered that they were relevant to assessing the impact of the merger on the alternatives available to agencies. We consider that this may be relevant to assessing whether, and if so how far, the merger may be expected to reduce the bargaining power of agencies relative to Global and/or RSL. However, in doing so, we note that it is necessary to take into account other relevant factors affecting contracted prices, including:

(a) the extent to which Global and RSL stations are (or are not) currently relevant alternatives for agencies at the time that price negotiations take place, in particular because under the Agreement, Global currently makes airtime sales on RSL's behalf to certain agencies [✂]; and

(b) the extent of harm to the radio company that an agency is able credibly to threaten at the time of negotiations (either in relation to prices for all its clients or in relation to prices for a specific client).

42. We note Global's comments regarding the structure of decision-making in contracted agencies. We do not consider that this is relevant, beyond the points made in the

previous paragraph, to agencies' responses on the alternatives to Global and RSL. The structure of decision-making within contracted agencies seems to follow naturally from the fact that contract prices are negotiated in advance of decisions being made about the specific media and radio stations to be used in a particular campaign. We note that the questionnaire was addressed to the media-buying companies, and not to particular individuals within those companies. We also note that agencies' responses to other questions (see paragraphs 19 to 35) are relevant to assessing point *(b)* in the previous paragraph.[8]

43. In relation to Global's further points (see paragraphs 36 to 40), we make the following observations:

(a) Responses from radio-only agencies reflect the alternatives available to those agencies at the time they negotiate prices. We therefore do not consider that responses from radio-only agencies should be disregarded.

(b) It is not clear that the phrasing of the questions would be likely to induce bias towards radio rather than other alternatives.

However, in the light of Global's points, we also recalculated the figures in Tables 1 and 2 to exclude radio-only agencies and any other agencies that only gave radio alternatives or only non-radio responses in their responses to the questions.[9] This had some effect on the results—see Tables 3 and 4—but we do not think it indicates a material change in the agency level of bargaining power.

TABLE 3 **First second and third alternatives to Global (sorted by first column), excluding selected agencies**

per cent

	1st closest		*1st/2nd closest*		*1st/2nd/3rd closest*	
	Unweighted	*Weighted*	*Unweighted*	*Weighted*	*Unweighted*	*Weighted*
Bauer Radio	45	39	24	21	19	17
TV	20	18	18	22	16	20
Print	18	24	22	28	21	25
Multiple radio groups, including RSL	5	8	3	4	2	3
Absolute Radio	3	1	7	5	6	4
Online	3	5	5	6	9	10
Outdoor	3	4	5	6	7	8
Direct mail	2	0	1	0	1	0
First Radio Sales	0	0	6	3	9	4
Unspecified radio	0	0	4	2	6	4
RSL Radio	0	0	3	2	2	2
UTV Radio	0	0	2	1	2	2
Total other radio	53	48	48	39	47	37
Total other media	47	52	52	61	53	63
Total	100	100	100	100	100	100

Source: Agencies.

Note: In relation to $1^{st}/2^{nd}$ and $1^{st}/2^{nd}/3^{rd}$ the percentages are of total alternatives given and therefore do not show the percentage of advertisers or advertising spend for which each radio or other media group is an alternative.

[8] In relation to other evidence from agencies, for example received during hearings, we have taken this into account in the main text of this report. This appendix covers responses from agencies to our questionnaire.
[9] To remove any agencies for which there was a possibility that the question may have been misinterpreted in terms of the correct scope of alternatives to be considered.

TABLE 4 **First second and third alternatives to RSL (sorted by first column), excluding selected agencies**

per cent

	1st closest		*1st/2nd closest*		*1st/2nd/3rd closest*	
	Unweighted	*Weighted*	*Unweighted*	*Weighted*	*Unweighted*	*Weighted*
Bauer Radio	33	31	22	19	17	16
Global Radio	27	13	25	12	19	9
Unspecified radio	24	32	12	16	9	11
Print	6	8	15	23	13	21
TV	4	6	8	14	10	16
Multiple radio groups, including Global	4	8	2	4	1	3
Online	2	3	3	3	9	9
First Radio Sales	0	0	4	1	10	4
Absolute Radio	0	0	4	3	5	3
Outdoor	0	0	3	4	4	5
UTV Radio	0	0	1	1	2	2
Total other radio	88	83	70	56	64	48
Total other media	12	17	30	44	36	52
Total	100	100	100	100	100	100

Source: Agencies.

Note: In relation to 1st/2nd and 1st/2nd/3rd the percentages are of total alternatives given and therefore do not show the percentage of advertisers or advertising spend for which each radio or other media group is an alternative.

(c) We asked for responses covering the ten largest radio advertisers because we considered that these were the advertisers most important to price negotiations. In practice, these advertisers spent a similar proportion on radio to other advertisers. The weighted average spend on radio advertising for the largest ten radio advertisers as a proportion of total media spend was 5.7 per cent, while the comparable figure for other advertisers was 5.5 per cent. Therefore, we do not consider that responses were unrepresentative.

(d) We have quoted both unweighted and radio-spend-weighted percentages in the charts and tables above. We consider that spend-weighted percentages are likely to be more relevant to agencies' negotiating power.

Sponsorship and promotion

44. In the next paragraphs, we set out agency responses on S&P.

45. Unlike with airtime, RSL supplies S&P separately to contracted customers of London-based as well as regional agencies. In order to assess whether Global and RSL compete directly to meet S&P briefs, and the significance of any such competition, we asked agencies:

(a) which media companies they considered to be the best alternatives to (i) Global and (ii) RSL in meeting S&P briefs;[10] and

(b) details of recent S&P briefs[11] involving Global or RSL, including information on the advertiser and product, the media company selected as best meeting the brief and its media (radio, television etc), and the other media companies that were considered.

[10] Agencies were explicitly asked, in considering alternatives, to include both other radio companies and non-radio media companies.
[11] Agencies were asked if possible to provide this for S&P briefs over the last 12 months.

46. In response to the first question, most agencies said that this depended on the type of brief and the objectives of the campaign. Most also said that competition could include both other radio companies and non-radio media, though they differed as to the importance they attached to non-radio media. Specific alternatives mentioned by more than one agency were Bauer and Absolute among radio companies and the Telegraph among other media companies.

47. A summary of agencies' responses to the second question is shown in Table 5. The table suggests that the most important competitors to Global and RSL for S&P are Bauer and Absolute, but that competition also comes from two other radio sellers (talkSPORT and First Radio) and from television, the Internet and newspaper companies.

48. Taken together, a non-radio company was selected as the winner in only 8 per cent[12] of the briefs and one or more was considered as an option in only 25 per cent of these briefs. Both Bauer and Absolute were successful, or were considered in more briefs than all non-radio companies. It should be noted that Table 5 covers only briefs involving Global and/or RSL: it therefore provides an indication of the competition faced by Global and RSL but is not informative about S&P briefs in which neither Global nor RSL were invited to participate.

TABLE 5 **Briefs involving Global or RSL: percentage of briefs which radio companies and other media won or were considered in**

per cent

Merit of bid:	*Winner*	*Winner/ Second*	*Winner/ Second/Third*	*Considered*
Global & RSL				
Global	41	75	88	91
RSL	17	21	29	34
Other companies considered				
Bauer (radio)*	15	41	54	55
Absolute	14	24	30	35
talkSPORT	5	8	10	11
First Radio	0	1	3	5
Television*	4	6	10	11
Online	2	4	6	10
Press	2	4	5	5

Source: CC analysis of questionnaire responses.

*One bid was won by Bauer TV. This is included under television.

Notes:

1. The columns in this table show respectively the percentage of briefs for which radio companies/other media were quoted as 1st, 1st or 2nd, 1st or 2nd or 3rd alternative and in which they were considered at all. The basis is therefore different from Tables 1 to 4 where percentages are of unweighted and weighted total alternatives given in relation to all advertisers.
2. After excluding briefs which were not in the event awarded to any bidder, there were 84 briefs. The average number of bids per brief was 2.5.
3. In two cases the brief was awarded to Global and a newspaper: each of these has been counted as half of a full bidder.
4. In one case, the brief was awarded to Bauer, Global, RSL & First Radio: each of these has been counted as a quarter of a full bidder.

49. Additional analysis of responses from agencies (not included in Table 5) shows that Global and RSL put forward the best two bids in 8 per cent of cases (ie in 8 per cent of the briefs that either company bid for and on which agencies provided information). We note that, in these cases, the removal of competition between Global and RSL would mean the removal of the next best alternative to the winning bid (ie the outside option).

[12] This is greater than the sum of the components in Table 5 due to rounding.

50. Our additional analysis of responses from agencies also shows that both Global and RSL were bidders in 25 per cent of the S&P briefs on which agencies provided information.

51. Global and Bauer also provided information on which companies they believed were their competitors in S&P. We note that the information Global and Bauer hold is likely to be less useful because they are less well placed to know other bidders than the agency that organized the brief. We also note that Global and Bauer do not have information on the ranking of the different bids. Furthermore, while the data from Global and Bauer appears to cover a larger number of briefs for a given time period than the data from the agencies,[13] we note Global's data does not necessarily cover all briefs on which RSL pitched, and Bauer's data does not necessarily cover all briefs on which either Global or RSL pitched.

52. Global said [✂].[14]

53. Bauer's figures suggested that in [✂] per cent of the most significant S&P briefs in which it participated, it competed against non-radio as well as radio companies.[15]

54. Noting the difference between agency responses to our questionnaire and its own data, Global said that the term 'S&P' was only used for sponsorship and promotion campaigns in the radio sector and not in other sectors such as television, press, magazines and Internet. Global said that the use of the term 'S&P' in our questionnaire may have led agencies to consider predominantly sponsorship and promotion briefs aimed at radio, rather than those aimed at a variety of media. Subsequent to sending the original questionnaire, we asked agencies whether their response had omitted some relevant S&P briefs, including any where radio companies competed with other media. Two submitted a revised response and these revised responses have been included in Table 5.

[13] There are a number of possible reasons for this: some agencies appear to have provided us with a sample of briefs rather than all briefs over the previous 12 months; the Global and Bauer data included briefs that did not proceed and in the case of Bauer where the result was not yet known; and a group of briefs might be treated as one or a number of different briefs.
[14] Global analysed S&P pitches it made for business valued at £[✂] or more between January 2011 and April 2012.
[15] Bauer's analysis was based on significant S&P pitches it made in [✂].

Questionnaire sent to agencies

The Office of Fair Trading (OFT) has referred to the Competition Commission (CC), for investigation and report, the completed acquisition by Global Radio Holdings Limited (Global Radio) of GMG Radio Holding Limited (now known as Real and Smooth Ltd 'RSL'). A copy of the terms of reference and accompanying press releases can be found on the CC's website, www.competition-commission.org.uk.

The CC has been asked to decide whether the completed acquisition by Global Radio of RSL has resulted or may be expected to result in a substantial lessening of competition within any market or markets in the UK. We have already written to you asking you to provide your views on the competitors to Global and RSL, how easy or difficult would it be to enter in competition to Global and RSL, and the effect of the acquisition on current and future customers, suppliers or competitors.

In order to carry out our assessment of this merger, we have some further questions for you. Please provide a full answer to each of the questions set out below **by no later than 21 November.** If any information or data is readily available please provide this earlier if possible. Where appropriate, please cross-refer to information provided elsewhere, including any provided to the OFT or in response to our first letter to you referred to above. All tables and datasets should be sent in Excel or a common format such as csv and we attach an Excel file for your response to questions 5 to 9.

We are very sensitive to the need to protect commercially sensitive information. We will treat responses to these questions as commercially sensitive (except where they are already public) and intend to aggregate responses so that individual responses are not disclosed. Please see **Annex A** for a note explaining the CC's powers to gather information and the process for disclosure.

The purpose of this questionnaire is to obtain an individual response from each buyer of radio advertising. Therefore, you should not discuss your response with other companies.

1. Name of responding company/group[16]; telephone number and email address of person to contact with queries:

2. What do you see as the main advantages and disadvantages of radio advertising compared to other media:

    a) Cinema;

    b) Direct mail;

    c) Internet (including search engines and social media);

    d) Local newspapers;

    e) Magazines

    f) National newspapers;

[16] In the case of media groups/networks, please make clear which agencies within the group/network are covered by the response.

g) Posters and outdoor;

h) TV; and

i) Other [please specify]

Have the relative merits of these media changed in the last 3 years, and do you anticipate any changes in the next 3 years?

3. Please provide a brief summary of the main terms in your advertising contracts with radio stations (or their sales agents), distinguishing as appropriate between airtime contracts and sponsorship and promotion (S&P) contracts and national and regional/local contracts.

4. Do you typically have a single contract with each radio company covering all your clients (which does not distinguish between clients)? Alternatively, are there separate contracts for some, or all, clients or do your contracts distinguish between them eg in terms of pricing? Where media buying agencies are grouped into networks, is there a single contract covering all agencies or one contract per agency? Are there separate contracts for airtime and S&P?

5. Please describe a typical negotiation with radio stations (or their sales agent) in relation to radio advertising, distinguishing as appropriate between airtime and S&P, and between national and regional negotiations. If possible, please include in your answer: who typically makes the first offer; whether there would be a round of counter offers; what factors you take into account during the negotiation; at what point(s) negotiation takes place and what is negotiated over at each point (eg cost per thousand impacts, share of radio advertising); and how you decide on the value of your offer or counter-offer.

6. Please explain the advantages/disadvantages to an advertiser of buying radio advertising through a media buying agency rather than directly from the radio company. How, if at all, do you use the fact that you buy on behalf of many advertisers to obtain a better deal for them.

7. Please list your 10 largest radio advertisers, and their advertising spend for a recent 12 month period on all media, on radio in total, on Global stations and on RSL stations (Real, Smooth and Real XS) together with a statement of the main other media used by that advertiser. Please also provide the amount spent by other advertisers (grouped together) and the total amount spent for all advertisers.[17]

   [Excel file provided for responses]

Please note that questions 8 to 12 below relate to airtime and questions 13 to 15 relate to S&P.

8. For all of your 10 largest advertisers shown in the answer to question 7 that advertise on Global stations, please identify the three closest alternatives to airtime on Global stations. Please include in your consideration of the closest alternatives other media (eg those shown in question 2) and all radio companies other than Global. If necessary, please distinguish between different campaigns of each advertiser by adding additional rows.

[17] We understand that Global is responsible for national sales of RSL stations (as well as some other stations eg Orion) but in this and subsequent questions we would like you to separately identify advertising on Global stations and advertising on RSL stations (also excluding in relation to Global, advertising sold on behalf of third party stations other than RSL).

[Excel file provided for responses]

9. For all of your 10 largest advertisers shown in the answer to question 7 that advertise on RSL stations, please identify the three closest alternatives to airtime on RSL stations. Please include in your consideration of the closest alternatives other media (eg those shown in question 2) and all radio companies other than RSL. If necessary, please distinguish between different campaigns of each advertiser by adding additional rows.

   [Excel file provided for responses]

10. In respect to your answer to questions 8 and 9, please explain how these alternatives affect your negotiations with Global and RSL on behalf of your clients. Do you use the threat of switching expenditure to these alternatives in order to reduce the price of advertising with Global and RSL?

11. If not included in your answers to questions 7 to 9, please identify any advertisers for whom radio is the primary (or a very significant) media, and for these advertisers set out the three closest alternatives to radio airtime.

12. Do you have experience of significant changes in the airtime prices of radio companies (in particular Global and RSL)? If so, how did this come about (eg through the negotiating process or through the radio company making a step change in its opening offer compared to previous levels)? How did it affect your clients' radio airtime spend with the company making the price changes and with other radio companies? Please cover both any significant increases and any significant reductions in airtime prices and please provide any internal documents relevant to the event(s).

13. If not provided in answer to previous questions, please describe the process for awarding S&P contracts including how you decide on the company to contract with; how the payment is set (eg based on cost per thousand impacts or flat fee) and how the level of payment is negotiated.

14. Which media companies do you consider to be the best alternatives to (i) Global and (ii) RSL in meeting S&P briefs. In considering alternatives, please include both other radio companies and non-radio media companies.

15. For recent S&P briefs involving Global or RSL, please provide the following information:

    a. Your advertiser client and the product for which the brief is issued;

    b. The media company selected as best meeting the brief and its media (radio, TV etc);

    c. The other media companies that were considered.

    If possible please provide this for S&P briefs over the last 12 months.

    [Excel file provided for responses]

Rate cards and pricing

Introduction

1. This appendix compares Global's rate cards with its average achieved prices (measured per thousand impacts, ie in CPT). It is concerned with the pricing of airtime to non-contracted and contracted customers.

Summary

2. In summary:

   (a) Global has different rate cards for local customers and regional/national customers. In some cases prices are the same, but there is little correlation for the [✂] stations—see Figure 1 (paragraph 9).

   (b) Rate-card prices vary [✂] across stations,[1] eg the fixed rate card (FRC) 2011 price relevant to local customers for Heart Devon is £[✂] and for Heart South Coast/Solent is £[✂]—see Annex 1.

   (c) Average achieved prices for contracted customers are [✂] for non-contracted. This reflects that regional/national rate-card prices [✂] than local rate-card prices; that all contracted customers are regional/national but the bulk of non-contracted customer are local; and that contracted customers on average [✂]—see Table 1 (paragraph 19).

   (d) The weighted average discount for non-contracted customers nevertheless appears [✂] (around [✂] per cent on the FRC) [✂].

   (e) There is a reasonably high correlation between rate-card prices and average achieved prices—see Figures 2 and 3 (paragraph 20). Thus the effect of [✂] rate-card prices in certain areas is not completely offset by [✂].

   (f) There is a low correlation across stations between contracted and non-contracted—see Figure 4 (paragraph 21). This is not surprising given points *(a)* and *(e)*.

Rate cards

3. We note the following points about Global's rate-card prices:

   (a) Most but not all stations have FRC prices expressed as £/spot. Global said that the FRC was a confidential internal guide for negotiating prices on a campaign by campaign basis, and was not provided to customers. The parties converted these £/spot prices to CPT for 2011/12.

   (b) Stations also have a 'direct team CPT' rate card. The parties told us that this was another version of the FRC for customers buying on a CPT rather than £/spot basis. Global said that [✂].

[1] As noted in paragraphs 5(b) and 8, the stations considered in the analysis are mainly the stations for which Global continues to obtain RAJAR measurement (ie TSA-level stations).

(c) There is also a 'regional hub and national CPT' rate card: this is relevant to purchases via regional and national agencies. Global said that there were up to [✂] London-based non-contracted agencies and approximately [✂] smaller regional non-contracted agencies to which these rate cards were relevant.

4. Rate cards refer to the price for a 30-second commercial and are based on natural delivery (ie an even spread of airtime over the day, week and year). There are standard adjustments for particular times of day, week and year.

5. We understand that advertising may be bought from Global at four different levels:

(a) Across a network of all stations with a particular brand, eg Heart or Capital.

(b) At what may be described as the 'co-location' level, eg Heart London or Heart East Anglia. A 'co-location' may be a single licence (eg Heart London) or two or more licences (eg Heart East Anglia consists of Heart Norfolk and Heart Suffolk). 'Co-locations' effectively represent Global's current definition of a station and its TSA.[2] Global's ability to co-locate licences arises as a result of recent deregulation. In the rest of this appendix, to try to avoid confusion, we refer to TSAs rather than 'co-location' or 'regional hub'.

(c) At the 'station' level, effectively the licence level.[3] This is sometimes the same as the TSA (eg Heart London) but often is not (eg Heart Norfolk, Suffolk, Essex, Colchester and Harlow are sub-TSA stations).

(d) For some, but not all, stations Global also sells airtime to non-contracted customers at a 'transmitter' level. This is a more local level than the 'station' in *(c)*, eg Heart Suffolk has two transmitters for which airtime may be sold separately (Ipswich and Bury) and so does Heart Essex (Chelmsford and Southend).

6. As regards rate-card prices:

(a) We understand that the price for 'network buys' across a brand such as Heart or Capital is calculated as [✂].[4]

(b) 2011 rate-card prices for TSAs are [✂] with rate-card prices for stations. [✂]

(c) As already noted, 2011 rate-card prices for stations are [✂] with rate-card prices for TSAs (but as regards 2012, see next paragraph).

(d) For some (but not all) stations with separate transmitters, airtime on separate transmitters is sold [✂].

7. [✂]

8. The first three columns of Annex 1 show FRC £/spot rates (converted to CPT), direct team CPTs and regional/national CPTs for 2011 for Global's FM TSAs (except XFM Manchester).[5] Annex 1 also includes three stations that are no longer TSAs (Heart Anglesey & Gwynedd (which is part of the Heart NW & Wales TSA), Heart

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[2] Total Survey Area.
[3] The definition used by Global.
[4] Since constituent rate-card CPTs differ, network CPTs will vary slightly over time if changes in impacts over time differ between stations.
[5] The small AM stations and Xfm Manchester were excluded to avoid the list being too long. Classic FM and Global's digital stations are also excluded from Annex 1.

Gloucestershire and Heart Wiltshire (both of which are part of the Heart West Country TSA)).[6]

9. The following points may be noted about the 2011 rate-card prices in Annex 1:

(a) [✂]

(b) [✂] as illustrated in Figure 1.

FIGURE 1

Regional/national rate card versus FRC

[✂]

Source: CC calculations based on data provided by Global.

Actual average prices

10. For any individual customer, the average CPT paid can be seen as depending on four factors:

(a) the relevant rate-card price;

(b) the time of day, week and year that advertisements are laid down (for which there is a fairly standard set of indices);

(c) the length of the advertisements (rate cards relate to a 30-second advertisement and there is another set of indices to adjust for longer or shorter advertisements); and

(d) the discount the customer obtains on the rate-card price.

Non-contracted prices and discounts

11. In relation to local customers, Global said that discounts from the FRC could be justified by sales teams on the basis of a number of 'levers': [✂].

12. Global also said that [✂].

13. Global also said that there were a few exceptions to the pricing system set out above:

(a) special initiatives such as [✂];

(b) a few customers entered into [✂]; and

(c) in a small number of cases, [✂].

14. We understand that Global's negotiations with non-contracted regional and national agencies are based on the regional and national rate cards.

[6] These three stations were included because the original list was taken from a database prepared by Global's advisers which included these three separately.

Contracted prices and discounts

15. One or more sets of bespoke prices for each TSA and station are agreed and set out in each agency's contract (except for [✂] whose contract sets out [✂]). An example of a set of bespoke prices is at Annex 2.

16. Contracts may also include various further discounts: [✂].

Data on actual average CPTs

17. Annex 1 shows data on actual average CPTs for 2011/12 for non-contracted and contracted customers. This has been obtained from a database of transactions compiled by the parties showing both revenue and impacts. Airtime revenue is adjusted for advertisement length but not for time of day, week and year. For information, Annex 1 also shows non-contracted airtime revenue as a percentage of total revenue and total revenue in £ million.[7]

18. There are potentially two issues with interpreting this data:

(a) It has not been adjusted for time of day, week and year.

(b) Adjusted revenue and impacts are not available for all transactions—the data is available for almost all contracted transactions but we estimate that excluded transactions account for about 5 per cent of non-contracted airtime revenue.

Since we are using data for a whole year and the excluded transactions appear to affect all stations broadly similarly, these points should not be much of a problem in comparing average CPTs with each other. There may be more of an issue in comparing average CPTs with rate-card prices, for instance fill rates are likely to be higher at peak times, increasing the average CPT relative to the rate card.

19. As illustrated in Table 1, average CPTs are [✂] for non-contracted than contracted customers, reflecting [✂]. We have calculated average discounts on rate-card prices. The weighted average discount to FRC for non-contracted customers [✂]. Some non-contracted customers are regional or national (for whom the [✂] regional/national rate card is relevant) but Global suggested that [✂]—and if we assume that [✂] per cent of non-contracted revenue is regional/national, the weighted average discount for non-contracted [✂]. Furthermore, the effect of higher fill rates at peak is likely to be to [✂]—see previous paragraph.

TABLE 1 **Weighted average CPTs and discounts on rate card**

[✂]

Source: CC calculations for stations shown in Annex 1.

20. Figures 2 (non-contracted) and 3 (contracted) show the relationship between the rate-card price and average actual prices. Generally, [✂].

[7] These figures reflect adjusted revenue as used in the CPT calculation and therefore only provide an approximate indication of actual revenue.

FIGURE 2

Non-contracted average CPT versus FRC rate card

[✂]

Source: CC calculations based on data provided by Global.

FIGURE 3

Contracted average CPT versus regional/national rate card

[✂]

Source: CC calculations based on data provided by Global.

21. Figure 4 shows the relationship between non-contracted and contracted average CPT. [✂]

FIGURE 4

Contracted average CPT versus non-contracted average CPT

[✂]

Source: CC calculations based on data provided by Global.

Comparison of prices

[✂]

Example of contracted prices

[✂]

Analysis of overlap areas

Introduction

1. This appendix presents evidence on each of the local areas where Global and RSL stations overlap. The information shown is used to assess the nature and extent of competition between the parties' stations as well as competitor stations. We use this information to assess the loss of competition arising from the merger in each local area.

2. The appendix is structured as follows:

   (a) Approach to local area assessments.

   (b) Local area assessments:

      (i) London;

      (ii) East Midlands;

      (iii) West Midlands;

      (iv) Cardiff and South Wales;

      (v) North Wales;

      (vi) Yorkshire, Humberside and Lincolnshire;

      (vii) Greater Manchester and the North-West;

      (viii) North-East; and

      (ix) Glasgow and Central Scotland.

   Annex 1: Definitions.

   Annex 2: Headline results from the parties' surveys and the parties' NMR analysis.

Approach to local area assessments

3. In our analysis of each area where the parties' stations overlap, we use a framework that takes into account:

   (a) The geographic overlap of stations based on their TSAs, taking into account, where available, the proportion of advertising split between individual transmitters within a TSA.[1]

[1] In general, a station is initially included in the analysis for a local area if at least one-third of its transmission area (by population) overlaps with the merging parties' own transmission areas. However, Classic FM and UTV's talkSPORT are not included in any local area analysis, because these do not allow advertisers to target the local areas without incorporating a significantly wider region.

(b) The relative strength of competing radio stations as measured by share of listeners and share of non-contracted revenue.

(c) The demographics reached by radio stations. We consider, in particular, the average age of listeners and the proportion of listeners who are female.

4. In this appendix, we summarize the evidence on each of these factors:

(a) The first table for each overlap area shows total listening hours and reach of each station. This table also includes each station's non-contracted revenue and total revenue.[2]

(b) The first table for each overlap area also shows each station's and each company's share of listening hours, non-contracted revenue and total revenue. It should be noted that shares may differ according to the measure used; for example, a station may have a lower share of revenue than listening hours if its prices or volume of advertising are relatively low; and a station may have a lower share of non-contracted revenue than total revenue if it sells more airtime into the contracted segment or if its level of S&P is relatively high. Additionally, while audience figures are all based on a consistent data source (RAJAR), revenue figures are affected by possible data consistency issues since different parties may have different reporting conventions. In particular, non-contracted revenue may be affected by differences between companies in the definition of a 'non-contracted' customer (see Annex 1).

(c) A further table for each area shows two demographic measures (average age and female reach) for the main stations in the area as well as the Ofcom licence requirements for these stations.

5. Where relevant, we also include two further tables:

(a) A table showing listening hours, reach and share of listening hours for each station in a smaller overlap area of special interest (for example, Cardiff within the South Wales overlap area). Since not all stations necessarily have a transmitter covering just this area, listening hours on this basis do not necessarily correspond to listening hours by listeners that can be separately targeted by an advertising campaign.[3]

(b) A table showing an estimated allocation of each station's non-contracted revenue according to whether campaigns are run in a smaller area or across the whole overlap area (for example, within South Wales, revenue is allocated according to whether the campaign is run only in Cardiff, only in the rest of South Wales, or in both Cardiff and the rest of South Wales).[4] Revenue shares on this basis for a

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[2] In this appendix, the term 'non-contracted revenue' refers to non-contracted airtime revenue: it relates only to airtime revenues and does not include S&P revenue from non-contracted advertisers which cannot be identified separately for all radio companies. Total revenue is defined in all tables as the sum of non-contracted airtime revenue, contracted airtime revenue and revenue from sponsorship and promotion. In some cases the revenue figures reported have changed since our provisional findings. Changes are due to: receiving additional information from third parties; figures for the parties are now calculated using the parties' transaction databases using a slightly different allocation of revenue to quarters; and a standardization of the RSL definition of airtime to bring it in line with the definitions used by other radio groups.

[3] For example, in Cardiff, Bauer's station (Key West) broadcasts to a wide area including Cardiff but does not sell advertising only for the Cardiff area. On the other hand, RSL's station (Real Radio Wales (South)) broadcasts to a wide area including Cardiff and sells advertising specifically for the Cardiff area (it 'splits transmission' of advertising between Cardiff and the rest of South Wales).

[4] Station total revenue figures have been calculated from the parties' transaction databases based on the campaign monthly revenue figures for a station that were allocated to one of the 12 months October 2011 to September 2012. In comparison, the split transmitter revenues were calculated based on all campaigns that **started** in one of the 12 months from October 2011 to September 2012, to ensure that all revenues relating to a campaign were considered when calculating which transmitters had

smaller area may differ from listener shares in *(a)* due to the different methods of calculation. In particular, a station broadcasting to a wider area without the ability to target a smaller area via a separate transmitter will have no revenue allocated to the smaller area in this table, but will nevertheless have a share of listening in the table referred to in *(a)*.[5]

6. This appendix also includes a summary of views and evidence submitted by the parties and third parties including, where relevant, evidence from a review of the parties' internal documents.

London

7. Global has seven stations broadcasting to London: Heart, Capital, Xfm, Choice, LBC 97.3, LBC News (AM) and Gold (AM). RSL has one station: Smooth. The main competitors include: Bauer with Magic and Kiss; TIML Radio with Absolute; Sunrise Radio AM; and Premier Christian Radio AM. All of these stations transmit over the Greater London area.

8. Global has a 54 per cent share of local/regional commercial radio listening hours in the Greater London area (see Table 1). RSL has a 3 per cent share, so the increment from the merger will be small. Post-merger the parties have a combined share of non-contracted revenue of [50–59] per cent and combined share of total revenue of [50–59] per cent.

been used. These split transmitter revenue figures were then used to calculate the **percentage** of revenue that related to different transmitter combinations. These percentages were then applied to the total revenue figures calculated for the station to determine our split transmitter revenue estimates.

[5] For example, Bauer's station (Key West) in Cardiff, see previous footnote.

TABLE 1 **Shares of listening, reach and of non-contracted and total revenue in London (local/regional commercial radio)**

Station	*Total listening hours*		*Total reach*	*Non-contracted revenue*		*Total revenue*	
	'000s	*%*	*'000s*	*£m*	*%*	*£m*	*%*
Global							
Heart London	9,703	13	1,858	[✂]	[✂]	[✂]	[✂]
LBC 97.3	9,720	13	900	[✂]	[✂]	[✂]	[✂]
LBC News 1152 AM	2,243	3	409	[✂]	[✂]	[✂]	[✂]
Capital London	11,156	15	2,143	[✂]	[✂]	[✂]	[✂]
Choice FM London	2,724	4	532	[✂]	[✂]	[✂]	[✂]
Xfm London	1,867	3	404	[✂]	[✂]	[✂]	[✂]
Gold AM London	2,673	4	323	[✂]	[✂]	[✂]	[✂]
Total	40,086	54	4,516	[✂]	[50–59]	[✂]	[50–59]
RSL—Smooth Radio London	2,579	3	487	[✂]	[5–9]	[✂]	[0–4]
Merger parties	**42,665**	**57**	**4,678**	[✂]	**[50–59]**	[✂]	**[50–59]**
Bauer							
Magic 105.9	12,680	17	2,068	[✂]	[✂]	[✂]	[✂]
Kiss 100 FM	11,016	15	1,896	[✂]	[✂]	[✂]	[✂]
Total	23,696	32	3,380	[✂]	[10–19]	[✂]	[20–29]
Sunrise Radio AM	2,458	3	311	[✂]*	[10–19]	[✂]†	[0–4]
Absolute Radio 105.8	3,051	4	608	[✂]	[0–4]	[✂]†	[5–9]
Premier Christian Radio AM	1,440	2	152	[✂]*	[0–4]	[✂]†	[0–4]
Kismat Radio 1035	486	1	89	[✂]*	[0–4]	[✂]†	[0–4]
Buzz Asia 963 and 972 AM	524	1	108	[✂]*	[0–4]	[✂]†	[0–4]
Spectrum Radio	N/A		N/A	[✂]*	[0–4]	[✂]†	[0–4]
London Greek Radio	N/A		N/A	[✂]*	[0–4]	[✂]†	[0–4]
Total	**74,320**	**100**		[✂]	**100**	[✂]	**100**

Source: Listening hours and reach are a RALF II weighted average based on RAJAR surveys for the 12 months ending September 2012. Listening hours and reach for each station are those within that station's TSA; revenue data: Global, RSL, third parties, Ofcom.

*Net local advertising, 2011, Ofcom (definition in Annex 1).
†Total relevant revenue, 2011, Ofcom (definition in Annex 1).
Notes:
1. Global and RSL revenue data for period October 2011–September 2012.
2. Bauer revenue data relates to the 12 months ending December 2011.
3. Absolute non-contracted revenue data relates to the 12 months ending December 2012. [✂]
4. Stations included in the table are those with at least one-third of their transmission area (by population) overlapping with the parties' station's transmission areas.
5. N/A = Not available.
6. Columns may not sum exactly to the totals due to rounding.

9. The parties' main competitor for listeners post-merger would be Bauer, which has a 32 per cent share of listening hours, and whose two stations reach 3.4 million listeners each week. It has a [10–19] per cent share of non-contracted revenue and a [20–29] per cent share of total revenue. Absolute Radio has the next largest share of listening hours (4 per cent) [✂].

10. The average age of a Smooth listener is 48 years old and Global has two stations with an equivalent or similar average age: LBC (49 years old) and LBC News (48 years old). However, Bauer's Magic station also reaches a relatively mature audience, with an average age of 44 years.

TABLE 2 **Demographics of radio stations in London**

Station	*Average age*	*Female reach %*	*Ofcom licence requirement*
Global			
Heart London	40	58	25–44
LBC 97.3	49	46	
LBC News1152 AM	48	44	
Capital London	36	57	Under 40s
Xfm London	34	44	15–34
Gold AM London	54	50	35–54
RSL—Smooth Radio London	48	53	50+
Bauer			
Magic 105.9	44	56	Over 35
Kiss 100 FM	32	55	Under 30s
Sunrise Radio AM	38	43	
Absolute Radio 105.8	39	43	25–44
Premier Christian Radio AM	46	60	
Kismat Radio 1035	38	40	Over 35s
Buzz Asia 963 and 972 AM	32	45	15–34

Source: RAJAR average Q4 2011–Q3 2012, Ofcom.

The parties' views

11. The parties told us that Smooth was not a significant player in London, having a small market share. They told us that Bauer was a more significant competitor to Global, and that Absolute and some specialist stations also had a higher share of non-contracted revenue than Smooth.

12. The parties told us that their stations were not close competitors in terms of their target demographics—notably that Smooth targeted a different demographic to Capital and Heart—and that Global's stations had closer competitors than Smooth (namely Magic and Kiss). It said that although both LBC and Smooth targeted an older audience, they broadcast very different content. It said that Gold did target older listeners but was a minor player in London.

13. Global submitted analysis of [✂] and that these [✂] indicated that LBC and Smooth were not close competitors.

14. By reference to their 'lost opportunities' survey, the parties submitted that, after declining a campaign proposal by Global, London respondents went on to use a range of non-radio alternatives including local press (39 per cent), magazines (29 per cent), search engines (38 per cent), social media (36 per cent) and outdoor advertising (31 per cent). They submitted that 26 per cent turned to other radio stations, with 6 per cent indicating that they had used radio stations operated by RSL.

15. The parties submitted results from their 'existing customer' survey in London, on the question of what media respondents would use if the Global or RSL station they had used had not been available. They submitted that 19 per cent of advertisers would choose another radio station compared with 35 per cent who would choose non-radio media.

16. The parties said that their analysis of NMR data for London showed that 57 per cent of Global advertisers and 62 per cent of RSL advertisers in FY2009 did not use them again in FY2010 or FY2011 and that 44 per cent of Global leavers and 53 per cent of

RSL leavers used non-radio media. This compares with 31 per cent of Global leavers and 38 per cent of RSL leavers who used other radio stations.

Third party views

17. Third parties told us that the combined entity would account for a high share of the London commercial radio market and would own a large number of radio licences broadcasting to London. [Competitor A] told us that Global would have over 50 per cent of commercial listening hours in London post-merger, and that it would have six FM licences, two AM services and a national FM service with a regional opt out.[6] Bauer told us that the merged entity would have six out of nine regional licences, and UTV said that it would have seven out of the ten independent local radio (ILR) FM licences that covered Greater London.[7]

18. Two competitors ([Competitor A] and UTV) told us that the parties were relatively close competitors. [Competitor A] said that RSL was noted in the Global/GCap merger as one of a small number of strong competitive constraints in London. UTV said that Smooth competed most closely with LBC (and Absolute); that Classic FM was also a close competitor to Smooth; and that it was arguable that the merger would remove the closest competitor to LBC and Classic FM.

19. UTV told us that, post-merger, there would be only two regional music station radio groups competing with Global, Bauer and Absolute, and that Absolute was a relatively fringe player. It also submitted NMR data showing that 63 per cent of RSL advertisers in Greater London also used Global between July 2011 and June 2012 (and 23 per cent of Global advertisers used RSL). UTV said that London had strategic importance for national advertising campaigns.

Other relevant documents

20. An RSL research report from 2008 [✂].[8]

East Midlands

21. Global has two stations in the East Midlands: Capital, which can split its advertising across three transmitters (Mansfield & Nottingham,[9] Leicester and Derby); and an AM station, Gold. RSL has one station, Smooth. The broadcast areas of the parties' stations overlap significantly across the region, including in Leicester, Loughborough, Mansfield, Nottingham and Derby.[10]

22. The main competitor in the region is Orion (Gem 106) by reference to the area of geographic overlap. There are also three smaller stations that broadcast to individual areas within the East Midlands: Quidem (Oak FM), which overlaps in the area around Loughborough; Radio Mansfield, which overlaps in the area to the north of the region; and Sabras Sound, which overlaps in the area around Leicester (see Figure 1).

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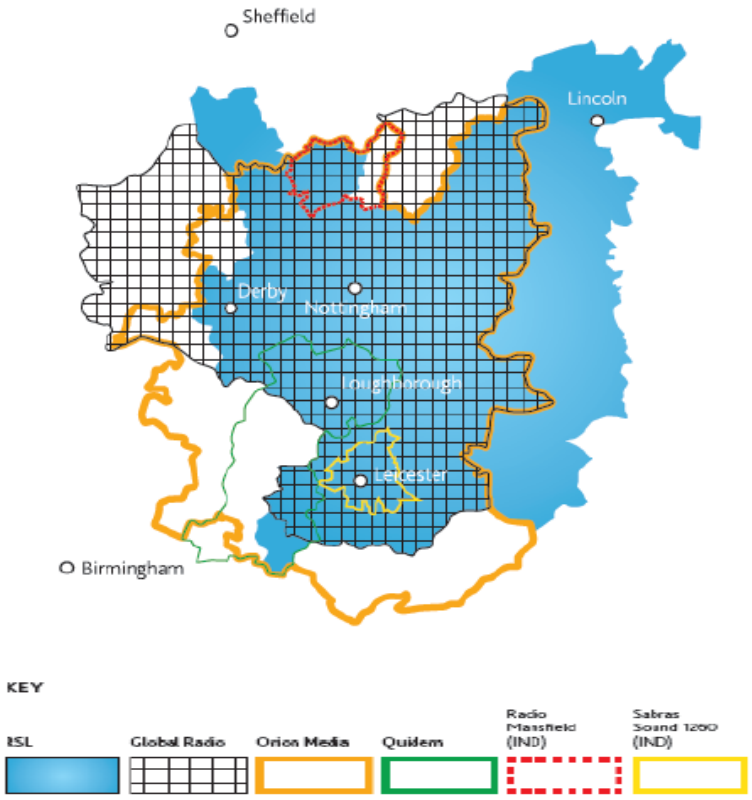
[6] ie Classic FM. A regional opt out is where, at certain times of the day a station may switch its broadcast to a different broadcast, for instance during the news to report local content.
[7] Differences between third party figures depend on whether Global's AM stations or Classic FM are included.
[8] Strengths, weaknesses, opportunities and threats.
[9] Advertising can also be split across the two separate Mansfield and Nottingham transmitters, [✂].
[10] The parties told us that there was a very small overlap between Smooth and Heart in Hinckley.

FIGURE 1

Map of the main stations in the East Midlands



Source: Global.

23. Table 3 shows shares of listening and revenue for the parties' radio stations in the East Midlands and those of competitor stations.[11] For each station, listening hours shown are the weekly listening hours within that station's transmission area.

24. The merger parties have a combined share of local/regional commercial radio listening hours of 67 per cent with an increment of 27 per cent and their stations will together reach 750,000 listeners each week. Post-merger they will have [60–69] per cent of non-contracted revenue and [60–69] per cent of total revenue, with an increment of [10–19] and [10–19] per cent respectively.

[11] See the footnote to paragraph 3(a).

TABLE 3 **Shares of listening, reach and of non-contracted and total revenue in the East Midlands (local/regional commercial radio)**

Station	*Total listening hours*		*Total reach*	*Non-contracted revenue*		*Total revenue*	
	'000s	*%*	*'000s*	*£m*	*%*	*£m*	*%*
Global							
Capital East Midlands	3,560	33	482	[✂]	[✂]	[✂]	[✂]
Gold East Midlands AM	787	7	69	[✂]	[✂]	[✂]	[✂]
Total	4,346	40	537	[✂]	[40–49]	[✂]	[40–49]
RSL—Smooth Radio East Midlands	2,889	27	309	[✂]	[10–19]	[✂]	[10–19]
Merger parties	**7,235**	**67**	**750**	[✂]	**[60–69]**	[✂]	[60–69]
Orion—Gem 106	3,028	28	391	[✂]	[20–29]	[✂]	[30–39]
Quidem (Oak FM)	160	1	26	[✂]*	[0–4]	[✂]†	[0–4]
Radio Mansfield 103.2	373	3	41	[✂]‡	[5–9]	[✂]§	[0–4]
Sabras Sound 1260	N/A		N/A	[✂]‡	[5–9]	[✂]§	[0–4]
Total	**10,797**	**100**		[✂]	**100**	[✂]	**100**

Source: Listening hours and reach are a RALF II weighted average based on RAJAR surveys for the 12 months ending September 2012. Listening hours and reach for each station are those within that station's TSA; revenue data: Global, RSL, third parties, Ofcom.

*Net local advertising, 2010, Ofcom.
†Total relevant revenue, 2010, Ofcom.
‡Net local advertising, 2011, Ofcom (definition in Annex 1).
§Total relevant revenue, 2011, Ofcom (definition in Annex 1).
Notes:
1. Global and RSL revenue data for period October 2011–September 2012.
2. Orion revenue data relates to 12 months ending 30 September 2012. Orion stated that these figures did not include revenue sold on a campaign-by-campaign basis to regional agencies. However, Orion stated that this airtime was sold by Global on its behalf and related to a 'modest' amount of revenue.
3. Stations included in the table are those with at least one-third of their transmission area (by population) overlapping with the parties' stations' transmission areas.
4. N/A = Not available.
5. Columns may not sum exactly to the totals due to rounding.

25. The main competitor, Orion, has a 28 per cent share of local commercial listening hours and reaches 391,000 listeners each week. It has a [20–29] per cent share of non-contracted revenue and a [30–39] per cent share of total revenue.

26. Table 4 shows the demographics of the Global, RSL and Orion radio stations in the East Midlands. It shows that the average age of Gem 106 listeners lies between the respective average ages of Capital and Smooth listeners.

TABLE 4 **Demographics of radio stations in the East Midlands**

Station	*Average age*	*Female reach %*	*Ofcom licence requirement*
Global			
Capital East Midlands	34	59	Under 44s
Gold East Midlands AM	51	42	35–54
RSL—Smooth Radio East Midlands	49	53	50+
Orion—Gem 106	41	57	30–54
Quidem (Oak FM)	46	49	25–45
Radio Mansfield 103.2	46	50	25–54
Sabras Sound 1260	N/A	N/A	

Source: RAJAR average Q4 2011–Q3 2012, Ofcom.

N/A = Not available.

27. Table 5 shows the non-contracted revenue derived by the main stations from areas within the East Midlands overlap. This shows that over half ([✂] per cent) of Global's non-contracted revenue on Capital East Midlands was from campaigns which only used one of the three East Midlands transmitters;[12] [✂] per cent was from campaigns using two of the three East Midlands transmitters; and the remaining [✂] per cent from campaigns using all three transmitters.

TABLE 5 **Distribution of non-contracted revenue across different areas of the East Midlands (local/regional commercial radio)**

£ million

Station/Group	*Nottingham/ Mansfield*	*Leicester/ Loughborough*	*Derby*	*Region*	*Total*
Global					
Capital East Midlands*	[✂]	[✂]	[✂]	[✂]	[✂]
Gold East Midlands AM				[✂]	[✂]
Total	[✂]	[✂]	[✂]	[✂]	[✂]
RSL—Smooth Radio East Midlands				[✂]	[✂]
Merger parties	[✂]	[✂]	[✂]	[✂]	[✂]
Orion—Gem 106				[✂]	[✂]
Other†	[✂]	[✂]			[✂]
Total	[✂] **(100%)**	[✂] **(100%)**	[✂] **(100%)**	[✂] **(100%)**	[✂] **(100%)**

Source: Revenue data: Global, RSL, third parties, Ofcom.

*For Capital East Midlands, revenues are classified as 'Region' if they relate to campaigns run on at least two out of the three East Midlands transmitters.
†Quidem (Oak FM), Radio Mansfield 103.2 and Sabras Sound 1260.
Notes:
1. Global and RSL revenue data for period October 2011–September 2012.
2. Orion revenue data relates to 12 months ending 30 September 2012. Orion stated that these figures did not include revenue sold on a campaign-by-campaign basis to regional agencies. However, Orion stated that this airtime was sold by Global on its behalf and related to a 'modest' amount of revenue.
3. Columns and rows may not sum exactly to the totals due to rounding.

28. The parties' share of non-contracted revenue from campaigns across the whole of the East Midlands region was [60–69] per cent, with an increment of [30–39] per cent. Orion, as the only other party with regional coverage in the East Midlands from its Gem 106 station received the remaining [30–36] per cent share.

The parties' views

29. The parties said that share of listening and non-contracted revenue were not an appropriate base on which to assess the merger given that the parties stations were highly differentiated.

30. The parties told us that they were not close competitors in the East Midlands and had different geographic and demographic targets. Capital had three TSAs that could be sold separately from one another allowing advertisers to target particular local areas. Global stated that [✂] per cent of Capital non-contracted customers used a single transmitter[13] so Capital was predominantly used by local advertisers. The parties calculated that advertisers using only one Capital transmitter would incur significant wastage by using Smooth (between 48 and 84 per cent, depending on the target

[12] The Mansfield and Nottingham transmitters have been counted as one transmitter for the purpose of this analysis.
[13] We calculate a figure of [✂] per cent of revenue for the period October 2011–September 2012. Since Q4 2008, the quarterly percentage has fluctuated between [✂] and [✂] per cent.

transmitter) because they would reach listeners outside their target area. Smooth only offered regional coverage that stretched further east and therefore served regional as opposed to local advertisers.

31. The parties told us that they targeted different listeners, with Global's Capital aimed at young listeners (those aged under 44) while RSL's Smooth targeted an older audience, generally aged 50 years or more. Gold also reached a greater proportion of male listeners. In terms of target demographic Orion's Gem 106 was a closer competitor to the parties than they were to each other. Orion would be a strong competitor to the merged entity.

32. The parties told us that the prices for their stations were [✂].

33. The parties said that in Capital's target demographic Gem 106 had a reach that was more than twice that of Smooth and a share of listening that was more than three times as large as Smooth. Similarly, within Smooth's target demographic Gem 106 had a similar reach to Capital and a higher share of commercial listening. They also said that Gem 106 had a higher share of non-contracted revenue than Smooth and a similar share of local commercial listening to Smooth.

34. By reference to their lost opportunities survey, the parties submitted that, after declining a campaign proposal by Global, East Midlands respondents went on to use a range of non-radio alternatives including local press (46 per cent), magazines (28 per cent), search engines (27 per cent), social media (31 per cent) and outdoor advertising (31 per cent). They submitted that 29 per cent turned to other radio stations, with 10 per cent indicating that they had used radio stations operated by RSL.

35. The parties submitted results from their existing customer survey in the East Midlands on the question of what media respondents would use if the Global or RSL station they had used had not been available. They submitted that these indicated that 15 per cent of East Midlands advertisers would choose another radio station compared with 35 per cent who indicated they would choose non-radio media.

36. The parties said that non-contracted advertisers viewed non-radio media as an effective alternative to radio. The parties also stated, referring to internal documents, that [✂] the strategy of both companies was to compete directly with non-radio media, [✂] to win business and ensure they did not lose existing non-contracted customers to non-radio media.

37. The parties submitted an analysis of NMR data for the East Midlands which, they said, showed that 52 per cent of Global advertisers and 50 per cent of RSL advertisers in FY2009 did not use them again in FY2010 or FY2011. Of these, 50 per cent of Global-leavers and 64 per cent of RSL-leavers used non-radio media. This compared with 25 per cent of Global-leavers and 42 per cent of RSL-leavers who used other radio stations.

38. The parties submitted that analysis of their transactional data showed that Global experienced an average annual churn[14] rate in the East Midlands of [✂] per cent of non-contracted advertisers, relating to [✂] per cent of non-contracted revenue. For RSL the comparable average churn rate figures were [✂] per cent of non-contracted advertisers, relating to [✂] per cent non-contracted revenue.

[14] Defined by the parties as the number of non-contracted customers who have used Global or RSL in the preceding year but have not advertised on Global's stations in the past 12 months.

Third party views

39. A number of competitors to the parties said that the merger led to a reduction in radio station groups from three to two in the East Midlands but approached this from different perspectives. Bauer said that the merger reduced the number of competing FM stations in the East Midlands (Capital, Smooth and Orion) from three to two. By contrast, UTV referred to competition between Smooth and Classic FM in the East Midlands region. Bauer stated that UTV and Classic FM were not realistic options for advertisers in the East Midlands as they covered a wider region.

40. The parties' competitors in the East Midlands also told us that the merger parties would have a particularly high market share, with a large increment, though again they calculated these shares on different bases. Bauer stated that on the basis of listening hours, the parties would have a share in excess of 70 per cent within the Smooth and Capital East Midlands TSA. Orion said that the parties would have a share of local commercial listening hours of 67 per cent, and estimated that they would have 60 to 70 per cent of local advertising revenue. [Competitor A] indicated that the parties would have a share greater than 60 per cent of commercial listening hours in Nottingham.

41. Third parties told us that Global and RSL were close competitors in the East Midlands. Bauer acknowledged that the parties were not the closest of demographic competitors in the East Midlands, but noted that 85 per cent of its own local revenue was not specific in targeting any sub-demographic reach. Orion stated that Gold and Smooth were primary competitors ([✂]). Both UTV and Orion submitted Nielsen data showing the number of RSL advertisers that also used Global in the Midlands and vice versa. Orion submitted Nielsen data showing that, over a recent 12-month period, 42 major advertisers with total spending in excess of £12,000 in the Midlands region used both Global and RSL. This was out of 52 advertisers that used Global and 78 that used RSL. UTV also submitted Nielsen data showing that, between 1 July 2011 and 30 June 2012, 56 per cent of advertisers using RSL in the Midlands also used Global, and 17 per cent of advertisers using Global also used RSL.

42. Two non-contracted agencies expressed concern about the impact of the merger on the radio advertising competition in the East Midlands. [Agency U] told us that *(a)* substitution could be difficult for those clients that used radio as the backbone of their marketing (expenditure on radio can be 70 to 80 per cent of the total marketing spend); and *(b)* that the local market did not offer enough viable options to switch radio stations or distribute share of budget to achieve best value for the clients. Further, this media agency told us that it would use an 'imaginary' threat of using a regional station in order to achieve more competitive rates on a local station and that any reduction in the relevant choice would have a major impact on the local rates. It is currently possible to use two alternative options, Smooth or Gem 106, to Capital as a credible alternative which suppresses rates. After the merger the option would be either Capital and Smooth versus Gem 106. Conversely, two advertisers expressed their support in favour of the merger; two others did not express any major concerns in relation to the merger, stating that there were other radio or media alternatives in the East Midlands.

Other relevant documents

43. Global's internal documents relating to [✂] in the East Midlands showed that Global focused on non-radio media to address churn issues and to target potential customers. Global's Strategy Overview Paper also contained [✂]. Some [✂] used

by Global in the East Midlands contained information relating to other media, in particular highlighting [✂].

44. Some marketing material from competitors and from other media, brought to our attention by the parties, also contained information about competition between radio and other media.

45. An RSL commercial business plan for the East Midlands [✂].

46. In a set of company profiles [✂].

West Midlands

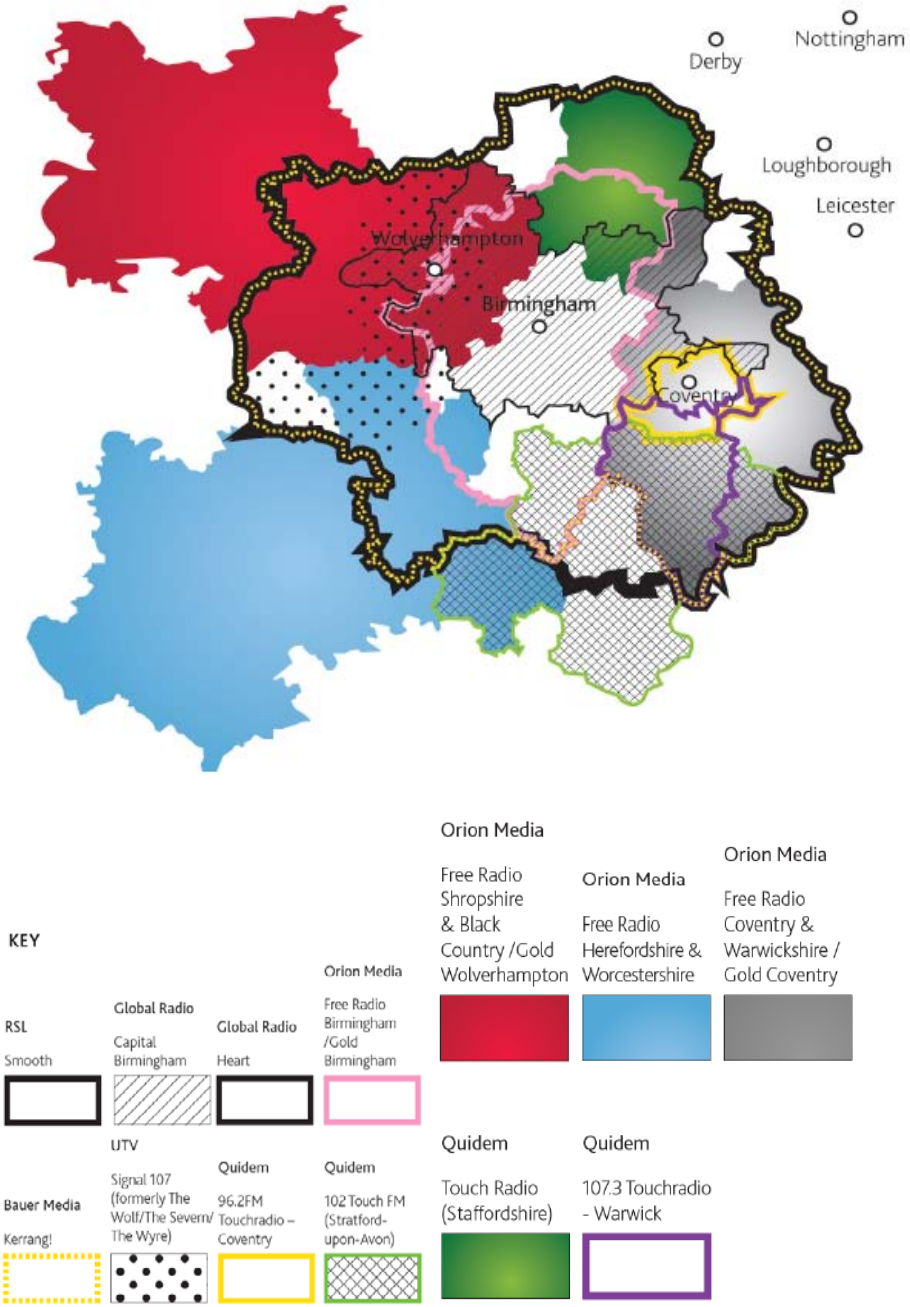
47. Global has two stations in the West Midlands: Heart, which covers the whole of the West Midlands, and Capital Birmingham, which covers part of the region including Birmingham and the surrounding area. RSL has Smooth, which has a very similar transmission area to Heart.

48. Bauer's Kerrang! has a similar transmission survey area to Smooth and Heart. Orion's Free Radio network of four FM and three AM stations broadcasts to the Heart/Smooth TSA with the ability to offer targeted advertising campaigns within this area (the TSA of Orion stations also extends further west). UTV has Signal 107 which broadcasts to the west of the Hearth/Smooth TSA and includes Wolverhampton. Quidem has four local Touch stations (Touch Staffordshire, Touch Coventry, Touch Stratford and Touch Warwick) and Rugby FM. Independent station Radio XL is also present.[15]

[15] Radio XL is not shown on the map.

FIGURE 2

Map of the main stations in the West Midlands TSA



Source: Global.

49. The merger parties have a combined share of local/regional commercial radio listening hours of 56 per cent with an increment of 17 per cent and together, their stations reach 1.2 million listeners each week. Post-merger they will have a [30–39] per cent of share of non-contracted revenue and [50–59] per cent of total revenue with increments of [10–19] per cent and [5–9] per cent respectively.

TABLE 6 **Shares of listening, reach and of non-contracted and total revenue in the West Midlands (local/regional commercial radio)**

Station	*Total listening hours*		*Total reach*	*Non-contracted revenue*		*Total revenue*	
	'000s	*%*	*'000s*	*£m*	*%*	*£m*	*%*
Global							
Heart West Midlands	5,552	25	732	[✂]	[✂]	[✂]	[✂]
Capital Birmingham	2,883	13	425	[✂]	[✂]	[✂]	[✂]
Total	8,435	39	994	[✂]	[20–29]	[✂]	[40–49]
RSL—Smooth Radio West Midlands	3,797	17	383	[✂]	[10–19]	[✂]	[5–9]
Merger parties	**12,232**	**56**	**1,216**	[✂]	**[30–39]**	[✂]	**[50–59]**
Orion							
Free Radio Birmingham FM*	3,241	15	408	[✂]	[10–19]	[✂]	[10–19]
Free Radio Coventry and Warwickshire FM*	751	3	125	[✂]	[5–9]	[✂]	[5–9]
Free Radio Herefordshire and Worcestershire FM*	771	4	82	[✂]	[5–9]	[✂]	[0–4]
Free Radio Shropshire and Black Country FM*	779	4	89	[✂]	[10–19]	[✂]	[5–9]
Free Radio 80s				[✂]	[0–4]	[✂]	[0–4]
Free Radio 80s Birmingham AM*	921	4	85				
Free Radio 80s Coventry AM*	363	2	23				
Free Radio 80s Wolverhampton and Shropshire AM*	46	0	8				
Total	6,872	32	800	[✂]	[40–49]	[✂]	[30–39]
Bauer—Kerrang! 105.2	1,636	8	302	[✂]	[0–4]	[✂]	[5–9]
Quidem							
Total Touch Network	782†		98†				
Touch Radio Coventry				[✂]‡	[0–4]	[✂]§	[0–4]
Touch FM (Stratford)				[✂]‡	[5–9]	[✂]§	[0–4]
Touch Radio (Staffordshire)				[✂]‡	[0–4]	[✂]§	[0–4]
Touch Radio (Warwick)				[✂]‡	[0–4]	[✂]§	[0–4]
Rugby FM	N/A	N/A	N/A	[✂]‡	[0–4]	[✂]§	[0–4]
Total	782	4	98	[✂]	[10–19]	[✂]	[5–9]
UTV—Signal 107	255	1	34	[✂]	[0–4]	[✂]	[0–4]
Radio XL	N/A	N/A	N/A	[✂]‡	[0–4]	[✂]§	[0–4]
Total	**21,777**	**100**		[✂]	**100**	[✂]	**100**

Source: Listening hours and reach are a RALF II weighted average based on RAJAR surveys for the 12 months ending September 2012. Listening hours and reach for each station are those within that station's TSA; revenue data: Global, RSL, third parties, Ofcom.

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*RAJAR classification in brackets: Free Radio Birmingham FM (Free Radio FM—Birmingham and Black Country); Free Radio Coventry and Warwickshire FM (Free Radio FM—Coventry and Warwickshire); Free Radio Herefordshire and Worcestershire FM (Free Radio—Herefordshire and Worcestershire); Free Radio Shropshire and Black Country FM (Free Radio—Shropshire); Free Radio 80s Birmingham AM (Free Radio 80s Birmingham and Black Country); Free Radio 80s Coventry AM (Free Radio 80s Coventry and Warwickshire); Free Radio 80s Wolverhampton and Shropshire AM (Free Radio 80s Shropshire).
†Listening hours and reach within the Heart West Midlands TSA. Note that the Touch Network does not cover the whole of the Heart West Midlands TSA.
‡Net local advertising, 2011, Ofcom (definition in Annex 1).
§Total relevant revenue, 2011, Ofcom (definition in Annex 1).
Notes:
1. Global and RSL revenue data for period October 2011–September 2012.
2. [✂]
3. Bauer revenue data relates to the 12 months ending December 2011.
4. [✂]
5. Stations included in the table are those with at least one-third of their transmission area (by population) overlapping with the parties' stations' transmission areas.
6. N/A = Not available.
7. Columns may not sum exactly to the totals due to rounding.

50. Orion is the main competitor in the West Midlands region. It has a share of local commercial listening hours of 32 per cent and its stations reach 800,000 listeners

each week. It has a [40–49] per cent share of non-contracted revenue and a [30–39] per cent share of total revenue.

51. However, as shown in Figure 2, the transmission area of two Orion FM stations (Free Radio FM Herefordshire and Worcestershire and Free Radio FM Shropshire & Black Country) overlap only partially with the Heart and Smooth transmission area.

52. The transmission areas of Smooth and Capital are different, with Smooth covering a population of 3.6 million people within the West Midlands compared with Capital which broadcasts to an area within and around Birmingham covering approximately 2.1 million people.

TABLE 7 **Shares of listening in Birmingham (local/regional commercial radio)**

Station	*Total listening hours*		*Reach*
	'000s	*%*	*'000s*
Global			
Heart West Midlands	4,028	27	492
Capital Birmingham	2,883	20	425
Total	6,911	47	754
RSL—Smooth Radio West Midlands	2,906	20	279
Merger parties	9,817	67	901
Orion			
Free Radio Birmingham FM	2,922	20	363
Free Radio 80s Birmingham AM	856	6	76
Total	3,778	26	425
Bauer—Kerrang! 105.2	894	6	175
UTV—Signal 107	215	1	30
Radio XL	N/A	N/A	N/A
Total	**14,704**	**100**	

Source: Listening hours are a RALF II weighted average based on RAJAR surveys for the 12 months ending September 2012. Listening hours for each station are those within Capital Birmingham's TSA.

Note: Columns may not sum exactly to the totals due to rounding.
N/A = Not available.

53. Within the Birmingham region, the merger parties have a combined share of local/ regional commercial radio listening hours of 67 per cent with an increment of 20 per cent. The other major radio group covering the Birmingham region is Orion, which holds a 26 per cent share of local/regional commercial radio listening hours within Capital Birmingham's TSA.

54. As shown in Table 8 below, the demographics of each station's listeners differ. The average age of a Smooth listener is 52 years old compared with 31 years old for Capital.

55. Smooth and Heart transmit over a similar area, but Heart listeners are, on average, younger than Smooth's. Kerrang! also transmits over a similar area to Heart and Smooth but has a distinct demographic, being younger on average and predominantly male. The Orion stations appear, on average, to have a similar demographic to Heart, with an average listener age of 40.

TABLE 8 **Demographics of radio stations in the West Midlands**

Station	*Average age*	*Female reach %*	*Ofcom licence requirement*
Global			
Heart West Midlands	41	59	25–44
Capital Birmingham	31	57	15–29
RSL—Smooth Radio West Midlands	52	54	50+
Bauer—Kerrang! 105.2	34	40	
Quidem—Touch Radio Network	55	43	25–54*
Orion—Free Radio FM (West Midlands)	40	55	Under 44 (FM) 35–54 (AM)
UTV—Signal 107	40	51	15–64†

Source: RAJAR average Q4 2011–Q3 2012, Ofcom.

*Relates to the TouchRadio Stratford licence.
†The four Signal licences have various licence requirements ranging from 15–44 (Kidderminster) to 25–64 (Shrewsbury & Oswestry).

The parties' views

56. The parties told us that their combined share of non-contracted revenue was [✂] per cent, and they were not close competitors. Specifically, Smooth was a regional station, whereas Capital was limited to Birmingham, while Smooth targeted an older demographic than either Capital or Heart. The parties told us that [✂]. The parties also told us that an effective competitor remained in the form of Orion, which would retain the largest share of non-contracted revenue and was a closer competitor to Heart than Smooth, allowing advertisers to achieve similar regional coverage.

57. By reference to their lost opportunities survey, the parties submitted that, after declining a campaign proposal by Global, West Midlands respondents went on to use a range of non-radio alternatives including local press (42 per cent), magazines (29 per cent), search engines (22 per cent), social media (28 per cent) and outdoor advertising (30 per cent). They submitted that 32 per cent turned to other radio stations, with 10 per cent indicating that they had used radio stations operated by RSL.

58. The parties submitted results of their existing customer survey in the West Midlands. In response to the question asking what media respondents would use if the Global or RSL station they had used had not been available, they submitted that 19 per cent of West Midlands advertisers would choose another radio station compared with 23 per cent that would choose non-radio media.

59. The parties' analysis of NMR data for West Midlands showed that 51 per cent of Global advertisers and 55 per cent of RSL advertisers in FY2009 did not use them again in FY2010 or FY2011. The parties told us that, of these advertisers, 53 per cent of Global-leavers and 59 per cent of RSL-leavers used non-radio media. This compared with 42 per cent of Global-leavers and 40 per cent of RSL-leavers who used other radio stations.

Third party views

60. Bauer said that the merged entity would own two out of three regional licences, and UTV said that it would own four out of six FM licences in Birmingham.

61. Orion said that the merger parties would have a local commercial audience share of 55 per cent across the West Midlands and a reach of 31 per cent. The parties would also have a reach of 41 per cent in the Birmingham/Black Country area. [Competitor A] said that Global would have a 50 to 65 per cent share of commercial radio listening hours in the BBC West Midlands TSA. Bauer stated that Global would have a 64 per cent share of listening hours in the Smooth and Heart TSAs and 69 per cent in the Capital TSA.

62. Third parties told us that the parties were close competitors in the West Midlands. Bauer said that, although Smooth was targeted at an older audience than Heart/ Capital, they were still main competitors to each other. Orion said that Heart, Smooth, Capital and Free Radio challenged each other for audience and revenue, and that Heart was a close competitor to Smooth.

63. UTV said that, although Heart and Smooth did not appeal to identical demographics, there was some overlap—in particular, Smooth and Classic FM also had a similar target demographic. Furthermore, it stated that the RSL and Global stations were more similar to each other than they were to Kerrang! Orion and UTV submitted Nielsen data relating to the Midlands region (see paragraph 33).

64. With respect to remaining competitors in the area, Orion told us that the parties' primary competition would be from Free Radio, which sat between the parties in demographic terms. Bauer told us that Orion's FM stations had a narrower geographic focus and its Gold AM stations (now rebranded to Free Radio 80s) did not compete significantly with FM stations. Orion told us that there would be competition from Kerrang! Bauer said that Kerrang! had a younger and more male demographic than the parties and [Competitor A] told us that Kerrang! was a very niche station. Bauer also said that UTV and Classic FM did not have regional macros focused on the West Midlands, and so were not realistic alternatives to the parties' other stations.

65. UTV said that advertisers could use Smooth, Heart and Classic to reach a regional audience, possibly bundling Orion stations together. However, it stated that FRS's stations did not give advertisers access to the regional hub (ie Birmingham) so they were not a suitable alternative to a regional station.

66. As a further issue of concern, Orion said that it thought [✂]. Global would have a bigger audience in every demographic and be able to offer stations as 'added value'.

Other relevant documents

67. In an RSL local strategy document, [✂].

Cardiff and South Wales

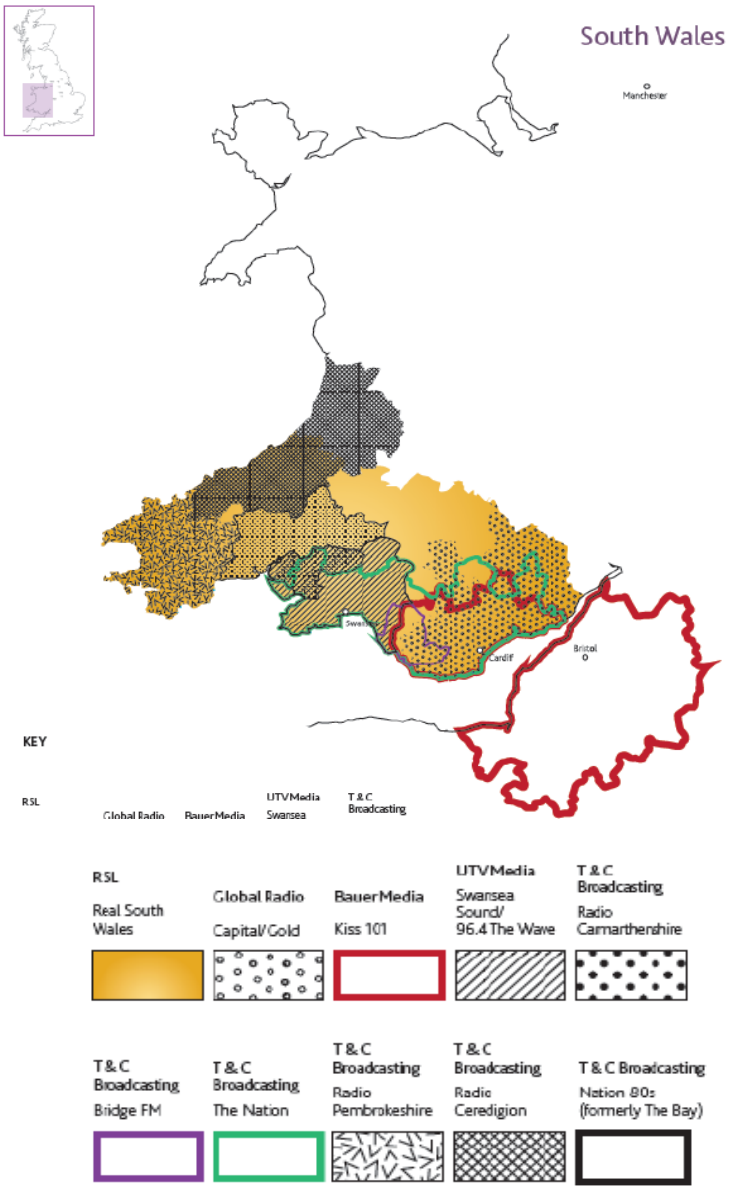
68. Global has two stations broadcasting in Cardiff: Capital (FM) and Gold (AM). RSL's Real station broadcasts across South Wales and also sells advertising both to the whole of its TSA and separately for the Cardiff area where the two parties overlap.

69. Town and Country has seven stations in South Wales: Radio Carmarthenshire, Bridge FM, Radio Ceredigion, Radio Pembrokeshire, Nation 80s, Nation and Scarlet FM. Each of these broadcasts to an area within or overlapping the Real transmission area. Two stations broadcast to an area that overlaps with the Capital transmission area: Bridge FM transmits in Bridgend and Nation broadcasts across an area including Cardiff, Swansea and Newport. Nation has a split transmitter for Cardiff.

70. UTV has two stations in South Wales: Wave 96.4 and Swansea Sound AM. These both broadcast in Swansea. Bauer has one station: Kiss 101. This broadcasts across Cardiff and Bristol, but does not offer separate advertising airtime in Cardiff.

FIGURE 3

Map of the main stations in Cardiff and South Wales



Source: Global.
Note: Bauer's Kiss station broadcasts outside South Wales. Revenue and listening hours for Kiss include those across its entire transmission area.

71. Global has 16 per cent of local/regional commercial radio listening hours in South Wales and reaches 264,000 listeners per week. RSL has 30 per cent of listening hours and reaches 421,000 listeners per week. The parties would have a combined share of non-contracted revenue of [40–49] per cent and a combined share of total revenue of [40–49] per cent with an increment of [10–19] per cent and [20–29] per cent respectively.

TABLE 9 **Shares of listening, reach and of non-contracted and total revenue in Cardiff and South Wales (local/regional commercial radio)**

Station	*Total listening hours*		*Total reach*	*Non-contracted revenue*		*Total revenue*	
	'000s	*%*	*'000s*	*£m*	*%*	*£m*	*%*
Global							
Capital South Wales	1,363	10	214	[✂]	[✂]	[✂]	[✂]
Gold South Wales AM	756	6	63	[✂]	[✂]	[✂]	[✂]
Total	2,119	16	264	[✂]	[10–19]	[✂]	[20–29]
RSL—Real Radio Wales (South)	3,973	30	421	[✂]	[20–29]	[✂]	[20–29]
Merger parties	**6,092**	**46**	**592**	[✂]	**[40–49]**	[✂]	**[40–49]**
Town and Country							
Nation Radio	895	7	124	[✂]	[5–9]	[✂]	[0–5]
Radio Carmarthenshire and Scarlet FM	373	3	42	[✂]	[5–9]	[✂]	[0–4]
106.3 Bridge FM	301	2	33	[✂]	[5–9]	[✂]	[0–4]
102.5 Radio Pembrokeshire	558	4	48	[✂]	[10–19]	[✂]	[5–9]
Radio Ceredigion	64	0	13	[✂]	[0–5]	[✂]	[0–4]
Nation 80s	233	2	39	[✂]	[0–5]	[✂]	[0–4]
Total	2,424	18	282	[✂]	[30–39]	[✂]	[20–29]
Bauer—Kiss West	3,124	24	469	[✂]	[0–5]	[✂]	[10–19]
UTV							
Swansea Sound 1170	527	4	58				
96.4 FM The Wave	1,060	8	130				
Total	1,587	12	168	[✂]	[10–19]	[✂]	[10–19]
Total	**13,227**	**100**		[✂]	**100**	[✂]	**100**

Source: Listening hours and reach are a RALF II weighted average based on RAJAR surveys for the 12 months ending September 2012. Listening hours and reach for each station are those within that station's TSA; revenue data: Global, RSL, third parties, Ofcom.

Notes:
1. Global and RSL revenue data for period October 2011–September 2012.
2. Town and Country revenue data relates to the 12 months ending 31 December 2011.
3. Bauer revenue data relates to the 12 months ending December 2011.
4. [✂]
5. Stations included in the table are those with at least one-third of their transmission area (by population) overlapping with the parties' stations' transmission areas.
6. Columns may not sum exactly to the totals due to rounding.

72. The parties' main competitor for listeners post-merger in South Wales would be Town and Country which has 18 per cent of listening hours and reaches 282,000 listeners per week. It has a [30–39] per cent share of non-contracted revenue and [20–29] per cent share of total revenue.

73. The demographics of the parties' stations and their competitors in Cardiff and South Wales are shown in Table 8 below. The average age of Capital listeners is 34 years old and 42 for Real listeners. Most of the Town and Country stations have listeners in their 40s, except Nation Radio which attracts a younger audience on average and more men. Kiss has a slightly younger average age of listener to Capital and attracts a similar proportion of female listeners.

TABLE 10 **Demographics of radio stations in Cardiff and South Wales**

Station	*Average age*	*Female reach %*	*Ofcom licence requirement*
Global			
Capital South Wales	34	58	Under 44s
Gold South Wales AM	51	49	35–54
RSL—Real Radio Wales (South)	42	51	25–54
Town and Country			
Nation Radio	34	35	15–34
Radio Carmarthenshire and Scarlet FM	46	54	
106.3 Bridge FM	42	51	25–54
102.5 Radio Pembrokeshire	49	53	Adults
Radio Ceredigion	47	58	15+
Nation 80's	44	51	35+
Bauer—Kiss West	31	56	Under 30s
UTV			
Swansea Sound 1170	56	49	Over 30s
96.4 FM The Wave	40	61	Under 40s

Source: RAJAR average Q4 2011–Q3 2012, Ofcom.

74. The area of transmission overlap between the parties in South Wales is restricted to Cardiff. Global has two stations broadcasting to Cardiff: Capital and Gold. RSL's Real station sells advertising across South Wales but advertisers can buy advertising separately for the Cardiff area. Real achieves 2.1 million (38 per cent) of its 4.0 million listening hours each week within the Capital South Wales transmission area.

TABLE 11 **Shares of listening in Cardiff (local/regional commercial radio)**

Station	*Total listening hours*		*Reach*
	'000s	*%*	*'000s*
Global			
Capital South Wales	1,363	25	214
Gold South Wales AM	756	14	63
Total	2,119	38	264
RSL—Real Radio Wales (South)	2,087	38	228
Merger parties	**4,206**	**76**	399
Town and Country—Nation Radio	561	10	78
Bauer—Kiss West	751	14	144
Total	**5,518**	**100**	

Source: Listening hours are a RALF II weighted average based on RAJAR surveys for the 12 months ending September 2012. Listening hours for each station are those within Capital South Wales' TSA.

Note: Columns may not sum exactly to the totals due to rounding.

75. From the parties' revenue data we calculated that [✂] per cent of Real's non-contracted revenue in South Wales was associated with Cardiff-only campaigns.[16]

[16] For the period October 2011–September 2012.

TABLE 12 **Distribution of non-contracted revenue between Cardiff and the rest of South Wales (local/regional commercial radio)**

£ million

Station/Group	*Cardiff*	*Rest of South Wales*	*Region*	*Total*
Global				
Capital South Wales	[✂]			[✂]
Gold South Wales AM	[✂]			[✂]
Total	[✂]			[✂]
	[✂]			
RSL—Real Radio Wales (South)	[✂]	[✂]	[✂]	[✂]
Merger parties	[✂]	[✂]	[✂]	[✂]
Town and Country				
Nation Radio	[✂]	[✂]	[✂]	[✂]
Other Town and Country*		[✂]		[✂]
Total	[✂]	[✂]	[✂]	[✂]
Bauer—Kiss West			[✂]	[✂]
UTV—Swansea Sound 1170 / 96.4 FM The Wave		[✂]		[✂]
Total	[✂] **(100%)**	[✂] **(100%)**	[✂] **(100%)**	[✂] **(100%)**

Source: Global, RSL, third parties, Ofcom.

*Radio Carmarthenshire and Scarlet FM, 106.3 Bridge FM, 102.5 Radio Pembrokeshire, Radio Ceredigion and Nation 80s

Notes:

1. Global and RSL revenue data for period October 2011–September 2012.
2. Town and Country revenue data relates to the 12 months ending 31 December 2011.
3. Bauer revenue data relates to the 12 months ending December 2011.
4. Revenue figures listed as 'Region' relate to revenues obtained from campaigns transmitted across a station covering both Cardiff and a wider surrounding area, so do not relate exclusively to Cardiff. For Kiss, this wider area extends outside of South Wales to cover Bristol.
5. Columns and rows may not sum exactly to the totals due to rounding.

76. Advertisers wanting to target Cardiff and the surrounding area could also use Town and Country's Nation station which has a split transmission in Cardiff. Town and Country told us that it had only begun offering advertisers the choice of advertising specifically to the Cardiff and Newport area since September 2012. It provided data that showed, for December 2012, around [✂] per cent of all Nation non-contracted revenue was attributable to Cardiff-only advertising. Bridge FM overlaps with the parties' stations but only to a very limited extent and not within Cardiff itself.

77. An advertiser wishing to target the Cardiff area only could use Capital, Gold, or Nation's or Real's Cardiff transmitters. The merger parties achieve a total of 4.2 million listening hours and reach 399,000 listeners per week within the Capital transmission area. Nation is smaller, accounting for 561,000 listening hours per week and reaching 78,000 people within the Capital transmission area. On the basis of the data provided above, the parties will account for around [90–100] per cent of revenue derived from Cardiff-only non-contracted advertising campaigns (increment of [30–39] per cent).

The parties' views

78. The parties stated that the parties' stations in Cardiff were differentiated and that comparison of share of listening and non-contracted revenue was not informative for assessing the impact of the merger.

79. The parties also said that Real was a regional station with only [✂] per cent of its non-contracted revenue in South Wales attributable to Cardiff only[17] and that only [✂] per cent of total Real revenue in Wales was associated with Cardiff-only non-contracted campaigns. Capital overlapped only around half of the Real transmission area and therefore Capital was unlikely to be an alternative for advertisers using Real to advertise across South Wales.

80. They argued that Capital and Real targeted different listeners: Capital targeted younger listeners than Real. Real's target demographic was older at 41 compared with Capital's which was 35. They stated that Nation and Kiss targeted a similar type of listener in Cardiff. Further, Nation had a closer average listener age to Capital than Real, and the parties stated that they expected Nation to grow its share of non-contracted revenue (and listening) in Cardiff.

81. The parties told us that [✂].

82. Other competitors are present, including Bauer and Town and Country which are present in Cardiff and across South Wales respectively. Advertisers can use a combination of stations belonging to different owners to target the area. In particular the parties stated that Town and Country's Nation was a better radio alternative to Capital than Real in terms of demographics and a better radio alternative to Real than Capital since Town and Country could offer a bundle of radio stations covering 90 per cent of the Real TSA in South Wales (against only 54 per cent of this TSA covered by Capital).

83. The parties argued that there was also a strong constraint from other media: local press was a significant constraint in South Wales and Cardiff in particular, where four major newspaper groups were present. The parties stated that non-contracted advertisers in Cardiff viewed non-radio media, particularly local press, as an alternative to radio. The parties also stated, referring to internal documents, that [✂] strategy of both companies was to compete directly with non-radio media, [✂] to win business and ensure they did not lose existing non-contracted customers to non-radio media.

84. By reference to its lost opportunities survey, the parties submitted that, after declining a campaign proposal by Global, South Wales respondents went on to use a range of non-radio alternatives including local press (46 per cent), magazines (26 per cent), search engines (34 per cent), social media (36 per cent) and outdoor advertising (27 per cent). They submitted that 26 per cent turned to other radio stations, with 18 per cent indicating that they had used radio stations operated by RSL.

85. The parties submitted results from their existing customer survey in South Wales which asked respondents what media they would use if the Global or RSL station they had used had not been available. They submitted that 18 per cent of South Wales advertisers indicated that they would choose another radio station compared with 34 per cent that indicated they would choose non-radio media.

86. The parties' analysis of NMR data for South Wales showed that 47 per cent of Global advertisers and 45 per cent of RSL advertisers in FY2009 did not use them again in FY2010 or FY2011. The parties told us that, of these, 40 per cent of Global-leavers and 50 per cent of RSL-leavers used non-radio media. This compared with 32 per cent of Global-leavers and 42 per cent of RSL-leavers who used other radio stations.

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[17] We calculate a figure of [✂] per cent of revenue for the period October 2011–September 2012. Since Q4 2008, the quarterly percentage has fluctuated between [✂] and [✂] per cent.

87. The parties submitted that analysis of their transactional data showed that Global experienced an average annual churn rate in South Wales of [✂] per cent of non-contracted advertisers, relating to [✂] per cent of non-contracted revenue. For RSL the comparable average churn rate figures were [✂] per cent of non-contracted advertisers, relating to [✂] per cent non-contracted revenue.

88. The parties also told us that [✂].

Third party views

89. UTV told us that, pre-merger, a regional audience could be reached by using either Real or Capital, or Capital and local stations. It told us that Capital was the only suitable alternative to reaching a significant proportion of Real's listening base. It submitted Nielsen data showing that 49 per cent of RSL advertisers in Wales and west England also advertised on Global. It told us that Nation was a relatively niche station which did not have the same listener base as Real. Further, Kiss would not be a suitable alternative to accessing the Real listener base as its target demographic and geographic coverage were in large part distinct.

90. Bauer told us that the merger represented a reduction in choice for local and regional advertisers of two to one. It told us that the combined entity would have a share of listening of over 75 per cent in South Wales. It also told us that Capital was Real's closest competitor in South Wales, having a similar output and demographic reach. It stated that Classic FM and UTV were not realistic alternatives for advertisers as they did not have regional macros focused on Wales.

91. [✂]

92. Town and Country stated that, pre-merger, local advertisers in Cardiff could use either Capital or Real, perhaps supplementing them with Kiss or Nation. It stated that there were five universally available commercial radio stations in Cardiff but the merger parties were the mainstream stations. [✂]

93. Town and Country told us that Nation was positioned to compete with Real and Capital, having recently offered clients the opportunity to advertise in either Cardiff or south-west Wales or both areas. Town and Country told us that its network of local radio stations was stronger in the west of Wales. It told us that there was no mainstream radio competitor remaining in Cardiff. The Western Mail was available and had a slight Cardiff-centric readership but it covered a wider area. It also told us that local advertisers might not be able to advertise if Global preferred to advertise national brands. Further, larger customers might gravitate towards using Global (eg [✂]).

94. Town and Country told us that Cardiff was particularly important in terms of commercial opportunity for Wales, with a significantly greater commercial opportunity than Swansea. It told us that it would be unusual to have advertising in South Wales that excluded Cardiff but that there were a few campaigns that focused on Cardiff exclusively.

95. Town and Country submitted that a single strong mainstream competitor with a comparable format was all that was required to act as a significant constraint on the merger parties in a given local area. [✂][18]

[18] [✂]

96. [Competitor A] stated that the merger parties would have a share of around 65 per cent of commercial radio in Cardiff.

97. Four non-contracted agencies told us that local and regional radio advertising was not easily substitutable with other media. Two of them stated that there were limited options in Cardiff that would not involve large areas of overlap or wasted reach. [Agency AK] mentioned that many local clients devoted the majority of their advertising budget to radio. Three agencies were concerned about the loss of choice; [Agency AU], for example, stated that there was already a limited choice in Wales and any further loss in the local competition would lead to a weakening of the advertisers' position.

Other internal documents

98. Global's internal documents [✂] in Cardiff and South Wales showed that Global focused on non-radio media to address churn issues and to target potential customers. Global's Strategy Overview Paper [✂] local press [✂] to which reference is made in marketing material and pitches.

99. An RSL local strategy document for Wales [✂].

100. RSL submitted a number of pitch documents [✂].

101. An RSL internal presentation [✂].

North Wales

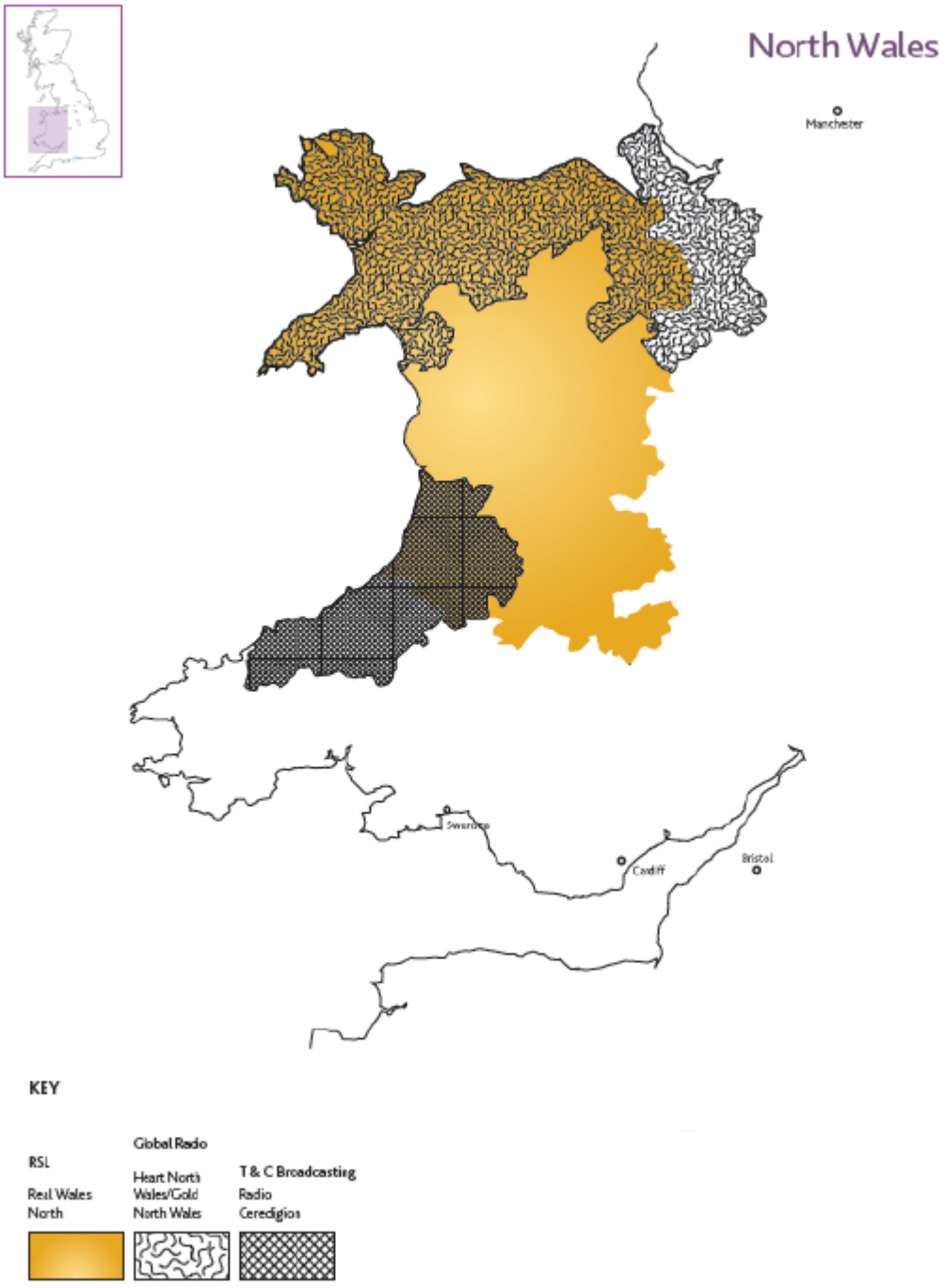
102. Global broadcasts on two stations in North Wales: Gold (AM) and Heart. The latter broadcasts across four transmitters and sells advertising separately on each: Anglesey and Gwynedd; the North Wales coast; Wrexham and Chester; and the Wirral. RSL's Real station broadcasts across North Wales and does not sell advertising on separate transmitters.

103. Global highlighted three commercial radio competitors in North Wales: Radio Ceredigion owned by Town and Country Broadcasting which broadcasts in West Wales and overlaps with Real in the south-west part of Real's TSA; and the independent stations Radio Hafren and Radio Dee.[19]

[19] The parties stated that although Radio Dee overlapped with the Real Gold TSA it broadcast primarily in Chester. Therefore it is instead included within the local area analysis for the North-West region.

FIGURE 4

Map of the main stations in North Wales and surrounding area



Source: Global.
Note: The map does not show Radio Hafren or Radio Dee.

104. The parties indicated that it was appropriate to include only Heart revenue from the North Wales coast, and Anglesey and Gwynedd transmitters. We note that there is also considerable overlap between Real Radio Wales North and the NE Wales &

Cheshire transmitter.[20] We therefore include revenue from all these three transmitters in Global's North Wales market share.

105. Global has an 81 per cent share of local/regional commercial listening hours in North Wales and Heart reaches 246,000 listeners a week (see Table 13). RSL has a 17 per cent share of listening hours and a reach of 55,000 listeners a week. Post-merger the parties would have a combined share of non-contracted revenue of [80–89] per cent and combined share of total revenue of [90–100] per cent with increments of [10–19] and [5–9] per cent respectively.

TABLE 13 **Shares of listening, reach and of non-contracted and total revenue in North Wales (local/regional commercial radio)**

Station	*Total listening hours*		*Total reach*	*Non-contracted revenue*		*Total revenue*	
	'000s	*%*	*'000s*	*£m*	*%*	*£m*	*%*
Global							
Heart North West and Wales (Anglesey, N Wales Coast and NE Wales & Cheshire)*	1,772	68	230	[✂]	[✂]	[✂]	[✂]
Gold North West and Wales AM	319	12	28	[✂]	[✂]	[✂]	[✂]
Total	2,091	81	246	[✂]	[70–79]	[✂]	[80–89]
RSL—Real Radio Wales (North)	434	17	55	[✂]	[10–19]	[✂]	[5–9]
Merger parties	**2,525**	**98**	**280**	[✂]	**[80–89]**	[✂]	**[90–100]**
Town and Country—Radio Ceredigion	64	2	13	[✂]	[10–19]	[✂]	[5–9]
Radio Hafren AM	N/A	N/A	N/A	[✂]†	[0–4]	[✂]‡	[0–4]
Total	**2,589**	**100**		[✂]	**100**	[✂]	**100**

Source: Listening hours and reach are a RALF II weighted average based on RAJAR surveys for the 12 months ending September 2012. Listening hours and reach for each station are those within that station's TSA; revenue data: Global, RSL, third parties, Ofcom.

*Revenue figures relate to the three Heart North West and Wales transmitters that cover North Wales—Heart Anglesey, Heart N Wales Coast and Heart NE Wales & Cheshire. Listening figures include hours and reach within the whole Heart North West and Wales TSA.
†Net local advertising, 2011, Ofcom (definition in Annex 1).
Total relevant revenue, 2011, Ofcom (definition in Annex 1).
Notes:
1. Global and RSL revenue data for period October 2011–September 2012.
2. Town and Country revenue data relates to the 12 months ending 31 December 2011.
3. Stations included in the table are those with at least one-third of their transmission area (by population) overlapping with the parties' stations' transmission area.
4. N/A = Not available.
5. Columns may not sum exactly to the totals due to rounding.

106. Radio Ceredigion overlaps with the transmission area of Real but not Heart or Gold. If its revenue and listening hours were excluded from Table 14 then the merger parties would account for almost all commercial radio listening and radio advertising revenue in North Wales.

[20] Ofcom data on the population overlaps of radio stations shows that the NE Wales & Cheshire and Wirral transmitters cover a total population of 668,000, of which 289,000 (43 per cent) also fall within the Real Radio Wales North transmission area. Based on Ofcom's Measured Coverage Area (MCA) maps for the two stations, the majority of this overlap is expected to relate to the NE Wales & Cheshire transmitter.

TABLE 14 **Distribution of non-contracted revenue across different areas of North Wales (local/regional commercial radio)**

£ million

Station/Group	*Anglesey & Gywnedd*	*North Wales Coast*	*Chester & Wrexham*	*Central Wales*	*Region*	*Total*
Global						
Heart North West and Wales*	[✂]	[✂]	[✂]		[✂]	[✂]
Gold North West and Wales (AM)			[✂]			[✂]
Total	[✂]	[✂]	[✂]		[✂]	[✂]
RSL—Real Radio Wales (North)					[✂]	[✂]
Merger parties	[✂]	[✂]	[✂]		[✂]	[✂]
Town and Country—Radio Ceredigion				[✂]		[✂]
Radio Hafren AM				[✂]†		[✂]†
Total	[✂] (100%)	[✂] (100%)	[✂] (100%)	[✂] (100%)	[✂] (100%)	[✂] (100%)

Source: Global, RSL, third parties, Ofcom.

*Revenue figures relate to the three Heart North West and Wales transmitters that cover North Wales—Heart Anglesey, Heart N Wales Coast and Heart NE Wales & Cheshire. Revenues listed as 'Region' relate to revenue on these transmitters from campaigns run on two or three of the transmitters.
†Net local advertising, 2011, Ofcom (definition in Annex 1).
Notes:
1. Global and RSL revenue data for period October 2011–September 2012.
2. Town and Country revenue data relates to the 12 months ending 31 December 2011.
3. Columns and rows may not sum exactly to the totals due to rounding.

107. From the parties' revenue data we calculated that [✂] per cent of non-contracted revenue from the three Heart transmitters covering Wales was from campaigns which only used the Anglesey and Gywnedd transmitter, [✂] per cent was from campaigns which only used the North Wales Coast transmitter and [✂] per cent was from campaigns only using the Chester & Wrexham transmitter. The remaining [✂] per cent of non-contracted revenue was from campaigns using at least two out of the three transmitters.

108. As shown in Table 15, the demographics of Heart and Real are very similar.

TABLE 15 **Demographics of radio stations in North Wales**

Station	*Average age*	*Female reach %*	*Ofcom licence requirement*
Global			
Heart North West and Wales*	39	58	
Gold North West and Wales AM	48	39	35–54
RSL—Real Radio Wales (North)	38	56	25–54
Town and Country—Radio Ceredigion	47	58	15+
Radio Hafren AM	N/A	N/A	

Source: RAJAR average Q4 2011–Q3 2012, Ofcom.

*Demographics relate to the whole Heart North West and Wales TSA.
N/A = Not available.

The parties' views

109. The parties noted that [✂].

110. The parties told us that there were a number of smaller radio stations remaining in North Wales including Radio Ceredigion and Radio Hafren. Furthermore, local press was a significant constraint: there were at least two newspapers owned by different groups in most areas within North Wales.

111. The parties stated that non-contracted advertisers in North Wales viewed non-radio media, particularly press, as effective alternatives to radio. The parties also stated, referring to internal documents, that [✂] the strategy of both companies was to compete directly with non-radio media, [✂], to win business and ensure they did not lose existing non-contracted customers to non-radio media.

112. The parties stated that they were not close competitors. Heart's customers were primarily local: [✂] per cent of Heart's local customers purchase advertising on only one of the four Heart transmitters (with [✂] per cent of non-contracted revenue across all four of these transmitters generated by advertisers that have purchased on a single transmitter basis).. They stated that a non-contracted advertiser using individual Heart transmitters would incur significant wastage in using Real as it would reach a population outside of its target listeners (between 65 and 82 per cent, depending on the target transmitter). Advertisers using the Heart Wirral transmitter would not consider Real as an alternative as there was no overlap. In contrast a significant proportion of Real revenue was sold at a 'Wales' level. A non-contracted advertiser using Heart to target customers within the Real TSA would pay for 48 per cent wasted population.

113. The parties submitted an event study on Real's entry into North Wales. They stated that this indicated that the parties' stations were not close competitors in North Wales: further, Real's entry into North Wales [✂] even though they were the only two significant commercial radio stations in North Wales and they targeted a similar demographic, indicating that the number of radio alternatives did not determine the price paid by non-contracted advertisers. They share only [✂] local clients and Heart had lost just [✂] local customers to Real following Real's launch in January 2011. Real only reached 47,000 listeners by Q4 2011. The parties stated that the event study covered an 18-month period which they indicated was a sufficient length of time to assess the effect of entry. The parties argued that our analysis in Appendix I assessed quarterly variations in concentration on price. This was therefore inconsistent with any assertion that there was a lag between changes in concentration in a market and a change in price of more than two years.

114. By reference to their lost opportunities survey, the parties submitted that, after declining a campaign proposal by Global, North Wales respondents went on to use a range of non-radio alternatives including local press (75 per cent), magazines (33 per cent), search engines (22 per cent), social media (51 per cent) and outdoor advertising (45 per cent). They submitted that 18 per cent turned to other radio stations, with 14 per cent indicating that they had used radio stations operated by RSL.

115. The parties submitted results from their existing customer survey in North Wales, which asked respondents what media they would use if the Global or RSL station they had used had not been available. They submitted that 11 per cent of North Wales advertisers indicated that they would choose another radio station compared with 29 per cent that indicated they would choose non-radio media (including 14 per cent indicating that they would use the local press).

116. The parties submitted that analysis of their transactional data showed that Global experienced an average annual churn rate in North Wales of [✂] per cent of non-contracted advertisers, relating to [✂] per cent of non-contracted revenue. For RSL

the comparable average churn rate figures were [✂] per cent of non-contracted advertisers, relating to [✂] per cent non-contracted revenue.

117. The parties also told us that there would be benefits to listeners and advertisers [✂] and from a new local news service dedicated to Wales.

Third party views

118. Town and Country told us that radio had specific benefits that local newspapers could not match, particularly in North Wales where local newspaper circulation was generally in decline, and that other radio businesses were the main competitors for advertising in this region.

119. Town and Country indicated that it did not compete strongly with Real as most of its clients in Ceredigion were only interested in advertising to that county. It told us that there were few businesses that would benefit from pan-Wales advertising campaigns and that the geography and transport infrastructure in North Wales meant that advertising was much more local than in South Wales, largely because there was no equivalent of the M4 to reduce journey times between towns. It considered that the merger would leave no competitor to the parties in North Wales.

120. Town and Country submitted that a single strong mainstream competitor with a comparable format was all that was required to act as a significant constraint on the merger parties in a given local area. [✂]

121. Bauer told us that the merger reduced the number of options for advertisers wishing to target North Wales from two to one. The parties had a similar demographic profile and would have a combined share of listening hours of 95 per cent within the Real transmission area and 66 per cent within the Heart transmission area.

122. Two non-contracted agencies told us that multiple types of media were employed in order to satisfy their clients' advertising needs and that there were radio campaigns for which advertisers could not easily substitute with other media. They stated that the strength of an advertiser's bargaining position would be affected by the relative strength of the alternative option. [Agency AU] told us that the radio landscape in Wales, as a whole, was limited with few buying routes and options. Therefore removing the existing channels through the merger would reduce competition, with collateral effects on the prices for advertising and on the quality of the products. Another agency [Agency R] stated that, in particular in North Wales, a Global station was the closest alternative to a RSL station and vice versa. Conversely, two advertisers expressed their support in favour of the merger and two others did not express any major concerns in relation to the merger, stating that there were other radio or media alternatives in North Wales.

Other relevant documents

123. Global's internal documents [✂] in North Wales showed that Global focused on non-radio media to address churn issues and to target potential customers. Global's Strategy Overview Paper [✂] local press [✂], to which reference is made in marketing material and pitches.

124. In a Heart North West and Wales three-year territory business plan, [✂].

125. An RSL SWOT analysis of North Wales [✂].

126. In an RSL internal document [✂].

127. In its licence application for the North Wales service, [✂].

128. RSL's licence application documents [✂].

Yorkshire, Humberside and Lincolnshire

129. The Global station in Yorkshire, Humberside and Lincolnshire is Capital which transmits across the three regions and offers split local transmitters enabling advertisers to target two areas: North Yorkshire into Humberside and Lincolnshire; and South and West Yorkshire. Real broadcasts to an area covering Bradford, Leeds, Sheffield and Doncaster. This is a similar area to that covered by the South and West Yorkshire Capital transmitter.

130. Competitors broadcasting in these regions include Bauer, UTV, Lincs FM and The Local Radio Company.

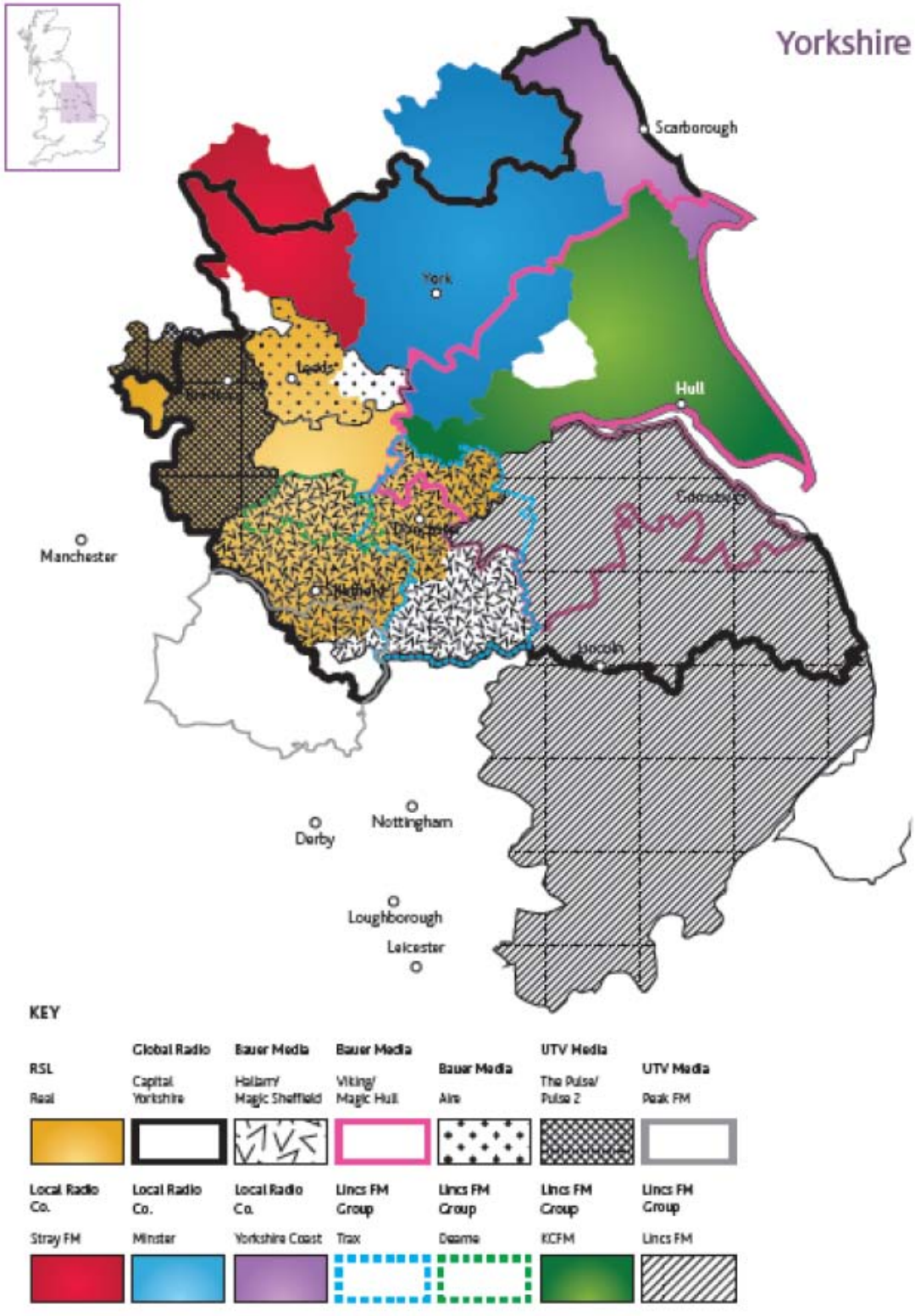
131. Bauer operates three FM stations in South and West Yorkshire (Hallam, Viking and Aire). It also operates Magic stations that broadcast on AM.

132. Lincs FM own several stations: Trax (Doncaster and surrounding area); Dearne (Barnsley); KCFM (Kingston-upon-Hull); Ridings (Wakefield); Rother FM (Rotherham); Compass (Grimsby); and Lincs FM (Lincolnshire). UTV is present with two FM stations in the west of the Capital transmission region: The Pulse (including Bradford and Huddersfield) and Peak FM (the Peak District). UTV also broadcasts The Pulse 2 on AM which covers the same region as The Pulse (including Bradford and Huddersfield).

133. The Local Radio Company is present with three FM stations: Minster FM broadcasting to York and the surrounding area, Stray 97.2 available in Harrogate and Yorkshire Coast which broadcasts in Scarborough, Whitby and Bridlington. Sunrise is an independent station broadcasting in Bradford.

FIGURE 5

Map of the main stations Yorkshire, Humberside and Lincolnshire



Source: Global.
Note: Magic Leeds, Rother FM, Ridings FM, Compass FM and Sunrise FM not shown on map.

134. Table 16 shows the share of listening and revenue for radio stations in Yorkshire, Humberside and Lincolnshire. The combined entity has a share of 41 per cent of

local/regional commercial radio listening hours (with an increment of 13 per cent) and reaches 1.3 million listeners a week. Post-merger the parties will have a combined share of non-contracted revenue of [20–29] per cent with an increment of [10–19] per cent and combined share of total revenue of [30–39] per cent with an increment of [10–19] per cent.

TABLE 16 **Shares of listening, reach and of non-contracted and total revenue in Yorkshire, Humberside and Lincolnshire (local/regional commercial radio)**

Station	*Total listening hours*		*Total reach*	*Non-contracted revenue*		*Total revenue*	
	'000s	*%*	*'000s*	*£m*	*%*	*£m*	*%*
Global—Capital Yorkshire	8,173	28	1,101	[✂]	[10–19]	[✂]	[20–29]
RSL—Real Radio Yorkshire	3,738	13	385	[✂]	[10–19]	[✂]	[10–19]
Merger parties	**11,911**	**41**	**1,318**	[✂]	**[20–29]**	[✂]	**[30–39]**
Bauer							
Hallam FM	2,896	10	382	[✂]*	[5–9]	[✂]*	[10–19]
Magic AM (Sheffield)	999	3	92				
96.9 Viking	1,568	5	227	[✂]*	[5–9]	[✂]*	[5–9]
Magic 1161 (Hull)	746	3	61				
96.3 Radio Aire	885	3	125	[✂]*	[5–9]	[✂]*	[5–9]
Magic 828 (Leeds)	1,181	4	112				
Total	8,275	28	924	[✂]	[20–29]	[✂]	[30–39]
UTV							
The Pulse	700	2	135	[✂]†	[5–9]	[✂]†	[5–9]
Pulse 2 (AM)	164	1	51				
Peak 107 FM	865	3	99	[✂]	[5–9]	[✂]	[0–5]
Total	1,729	6	254	[✂]	[10–19]	[✂]	[5–9]
Lincs FM Group							
Dearne FM	360	1	48	[✂]‡	[0–4]	[✂]§	[0–4]
Trax FM	836	3	98	[✂]‡	[0–4]	[✂]§	[0–4]
KCFM 99.8	619	2	87	[✂]‡	[0–4]	[✂]§	[0–4]
Lincs102.2 FM	3,645¶	12	310¶	[✂]‡	[5–9]	[✂]§	[5–9]
Compass FM				[✂]‡	[0–4]	[✂]§	[0–4]
Rother FM	290	1	36	[✂]‡	[0–4]	[✂]§	[0–4]
Ridings FM	411	1	48	[✂]‡	[0–4]	[✂]§	[0–4]
Total	6,161	21	624	[✂]	[20–29]	[✂]	[10–19]
The Local Radio Company							
97.2 Stray FM	357	1	48	[✂]‡	[5–9]	[✂]§	[0–4]
Minster FM	430	1	73	[✂]‡	[5–9]	[✂]§	[0–4]
Yorkshire Coast Radio	436	1	41	[✂]‡	[0–4]	[✂]§	[0–4]
Total	1,223	4	162	[✂]	[10–19]	[✂]	[5–9]
Sunrise FM	N/A	N/A	N/A	[✂]‡	[0–4]	[✂]§	[0–4]
Total	**29,299**	**100**		[✂]	**100**	[✂]	**100**

Source: Listening hours and reach are a RALF II weighted average based on RAJAR surveys for the 12 months ending September 2012. Listening hours and reach for each station are those within that station's TSA: data: Global, RSL, third parties, Ofcom.

*Includes revenue from the associated Magic AM station.
†Includes revenue for Pulse 2 AM.
‡Net local advertising, 2011, Ofcom (definition in Annex 1).
§Total relevant revenue, 2011, Ofcom (definition in Annex 1).
¶Includes hours and reach for Compass FM and Rutland Radio.
Notes:
1. Global and RSL revenue data for period October 2011–September 2012.
2. Bauer revenue data relates to the 12 months ending December 2011.
3. [✂]
4. Stations included in the table are those with at least one-third of their transmission area (by population) overlapping with the parties' stations' transmission area.
5. N/A = Not available.
6. Columns may not sum exactly to the totals due to rounding.

135. A number of alternative radio groups broadcast to substantial parts of the Capital transmission area, including Bauer, The Lincs FM Group and The Local Radio Company.

136. The main competitor, Bauer, has a 28 per cent share of listening hours and reaches 924,000 listeners each week. It has a share of [20–29] per cent of non-contracted revenue and a share of [30–39] per cent of total revenue. The Lincs FM group has a share of [20–29] per cent of non-contracted revenue although we note that its Lincs FM station broadcasts to a significant extent outside the Capital transmission area.

137. As shown in Table 17 below, while the Capital licence stipulates that its content should cater for a 15 to 29 year old audience, the average age of its listeners is 33. This is nevertheless younger than the average age of listeners for the other stations broadcasting in Yorkshire, Humberside and Lincolnshire. The FM stations of Bauer, its largest competitor across the region, have a higher target age range (over 30s) but reach an audience with an average age in the mid to late 30s.

138. Bauer's two stations in the South and West Yorkshire region (Hallam and Aire) and UTV's Pulse and Pulse 2 (AM) stations each have a closer audience demographic to Real than Real does to Capital.

TABLE 17 **Demographics of radio stations in Yorkshire, Humberside and Lincolnshire**

Station	*Average age*	*Female reach %*	*Ofcom licence requirement*
Global—Capital Yorkshire	33	57	15–29
RSL—Real Radio Yorkshire	39	51	25–54
Bauer			
Hallam FM	40	54	15–44
Magic AM (Sheffield)	49	50	Over 30s
96.9 Viking	38	50	15–44
Magic 1161 (Hull)	47	61	Over 30s
96.3 Radio Aire	36	54	15–44
Magic 828 (Leeds)	51	55	Over 30s
UTV			
The Pulse	41	52	Over 40s
Pulse 2 (AM)	42	52	
Peak 107 FM	48	54	
Lincs FM Group			
Dearne FM	45	46	
Trax FM	48	51	25–54
KCFM 99.8	42	43	
Lincs 102.2 FM*	46	57	
Rother FM	44	49	
Ridings FM	44	55	
The Local Radio Company			
97.2 Stray FM	45	51	25–54
Minster FM	43	52	
Yorkshire Coast Radio	46	52	
Sunrise FM	N/A	N/A	

Source: RAJAR average Q4 2011–Q3 2012, Ofcom.

*Includes demographics of listeners to Compass FM and Rutland Radio.
N/A = Not available.

139. Both parties are able to offer advertising targeted to the South and West Yorkshire region covered by the Real TSA. We note that Real is technically able to sell airtime on a split transmission basis within this area but does not currently do so. 5.7 million

out of Capital's 8.1 million listening hours per week occur within South and West Yorkshire.[21]

TABLE 18 **Shares of listening in South and West Yorkshire (local/regional commercial radio)**

Station	*Total listening hours*		*Reach*
	'000s	*%*	*'000s*
Global—Capital Yorkshire	5,653	32	735
RSL—Real Radio Yorkshire	3,738	21	385
Merger parties	9,391	54	953
Bauer			
Hallam FM	2,665	15	352
Magic AM (Sheffield)	954	5	88
96.3 Radio Aire	859	5	122
Magic 828 (Leeds)	1,172	7	110
Total	5,650	32	622
UTV			
The Pulse	698	4	135
Pulse 2 (AM)	157	1	50
Total	855	5	154
Lincs FM Group			
Dearne FM	360	2	48
Trax FM	518	3	70
Rother FM	290	2	36
Ridings FM	411	2	48
Total	1,579	9	200
Sunrise FM	N/A	N/A	
Total	17,475	100	

Source: Listening hours and reach are a RALF II weighted average based on RAJAR surveys for the 12 months ending September 2012. Listening hours and reach for each station are those within Real Radio Yorkshire's TSA.

Note: Columns may not sum exactly to the totals due to rounding.

140. Furthermore, from the parties' transaction data, we estimate that Capital's non-contracted revenue derived from campaigns targeting South and West Yorkshire made up [✂] per cent of the total Capital Yorkshire revenue.[22]

141. Bauer provided data that showed that [✂] per cent of non-contracted revenue earned in Yorkshire, Humberside and Lincolnshire in 2011 was associated with campaigns that ran on only one of: Aire, Hallam or Viking (and/or their commensurate AM station). Therefore [✂] of Bauer non-contracted revenue was associated with campaigns running on some combination of Bauer stations in Yorkshire, Humberside and Lincolnshire.[23]

[21] Approximated by reference to the Real transmission area.
[22] For the period October 2011–September 2012.
[23] [✂]

TABLE 19 **Distribution of non-contracted revenue across different areas of Yorkshire, Humberside and Lincolnshire (local/regional commercial radio)**

£ million

Station/Group	*Local within South and West Yorkshire*	*Whole South and West Yorkshire region*	***Total South and West Yorkshire***	*Remainder of Yorkshire, Humberside and Lincolnshire region*	*Whole Yorkshire, Humberside and Lincolnshire region*	*Total*
Global—Capital Yorkshire		[✂]	[✂]	[✂]	[✂]	[✂]
RSL—Real Radio Yorkshire		[✂]	[✂]			[✂]
Merger parties		[✂]	[✂]	[✂]	[✂]	[✂]
Bauer						
Hallam FM/Magic AM (Sheffield)	[✂]	[✂]	[✂]		[✂]	[✂]
96.3 Radio Aire/Magic 828 (Leeds)	[✂]		[✂]			[✂]
96.9 Viking/Magic 1161 (Hull)				[✂]		[✂]
Total	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]
UTV*	[✂]		[✂]			[✂]
Lincs FM Group†	[✂]‡		[✂]	[✂]‡		[✂]
The Local Radio Company§				[✂]‡		[✂]
Sunrise FM	[✂]‡		[✂]			[✂]
Total	[✂] **(100%)**	[✂] **(100%)**	[✂] **(100%)**	[✂] **(100%)**	[✂] **(100%)**	[✂] **(100%)**

Source: Global, RSL, third parties, Ofcom.

*The Pulse/Pulse 2 (AM).
†Dearne FM, Trax FM, KCFM 99.8, Lincs 102.2 FM, Rother FM and Ridings FM.
‡Net local advertising, 2011, Ofcom (definition in Annex 1).
§97.2 Stray FM, Minster FM and Yorkshire Coast Radio.
Notes:
1. Global and RSL revenue data for period October 2011–September 2012.
2. [✂]
3. The total for this table is not equal to the total in Table 16 due to the exclusion of Peak 107 FM from the South and West Yorkshire figures.
4. Columns and rows may not sum exactly to the totals due to rounding.

142. An advertiser wishing to target the South and West Yorkshire region would therefore be able to advertise on Real or the South and West Yorkshire transmitter of Capital. As shown in Figure 5, Bauer, UTV and The Lincs Group also have stations targeting this region or areas within it. Bauer's Hallam FM broadcasts across South Yorkshire including Sheffield and Doncaster; Radio Aire has a transmission area centred on Leeds and two Magic stations on AM (together broadcasting in Leeds, Sheffield, Rotherham, Barnsley and Doncaster). UTV's The Pulse broadcasts on FM to the west of the overlap area covering Bradford and it has an AM station which broadcasts to the same area, Pulse 2.[24] The Lincs FM Group also operates Dearne which broadcasts to Barnsley, Trax which broadcasts to south-east Yorkshire including Doncaster, Rother FM which broadcasts to Rotherham, and Ridings which broadcasts to Wakefield. Independent Sunrise FM is available in Bradford.

143. We estimate the parties' share of total commercial radio listening hours in South and West Yorkshire to be 54 per cent with an increment of 21 per cent. The combined entity would reach 953,000 listeners each week. We estimate that their share of non-

[24] UTV also broadcasts Peak FM which overlaps with the parties' TSAs, however, it only overlaps by approximately one-third of its own TSA (by population) and it appears to be focused on the Chesterfield area. We have therefore excluded this from the analysis of the South and West Yorkshire region.

contracted revenue in South and West Yorkshire is [30–39] per cent with an increment of [10–19] per cent.[25]

144. The Bauer stations have a combined share of listening of 32 per cent and reach 622,000 listeners each week. They account for [20–29] per cent of non-contracted revenue in the South and West Yorkshire region. The UTV stations have a combined share of total listening hours of 5 per cent and they reach 154,000 listeners each week with a share of non-contracted revenue in the region of [10–19] per cent.

145. For campaigns covering the whole of the South and West Yorkshire region (but not extending into the rest of Yorkshire, Humberside and Lincolnshire), three options are available: the South and West Yorkshire transmitter of Capital Yorkshire; Real Radio Yorkshire; and a pairing of Hallam FM/Magic AM (Sheffield) with 96.3 Radio Aire/ Magic 828 (Leeds). Out of these three options, the parties share of non-contracted revenue is per cent [90–100], with an increment of [40–49] per cent. Bauer holds the remaining [0–4] per cent of revenues.

The parties' views

146. Global told us that [✂] per cent of Capital Yorkshire's non-contracted revenue arose from advertising targeting South and West Yorkshire.[26]

147. With reference to competition in the Yorkshire, Humberside and Lincolnshire regions, the parties stated that the merged entity would not be the largest commercial radio company post-merger and several other players would remain with a share of 10 per cent or more. Furthermore, Real overlapped with less than one-third of the Capital transmission area so was unlikely to be considered an effective alternative to advertising across the whole region. The parties stated that Capital and Real were weak substitutes as the majority of Capital's non-contracted revenue arose from advertising targeting areas outside Real's transmission area. A combination of Bauer stations would achieve a closer geographic fit with Capital.

148. With reference to the South and West Yorkshire region, the parties indicated that share of listening and non-contracted revenue were not appropriate for assessing the impact of the merger of the parties' highly differentiated stations. They stated that Real targeted an older demographic than Capital, and they indicated that these differences in demographic targeting were significant. Bauer competed with both parties more closely than the parties competed with each other.

149. The parties stated that airtime on Bauer's Hallam station could be sold to advertisers on a split transmission basis but as far as they were aware, Bauer did not do so.

150. The parties submitted an analysis of internal documents that, they stated, showed that a combination of Bauer, UTV and/or Lincs FM was more often named as a competitor to Real than Capital. Further, only [✂] out of [✂] Real pitches lost to other radio between January 2012 and February 2013 were lost to Capital (and they stated that even these [✂] customers spent on Bauer or Bauer and UTV).

151. Similarly, the parties submitted that a combination of Aire, Hallam and Pulse or Pulse 2 (or Trax, Dearne and Pulse/Pulse 2) offered similar geographic reach and a better demographic fit with the Real target audience. In addition, the parties submitted that

[25] This will exclude revenue earned by Capital relating to campaigns covering both of its transmitters.
[26] We calculate a figure of [✂] per cent for the period October 2011–September 2012. Since Q4 2008, the quarterly percentage has fluctuated between [✂] per cent and [✂] per cent.

a combination of Aire, Hallam and Pulse offered a much better alternative to Capital than Real: they played music with a broad appeal designed to attract Capital listeners and offered higher listening shares and reach in Capital's target demographic than Real did. They also stated that this combination of competitor stations was mentioned more often in Capital's internal documents than Real.

152. Global also provided evidence that, [✂].

153. The parties stated that non-contracted advertisers in South and West Yorkshire viewed non-media as an effective alternative to radio. Therefore the parties were constrained by non-radio media when negotiating prices. The parties also said, referring to internal documents, that [✂] the strategy of both companies was to compete directly with non-radio media, [✂] to win business and ensure they did not lose existing non-contracted customers to non-radio media. By reference to their lost opportunities survey, the parties submitted that, after declining a campaign proposal by Global, Yorkshire, Humberside and Lincolnshire respondents went on to use a range of non-radio alternatives including local press (39 per cent), magazines (20 per cent), search engines (14 per cent), social media (21 per cent) and outdoor advertising (27 per cent). They submitted that 50 per cent turned to other radio stations, with 8 per cent indicating that they had used radio stations operated by RSL.

154. The parties submitted results from its existing customer survey in the Yorkshire, Humberside and Lincolnshire area, which asked respondents what media they would use if the Global or RSL station they had used had not been available. They submitted that 29 per cent of Yorkshire, Humberside and Lincolnshire advertisers indicated that they would choose another radio station (10 per cent referring to a radio station operated by the other merging party) compared with 30 per cent who indicated they would choose non-radio media.

155. The parties' analysis of NMR data for Yorkshire, Humberside and Lincolnshire showed that 56 per cent of Global advertisers and 56 per cent of RSL advertisers in FY2009 did not use them again in FY2010 or FY2011. The parties told us that, of these, 39 per cent of Global-leavers and 53 per cent of RSL-leavers used non-radio media. This compares with 52 per cent of Global-leavers and 40 per cent of RSL-leavers who used other radio stations.

156. The parties submitted that analysis of their transactional data showed that Global experienced an average annual churn rate in Yorkshire, Humberside and Lincolnshire of [✂] per cent of non-contracted advertisers, relating to [✂] per cent of non-contracted revenue. For RSL the comparable average churn rate figures were [✂] per cent of non-contracted advertisers, relating to [✂] per cent non-contracted revenue.

157. The parties also told us that there would be benefits to listeners and advertisers [✂].

Third party views

158. Third parties indicated that the merger represented a significant reduction of choice in the Yorkshire, Humberside and Lincolnshire area. Bauer described the merger as a three to two on a 'conservative' basis but argued that it removed the choice of regional licences. UTV told us that Capital, Classic FM and Real were the only stations broadcasting on a regional basis.

159. Bauer also submitted that the combined entity would account for 55 per cent of listening hours within the Real transmission area and 54 per cent within the Capital transmission area.

160. Bauer told us that the parties' stations targeted a similar demographic and UTV submitted data showing that 57 per cent of Global advertisers in Yorkshire, Humberside and Lincolnshire also advertised with RSL during July 2011 to June 2012 (and 37 per cent of RSL advertisers used Global).

161. We were told that alternative options to the parties were limited. Bauer submitted that UTV and Classic were not realistic alternatives as they did not have regional macros focused on Yorkshire, Humberside and Lincolnshire. Bauer told us that its own FM stations were used by local advertisers so were not close substitutes for the parties, and its AM stations were not strong competitors. UTV told us that the only alternative for a regional advertiser would be to bundle slots from several local radio stations. However, it argued that this would not be possible if it required integrated S&P.

162. Bauer said that UTV and Lincs FM were not equal or more effective competitors than Capital to Real in South and West Yorkshire. It submitted that, within the Real Yorkshire TSA, UTV and Lincs FM together had only a 16 per cent audience share. By contrast the parties would have a 62 per cent audience share and Bauer would have 23 per cent share of the FM commercial market. Moreover, it said that Lincs FM and UTV had between them six stations which collectively did not offer the same geographic coverage as the parties. Bauer said that in its experience very few non-contracted advertisers bought across more than one station in shared ownership and combining purchases across different groups was unlikely to be as cost-effective as buying from the parties.

163. Two non-contracted customers (one agency [Agency BH] and one advertiser) expressed their concerns about a reduction in the number of radio alternatives. One of them stated that Heart and Real were not that radically different and most advertisers would consider them as being close substitutes; also, other local media could not act as an advertising substitute for commercial radio. Conversely, three advertisers expressed their support in favour of the merger and two others did not express any major concerns in relation to the merger, stating that there were other radio or media alternatives and as a result of the merger the parties would increase investment in commercial radio for listeners in Yorkshire, Humberside and Lincolnshire.

Other relevant documents

164. Internal documents relating to [✂] in Yorkshire, Humberside and Lincolnshire showed that Global focused on non-radio media to address churn issues and to target potential customers.

165. Some [✂] used by Global in Yorkshire, Humberside and Lincolnshire are specifically designed to target advertisers currently using other media. These [✂]. Some other presentations [✂] radio and television.

166. RSL's pitch to [✂]. RSL's pitch to [✂].

167. RSL's [✂].

168. In an examination of Real's performance [✂].

Greater Manchester and the North-West

169. The main parties overlap in two areas in the North-West. RSL has two stations which cover the whole region: Real and Smooth; and a Greater Manchester station: Real XS. Global's Heart North West and Wales station overlaps with Real and Smooth in a relatively small part of the region: around Cheshire and the Wirral.[27] Global also overlaps in Greater Manchester with its Gold, Capital and Xfm stations.

170. Bauer has three FM stations in the region: Key 103, which broadcasts to the Greater Manchester area; Radio City, which broadcasts to Liverpool and parts of North Wales; and Rock FM, which is available in Lancashire. It also has three Magic stations that broadcast on AM: Magic 999 (Preston and Blackpool), Magic 1548 (Merseyside area) and Magic 1152 (Greater Manchester); and City Talk (which broadcasts in Liverpool).

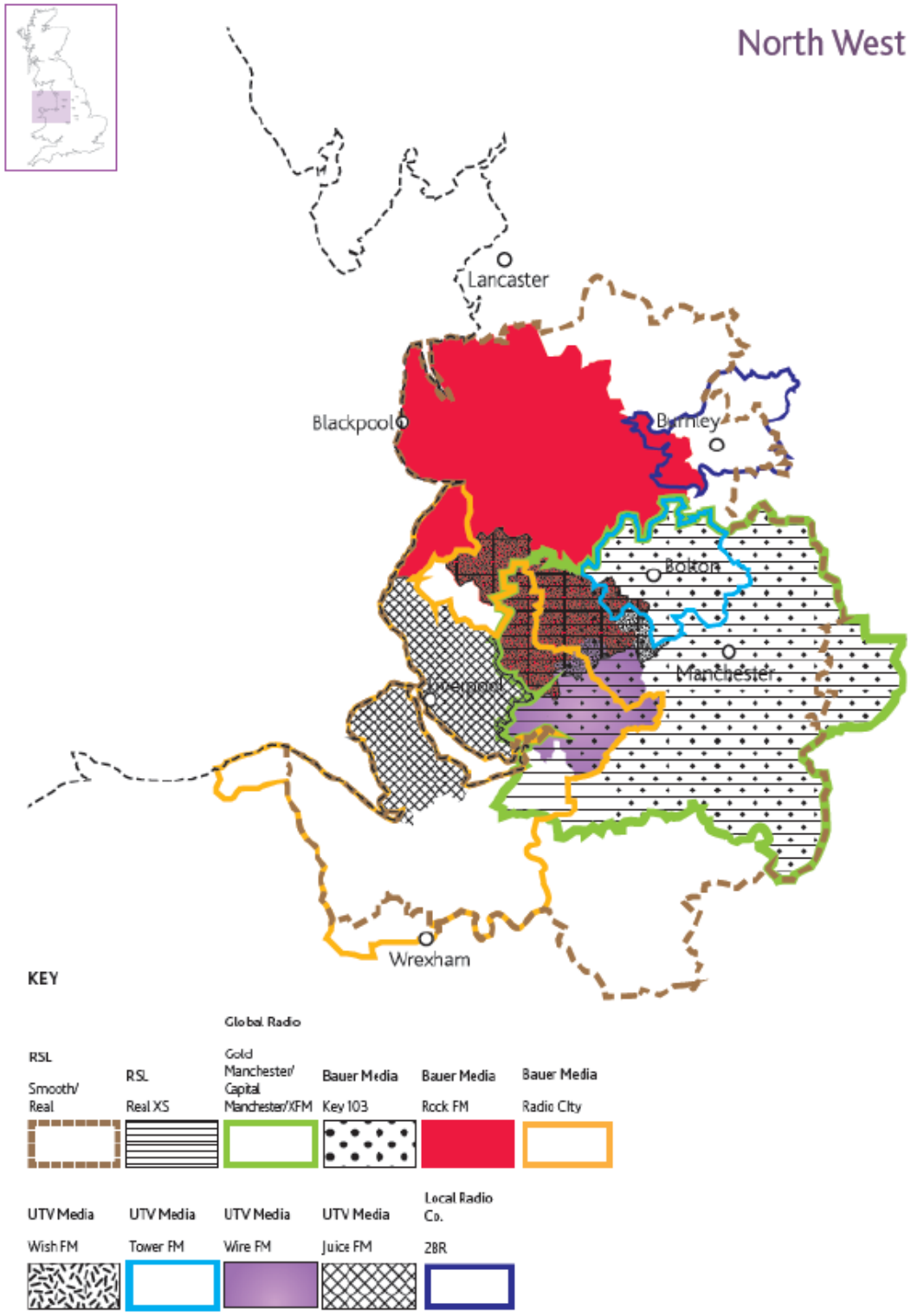
171. UTV has five stations in the region: Wish FM, Tower FM, Wire FM, Juice FM and Radio Wave 96.5. Wish FM broadcasts to Wigan and St Helens; Tower FM to Bolton, Bury and parts of Greater Manchester; Wire FM to Warrington, Widnes and Runcorn; and Juice FM to Liverpool and Radio Wave to Blackpool, Wyre & Fylde.

172. The Local Radio Company operates 2BR (Burnley), and there are a number of independent radio stations: The Revolution (north-east Manchester), The Bee (Blackburn and Preston), Dee 106.3 (Chester), Imagine 104.9 (Stockport and Manchester), Dune FM (Southport), Cheshire's Silk FM 106 (Macclesfield) and Asian Sound Radio (East Lancashire).

[27] Ofcom data on the population overlaps of radio stations shows that the NE Wales & Cheshire and Wirral transmitters cover a total population of 668,000, of which 253,000 (38 per cent) also fall within the Real/Smooth North West transmission area.

FIGURE 6

Map of the main stations in the North-West



Source: Global.

173. Table 20 shows the shares of listeners and revenue for radio stations in the North-West region. The merger parties will have a combined share of local/regional commercial radio listening hours of 51 per cent with an increment of 16 per cent. Post-merger they would have a share of [30–39] per cent of non-contracted revenue

and [40–49] per cent of total revenue, with an increment of [10–19] and [10–19] per cent respectively.

TABLE 20 **Shares of listening, reach and of non-contracted and total revenue in Greater Manchester and the North-West (local/regional commercial radio)**

Station	*Total listening hours*		*Total reach*	*Non-contracted revenue*		*Total revenue*	
	'000s	*%*	*'000s*	*£m*	*%*	*£m*	*%*
Global							
Capital Manchester	2,787	8	504	[✂]	[✂]	[✂]	[✂]
Xfm Manchester	978	3	190	[✂]	[✂]	[✂]	[✂]
Heart North West and Wales (NE Wales and Cheshire and the Wirral)*	713†	2	104†	[✂]*	[✂]	[✂]*	[✂]
Gold Manchester AM	796	2	110	[✂]	[✂]	[✂]	[✂]
Total	5,274	16	717	[✂]	[10–19]	[✂]	[10–19]
RSL							
Smooth North West	6,899	21	879	[✂]	[✂]	[✂]	[✂]
Real Radio North West	3,332	10	448	[✂]	[✂]	[✂]	[✂]
Real XS Manchester	1,165	4	142	[✂]	[✂]	[✂]	[✂]
Total	11,397	35	1,289	[✂]	[20–29]	[✂]	[20–29]
Merger parties	**15,959**	**51**	**1,875†**	[✂]	**[30–39]**	[✂]	[40–49]
Bauer							
97.4 Rock FM	1,914	6	270	[✂]‡	[5–9]	[✂]‡	[5–9]
Magic 999 (Preston)	340	1	33				
Key 103	3,488	11	504	[✂]‡	[0–9]	[✂]‡	[10–19]
Magic 1152 (Manchester)	854	3	88				
Radio City 96.7	3,901	12	457	[✂]‡	[10–19]	[✂]‡	[10–19]
Magic 1548 (Liverpool)	729	2	95				
City Talk 105.9	405	1	71	[✂]	[0–4]	[✂]	[0–4]
Total	11,631	35	1,386	[✂]	[30–39]	[✂]	[40–49]
UTV							
102.4 Wish FM	241	1	59	[✂]	[0–4]	[✂]	[0–5]
107.4 Tower FM	378	1	56	[✂]	[0–4]	[✂]	[0–4]
107.2 Wire FM	264	1	52	[✂]	[0–4]	[✂]	[0–4]
107.6 Juice FM	1,933	6	215	[✂]	[5–9]	[✂]	[0–4]
Radio Wave 96.5	554	2	66	[✂]	[0–4]	[✂]	[0–4]
Total	3,370	10	381	[✂]	[✂]	[✂]	[✂]
The Local Radio Company—2BR	444	1	60	[✂]§	[0–4]	[✂]¶	[0–4]
96.2 The Revolution	200	1	36	[✂]§	[0–4]	[✂]¶	[0–4]
107 The Bee	282	1	29	[✂]§	[0–4]	[✂]¶	[0–4]
Chester's Dee 106.3	256	1	32	[✂]§	[0–4]	[✂]¶	[0–4]
Imagine	N/A		N/A	[✂]§	[0–4]	[✂]¶	[0–4]
Dune	N/A		N/A	[✂]§	[0–4]	[✂]¶	[0–4]
Cheshire's Silk 106	78	0	17	[✂]§	[0–4]	[✂]¶	[0–4]
Asian Sound Radio	N/A		N/A	[✂]§	[0–4]	[✂]¶	[0–4]
Total	**32,931**	**100**		[✂]	**100**	[✂]	**100**

Source: Listening hours and reach are a RALF II weighted average based on RAJAR surveys for the 12 months ending September 2012. Listening hours and reach for each station are those within that station's TSA; revenue data: Global, RSL, third parties, Ofcom.

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*Revenue figures relate to the two Heart North West and Wales transmitters that cover the North-West; Heart NE Wales & Cheshire and Heart Wirral.
†Listening hours and reach for Heart North West and Wales occurring within the Smooth North West TSA. Note that the Heart North West and Wales TSA does not cover the whole of the Smooth North West TSA.
‡Revenue for Rock FM includes revenue for Magic 999. Revenue for Radio City includes revenue of Magic 1548 and revenue for Key 103 includes revenue for Magic 1152.
§Net local advertising, 2011, Ofcom.
¶Total relevant revenue, 2011, Ofcom.
Notes:
1. Global and RSL revenue data for period October 2011–September 2012.
2. Bauer revenue data relates to the 12 months ending December 2011.
3. [✂]
4. Stations included in the table are those with at least one-third of their transmission area (by population) overlapping with the parties' stations' transmission area.
5. N/A = Not available.
6. Columns may not sum exactly to the totals due to rounding.

174. The main competitor, Bauer, has a 35 per cent share of listening hours and its stations reach 1.4 million listeners per week. It has a [30–39] per cent share of non-contracted revenue and a [40–49] per cent share of total revenue.

175. The demographics for each station are shown in Table 21 below. Real and Smooth both broadcast across the North-West region with the average age of Real listeners being 39 and the average age of Smooth listeners being older at 47 years old. The Bauer FM stations across the region are close to Real in terms of demographic and its Magic AM stations are closer to Smooth.

176. Of the stations broadcasting in Greater Manchester, Real XS and Xfm have a similar demographic profile, with a similar average age of listener and both having a predominantly male audience. Bauer's Key 103 station attracts an audience with similar average age to these stations although it has a higher proportion of female listeners. Bauer Key 103 has closer demographic to Capital which also broadcasts in this area.

TABLE 21 **Demographics of radio stations in Greater Manchester and the North-West**

Station	*Average age*	*Female reach %*	*Ofcom licence requirement*
Global			
Capital Manchester	33	57	15–29
Xfm Manchester	34	40	15–34
Heart Wales and North West	39	58	15–77
Gold Manchester AM	51	43	35–54
RSL			
Smooth North West	47	55	Over 50s
Real Radio North West	39	51	25–54
Real XS Manchester	37	41	35–64
Bauer			
97.4 Rock FM	37	57	15–44
Magic 999 (Preston)	53	48	Over 30s
Key 103	36	57	15–44
Magic 1152 (Manchester)	55	55	Over 30s
Radio City 96.7	38	51	15–44
Magic 1158 (Liverpool)	46	55	Over 30s
City Talk 105.9	42	39	
UTV			
102.4 Wish FM	42	53	25–44
107.4 Tower FM	45	54	
107.2 Wire FM	39	54	25–44
107.6 Juice FM	30	56	
Radio Wave 96.5	43	49	
The Local Radio Company—2BR	41	54	
The Revolution	43	49	25–54
107 The Bee	40	51	25–54
Chester's Dee 106.3	44	52	Over 25s
Dune	N/A	N/A	
Cheshire's Silk 106	49	49	25–54
Asian Sound Radio	N/A	N/A	

Source: RAJAR average Q4 2011–Q3 2012, Ofcom.

N/A = Not available.

177. Global's stations do not cover the whole Real and Smooth transmission area, including not having coverage of Liverpool or significant areas to the north of Greater Manchester. The Bauer stations combined cover a larger proportion of the Smooth and Real transmission area (93 per cent by population).

178. In Greater Manchester itself, Global has the following stations: Capital, Xfm and Gold (AM); and RSL has Real XS. The parties' main competitor is Bauer with its Key 103

FM station and its Magic AM station. UTV has three regional stations which overlap in parts of the Greater Manchester area covered by Capital and Key 103 but these stations are targeted at other towns and do not cover the city of Manchester itself. Similarly, the independent station, The Revolution, targets Oldham, and Imagine covers the Stockport area.[28]

TABLE 22 **Shares of listening in Greater Manchester (local/regional commercial radio)**

Station	*Total listening hours*		*Reach*
	'000s	*%*	*'000s*
Global			
Capital Manchester	2,787	17	504
Xfm Manchester	978	6	190
Gold Manchester AM	796	5	110
Total	4,561	28	717
RSL			
Smooth North West	3,717	23	495
Real Radio North West	1,637	10	230
Real XS Manchester	1,165	7	142
Total	6,519	39	741
Merger parties	**11,080**	**67**	1,255
Bauer			
Key 103	3,488	21	504
Magic 1152 (Manchester)	854	5	88
Total	4,342	26	563
UTV			
102.4 Wish FM	241	1	58
107.4 Tower FM	378	2	56
107.2 Wire FM	264	2	52
Total	883	5	166
96.2 The Revolution	200	1	36
Imagine	N/A		
Total	**16,505**	**100**	

Source: Listening hours are a RALF II weighted average based on RAJAR surveys for the 12 months ending September 2012. Listening hours for each station are those within Capital Manchester's TSA.

Note: Columns may not sum exactly to the totals due to rounding.

179. From Table 22, it can be seen that the parties will have a combined share of local/regional commercial listening hours of 67 per cent (with an increment of 28 per cent) and will reach a total of 1.3 million listeners per week within Greater Manchester.

180. Bauer supplied data on its non-contracted revenue earned in Greater Manchester in 2011. This data showed that [✂] per cent of non-contracted revenue was associated with campaigns that ran only on Key 103 and/or Magic 1152. Less than [✂] per cent of revenue was associated with campaigns that ran on Key 103 and/or Magic 1152 as well as other Bauer stations outside of Greater Manchester.[29]

181. Post-merger, the parties would have [30–39] per cent of non-contracted revenue within Greater Manchester, with an increment of [5–9] per cent.

[28] Asian Sound also broadcasts to Manchester but covers a wider broadcast area across East Lancashire and is therefore not included in the calculation of share of advertising revenue in paragraph 140.
[29] See the footnote to paragraph 141.

TABLE 23 **Distribution of non-contracted revenue across different areas of the North West (local/regional commercial radio)**

£ million

Station/Group	*Greater Manchester*	*Local within rest of North-West*	*Region*	*Total North-West*
Global				
Capital Manchester	[✂]			[✂]
Xfm Manchester	[✂]			[✂]
Heart (Wrexham & Chester and the Wirral)*		[✂]		[✂]
Gold Manchester AM	[✂]			[✂]
Total	[✂]	[✂]		[✂]
RSL				
Smooth North West			[✂]	[✂]
Real Radio North West			[✂]	[✂]
Real XS Manchester	[✂]			[✂]
Total	[✂]		[✂]	[✂]
Merger parties	[✂]	[✂]	[✂]	[✂]
Bauer				
Key 103/Magic 1152 (Manchester)	[✂]		[✂]	[✂]
Other Bauer*		[✂]		[✂]
Total	[✂]	[✂]	[✂]	[✂]
UTV†	[✂]	[✂]		[✂]
Other‡	[✂]	[✂]		[✂]
Total	[✂] **(100%)**	[✂] **(100%)**	[✂] **(100%)**	[✂] **(100%)**

Source: Global, RSL, third parties, Ofcom.

*97.4 Rock FM/Magic 999 (Preston), Radio City 96.7/Magic 1548 (Liverpool) and City Talk 105.9.
†102.4 Wish FM, 107.4 Tower FM, 107.2 Wire FM,107.6 Juice FM and Radio Wave 96.5.
‡The Local Radio Company—2BR, 96.2 The Revolution, 107 The Bee, Chester's Dee 106.3, Imagine, Dune, Cheshire's Silk 106 and Asian Sound Radio.
Notes:
1. Global and RSL revenue data for period October 2011–September 2012.
2. Bauer revenue data relates to the 12 months ending December 2011.
3. [✂]
4. Key 103/Magic 1152 (Manchester) revenue listed as 'Region' relates to revenue obtained from campaigns run on this station as well as at least one other Bauer station.
5. Columns and rows may not sum exactly to the totals due to rounding.

182. The main competitor, Bauer, has a 26 per cent share of listening hours in Greater Manchester and reaches 563,000 listeners a week. It has a [20–29] per cent share of non-contracted revenue.

183. The UTV stations cover around 40 per cent of Capital Manchester's transmission area in terms of population. They have a 5 per cent share of listening hours and [20–29] per cent share of non-contracted revenue.

The parties' views

184. The parties told us that Bauer was the biggest player in the North-West and the merger would be rivalry-enhancing [✂]. Bauer was a closer competitor to each party in Greater Manchester and regionally via its set of stations. The parties also submitted that UTV had a significant presence.

185. The parties said that they were not close competitors because they had different geographical targets. They said that RSL stations were regional and a bundle of

Global stations was not a suitable alternative for them in the North-West as a whole, since they did not cover Liverpool, Lancashire, Blackpool or Burnley. [✂]

186. The parties told us that when looking at Greater Manchester, Real and Smooth listening shares should not be included as it was not possible to split their transmission geographically, and hence they were not cost-effective alternatives for advertisers looking to target Greater Manchester. Similarly, they said that for advertisers wishing to target Chester and Wrexham or the Wirral only, Real and Smooth were not realistic alternatives given the wastage involved.

187. The two largest stations in terms of listening share, reach and non-contracted revenue in Manchester are Capital and Bauer's Key 103, accounting for over [80–89] per cent of non-contracted revenue in Manchester. The two stations have a similar geographic coverage and audience demographic.

188. The parties stated that both Real XS and Xfm were minor stations and very different in terms of music and audience (only a very small number of non-contracted advertisers switching between the two). Xfm had non-contracted revenue of £[✂] and Real XS had non-contracted revenue of £[✂]. Therefore any effect on competition would be trivial.

189. The parties stated that non-contracted advertisers in Manchester viewed non-radio media as effective alternative advertising media. The parties also stated, referring to internal documents, that [✂] strategy of both companies was to compete directly with non-radio media, [✂], to win business and ensure they did not lose existing non-contracted customers to non-radio media.

190. By reference to their lost opportunities survey, the parties submitted that, after declining a campaign proposal by Global, North-West respondents went on to use a range of non-radio alternatives including local press (43 per cent), magazines (27 per cent), search engines (20 per cent), social media (22 per cent) and outdoor advertising (32 per cent). They submitted that 32 per cent turned to other radio stations, with 12 per cent indicating that they had used radio stations operated by RSL.

191. The parties submitted results from their existing customer survey in the North-West, which asked respondents what media they would use if the Global or RSL station they had used had not been available. They submitted that 21 per cent of North-West advertisers indicated that they would choose another radio station (3 per cent noting a radio station operated by the other merging party) compared with 28 per cent that indicated they would choose non-radio media.

192. The parties' analysis of NMR data for the North-West showed that 44 per cent of Global advertisers and 60 per cent of RSL advertisers in FY2009 did not use them again in FY2010 or FY2011. The parties told us that, of these, 31 per cent of Global-leavers and 49 per cent of RSL-leavers used non-radio media. This compared with 44 per cent of Global-leavers and 44 per cent of RSL-leavers who used other radio stations.

193. The parties submitted that analysis of their transactional data showed that Global experienced an average annual churn rate in the North-West of [✂] per cent of non-contracted advertisers, relating to [✂] per cent of non-contracted revenue. For RSL the comparable average churn rate figures were [✂] per cent of non-contracted advertisers, relating to [✂] per cent non-contracted revenue.

Third party views

194. UTV said that the merger represented a reduction from two to one in terms of regional licences in the North-West in so far that, pre-merger, regional advertisers could advertise on Classic FM or Real/Smooth. Bauer stated that Capital and Real were close competitors as were Smooth and Gold (the latter for older listeners). It submitted that the combined entity would have a 55 per cent market share in terms of listening hours in the Smooth North-West TSA.

195. UTV said that it was possible for advertisers to use Bauer stations to reach the North-West region if they were willing to bundle (since Bauer's coverage was local but together its stations covered almost all of the region). However, bundling was not an option for those running a sponsorship campaign. [✂]

196. With respect to the Greater Manchester region, Bauer told us that the merger would reduce the options available to local advertisers from three to two. It also submitted that Xfm and Real XS were close competitors (mainly for male listeners) and the combined entity would have a 70 per cent market share of listening hours in RSL's Real XS Manchester TSA. [Competitor A] told us that the merger parties would have a market share in terms of listening hours of substantially above 50 per cent in Greater Manchester, with an increment of 25 per cent.

197. Bauer said that Key 103 competed with each of Capital, Real, Smooth and Real XS in the Manchester area, since local advertisers were also prepared to use the regional stations (Real and Smooth) to target the Greater Manchester area. It said that, although wastage could be an issue, [✂].

198. Third parties also raised concerns at the number of FM licences that the combined entity would have in Greater Manchester. Bauer explained that they would have three out of four Greater Manchester FM licences whereas UTV stated that the merger parties would have six out of seven FM licences covering the Greater Manchester area.[30] Bauer said that, of other competitors, UTV and Classic FM did not have regional macros focused on Greater Manchester and so were not realistic alternatives for advertisers targeting it.

199. Two non-contracted agencies expressed their concern about the merger as they felt it would reduce competition and as a result advertisers would be left with no effective alternatives. Conversely seven advertisers expressed their support in favour of the merger and five others did not express any major concerns in relation to the merger, stating that *(a)* Capital, Real and Smooth were not close competitors as they targeted different audiences and *(b)* the merger would increase investment in commercial radio for listeners in Greater Manchester and the North-West.

Other relevant documents

200. Global's internal documents relating to [✂] in the North-West showed that Global focused on non-radio media to address churn issues and to target potential customers. [✂] used by Global in Greater Manchester often contained information relating to other media, highlighting the benefits of radio as an advertising medium. For instance, a Global [✂] advertisers [✂] compared Capital and Xfm's audiences with [✂] readership.

[30] The difference is due to UTV including in its total the parties' stations that broadcast over a wider region than just Greater Manchester.

201. A Global's [✂] for Capital and Xfm [✂] identifying objectives for 2012 and 2013 listed [✂].

202. Bauer's marketing material provided to us by Global showed that Bauer was selling itself as the number one in Manchester.

203. Three customers' emails to Global [✂].

204. RSL internal strategic documents showed that RSL had a strategy for the North-West focused on improving how to identify and target non-radio customers. This included [✂].

205. An RSL planning document [✂].

206. A RSL pitch showed that [✂].

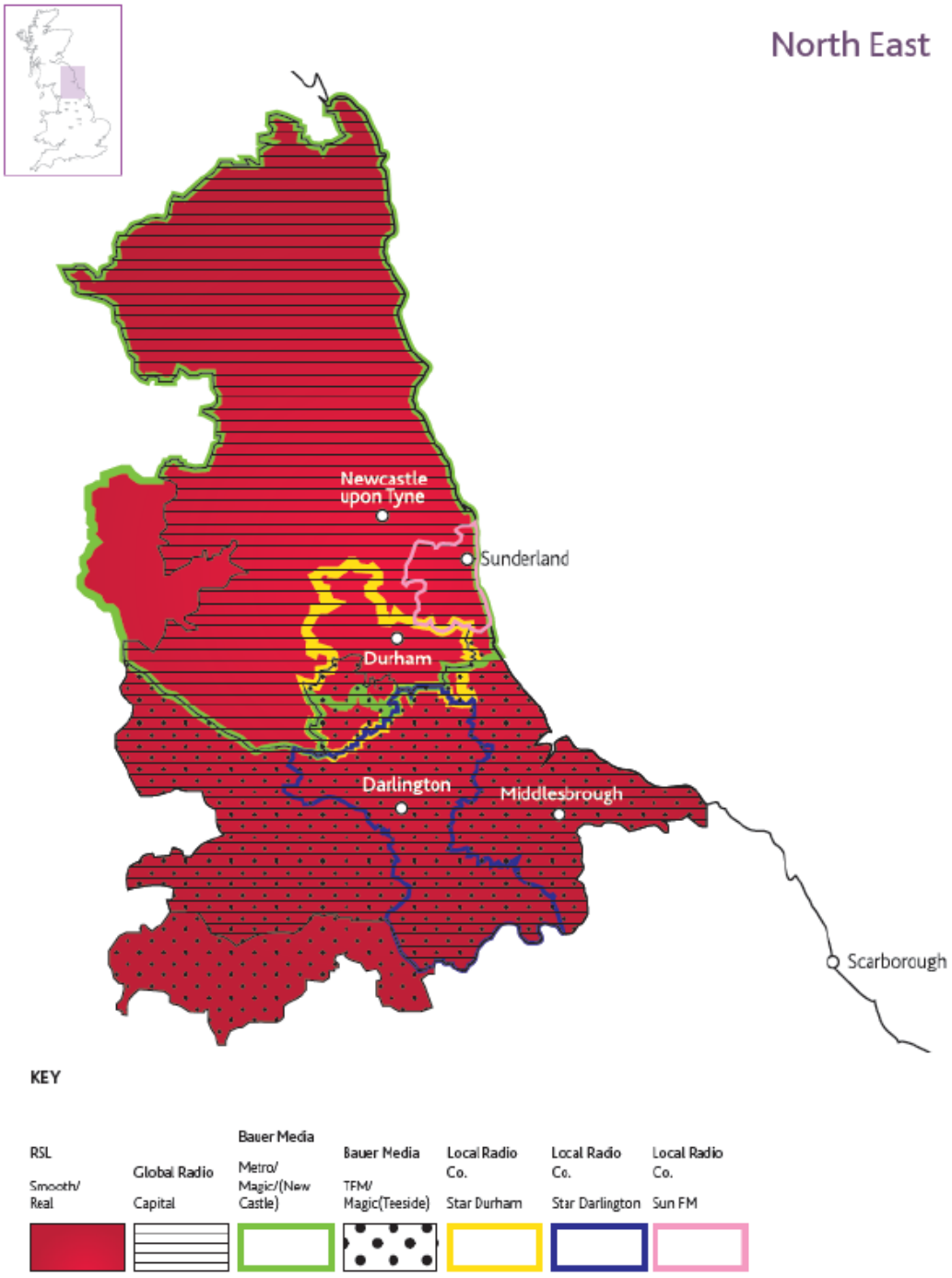
North-East

207. The parties overlap in broadly the same area in the North-East. Global's Capital North East covers the whole region and offers advertising on two transmitters: Tyne and Wear; and Teesside. RSL has two stations which broadcast across the region, Smooth and Real, and both split their advertising on two transmitters to the north and south of the region in a similar way as Capital North East.

208. The main competitor across the region is Bauer, which has two FM and two AM stations in the north and south of the region: Metro FM and Magic Newcastle (AM) around Newcastle; and TFM and Magic Teesside (AM) around Middlesbrough. There are also three stations owned by The Local Radio Company which broadcast to parts of the region: Star Durham, Star Darlington and Sun FM in Sunderland.

FIGURE 7

Map of the main stations in the North-East



Source: Global.

209. Table 24 below shows the share of listening and revenue for radio stations in the North-East. The merger parties have a combined share of local/regional commercial listening hours of 56 per cent, with an increment of 24 per cent and post-merger they would have [50–59] per cent of non-contracted revenue and [50–59] per cent of total revenue with an increment of [20–29] per cent and [20–29] per cent respectively.

TABLE 24 **Shares of listening, reach, non-contracted and total revenue of stations in the North-East (local/regional commercial radio)**

Station	*Total listening hours*		*Total reach*	*Non-contracted revenue*		*Total revenue*	
	'000s	*%*	*'000s*	*£m*	*%*	*£m*	*%*
Global							
Capital North East	3,817	24	505	[✂]	[20–29]	[✂]	[20–29]
RSL							
Smooth Radio North East	3,233	20	409	[✂]	[✂]	[✂]	[✂]
Real Radio North East	1,907	12	281	[✂]	[✂]	[✂]	[✂]
Total	5,140	32	613	[✂]	[20–29]	[✂]	[20–29]
Merger parties	**8,957**	**56**	**943**	[✂]	**[50–59]**	[✂]	[50–59]
Bauer							
Metro	2,517	16	380	[✂]*	[20–29]	[✂]*	[20–29]
Magic Newcastle	1,445	9	166				
TFM	1,217	8	182	[✂]*	[10–19]	[✂]*	[10–19]
Magic Teesside	991	6	97				
Total	6,170	39	739	[✂]	[30–39]	[✂]	[40–49]
Local radio							
Star NE—South	237	1	26	[✂]†	[0–4]	[✂]‡	[0–4]
Sun FM	504	3	57	[✂]†	[5–9]	[✂]‡	[0–4]
Star NE—North	139	1	21	[✂]†	[0–4]	[✂]‡	[0–4]
Total	879	5	105	[✂]	[10–19]	[✂]	[5–9]
Total	**16,007**	**100**		[✂]	**100**	[✂]	**100**

Source: Listening hours and reach are a RALF II weighted average based on RAJAR surveys for the 12 months ending September 2012. Listening hours and reach for each station are those within that station's TSA; revenue data: Global, RSL, third parties, Ofcom.

*Revenue for Metro includes Magic Teesside and revenue for TFM includes Magic Newcastle.
†Net local advertising, 2011, Ofcom (definition in Annex 1).
‡Total relevant revenue, 2011, Ofcom (definition in Annex 1).
Notes:
1. Global and RSL revenue data for period October 2011–September 2012.
2. Bauer revenue data relates to the 12 months ending December 2011.
3. Stations included in the table are those with at least one-third of their transmission area (by population) overlapping with the parties' stations' transmission area.
4. Columns may not sum exactly to the totals due to rounding.

210. The parties' main competitor, Bauer, would have a share of listening hours of 39 per cent and in total reaches 739,000 listeners a week across its AM and FM stations. It has a share of [30–39] per cent of non-contracted revenue and [40–49] per cent of total revenue.

211. Bauer supplied data on its non-contracted revenue split by the coverage of the campaign. This data showed that up to [✂] per cent of non-contracted revenue earned by Bauer in the North-East in 2011 was associated with campaigns running on stations in both the north of the region[31] (ie on Metro and/or Magic Newcastle) and the south of the region[32] (ie on TFM and/or Magic Teesside).[33]

212. Furthermore, from the parties' transaction data, we estimate that campaigns targeting the north of the region made up [✂] per cent of the Capital North East's total non-contracted revenue, campaigns targeting the south made up [✂] per cent and campaigns covering the whole of the Capital North East TSA made up the remaining [✂] per cent.[34]

[31] Covering Newcastle upon Tyne, Durham and Sunderland.
[32] Covering Darlington and Middlesbrough.
[33] [✂]
[34] For the period October 2011–September 2012.

213. Similarly for Smooth Radio North East, the non-contracted revenue derived from campaigns targeting the north of the region accounted for [✂] per cent of the total, campaigns targeting the south of the region made up [✂] per cent and campaigns covering the whole of the Smooth Radio North East TSA made up the remaining [✂] per cent.[35]

214. For Real Radio North East, the corresponding figures were [✂] per cent of revenue from campaigns targeting the north of the region, [✂] per cent from campaigns targeting the south of the region and the remaining [✂] per cent from campaigns covering the whole of the Real Radio North East TSA.[36]

TABLE 25 **Distribution of non-contracted revenue across different areas of the North-East (local/regional commercial radio)**

£ million

Station/Group	*North only*	*South only*	*North and South*	*Total North-East*
Global—Capital North East	[✂]	[✂]	[✂]	[✂]
RSL				
Smooth Radio North East	[✂]	[✂]	[✂]	[✂]
Real Radio North East	[✂]	[✂]	[✂]	[✂]
Total	[✂]	[✂]	[✂]	[✂]
Merger parties	[✂]	[✂]	[✂]	[✂]
Bauer				
Metro/Magic (Newcastle)	[✂]		[✂]	[✂]
TFM/Magic (Teesside)		[✂]		[✂]
Total	[✂]	[✂]	[✂]	[✂]
*Local radio**	[✂]†	[✂]†		[✂]
Total	[✂] **(100%)**	[✂] **(100%)**	[✂] **(100%)**	[✂] **(100%)**

Source: Global, RSL, third parties, Ofcom.

*Star NE—South, Sun FM and Star NE—North.
†Net local advertising, 2011, Ofcom (definition in Annex 1).
Notes:
1. Global and RSL revenue data for period October 2011–September 2012.
2. Bauer revenue data relates to the 12 months ending December 2011.
3. Key 103/Magic 1152 (Manchester) revenue listed as 'Region' relates to revenue obtained from campaigns run on this station as well as at least one other Bauer station.
4. Columns and rows may not sum exactly to the totals due to rounding.

215. Table 26 below shows the demographics of the parties' and competitors' stations in the North-East. At 31 years, Capital's average listener is significantly younger than that of RSL's or Bauer's stations. In terms of average age, the demographic of Bauer's FM stations lies between that of Global and RSL, being closest to Real.

[35] For the period October 2011–September 2012.
[36] For the period October 2011–September 2012.

TABLE 26 **Demographics of radio stations in the North-East**

Station	*Average age*	*Female reach %*	*Ofcom licence requirement*
Global			
Capital North East	31	58	15–29
RSL			
Smooth Radio North East	47	54	50+
Real Radio North East	41	50	25–54
Bauer			
Metro	39	53	15–44
TFM	37	55	15–44
Magic Teesside	48	60	Over 30s
Magic Newcastle	47	61	Over 30s
Star NE—South	44	53	25–54
Sun FM	45	57	
Star NE—North	40	50	25–54

Source: RAJAR average Q4 2011–Q3 2012.

The parties' views

216. The parties stated that assessing regional share of listening and non-contracted revenue was not informative for assessing the impact of the merger given that the parties' stations were highly differentiated. The parties stated that their [✂] stations were not close competitors. They targeted different audiences, with Capital targeting a younger audience to Real and Smooth. They submitted that Bauer's stations were closer competitors to them than they were to each other.

217. The parties stated that Bauer's stations offered advertisers similar or higher reach and local commercial listening hours within the parties' target demographics than the other merging party.

(a) With respect to Capital's target demographic (15 to 34), Bauer's TFM and Metro had reach and commercial listening shares almost three times bigger than Real.

(b) Bauer's TFM and Metro had a higher reach and similar commercial listening share to Capital within the target demographic of Real (25 to 44), and are often sold as a bundle with Magic to advertisers seeking to target this demographic, thus offering even greater reach and listening share).

(c) In relation to Smooth's target demographic (45 to 60), Bauer's Magic stations (or separately TFM and Metro) offered Smooth advertisers over twice the listening share of Capital and significantly greater reach than Capital.

218. The parties also referred to internal documents relating to each of the merger parties' stations that the parties stated were consistent with Bauer being a closer alternative to the parties than they were to each other.

219. The parties argued that Metro and TFM had the highest reach in the North-East and a commercial listening share similar to Capital's. The parties' estimated that Bauer had a higher share of non-contracted revenue than Capital and a higher share of non-contracted revenue than Real—therefore Bauer was a strong alternative to each party than they were to each other. Bauer would have a similar market share to the combined entity and the effect would be rivalry-enhancing. Bauer would remain the parties' strongest and closest competitor.

220. The parties stated that Bauer sold Metro and TFM as a bundle to regional advertisers and they submitted internal documents which they considered demonstrated that the parties lost S&P pitches for regional customers to a combination of Metro and TFM more often than they lost customers to each other.

221. The parties said that [✂].

222. The parties stated that non-contracted advertisers in the North-East viewed non-radio media as an effective alternative to radio. The parties also stated, referring to internal documents, that [✂] the strategy of both companies was to compete directly with non-radio media [✂] to win business and ensure they did not lose existing non-contracted customers to non-radio media.

223. By reference to their lost opportunities survey, the parties submitted that, after declining a campaign proposal by Global, North-East respondents went on to use a range of non-radio alternatives including local press (47 per cent), magazines (34 per cent), search engines (23 per cent), social media (26 per cent) and outdoor advertising (39 per cent). They submitted that 40 per cent turned to other radio stations, with 14 per cent indicating that they had used radio stations operated by RSL.

224. The parties submitted results from their existing customer survey in the North-East, which asked respondents what media they would use if the Global or RSL station they had used had not been available. They submitted that 19 per cent of North-East advertisers indicated that they would choose another radio station compared with 36 per cent that indicated they would choose non-radio media.

225. The parties' analysis of NMR data for the North-East showed that 44 per cent of Global advertisers and 50 per cent of RSL advertisers in FY2009 did not use them again in FY2010 or FY2011. The parties told us that, of these, 43 per cent of Global-leavers and 56 per cent of RSL-leavers used non-radio media. This compared with 37 per cent of Global-leavers and 40 per cent of RSL-leavers who used other radio stations.

226. The parties submitted that analysis of their transactional data showed that Global experienced an average annual churn rate in the North-East of [✂] per cent of non-contracted advertisers, relating to [✂] per cent of non-contracted revenue. For RSL the comparable average churn rate figures were [✂] per cent of non-contracted advertisers, relating to [✂] per cent non-contracted revenue.

227. The parties also told us that [✂].

Third party views

228. Bauer and UTV stated that the merger represented a reduction of choice from two to one in the North-East in terms of owners of regional licences. Bauer said that its own stations were a limited competitive alternative.

229. Bauer told us that, in total, the parties would account for 57 per cent of commercial listening hours based on either the Real TSA or the Capital TSA. [Competitor A] told us that Newcastle was an area of concern. It said that Capital was the number one station in the area and Real was a close competitor. It said that both stations appealed to similar demographics and had similar output. UTV submitted Nielsen data showing that 55 per cent of Global advertisers in the North-East also used RSL in the period July 2011 to June 2012 (and 30 per cent of RSL advertisers used Global).

230. UTV said that there was no effective competition at a regional level. UTV said that advertisers could bundle local stations and this happened to an extent, but might be unpopular with certain advertisers. It said that some advertisers would need to combine Bauer and FRS stations, [✂].

231. Bauer said that Classic FM and UTV were not credible options for advertisers as their advertising area did not correspond to the North-East. It said that Magic's AM stations were not a good substitute for the region's FM stations.

232. Bauer considered that it competes against each of Capital, Real and Smooth in the North-East. It said that all three groups competed actively on price with the result that current deals being offered by Global and RSL were [✂] CPT. Bauer said that it would typically find itself competing with Capital on the one hand and Real/Smooth on the other for the same advertiser and said that it would expect that Capital also competed aggressively with Real/Smooth. Bauer felt that this competitive interaction directly affected prices. Bauer gave an example of all three groups (TFM, Smooth and Capital) competing for an individual client. [✂] Bauer provided [✂] other examples of the effect of competition between stations in the North-East on the price of airtime.

233. Bauer submitted that the Local Radio Company should not be considered to be a good alternative to Real/Smooth in the North-East. Bauer noted that the Local Radio Company through its three stations only covered part of the Real/Smooth TSA and had a 6 per cent listening share of the FM commercial market.

234. Two non-contracted agencies expressed their concern about the merger. One agency in particular told us that, prior to the merger, there was effective competition on the local and regional market, having three major groups providing a good choice of stations and format. This agency was concerned by the prospect of a reduction from three to two radio groups, one of them controlling three stations. Conversely, 14 advertisers expressed their support in favour of the merger and two others did not express any major concerns in relation to the merger, stating that Capital, Real and Smooth targeted different audiences and that the merger would increase investment in commercial radio for listeners in the North-East. One agency told us that radio advertising was easily substitutable with other media, especially television.

Other relevant documents

235. Global's internal documents relating to [✂] in the North-East showed that Global focused on non-radio media to address churn issues and to target potential customers. Global's Strategy Overview Paper also [✂]. An internal document stated that [✂] per cent of the marketing budget of Global's [✂] had been allocated to press and television in 2011.

236. Global's pitch to [✂].

237. Correspondence between Global and some customers showed that these were taking other media into consideration, either as an alternative to radio or as part of a wider marketing strategy. One email from a media agency acting for [✂] stated that television and Bauer's Metro [✂] customer [✂] decided not to use radio following a cut in the advertising budget.

238. An RSL internal document [✂].

239. RSL internal strategic documents showed that RSL had a strategy in the North-East for identifying and targeting non-radio customers. This included [✂]. An RSL strategy pack [✂].

240. An RSL presentation included a comparison of demographic reach and listening shares with [✂].

241. Some [✂] of RSL in the North-East compared reach of RSL stations with local newspapers readership and highlighted [✂].

242. Bauer's TFM media packs 2012 gave an overview of the audience, the listener share (split in different categories), the type of music played and the advertising environment. Other Bauer marketing material highlights how [✂].

Glasgow and Central Scotland

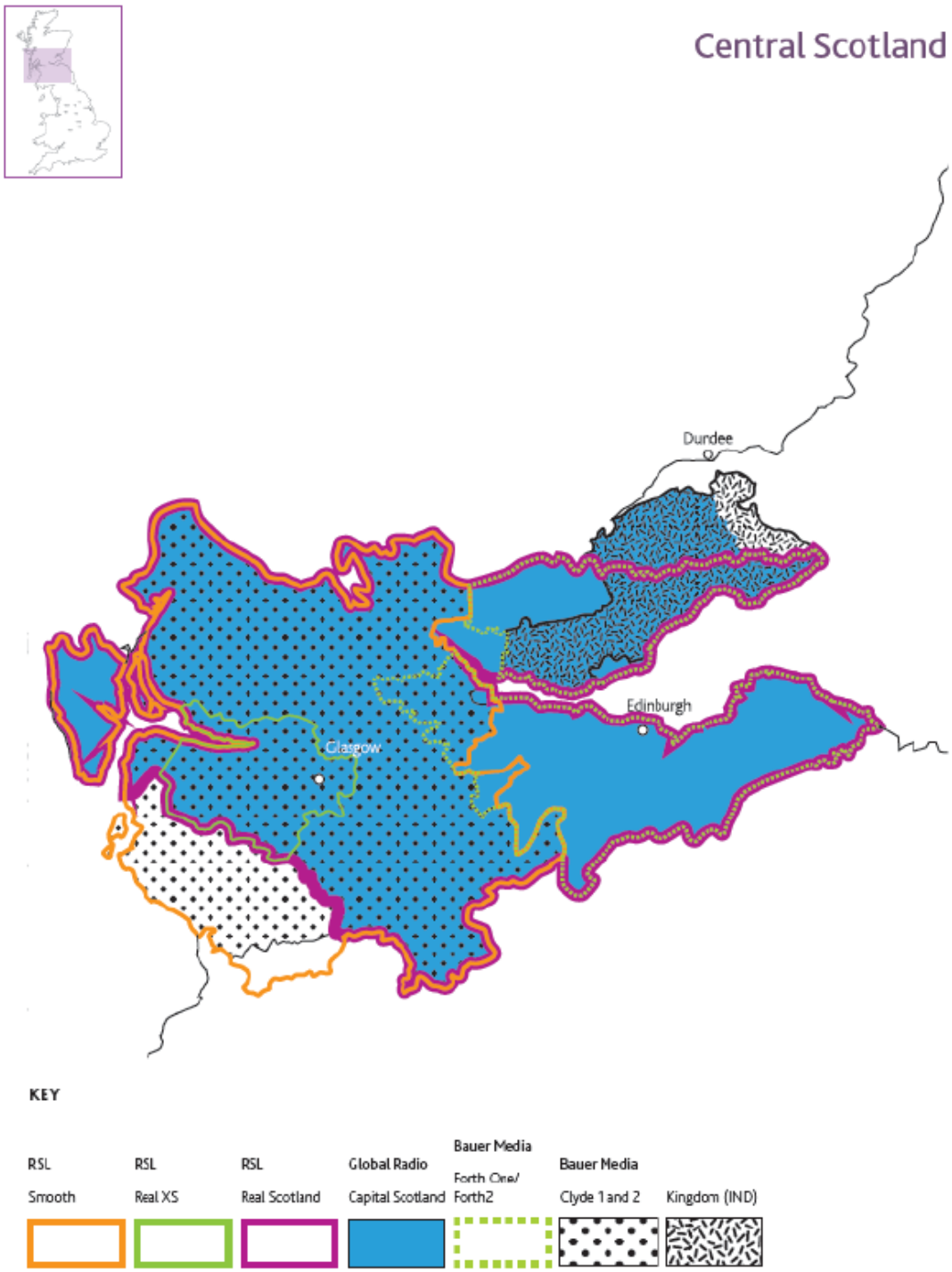
243. Global has one station in Central Scotland: Capital, which broadcasts across Edinburgh, Glasgow and their surrounding areas. It sells advertising on a split transmission basis for advertisers wishing to target Edinburgh or Glasgow only. RSL has three stations: Real, Real XS and Smooth. Real broadcasts to broadly the same area as Capital and although it can technically sell on separate transmitters it does not do so.[37] Smooth broadcasts to Glasgow and the surrounding area and Real XS broadcasts to Paisley and includes Glasgow city centre.

244. The main competitor in the region is Bauer which has four stations: Clyde 1, Clyde 2, Forth One and Forth 2. Clyde 1 and Clyde 2 broadcast to Glasgow and the West Central Scotland area. Forth One and Forth 2 are available in Edinburgh and the surrounding region. Together these stations cover a similar transmission area to Real and Capital. Independent stations include: Kingdom FM which broadcasts to Fife, Central FM broadcasting to Falkirk and Stirling and Your Radio available in Dumbarton and Helensburgh.

[37] RSL told us that [✂].

FIGURE 8

Map of the main stations in Central Scotland



Source: Global.

245. RSL has a 37 per cent share of local/regional commercial radio listening hours in the Central Scotland area (see Table 27). Global has a 15 per cent share. Together the RSL stations reach 805,000 listeners each week and Capital reaches 484,000 listeners. Post-merger the parties would have a combined share of non-contracted revenue of [40–49] per cent and a combined share of revenue from all advertising

sales of [40–49] per cent, with an increment of [10–19] per cent and [10–19] per cent respectively.

TABLE 27 **Shares of listening, reach, non-contracted and total revenue of station in Central Scotland (local/regional commercial radio)**

Station	*Total listening hours*		*Total reach*	*Non-contracted revenue*		*Total revenue*	
	'000s	*%*	*'000s*	*£m*	*%*	*£m*	*%*
Global							
Capital Scotland	3,188	15	484	[✂]	[10–19]	[✂]	[10–19]
RSL							
Smooth Radio Glasgow	2,288	10	276	[✂]	[✂]	[✂]	[✂]
Real Radio Scotland	5,505	25	595	[✂]	[✂]	[✂]	[✂]
96.3 Real XS Glasgow	340	2	66	[✂]	[✂]	[✂]	[✂]
Total	8,133	37	805	[✂]	[30–39]	[✂]	[30–39]
Merger parties	**11,321**	**52**	**1,062**	[✂]	**[40–49]**	[✂]	**[40–49]**
Bauer							
Clyde 1 FM	4,207	19	538	[✂]*	[20–29]	[✂]*	[30–39]
Clyde 2 (AM)	1,486	7	207				
Forth One	3,260	15	355	[✂]†	[10–19]	[✂]†	[10–19]
Forth 2 (AM)	577	3	74				
Total	9,530	44	1,013	[✂]	[40–49]	[✂]	[50–59]
Central FM	298	1	53	[✂]‡	[0–4]	[✂]§	[0–4]
Kingdom FM	716	3	83	[✂]‡	[5–9]	[✂]§	[0–4]
Your Radio	N/A	N/A	N/A	[✂]‡	[0–4]	[✂]§	[0–4]
Total	**21,865**	**100**		[✂]	**100**	[✂]	**100**

Source: Listening hours and reach are a RALF II weighted average based on RAJAR surveys for the 12 months ending September 2012. Listening hours and reach for each station are those within that station's TSA; revenue data: Global, RSL, third parties, Ofcom.

*Includes revenue for Clyde 2 (AM).
†Includes revenue for Forth 2 (AM).
‡Net local advertising, 2011, Ofcom (definition in Annex 1).
§Total relevant revenue, 2011, Ofcom (definition in Annex 1).
Notes:
1. Global and RSL revenue data for period October 2011–September 2012.
2. Bauer revenue data relates to the 12 months ending December 2011.
3. Stations included in the table are those with at least one-third of their transmission area (by population) overlapping with the parties' stations' transmission area.
4. N/A = Not available.
5. Columns may not sum exactly to the totals due to rounding.

246. The parties' main competitor is Bauer, which has 44 per cent of local/regional commercial listening hours, and reaches over a million listeners each week. It has a share of [40–49] per cent of non-contracted revenue and a [50–59] per cent share of total revenue.

247. Bauer provided data that showed that up to [✂] per cent of non-contracted revenue it earned in Central Scotland in 2011 was associated with campaigns running on stations in both the east of the region (ie Clyde 1 and/or Clyde 2) and the west of the region (ie Forth One and Forth 2).[38]

248. Table 28 below shows the demographics of the stations broadcasting in Central Scotland. Real and the Bauer FM stations have a similar average age of listeners (around 40 years old) whereas Capital reaches a younger age group on average, with an average listener age of 33 years.

[38] See the footnote to paragraph 141.

TABLE 28 **Demographics of radio stations in Central Scotland**

Station	*Average age*	*Female reach %*	*Ofcom licence requirement*
Global—Capital Scotland	33	60	15–29
RSL			
Smooth Radio Glasgow	49	55	50+
Real Radio Scotland	40	50	25–54
96.3 Real XS Glasgow	39	38	
Bauer			
Clyde 1 FM	40	46	Under 40s
Clyde 2 (AM)	50	46	Over 35s
Forth One	41	58	Over 40s
Forth 2 (AM)	50	51	Under 35s
Central FM	42	61	
Kingdom FM	45	58	
Your Radio	N/A	N/A	25–64

Source: RAJAR average Q4 2011–Q3 2012.

N/A = Not available.

249. For an advertiser wishing to target Glasgow and the surrounding area, Global has one station, Capital, which transmits across Central Scotland but has split transmission to Glasgow and Edinburgh. It achieves around 2.1 million listening hours each week in the region (ie within the Smooth transmission area). [✂] per cent of Capital Scotland's non-contracted revenue is attributed to campaigns using only the Glasgow transmitter, [✂] per cent to campaigns using only the Edinburgh transmitter and the remaining [✂] per cent to campaigns using both transmitters.[39] An advertiser could also use RSL which has two stations, Real XS and Smooth. The parties told us that RSL did not offer Real advertisers the option to target just the Glasgow region. The main alternative in Glasgow is Bauer, which has Clyde 1 and Clyde 2 (AM).

[39] This may include revenue derived from campaigns covering a wider region.

TABLE 29 **Distribution of non-contracted revenue across different areas of Central Scotland (local/regional commercial radio)**

Station/Group	*Glasgow only*	*Edinburgh only*	*Other local*	*Central Scotland only*	*Total Scotland*
Global—Capital Scotland	[✂]	[✂]		[✂]	[✂]
RSL					
Smooth Radio Glasgow	[✂]				[✂]
Real Radio Scotland				[✂]	[✂]
96.3 Real XS Glasgow	[✂]				[✂]
Total	[✂]			[✂]	[✂]
Merger parties	[✂]	[✂]		[✂]	[✂]
Bauer					
Clyde 1 FM/Clyde 2 (AM)	[✂]			[✂]	[✂]
Forth One/Forth 2 (AM)		[✂]			[✂]
Total	[✂]	[✂]		[✂]	[✂]
Other*			[✂]†		[✂]
Total	[✂] **(100%)**	[✂] **(100%)**	[✂] **(100%)**	[✂] **(100%)**	[✂] **(100%)**

Source: Global, RSL, third parties, Ofcom.

*Central FM, Kingdom FM and Your Radio.
†Net local advertising, 2011, Ofcom (definition in Annex 1).
Notes:
1. Global and RSL revenue data for period October 2011–September 2012.
2. Bauer revenue data relates to the 12 months ending December 2011.
3. Columns and rows may not sum exactly to the totals due to rounding.

250. Of the options available to advertisers wanting to target Glasgow and the surrounding area, we estimate that RSL has a 25 per cent share of listening hours per week and Global has a 20 per cent share of listening hours. The merged entity will have an estimated share of non-contracted revenue of [50–59] per cent and [30–39] per cent of total revenue. The remaining main competitor, Bauer, has a [50–59] per cent share of listening hours and reaches 635,000 listeners a week. It will have an estimated share of non-contracted revenue of [40–49] per cent and [60–69] per cent of total revenue.

TABLE 30 **Shares of listening in Glasgow (local/regional commercial radio)**

Station	*Total listening hours*		*Reach*
	'000s	*%*	*'000s*
Global—Capital Scotland	2,119	14	310
RSL			
Smooth Radio Glasgow	2,288	15	276
Real Radio Scotland	4,152	28	414
96.3 Real XS Glasgow	340	2	66
Total	6,780	45	624
Merger parties	**8,899**	**59**	**776**
Bauer			
Clyde 1 FM	4,207	28	538
Clyde 2 (AM)	1,486	10	207
Forth One	134	1	22
Total	5,827	39	652
Central FM	219	1	43
Total	**14,967**	**100**	

Source: Listening hours are a RALF II weighted average based on RAJAR surveys for the 12 months ending September 2012. Listening hours for each station are those within Smooth Radio Glasgow's TSA.

Note: Columns may not sum exactly to the totals due to rounding.

The parties' views

251. The parties told us that their core stations were not close competitors. They stated that they targeted different audiences, with Capital targeting a younger audience to Real and Smooth. Real XS attracted a higher proportion of male listeners compared with Capital. The parties submitted that Bauer's FM stations were closer competitors to the parties than they were to each other. They also told us that the RSL stations, Real, Real XS and Smooth, were not alternatives for some advertisers on Capital due to their different transmission areas.

252. The parties told us that Real and Capital were not close competitors for regional customers. For instance, while Real had two transmitters, it did not offer them individually. Therefore advertisers using Real were likely to be regional advertisers rather than those targeting Glasgow only. Conversely, Capital did allow advertisers to target the east or the west of its transmission area. A large proportion of Capital customers were local and [✂] per cent of Capital revenue was attributable to advertising on only one of its transmitters.[40]

253. [✂]

254. The parties told us that Bauer would continue to be the leading radio player in Central Scotland and estimated that it had a higher share of non-contracted revenue.

255. The parties stated that Bauer was as strong in Central Scotland as it was in Glasgow. The parties considered that Glasgow-only stations should be excluded from analysis of Central Scotland. In particular, the parties considered that including Glasgow-only stations Real XS and Smooth overstated RSL's share in Central Scotland and understated Bauer's share.

[40] We calculate a figure of [✂] per cent of revenue for the period October 2011–September 2012. Since Q4 2008, the quarterly percentage has fluctuated between [✂] and [✂] per cent.

256. Furthermore, the parties' submitted that Bauer was a better option for Real advertisers wishing to target the whole of Central Scotland than Capital. This was because Real and Bauer had a similar average age of listeners and Bauer sold airtime and S&P as a bundle across East and West Scotland. They submitted internal documents from Bauer describing Real as its closest competitor.

257. The parties also submitted that the Bauer stations offered a better alternative to Capital than RSL stations. For instance, for advertisers using Capital to advertise across Central Scotland, Bauer's stations reached more listeners in the Capital target demographic than Real did. Furthermore, most of Capital's non-contracted advertisers bought either on the east or west transmitter and these advertisers would not regard Real as a realistic alternative. [✂] per cent of Capital's non-contracted revenue was from customers who purchased the whole Scotland region.[41] Bauer was therefore a better alternative to Capital than Real for local and regional advertisers.

258. The parties stated that non-contracted advertisers in Central Scotland viewed non-media as an effective alternative to radio. The parties also stated, referring to internal documents, that [✂] the strategy of both companies was to compete directly with non-radio media [✂] to win business and ensure they did not lose existing non-contracted customers to non-radio media. By reference to its lost opportunities survey, Global submitted that, after declining a campaign proposal by Global, Central Scotland respondents went on to use a range of non-radio alternatives including local press (35 per cent), magazines (22 per cent), search engines (13 per cent), social media (13 per cent) and outdoor advertising (30 per cent). It submitted that 52 per cent turned to other radio stations, with 13 per cent indicating that they had used radio stations operated by RSL.

259. The parties submitted results from their existing customer survey in Central Scotland and Glasgow, which asked respondents what media they would use if the Global or RSL station they had used had not been available. They submitted that 21 per cent of Central Scotland and Glasgow advertisers indicated that they would choose another radio station (3 per cent noting a radio station operated by the other merging party) compared with 30 per cent that indicated they would choose non-radio media.

260. The parties' analysis of NMR data for Central Scotland and Glasgow showed that 50 per cent of Global advertisers and 54 per cent of RSL advertisers in FY2009 did not use them again in FY2010 or FY2011. The parties told us that, of these, 48 per cent of Global-leavers and 45 per cent of RSL-leavers used non-radio media. This compared with 39 per cent of Global-leavers and 26 per cent of RSL-leavers who used other radio stations.

261. The parties submitted that analysis of their transactional data showed that Global experienced an average annual churn rate in Central Scotland of [✂]per cent of non-contracted advertisers, relating to [✂] per cent of non-contracted revenue.

262. Global submitted that the merger would be rivalry-enhancing [✂]. The parties also told us that there would be benefits to listeners and from a new local news service dedicated to Scotland.

[41] We calculate a figure of [✂] per cent of revenue for the period October 2011–September 2012. Since Q4 2008, the quarterly percentage has fluctuated between [✂] and [✂] per cent.

Third party views

263. Bauer and UTV stated that the merger represented a reduction in choice from three to two in terms of options for advertisers across Central Scotland. However, both also told the CC that the merger represented a two to one reduction in terms of regional stations. UTV indicated that regional stations were important for S&P.

264. Bauer and [Competitor A] submitted data showing that the parties would have a share of listening hours of 50 to 61 per cent in the Glasgow region and Central Scotland. UTV stated that the combined entity would have five out of six FM licences covering Glasgow.

265. Bauer submitted that the parties' stations had a similar reach and both broadcast contemporary music and, as such, they were close competitors.

266. Third parties indicated that remaining options for advertisers were limited. UTV told us that the only viable alternative for advertisers wishing to reach a regional audience was to bundle together Bauer's local radio stations, but that this would not be suitable for S&P. Bauer stated that Classic and talkSPORT covered all of Scotland so would not be effective advertising options for Central Scotland. It also stated that, in Glasgow, Clyde 1 was the relevant remaining FM competitor. Clyde 2 was an AM station and not a close competitor to FM stations.

267. Bauer provided evidence that Real, although a regional station, was bought by advertisers targeting customers around Glasgow. It gave examples of [✂] Glasgow advertisers where Bauer's Clyde 1 had lost business to Real [✂].[42]

268. Bauer said that it considered that it competed with both Capital and Real/Smooth in Central Scotland and would expect advertisers to regard all three networks as equally effective alternatives. Bauer provided [✂] recent examples of where it had competed with Capital for an advertiser, [✂] recent examples of competition with Real and [✂] recent examples of where it had competed with Smooth.

269. Two non-contracted agencies expressed their concern about the merger as this would lead to a reduction in the number of radio stations and, consequently, this would lead to an increase in the advertising rates. One agency was particularly concerned about the creation of a national brand that would focus towards primarily national advertisers and would affect local advertisers. Conversely, eight advertisers expressed their support in favour of the merger and two others did not express any major concerns in relation to the merger, stating that there were other media alternatives in the market and that the merger would increase investment in commercial radio for listeners in Central Scotland.

Other relevant documents

270. Global's internal documents relating to [✂] in Central Scotland showed that Global focused on non-radio media to address churn issues and to target potential customers. [✂] used by Global in Central Scotland often contained information relating to other media, for instance comparing [✂] television [✂].

[42] [✂] We contacted the customers concerned who provided a range of reasons for advertising on a regional station. One said that it targeted potential customers beyond Glasgow.

271. A review of internal documents highlighted the results of a survey of radio listeners in Central Scotland commissioned by RSL intended to measure [✂]. Respondents had a high awareness of [✂].

272. RSL internal strategic documents showed that RSL had a strategy for identifying and targeting non-radio customers in Central Scotland. This included [✂].

273. Bauer's marketing material stated that its stations were the number one in Central Scotland. This material included a presentation of reach figures and of commercial market shares.

274. A presentation by Media Scotland[43] gave an overview of press in Scotland and provided information on readership and circulation. A presentation by CBS Outdoor[44] on using bus and rail advertising to reach the right people across Scotland highlighted the advantages of outdoor advertising compared with other media, including radio.

[43] Scotland's largest publishing group.
[44] An out-of-home media company.

Definitions

Listening hours

1. Listening hours refers to the total number of hours that a station is listened to over the course of a week.

Reach

2. Reach is defined as the number of people aged 15+ who tune to a radio station for at least 5 minutes over the course of a week. Percentage reach is calculated as the number of listeners that a station reached as a proportion of the total population of a specified TSA.

Revenue (non-contracted and contracted and S&P)

3. Revenue data on Global and RSL stations relates to the most recent 12-month period for which data was available (October 2011 to September 2012).

4. Revenue data on third party radio stations was sourced directly from third parties. Where appropriate revenue data was not available from third parties, we have used the following annual return data provided to Ofcom and relating to the 2011 calendar year:

   (a) Non-contracted revenue has been approximated to 'net local advertising' revenue. This is defined by Ofcom as: advertising revenue generated by a station's own sales department, and includes the value of barter and contra deals. It is generally calculated as the value of advertising revenue generated by agencies outside London. It excludes commission paid to the advertising agency.

   (b) Total revenue (ie the sum of non-contracted, contracted and S&P revenue) has been approximated to 'total relevant revenue'. This, in principle, includes all revenue derived by the holder of a radio broadcasting licence.

Headline results from the parties' NMR analysis

NMR data

TABLE 1 **Analysis of media usage of advertisers leaving Global by region (non-contracted): FY 2009–2011**

per cent

	*Advertisers leaving Global**	*Leavers that use RSL†*	*Leavers that use non-RSL radio*	*Leavers that use RSL or non-RSL radio*	*Leavers that use local press*
All areas average	52	18	33		36
London	57	7	27	31	35
East Midlands	52	13	19	25	47
West Midlands	51	14	41	42	46
South Wales‡	47	25	21	32	32
Yorkshire, Humberside and Lincolnshire	56	22	48	52	31
North-East	44	21	32	37	32
North-West	56	20	39	44	24
Central Scotland	50	20	37	39	44

Source: Parties' analysis of NMR data. Press titles are defined in accordance with NMR regional splits rather than on the basis of the regional TSA areas defined within the parties' OFT submission. Results for local press are reported here, however, a large proportion of advertisers also use other media alternatives.

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*Percentage of leavers defined as the percentage of advertisers that advertised on the relevant parties' stations in FY 2009 and that did not do so in FY 2010 or 2011.
†The parties identify a leaver as using RSL if they have a non-zero spend on its stations in any of the three years covered by the data.
‡NMR data for RSL's Real station is only available on an 'All Wales' basis (ie including North Wales and South Wales). The information provided here is the proportion of advertisers using Real in North or South Wales that use Global stations in South Wales. For Global it is the proportion of advertisers using Capital or Gold South Wales that use Real in North or South Wales. A large number of third party stations are not reported in South Wales. The number of leavers that actually use third party stations in South Wales can be expected to be significantly higher than this number. North Wales not included as Real only entered the market in 2011. 'All area average' calculated as the simple average of areas presented in the table.

TABLE 2 **Analysis of media usage of advertisers leaving RSL by region (non-contracted): FY 2009–2011**

per cent

	Advertisers leaving RSL	*Leavers that use RSL*	*Leavers that use non-RSL radio*	*Leavers that use RSL or non-RSL radio*	*Leavers that use local press*
All areas average	54	18	33		46
London	62	28	28	38	43
East Midlands	50	34	26	42	59
West Midlands	55	25	36	40	54
South Wales	45	28	30	42	43
Yorkshire, Humberside and Lincolnshire	56	6	39	40	41
North-East	50	10	37	40	48
North-West	60	8	42	44	42
Central Scotland	54	4	26	26	41

Source: Parties' analysis of NMR data. See previous table for methodological discussion.

Agency pricing

Introduction

1. This appendix explores the evidence on whether agencies that contract with both Global and RSL under the Agreement achieve worse prices than those that contract separately with the two parties.

2. Table 1 shows Global's and RSL's main contracts and the target amount of business [✂]. It shows that, as of June 2012, there were [✂].

TABLE 1 **Global and RSL contract terms**

Contract with	*Customer*	*Note*	*Target (value/share)*
		[✂]	

Source: Global, RSL.

---

*[✂]
†[✂]

3. The CPTs listed in the contracts are as given in Table 2.

TABLE 2 **Base prices negotiated for the national Heart and Real networks**

[✂]

Source: Global, RSL.

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*Heart Network price of £[✂] and Real Network price of £[✂] related to [✂] prices are £[✂] for Heart Network and £[✂] for Real Network.
†[✂]
N/A = Contract does not include prices for these stations.

4. [✂]

5. Table 2 shows that the largest media buying groups had negotiated [✂] with Global that were [✂].

6. We acknowledge that differences between other terms included in the contracts will influence the eventual prices paid by agencies. [✂]

7. Therefore, in our consideration of prices achieved by non-London agencies and [✂], we take account of agency spend when comparing prices for these agencies with those of agencies covered by the agreement between the parties.

8. [✂]

FIGURE 1

Comparison of weighted average CPTs—Real South Wales

[✂]

Source: [✂]
Note: [✂]

FIGURE 2

Comparison of weighted average CPTs—Real and Smooth North West

[✂]

Source: [✂]
Note: [✂]

9. We expanded this analysis by looking at the weighted average CPTs for each of the radio stations owned by Global and RSL. We found that at only one radio station[1] ([✂]) were average CPTs for non-London agencies and [✂]. However, for a number of radio stations [✂].[2]

10. Similar results are also found for the years 2009 and 2010.

11. The combined airtime revenue from contracted agencies not covered by the Agreement between the parties accounted for between [✂] and [✂][3] per cent (weighted average [✂] per cent) of airtime revenue at RSL stations in 2011 and between [✂] per cent (weighted average [✂] per cent) of airtime revenue at Global stations.

12. Revenue from agencies outside the Agreement accounted for more than [✂] per cent of total airtime revenue for [✂] of Global's stations and [✂] of RSL's. These [✂] stations are listed below, with the percentage share/revenue from outside the Agreement given in brackets.

    Global: [✂]

    RSL: [✂]

13. No clear pattern could be seen comparing the percentage share of revenue that is accounted for by agencies outside the Global/RSL Agreement and the average CPT for stations.

14. The evidence on agency pricing suggests that those agencies that contract separately with Global and RSL [✂].

15. In our analysis we have already taken into account the different amounts spent by different agencies at each station. We find that, in general, regional agencies are relatively small spenders at each station. Checking whether other characteristics of agencies within and outside the Global/RSL Agreement are similar, we find that there is no clear difference between these agencies based on the average size of their clients taking into account the agency's size; that is the radio spend of clients

[1] Out of the 64 analysed.
[2] [✂]
[3] [✂]

represented by regional agencies is similar to those of national agencies of comparable size.

Buy-around analysis

Bauer's buy-around analysis

1. Bauer analysed the alternatives that would have been available to radio planners if Global or both Global and RSL stations were excluded from 20 national advertising campaigns, carried out by the largest national advertisers in the first half of 2012. It analysed whether it would be possible to achieve the same reach over a campaign with Global/RSL stations excluded and estimated the cost, cost-efficiency factor (CEF)[1] and opportunity to hear (OTH)[2] of the alternative campaigns.

2. Under the methodology employed, Bauer found that [✂].

3. [✂][3,4]

4. [✂][5,6]

5. We asked Bauer to supplement its work with a similar analysis showing the effect of excluding just RSL stations from these campaigns. This was so that there was a full picture showing the effects of excluding *(a)* just Global, *(b)* just RSL stations and *(c)* both Global and RSL stations.

6. [✂]

Global's comments on Bauer's buy-around analysis

7. We put Bauer's analysis to Global for comment. Global made the following points in relation to the buy-around analysis conducted by Bauer:[7] [✂][8]

Further analysis

8. We did not consider it necessary to put the supplementary work relating to buying around RSL back to RSL for comment as this was not significant to Bauer's conclusions. However, we sought to check the Bauer analysis against the data we had available on RSL campaigns.

9. [✂][9]

Comments on the analysis

10. Bauer's analysis makes a number of assumptions about how advertisers would seek to buy around Global and RSL stations. There is no analysis of the sensitivity of the results to variations in these assumptions.

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[1] [✂]
[2] [✂]
[3] [✂]
[4] [✂]
[5] [✂]
[6] [✂]
[7] Global and Global's representatives are both referred to as 'Global' in this appendix.
[8] [✂]
[9] [✂]

11. In its decision on Global's merger with GCap, the OFT commented that a buy-around analysis showed what customers could do in the event of a price increase, but that this was not necessarily representative of what they would actually do.[10]

12. Other points of relevance to the buy-around analysis are:

(a) Agencies negotiate airtime prices on an annual (or slightly longer) basis on behalf of all their clients. This is because it increases the agencies' ability to put pressure on Global and their bargaining power. In some cases agencies negotiate individual prices for individual advertisers, usually the largest ones.

(b) Global already negotiates prices with national advertisers on behalf of RSL.

(c) It is limited in that it does not take into account non-radio alternatives. There may be some circumstances for some advertisers where non-radio alternatives are a better substitute, especially if CEF and OTH increase significantly when advertising moves to other radio stations.

13. In relation to paragraph 5*(d)*, we considered whether the 'one campaign assumption' was likely to have led to a significant overstatement of initial reach on the radio stations subsequently modelled as alternatives to Global stations. We thought this unlikely since some of the main alternative radio stations were Bauer stations on which Bauer has accurate information. Furthermore, since Global is the largest radio group, individual advertisers are likely to book campaigns with Global more frequently than with other radio groups. Therefore, the reach estimates for Global are likely to be the most affected by the factors that caused Bauer's analysis to overstate reach. Overall, therefore, we consider that the overstatement of reach suggested in Global's response is an additional factor which makes it difficult to place weight on the results of Bauer's analysis. (However, we summarize below results for the campaigns where Global's estimates suggest that Bauer overstated reach by less than 50 per cent).

14. Advertising on RSL stations delivers impacts that may be substitutes for impacts on Global stations. We note that most RSL stations overlap to some extent in location and demographics with one or more Global station. Furthermore, in the context of a national campaign, advertisers may regard impacts in one location at the margin as a substitute for impacts in a different location.

15. Table 1 shows a summary of the campaigns where Global's response suggests estimated reach either understated reach or did not overstate actual reach by more than 50 per cent. There were eight such campaigns.[11]

TABLE 1 **Advertising campaigns analysed in Bauer's buy around analysis**

Client/brand	*Target audience*	*Scenario A Global reach predicted by Bauer*	*Actual planned reach on Global*	*Scenario B1: buying around Global*	*Scenario B2: buying around RSL*	*Scenario C: buying around a combined Global/RSL*
				[✂]		

Source: Bauer buy-around results; Global analysis of actual reach; CC descriptions.

Note: Changes in reach and cost are expressed relative to Scenario A.

[10] OFT (2008) 'Completed acquisition by Global Radio UK Limited of GCap Media plc', ME/3638/08.
[11] [✂]

16. We note that Table 1 illustrates that it is generally more difficult to buy around both Global and RSL stations than it is to buy around just Global or just RSL stations, and thus that Global and RSL stations can to some extent be substitutes for each other in national campaigns.

Industry bodies

Introduction

1. This appendix sets out the issues put to us by third parties with respect to Global's participation in a number of industry bodies, and in the context of a number of industry-wide arrangements for the sale of pooled advertising inventory, notably:

   (a) RadioCentre and RAJAR;

   (b) Radioplayer and UK Digital Radio;

   (c) Independent Radio News (IRN) (Newslink); and

   (d) the Big Top 40 chart show (BT40).

2. We also set out below Global's views of the issues raised.

3. In order for these concerns to result in the merger giving rise to an SLC, the following questions have to be considered:

   (a) Ability: Would the merged firm have the ability to harm rivals, for example through conduct that would raise prices or costs or potentially deny access to a particular input altogether?

   (b) Incentive: Would the merged firm find it profitable to do so?

   (c) Effect on competition: Would the effect of any action by the merged firm be sufficient to reduce competition in the affected market to the extent that, in the context of the market in question, it gives rise to an SLC?

4. The considerations relevant to each issue may overlap. Our Guidelines state that all three questions must be answered in the affirmative in order for an SLC finding to be reached.

RadioCentre/RAJAR

5. RadioCentre is the commercial radio industry's trade body and works with government, policymakers and regulators on topics such as digital switchover and DCMS policy consultations, as well as providing a forum for industry-wide discussion and debate. One of its roles is to raise the profile of commercial radio with advertisers and their agencies through the Radio Advertising Bureau (RAB). RAB was set up to promote the merits of radio to advertisers, to advise radio stations on matters such as how to make their schedules more attractive to advertisers and agencies, and to act as an advisory service to advertisers. It also negotiates on behalf of the commercial radio industry with music licensing bodies such as the Performing Right Society. RadioCentre said that it also worked with the radio stations themselves, helping them to maximize the potential of their businesses. The Radio Advertising Clearance Centre (RACC), which is the industry's self-regulatory body for clearing advertisements prior to broadcast, is responsible for ensuring that stations comply with the Broadcast Code of Advertising Practice and is also part of RadioCentre. RadioCentre has a 50 per cent shareholding in RAJAR and has interests in a number of other industry bodies, notably Radioplayer and UK Digital Radio (see below).

6. RAJAR is a 50:50 joint venture between the BBC and RadioCentre that is responsible for measuring radio audiences in the UK. There are over 300 radio stations on the survey. It is a not-for-profit organization and the costs related to the annual delivery of the service are matched by an annual fee levied to the BBC and a charge to licensed radio stations that reflects the varying cost of the different sized total survey areas (TSAs) that require surveying. The charges for commercial stations are approved by RadioCentre.

7. RAJAR data is relied upon by the advertising industry for the planning of campaigns and for purchasing airtime. All parties consider RAJAR data to be crucial 'currency' for attracting advertisers. RAJAR commissions specialist external research contractors to carry out the research survey on its behalf for a defined period. The research specification and the accepted costs of delivering the service are set by the RAJAR board after input and consultation with the executive, its technical advisers and wider industry stakeholders. Any material change to the technical specification of the service will be taken to the RAJAR board for agreement only after prior discussion by the Technical Management Group. This is a committee chaired by RAJAR and made up of the RAJAR executive, technical research experts from within the BBC and commercial radio groups, the IPA, the commercial radio technical consultant and the research contractors.

8. RAJAR said that it was formed along similar lines to that of its counterparts in other sectors, for example: television (Broadcasters' Audience Research Board), newspaper (National Readership Survey) and out-of-home industries (Poster Audience Research), in that it was a joint industry committee ensuring industry alignment and collective buy in to its measurement methodologies and service. It also said that its independence of any single stakeholder's interest was fundamental to its integrity so that its output was objective, trusted and valued. The voting structure of the board and general meeting was designed to deliver this.[1]

Views of third parties

9. A number of third parties argued that Global might use its greater influence in relation to RadioCentre to ensure that its interests dominated, although this view was not expressed by all interested parties. Competitors' key concern related to Global's incentives, via its shareholding in RadioCentre, to influence RAJAR's strategy. Third parties speculated that Global would rebrand to create and extend quasi-national networks and it has been suggested that this would lead Global to focus purely on matters of interest to national networks.

10. In particular, Bauer [✂].

11. It was argued that, as a result of the merger, Global was likely to have less interest in the continuation of RAJAR's local audience monitoring, which was expensive, and accordingly Global might use its influence in RAJAR to reduce the size of the samples taken, which would undermine the reliability of the data used for local measurement. A partial or full withdrawal of RAJAR from small station surveying would prevent local stations from being able to sell advertising as effectively due to a lack of reliable audience figures, thereby threatening their commercial viability.[2] Third parties told the OFT that there would also be prejudice to smaller stations if a two-tier system were to emerge as such stations would find it very difficult to trade their airtime if the audience measurement systems were different at a national and regional/

[1] RAJAR.
[2] Bauer Ofcom submission. [✂]

local level. In such circumstances, the likelihood is that the major advertisers would simply look at the one with the greater scale as the more robust.[3]

12. UTV said that it had resigned its membership of RadioCentre because RadioCentre's strategy and input to policy were already dominated by Global.[4] Bauer noted that there was no documentary evidence at board level of Global being outvoted by other members of RadioCentre because decisions were made via negotiation and agreement prior to the need for a vote. [✂] said that there had been situations where RadioCentre had opted to be the 'mouth piece' of the Global view and therefore other companies went on to submit independent papers reflecting their own views. In that regard, [✂] gave some examples of potentially controversial issues that could be influenced by Global at the expense of other radio operators in future: aiding the migration of smaller stations to DAB and the development of RAJAR to survey IP-based radio. [✂] was also concerned that [✂]. By contrast, [✂] noted that it had not felt the need to raise any concerns in this respect with RadioCentre up to now, although it had some concerns about how the position might change following the merger.

Global's views

13. Global [✂] said that RadioCentre worked as a voluntary trade body for commercial radio stations and therefore that decisions were taken by consensus which did not always entail unanimity. Global also said that it did not use its majority shareholding to weight the board in its favour.

14. Global said that it could not recall any RadioCentre matter coming to a formal board vote as anticipated by the Articles of Association. In practice, consensus of the RadioCentre board was sought by the CEO, clearly applying a higher threshold than the Articles of Association. If a vote were required, with only three out of 11 seats on the board, Global would not be able to outvote the other board members. Members may choose to leave, as UTV had done,[5] if they felt that their interests ceased to be adequately represented. However, Global noted that this would undermine RadioCentre's viability.

15. RadioCentre's shareholders have no role in RadioCentre's appointment of the three RAJAR directors. RadioCentre's underlying rationale is to appoint one senior programmer, one senior commercially-orientated individual, and the RadioCentre CEO who was to represent all commercial radio members.[6]

16. Global also said that it did not have the ability to influence RAJAR's strategy via RadioCentre, nor the incentive to change RadioCentre/RAJAR strategies after the merger, for the following reasons:

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[3] [✂] noted a risk that the BBC might seek to leave RAJAR if it became frustrated with the way in which Global exercised influence in relation to RAJAR. The BBC has not expressed any inclination to do so.

[4] UTV compared the acquisition by Global of more than a 50 per cent stake in RadioCentre with the acquisition by Capital Radio plc of more than a 50 per cent stake in Radio Advertising Bureau following the purchase of GWR Group plc. UTV argued *(a)* that Capital Radio plc sold down its stake below 50 per cent because of the perception that no company should control more than 50 per cent of the shareholding in a trade body such as Radio Advertising Bureau; and *(b)* that Global was the first radio company to insist on holding multiple seats on the board of RadioCentre. RadioCentre management stated on these matters that *(a)* its understanding was that Capital Radio plc sold down its stake in order to remove the requirement to report Radio Advertising Bureau as a subsidiary company, and that *(b)* the RadioCentre Articles of Association do not dictate a fixed number of board seats either in total or by group (see paragraph 22).

[5] Global said that UTV and UKRD left RadioCentre because they wanted to lobby against the Digital Economy Act, whereas the remaining RadioCentre members supported the Digital Economy Act (including RSL, Bauer, TIML, Lincs FM, KMFM and Quidem). According to Global, UTV did not agree with the consensus of RadioCentre.

[6] As a result, the three RadioCentre seats on the RAJAR board are currently filled by Richard Park (Global), one of the industry's leading programmers; Dee Ford (Bauer Radio) for her commercial background; and Andrew Harrison, the CEO of RadioCentre.

(a) Within RadioCentre, the merged entity would only have three directors out of 11 [✂]. As RadioCentre's Articles of Association state that board decisions are passed by a majority vote, Global is not able to direct RadioCentre's strategy at this level. In practice, decisions to appoint or remove board representatives, including the CEO, are passed by consensus.

(b) RAJAR is structured as a 'deadlocked' company, which means that any decision (at board or shareholder level) requires the approval of both of its shareholders, RadioCentre and the BBC. Indeed, any decisions taken by the RAJAR board require the approval of *all* the member directors present. Therefore RadioCentre —and Global—has no ability unilaterally to affect RAJAR's strategy. The merger will not change this structure. Global does not have any incentive to change RAJAR's and RadioCentre's strategies after the merger, as its interest is to maintain the viability of RadioCentre and RAJAR as trade bodies as a whole. From a commercial point of view, although RAJAR has an incentive to operate its business cost-effectively, RAJAR has a much stronger countervailing incentive to ensure that the industry's audience measurement system—which is the 'trading currency' for commercial radio—remains robust and accurate thus retaining the full confidence of agencies and advertisers. Any loss of advertiser or agency confidence in RAJAR, or negative publicity regarding any proposed change to its methodology, would be highly damaging to Global's interests.

17. Global also said that from the period before the Global/GCap merger until now, there had been no changes to the amount of surveying carried out by RAJAR with respect to the total geographic areas surveyed (ie the whole of the UK). Instead of reducing the extent of small station surveying, RAJAR had recently decided to increase sample sizes in the 15 to 34 age group. As far as Global was aware, RAJAR currently had no strategy to partially or fully withdraw from small station surveying and any such change could ultimately only be made by the RAJAR board.

18. Global noted that stations themselves selected the TSA in which they wished to be surveyed. From its own perspective, as a result of regulatory changes permitting local stations to co-locate to create larger regional stations, some regional stations that were once surveyed as separate local stations were now surveyed as one larger station (eg Capital East Midlands and Heart North-West and Wales).

19. In terms of the suggestion that it would otherwise have the incentive to increase rivals' costs through the adoption of the strategies suggested above, Global argued that this would not be profitable as it would be unlikely to attract a sufficient number of advertisers who might be lost to the smaller, local stations as a result. Global said that its stations would not be close competitors to small, local radio given its national/ quasi-national brand portfolio.

Governance

RadioCentre

20. Prior to the acquisition of RSL, Global held nearly 58 per cent of the voting rights in RadioCentre and had the ability to exercise decisive influence, including formally through the ability to appoint (or remove) any director.[7] The acquisition of RSL's additional 3.7 per cent interest does not materially affect this position.

[7] Any decision to appoint a director may be taken by a shareholder who holds a majority of the voting rights or a simple majority at general meetings (as well as by the directors of RadioCentre themselves).

21. To date, appointments to the board have been made by consensus among the RadioCentre directors.[8] Global and RSL are currently represented on the board by two and one directors respectively, out of 11. Global told us [✂].

22. RadioCentre's Articles provide that 'in appointing directors, the Company shall take proper account of the shape and ownership of Commercial Radio stations in the UK and ensure that the board of directors is broadly representative of all Association member stations'.[9]

23. The merger does not appear to change Global's position materially in terms of RadioCentre's governance, in particular by reference to its rights as a member and its representation on the board of directors relative to other members. While currently it has a lower board representation relative to its shareholding, in practice decisions are made by consensus, and formally, there would appear to be nothing to prevent Global from seeking greater influence in this respect. Nevertheless, we consider that it is relevant to take into account the requirement in RadioCentre's Articles that its members must ensure that the board of directors is broadly representative of all association member stations. Further, although Global may have a greater incentive to use the rights it already possesses to influence RadioCentre's strategy and the positions it adopts in relation to third parties, there is force in the argument that a trade association that ceased adequately to represent the wider commercial radio industry would become unviable. There was not evidence to suggest that, as a result of the merger, Global will seek to exert a materially greater influence over RadioCentre than it did prior to the merger.

RAJAR

24. RAJAR's Articles of Association provide that the members—RadioCentre and the BBC—are entitled to appoint two directors per member ('member directors'). In practice both the BBC and RadioCentre appoint three directors. The BBC and RadioCentre have agreed that a principal director for each will be the CEO of Radio Centre and the Director of Audio and Music of the BBC respectively. The members jointly appoint an independent chairman of the Board of Directors. RAJAR said that the current RAJAR board comprised: a jointly-appointed independent chairman; a jointly-appointed CEO; and three directors appointed by each member. Specifically in relation to commercial radio, the directors are the CEO of RadioCentre and the two directors appointed by RadioCentre, currently a Global representative and a Bauer Media representative. In addition, representatives of ISBA attend board meetings as observers but without voting rights.

25. A board meeting is only quorate if at least four directors are present, including one member director for each member plus the chairman. All board decisions require the agreement of all member directors appointed by RadioCentre and all member directors appointed by the BBC who are present at the relevant board meeting. In the event that there are more directors present at the board meeting representing one of the members, the voting rights of the member with fewer directors is given a value such that the total votes are equal to those of the other member's directors.

26. It is not clear the extent to which any greater influence that Global may be able to exert over RadioCentre may translate into greater influence on RAJAR than Global has today. RAJAR is a deadlocked company; the BBC can block any initiative that may favour the enlarged Global group. Further, Global can already veto any decision

[8] Board decisions are taken by a majority of votes.
[9] Article 14.5 of the Articles of Association.

of the board as one of RadioCentre's representatives on the RAJAR board. Bauer is in a similar position as the other RadioCentre representative.

27. We note that any change would risk undermining the existing broadly consensual arrangements within RadioCentre and RAJAR.

Radioplayer and UK Digital Radio

28. Radioplayer is a not-for-profit company jointly owned by the BBC and commercial radio partners to promote digital radio listening. It provides the industry's agreed shared platform for online streaming in which both Global and RSL have share-holdings (28 per cent jointly). Radioplayer has devised a model based on 'shared standards' across the UK radio industry. Its initiatives have led to a common interface for radio on desktop computers, which launched across all BBC stations and 157 Ofcom-licensed stations in 2011, now grown to 346 stations, including community radio and student services. All major stations (both BBC and commercial licensed stations) are subscribers to Radioplayer and stream their content on the Radioplayer platform. Radioplayer is now focusing on mobile platforms and launched applications for radio listening on Apple and Android devices in early 2012.

29. UK Digital Radio is the marketing body for digital radio in which Global and RSL are principal members (holding 17 per cent of the voting rights jointly). Arqiva, Bauer, RadioCentre, Absolute and the BBC are also principal members. UK Digital Radio promotes wide access to, and the use of, digital radio throughout the UK.

Views of third parties

30. With respect to Radioplayer, it has been argued that, as a result of its increased shareholding, Global will have a significant ability to influence the governance and strategy of this platform, including the tariffs paid by other commercial stations and the placement of commercial inventory. With respect to UK Digital Radio and [Competitor A] argued that Global Radio and RSL were two of only four commercial radio broadcasters that were members of UK Digital Radio and, therefore, together they would be able to hinder the growth of digital radio in the UK.

Global's views

31. Global argued that participation in Radioplayer and UK Digital Radio was voluntary. These bodies acted for the benefit of the radio sector as a whole (including the BBC, commercial radio and community radio) and Global currently had no incentive to influence or control these entities for its own benefit to the detriment of others. Global said that its incentive in this respect would not change as a result of the merger. Radioplayer was an open platform available to all licensed stations, and not just to its members—non-members could also join the platform.

32. Global also questioned what the likely consumer harm would be even were it to obtain greater influence.

Governance

33. The voting rights of members at the general meeting of both Radioplayer and UK Digital Radio are directly linked to the annual financial contribution made by each member to the company. Members therefore already have the ability to seek to change their relative representation through a greater or lesser financial contribution.

However, any amendment to the financial contribution (and voting rights attached thereto) would require a unanimous decision of the members in Radioplayer and a majority decision of the members in UK Digital Radio.[10]

34. The BBC holds 50 per cent of the voting rights in both bodies and, therefore, any resolution of the general meetings of Radioplayer or of UK Digital Radio requires its consent. We have seen no evidence to suggest that the BBC's financial contribution is likely to change materially such as to impact on its relative position vis-à-vis other members.

35. The merger would give Global 28 per cent of the voting rights in Radioplayer, giving it the ability to veto special resolutions, including key strategic decisions and the budget.[11] These rights are mirrored at board level and any board decisions require all the directors to be present. Decisions to admit new members, to change the Articles of Association or to change individual members' contributions (and consequently their voting rights) require unanimity.

36. In relation to UK Digital Radio, the merger would not have a material impact on Global's current voting rights, which would increase by 6 per cent to 17 per cent.[12] Each member can appoint a maximum of one or two directors to the board depending on their annual contribution. Global and RSL representatives would not be sufficient to constitute a quorum.[13]

Independent Radio News

37. IRN provides national and international news content, including news audio clips and news scripts, to 284 subscribing commercial analogue stations and 15 digital stations.[14] IRN's total net revenue in the year to March 2012 was £[✂].[15] Global describes this product, Newslink, as '… a solus ad during each news bulletin on the hour between 6am and 1pm. One spot alone can reach 7 million people in one hit, giving total, national, broadcast coverage'.[16] IRN's editorial board includes individuals from the major radio groups, which are represented by their Group Heads of News. IRN does not produce news content independently and its main supplier is Sky News [✂].

38. Commercial radio stations receive the IRN service in exchange for providing an advertising slot immediately before or after the news bulletin between 6am and 1pm. IRN sells this airtime through an appointed sales agent which is currently Global [✂]. RSL has no shareholding in IRN, although it does participate in the Newslink arrangements.

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[10] The five core partners in Radioplayer pay an annual 'service charge' in proportions directly linked to their voting rights at board level. Each participating station/licensee pays an annual licence fee relative to its size to offset the operating costs of the company. A member can resign with effect from the end of the current financial year if it does not approve the budget for the following year. Membership may also be terminated if, for example, the board considers (in its absolute discretion) that the continued membership of that member is against the interests of the majority of the company's members or the member ceases to qualify for membership under the criteria set out in the Articles.
[11] The other shareholders are RadioCentre with 11 per cent and Absolute with 11 per cent.
[12] RadioCentre holds 3 per cent of the voting rights.
[13] Currently, Global and RSL have two and one directors respectively out of nine.
[14] www.irn.co.uk/ContactUs.aspx.
[15] [✂] per cent of Global's total net revenues.
[16] www.thisisglobal.com/radio-sales/newslink-big-top-40/.

Views of third parties

39. Some competitors and advertising agencies have raised concerns that Global would, as a result of the merger, have direct control over an increased share of the IRN audience [✂] which would materially increase the value of its airtime and its confidence that it could negotiate attractive terms with IRN. The OFT noted the concerns of third parties that the merged entity therefore would have the ability to vary commercial terms relating to Newslink, namely *(a)* to increase the level of commission it extracts as sales agent for the inventory; and/or *(b)* to vary the rebate terms to stations pooling inventory into Newslink.

40. Third parties also put to us that Global may now have greater incentives to seek to bundle sales of Newslink with sales of its other inventory.

41. [Media Agency A] suggested that the sales agency agreement between Global and IRN heightened its concerns about the merged group being unavoidable for advertisers seeking national coverage for their campaigns in that Newslink provided a viable alternative for buying around any given radio group given the volume of inventory committed across radio groups.[17] Whereas prior to the merger, RSL was a separate radio media group, and separate from Global in the context of a third party network sale, now Global had an extra 10 to 12 per cent of the radio network under its direct ownership or influence in the context of this and other network packages.

42. This third party also argued that rivals would be unlikely to be able to provide a viable alternative to customers requiring national coverage.

43. [✂]

44. We were also told that Global could credibly threaten to 'leave' IRN to increase its leverage further. Currently, small stations can purchase news content at a relatively low cost. Should Global leave IRN, the remaining subscribers would then likely be faced with the option of either:

    (a) ceasing to provide news content which would likely result in lower audience figures, resulting in lost advertising revenues, or

    (b) sourcing news content from an alternative provider to IRN at an increased cost, which would result in reduced profitability.

Global's views

45. Global holds 55 per cent of the voting rights in IRN and RSL is not a shareholder.

46. In its submissions to the CC, Global noted that:

    (a) it had always represented IRN without objection on the part of the other IRN members;[18]

    (b) [✂]; and

    (c) it could not unilaterally amend the rebate arrangements[19] [✂].

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[17] [Agency A] said that Newslink (and BT40, see below) were attractive to advertisers whether the agency was at the time in a contract with Global or not, because these syndicated networks offered a unique audience or a mass audience.
[18] Global also noted that it sold the relevant airtime predominantly to agencies rather than to direct customers.

47. [✂][20] Global also noted that a subscriber station may [✂] contract with Sky for the provision of the same news service. The merger does not change parties' rights in this respect.[21] It noted further that a station that was not currently a subscriber to IRN was not obliged to become a subscriber and was free to source the same news service directly from Sky. This was also not affected by the merger.

48. Global said that it had no incentive to change the way IRN operated, and it had no plans to leave IRN as it would achieve less revenue by doing so. Further, it said that it had never bundled sales of Newslink with its airtime sales and had no intention or interest in doing so after the merger.

Governance

49. There is no change to the corporate structure or organization of IRN as a result of the merger since RSL is not a shareholder. The other shareholders are Bauer (22 per cent), ITN (20 per cent) and UTV (3 per cent). Further, Global does not have the ability to amend [✂] unilaterally, and although it remains in a position to block any changes proposed by others, this has not changed as a result of the merger.[22]

50. Currently Global is represented on the board of IRN by two directors out of seven. The board is quorate with three directors and resolutions are decided by a majority of votes.

51. The merger does not change Global's ability to exercise control over IRN because RSL is not a shareholder, although it does participate in the Newslink arrangements. In terms of the principal concern expressed by third parties, that Global would be able to increase the rate of its commission or vary the terms of the rebate allotted to it under the Newslink sales arrangements, we note that Global does not have the requisite majority to secure such a change. There was not evidence to suggest that IRN would consent to a sales agency arrangement that permitted Global to bundle Newslink sales with the sale of its own airtime or to offer incentives to do so.

52. Global told us that [✂].

The Big Top 40 show

53. Global produces BT40, a syndicated Sunday afternoon programme, and contracts with radio groups which agree to broadcast BT40 as the weekly chart show on their radio stations. In return, Global has the sole right to sell all commercial activity (eg advertising and S&P) relating to BT40 for a [✂] per cent commission. Global established BT40 in 2009 in the context of its repositioning of the Capital brand. Global achieved revenues of £[✂] in the 2011/12 financial year, [✂] per cent of its total net revenues. Global said that it had currently entered into BT40 agreements with [✂] radio groups, [✂] of which commenced in [✂]. This show is transmitted on [✂] local radio services. [✂]

Views of third parties

54. Some competitors argued that Global could credibly threaten to discontinue BT40 in order to further increase its leverage over advertisers. The remaining subscribers

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[19] Pursuant to subscriber agreements, IRN may [✂].
[20] [✂]
[21] [✂]
[22] With 55 per cent of the voting rights, Global can already appoint and remove directors. [✂]

would then likely cease to broadcast BT40, which would likely result in lower audience figures, resulting in lost advertising revenues.

Global's views

55. Global noted that a radio group might [✂].[23] Global argued that the merger would have no effect on the term and termination rights provided for in BT40 agreements. It also noted that a radio station or group had no obligation to sign up to BT40 arrangements. Global noted that the [✂],[24] and there was no change as a result of the merger.

56. [✂][25]

[23] Under the earlier agreements, [✂].
[24] [✂]
[25] [✂]

Trends in Global's audience, revenue, advertising minutes and prices since the Global/GCap merger

Introduction

1. This appendix sets out our provisional analysis of trends over time affecting the radio stations currently owned by Global. As far as possible, we have compared these with trends affecting all commercial radio stations in order to control for factors affecting the commercial radio sector as a whole.

Stations currently owned by Global

2. We understand that the stations currently owned by Global fall into three categories:

   (a) stations owned by Global prior to Global's 2008 merger with GCap;

   (b) stations owned by GCap prior to Global's 2008 merger with GCap; and

   (c) Atlantic Radio, which was acquired by Global in 2012 and rebranded as Heart Cornwall.

3. Our understanding of the rebranding that occurred following the merger with GCap is as follows:

   (a) Between January 2008 and June 2009, most of GCap's 'The One Network' of locally-branded stations were rebranded as Heart (prior to the merger, Global had Heart-branded stations only in London and the West Midlands).[1] Two other stations (also previously part of GCap's 'The One Network' of locally-branded stations) were rebranded as Heart in July 2010.[2]

   (b) In January 2011, the Capital network was created. This consisted of Capital Radio in London, the then Galaxy-branded stations[3] and the remaining four locally-branded stations (which had also been part of GCap's 'The One Network').

Audience

4. Radio audience is measured in two main ways: through total hours of listening and through reach (the number of people listening for at least 5 minutes, within at least one 15-minute period, in a given week). Both total listening hours and reach are measured by RAJAR.[4] RAJAR data is available quarterly and shows the total number of hours of listening and average weekly reach for participating stations and groups of stations.

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[1] Global also had Heart 106, though that station was divested to Orion which initially operated it under licence and rebranded it in January 2011 as Gem 106.
[2] A further station (Heart Hertfordshire) was also added to the Heart network. Heart Hertfordshire is not operated by Global; it is owned and operated independently under a brand and programme licensing agreement with Global.
[3] Some of these were former Global stations and two were GCap stations in its One Network group which Global had previously rebranded as Galaxy.
[4] RAJAR data covers listeners of 15 years and over.

5. Global said that its experience had shown that rebranding radio stations with a single well-recognized brand across multiple regions and investing in differentiating each network so that it delivered a consistent and high-quality radio service to its core audience could significantly increase audience figures. Global told us it had succeeded in increasing the weekly reach of its station portfolio by approximately two million since the GCap acquisition.[5]

6. Bauer disagreed with Global's submission on this matter. Bauer said that it was mis-leading for Global to say in its submission to us that it had succeeded in attracting two million more listeners since the GCap merger. Bauer said that due to the way reach was measured, networking stations under a common brand, as Global had done, could appear to give the impression of increased reach even if real reach had not actually changed. Bauer said that, in addition to examining reach, it believed we should also examine total listening hours and average hours of listening.[6]

7. In this appendix, we consider trends in total listening hours and in reach.[7] We consider total listening hours first.[8]

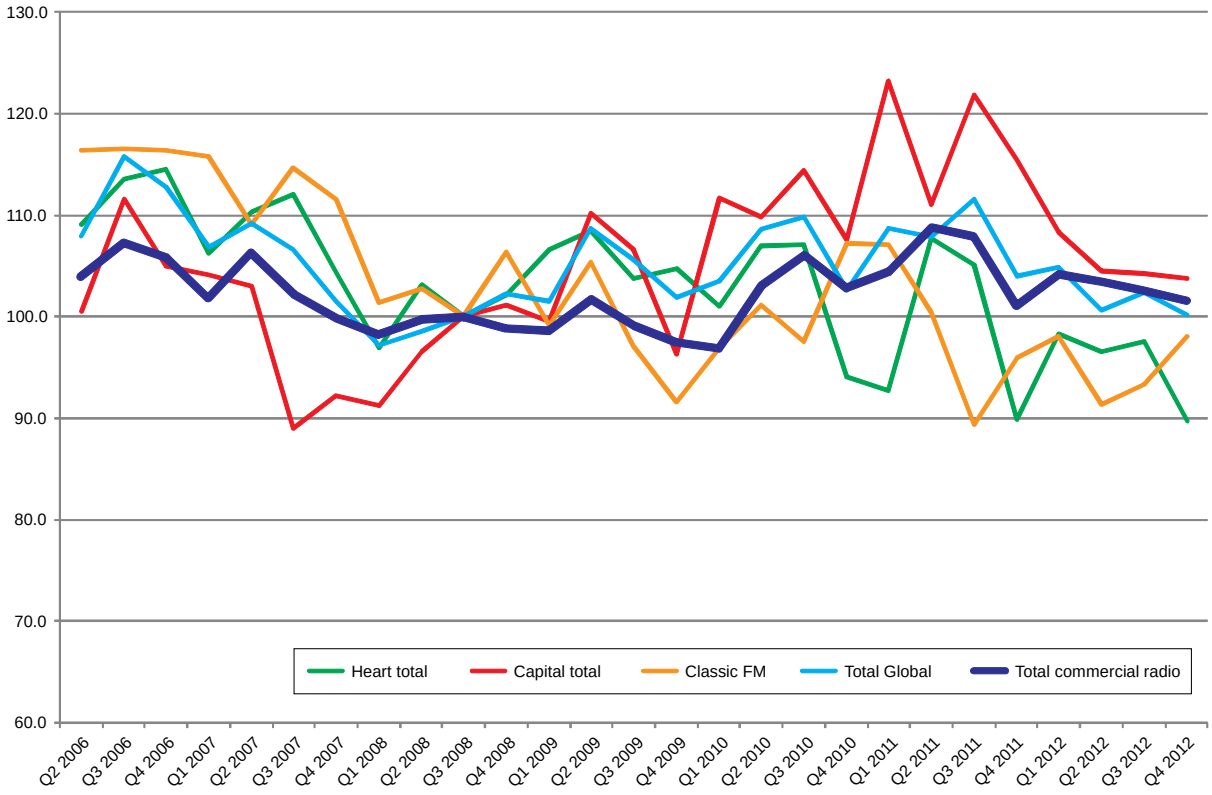
Listening hours

8. Figure 1 shows trends in listening hours of the radio stations now owned by Global and total listening hours of all commercial stations. The figure shows total listening hours of Global's main current brands (Heart, Capital, Classic FM) and the total for all Global stations (including Global's other brands—Xfm, LBC, Gold and Choice). In order to ease comparison, data is indexed to Q3 2008=100 (the Global/GCap merger was cleared subject to undertakings on divestments by the OFT in August 2008, ie midway through Q3 2008).

[5] Global initial submission.
[6] Bauer's response to Global's evidence to the CC.
[7] We consider that it is not necessary to have a separate discussion of average hours of listening per listener. As discussed below (see paragraph 12), the trend in average hours of listening per listener reflects the difference between the trend in reach (number of listeners) and the trend in total listening hours.
[8] Figures in this appendix for the total audience of all commercial radio stations are as published by RAJAR. Figures for Global and for Global brand are not necessarily as published by RAJAR since they reflect current station branding and ownership, rather than that at the date of publication, and cover a single RAJAR wave (approximately 3 months) whereas published RAJAR figures may reflect a 6 month average.

FIGURE 1

Trends in listening to radio stations now owned by Global, Q3 2008=100



Source: CC calculations of listening hours in each quarter based on RAJAR data.

9. Figure 1 shows somewhat different trends for different Global brands. Relative to the total for all commercial stations, listening hours for Heart increased following the merger with GCap, but in the last two years have fallen back; listening hours for Capital increased over a longer period than those of Heart, but fell back during 2012; and listening hours for Classic FM have declined.

10. We put an earlier version of this comparison to Global for comment and it made a number of points, including the following:

(a) Global said that, in the period since the GCap merger, listening hours of its stations had increased significantly faster than the commercial sector as a whole (including Global's stations).

(b) Global said that the performance of its stations other than Heart and Capital was irrelevant to an assessment of whether Global's rebranding strategy had been successful.

(c) In Global's view it was more appropriate to compare the performance of the Heart and Capital stations with that of: the rebranded stations prior to rebranding; and other local and regional commercial stations during the same period.

(d) Global said that the appropriate benchmarks to assess the rebranding of the Heart and Capital stations were other local and regional commercial stations, not

national commercial stations (which had benefited from the growth in digital take-up and listening).[9]

11. Our observations on these points are as follows:

(a) Our comparison does not suggest that the listening hours of Global stations increased relative to those of all commercial stations over the period, Q3 2008 to Q4 2012. As illustrated in Figure 1, there was some increase immediately following the Global/GCap merger but subsequently listening hours of Global stations fell back.[10] In relation to individual brands, we agree that since the Global/GCap merger the performance on listening hours of Capital stations has been significantly better than that of other commercial radio stations, though we also note that the outperformance of Capital stations pre-dated the 2011 Capital rebranding exercise and that Capital's outperformance has reduced during 2012. We do not agree the evidence shows that Heart stations have outperformed on listening hours since their initial outperformance after the Global/GCap merger has fallen back; while we note that Classic FM has significantly underperformed on listening hours compared both with all commercial stations and with national commercial stations.

(b) The performance of non-rebranded stations may be relevant if they are affected by the rebranding, for example if management resources are devoted dis-proportionately to the rebranded stations the performance of other stations may deteriorate.

(c) We agree that the performance of the rebranded stations prior to rebranding may be relevant, though it cannot be assumed that pre-existing trends would have continued indefinitely. In practice, we believe there are difficulties in ensuring consistency the further back that any comparison is extended, and it is also unclear whether Global's comments relate to a comparison before and after the Global/GCap merger, or one before and after rebranding.

(i) If the comparison is before and after the Global/GCap merger, it is logical to look at all stations involved in the merger. Figure 1 includes the pre-Global/GCap merger trend in listening hours (Q2 2006 to Q3 2008) and suggests that during this period the listening hours of most stations now owned by Global were declining relative to all commercial stations.

(ii) If the comparison is before and after rebranding, it is logical to look only at stations involved in the rebranding, but to do so before and after the date of rebranding. Figure 1 shows that much of the increase in listening to Capital stations took place prior to the 2011 rebranding.

(d) There are likely to be a variety of underlying drivers of radio stations' performance and comparison, but we agree that a comparison of Global's local stations with local commercial stations (as well as with all commercial stations) may be relevant. Since the listening hours of local commercial stations declined relative to all commercial stations, the relative performance of Heart and Capital stations are better on this basis (though the performance of Classic FM is worse relative to national commercial stations than to all commercial stations). Comparing

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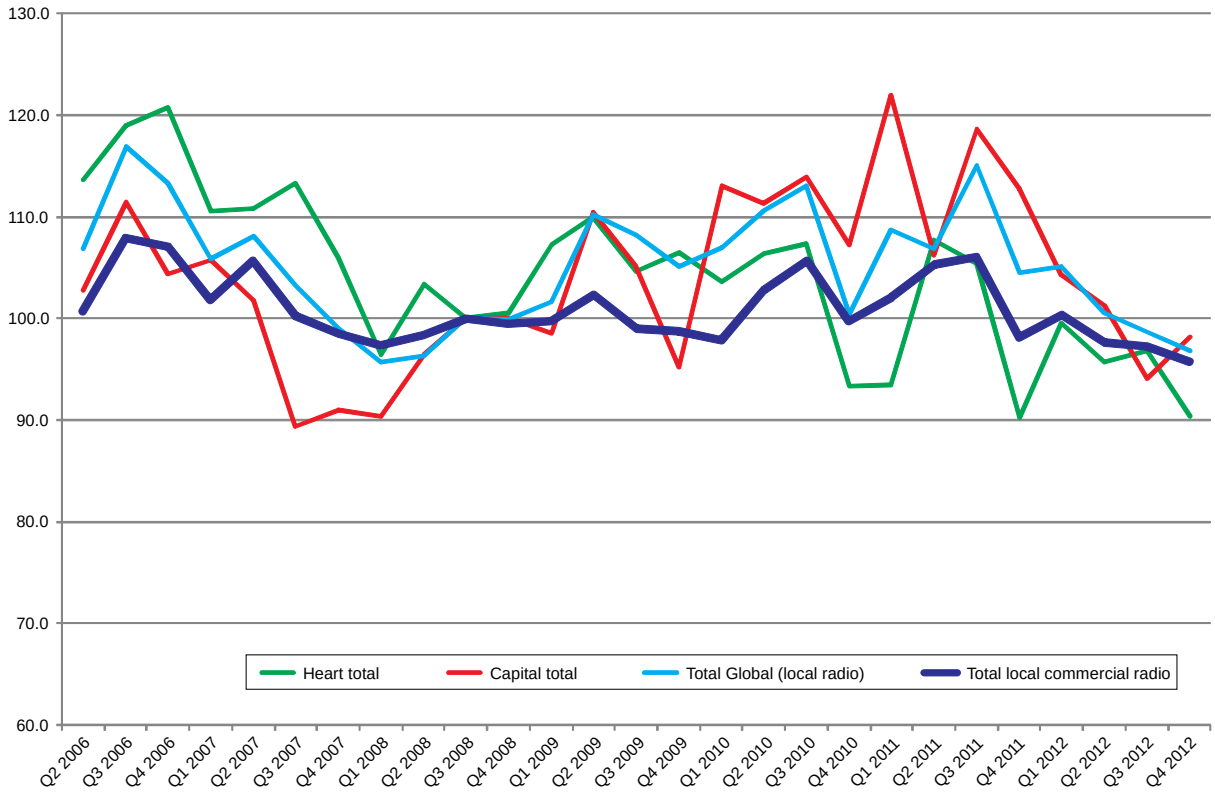
[9] Global noted that national DAB coverage was significantly greater than local DAB coverage (circa 90 per cent vs circa 66 per cent of the population), so local and regional stations on DAB were disadvantaged due to weaker technical coverage.
[10] Global calculated slightly different figures, which showed listening hours of its stations increasing by 1 per cent relative to all commercial stations over the period Q3 2008 to Q3 2012. We do not think this can be described as a significantly faster increase.

calendar 2012 with the 12 months ending Q3 2008,[11] the listening hours of Heart stations decreased by 5 per cent relative to local commercial stations (decline of 9 per cent relative to all commercial stations) and the listening hours of Capital stations increased by 12 per cent relative to local commercial stations (increase of 7 per cent relative to all commercial stations). For the same period, the listening hours of Classic FM declined by 21 per cent relative to national commercial stations (decline of 12 per cent relative to all commercial stations). In relation to comparisons of local stations, there is an argument for excluding out-of-area listening and Figure 2 shows a further comparison of listening to local stations in their TSAs (ie excluding out-of-area listening). The growth in listening to Global's stations is lower when out-of-area listening is excluded. Overall, Figure 2 shows a similar pattern to Figure 1 with Global stations outperforming all local stations after the GCap merger and then falling back.

FIGURE 2

Trends in listening in their TSAs of local radio stations now owned by Global, Q3 2008=100



Source: CC calculations of listening hours in each quarter based on RAJAR data.

Reach

12. Trends in reach may differ from trends in listening hours if people listen for more or fewer hours per week to a station or group of stations. Unlike with listening hours, the reach of a group of stations is not necessarily the same as the total of the reach of the individual stations within the group (because some people may listen to more

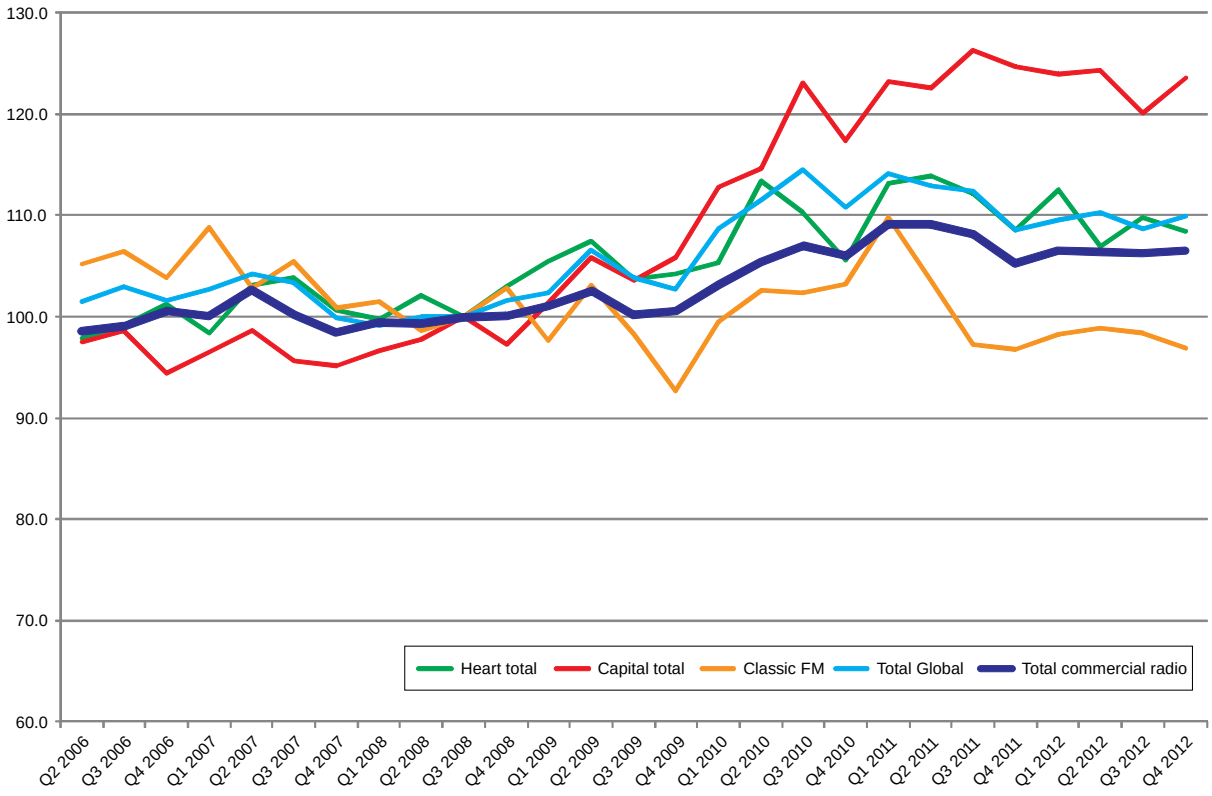
[11] We make comparisons between 12-month periods as there is significant quarterly variation (see Figure 1). Figures include out-of-area listening.

than one station within the group of stations). This is particularly relevant when considering a wide group of stations, such as all commercial stations.

13. Figure 3 shows trends in reach of radio stations currently owned by Global compared with the reach of all commercial radio stations.

FIGURE 3

Trends in reach of radio stations now owned by Global, Q3 2008=100



Source: CC calculations of reach in each quarter based on RAJAR data.

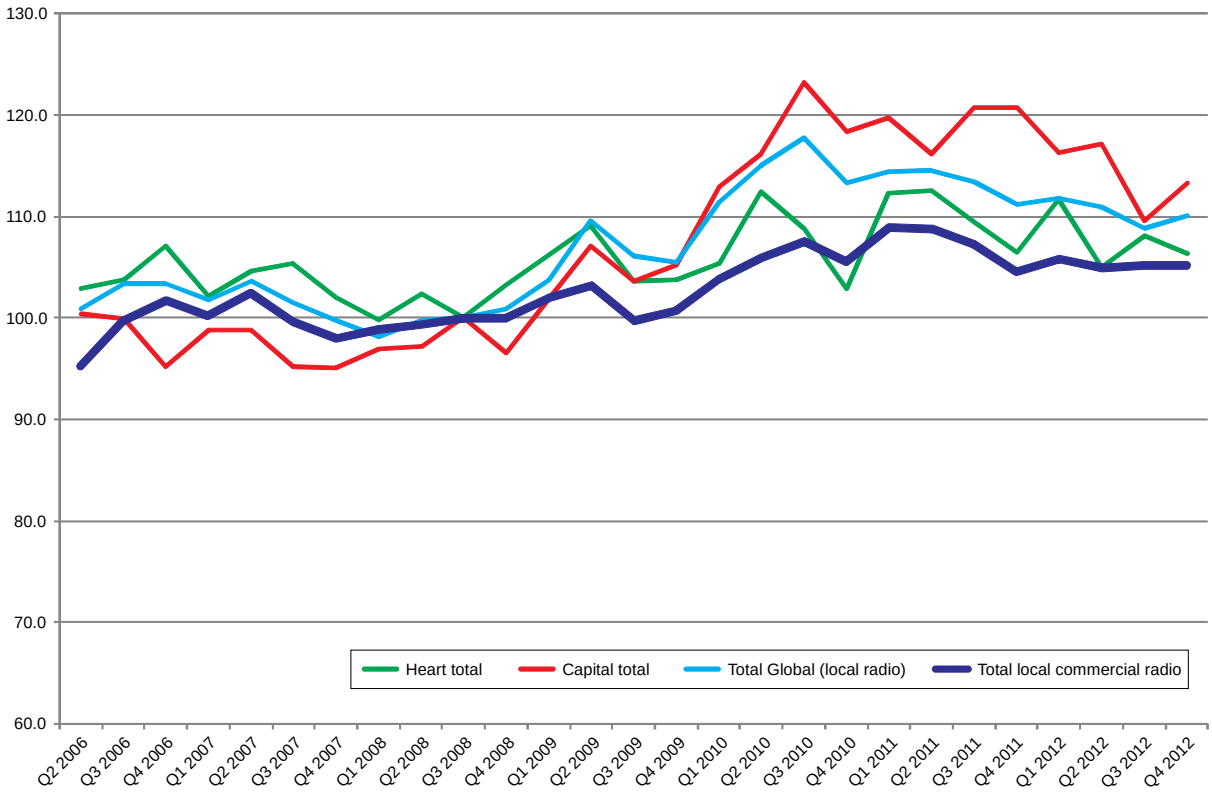
14. Figure 3 shows that the reach of Global stations has increased faster than that of all commercial stations. The reach of Capital stations increased substantially faster than that for all commercial stations, the reach of Heart stations also increased slightly faster than for all commercial stations, while the reach of Classic FM declined relative to all commercial stations. Overall, the reach of Global stations has increased relative to all commercial stations. We considered whether the relative increase in reach of Global stations might just reflect a general tendency for people to listen to more stations for fewer hours per week[12] but thought this was unlikely to explain much of the relative increase—we noted that the sum of the reach of all individual commercial stations did not seem to have increased much relative to their combined reach.

15. Figure 4 shows the reach of Global's local stations in their TSAs compared with the reach of all local commercial stations in their TSAs.

[12] If there is a general trend of consumers listening to more stations for fewer hours per week and some listeners to commercial radio stations do not listen to any Global station, the total reach of Global stations will increase relative to the total reach of all commercial stations even if the reach of each individual Global and other station increases at the same rate.

FIGURE 4

Trends in reach in their TSAs of local radio stations now owned by Global, Q3 2008=100



Source: CC calculations of reach in each quarter based on RAJAR data.

Observations on trends in audience measures

16. Since Global's stations appear to have performed better relative to all commercial stations on reach than listening hours, we considered whether listening hours or reach were more relevant as a measure of performance.

(a) In relation to listeners, it seems to us that it is total listening hours that matter. We can see no reason why, for example, 20 listeners listening for 5 hours per week (reach of 20, hours of 100) are more valuable than 10 listeners listening for 10 hours per week (reach of 10, hours of 100). Global disagreed, stating that if a radio station attracted additional listeners to a station as a result of investments in its programming this clearly 'mattered' to listeners—Global said that the listeners had made the choice to tune in to a station that they did not previously tune in to, indicating that they derived more benefit from doing so than they did previously. We accept this point, but it does not explain why more value should be attached to each hour of listening for those who listen a few hours per week than those who listen more hours per week. Hence, as long as we are concerned with listeners, there is no reason to look beyond total listening hours. On this measure, Global stations have overall not performed better than all commercial stations.

(b) On the other hand, it seems to us that advertisers attach value both to total listening hours and to reach (this is reflected, for example, in the fact that RAJAR measures both). Hence, in relation to advertisers, both audience measures are

likely to be relevant, and Global's better performance on reach than listening hours should be taken into account.

Revenue

17. Figure 5 shows trends in airtime and S&P revenue for Global's stations compared with trends for all commercial stations. Figure 5 shows annual rather than quarterly data because Ofcom figures for net revenue of all commercial stations[13] are only available annually; in the light of this we have used 2008=100 in this figure. Also, no Ofcom data is yet available for 2012, so the figure ends at 2011.

FIGURE 5

Trends in revenue of radio stations now owned by Global, 2008=100

[✂]

Source: CC calculations based on data from Global and Ofcom.

18. [✂]

19. [✂] We look below at trends in measures of the amount of advertising on Global's stations (hours of advertising per quarterand price (average CPT), see paragraphs 23 to 28. We are unable to make a comparison with other commercial stations, [✂] (see paragraphs 23 and 24).

TABLE 1 **Trends in listening hours, reach and revenue of Global's stations relative to all commercial stations, 2008 to 2011**

			per cent
	Listening	*Reach*	*Revenue*
Heart total	–8	2	[✂]
Capital total	14	17	[✂]
Classic	–10	–7	[✂]
Total Global	2	3	[✂]

Source: CC calculations based on data from Global and Ofcom.

Note: For each row, the 2011 index for Global stations has been divided by the 2011 index for all commercial stations and one subtracted from the result.

20. Quarterly revenue data for all commercial radio stations up to Q3 2012 is available from RAB; however, the RAB revenue figures include agency commission and certain other costs and are therefore less comparable with the Global figures than are the Ofcom revenue figures. Figure 6 shows a comparison of revenue for Global stations against RAB revenue data. [✂]

[13] Net revenue includes national and local airtime and sponsorship and promotion. It excludes other relevant revenue which is not available for 2007 and 2008.

FIGURE 6

Trends in revenue of radio stations now owned by Global, quarterly data by brand, Q3 2008=100

[✂]

Source: CC calculations based on data from Global and RAB.

Other data for Global stations

21. In this section, we show further analysis covering areas where we have not been able to compare trends for Global stations with those for all commercial stations.

Revenue

22. Figure 7 shows trends for all Global stations by type of revenue.[14] [✂]

FIGURE 7

Trends in revenue of radio stations now owned by Global, quarterly data by revenue stream, Q3 2008=100

[✂]

Source: CC calculations based on data from Global.

Hours of advertising

23. Figure 8 shows trends in the total hours of advertising on Global stations in each quarter year. In order not to attach too much weight to smaller stations, we calculated a weighted average of the change in quarterly advertising hours.[15,16]

FIGURE 8

Trends in advertising hours on stations now owned by Global, Q3 2008=100

[✂]

Source: CC calculations based on data from Global.

24. We also considered trends in advertising airtime impacts. The number of impacts reflects both the trend in the number of hours of advertising sold and in listening (though with a lag because RAJAR listening data is not available contemporaneously). [✂]

[14] The split between type of revenue is not available for all stations prior to Q1 2009.
[15] We used Q3 2008 average revenue per advertising hour as weights. For the period from Q3 2008, this is a base-weighted quantity index for advertising hours.
[16] [✂]

FIGURE 9

Trends in airtime impacts on stations now owned by Global, Q1 2009=100

[✂]

Source: CC calculations based on Global data.

Average prices for airtime (CPT)

25. In this section, we show available data on average CPT. Average CPT is only available for airtime, not for S&P, and represents a weighted average of CPTs across campaigns on a station or group of stations within a period such as a quarter, but the available data does not cover all campaigns (typically it covers about [✂] per cent of revenue). Additionally, CPT data is not available for all stations prior to November 2008, and [✂] (pre-November 2008, average CPT is only available for [✂], not for stations [✂]). In the light of these points, we show the trend for [✂] all stations since Q1 2009.[17]

26. Figure 10 shows average CPT in £ per thousand impacts. [✂]

27. Trends in average CPT may reflect changes in prices paid, in the relative importance of advertising purchases by different customers (average CPT will decline if advertising purchased by lower-priced customers increase relative to advertising purchased by higher-priced customers) and in the relative importance of advertising purchases at different times of day (average CPT will decline if purchases of advertising at low-priced off-peak times increase relative to purchases at higher-priced peak times).

FIGURE 10

Weighted average CPTs for stations now owned by Global, £

[✂]

Source: CC calculations based on data from Global.

28. Data is available separately for contracted and non-contracted CPT (see Figures 11 and 12).[18] [✂]

FIGURE 11

Contracted CPTs for stations now owned by Global, £

[✂]

Source: CC calculations based on data from Global.

[17] [✂]
[18] Classic FM has been omitted from Figure 12 because [✂].

FIGURE 12

Non-contracted CPTs for stations now owned by Global, £

Source: CC calculations based on data from Global.

Remedy considerations

Introduction

1. In this appendix we set out further evidence and views relating to:

   (a) full divestiture (paragraphs 3 and 4);

   (b) brand licensing (paragraphs 5 to 24);

   (c) brand-specific issues relating to partial divestitures of RSL or Global (paragraphs 25 to 33);

   (d) access to digital platforms (paragraphs 34 to 38); and

   (e) purchaser suitability—third party views (paragraph 39).

2. This appendix also includes at:

   (a) Annex 1: List of services provided by Global under the Orion TSAs; and

   (b) Annex 2: Summary of Global and RSL licences (excluding London and the West Midlands).

Full divestiture

3. Bauer argued that full divestiture was likely to be the most effective remedy to address the SLC in the shortest time period.[1] It believed that full divestiture:[2]

   (a) was low risk;

   (b) would be easy to implement with no separation issues;

   (c) would mean there was no need for post-sale transitional arrangements;

   (d) could be undertaken very quickly; and

   (e) would keep the Real and Smooth networks under common ownership dealing with issues it perceived in respect of the networks' shared infrastructure.

4. [Competitor B] stated that the remedy would represent a comprehensive solution to the SLC and an independently owned RSL would involve relatively low composition risk.[3] Orion also believed that full divestiture would be an effective remedy.

[1] Bauer's response to the Notice.
[2] Bauer's response to the Notice.
[3] Competitor B's response to the Notice.

Brand licensing

Examples of brand-licensing arrangements

5. We first look at examples of brand-licence arrangements which have or are currently in place. We first look at Orion's brand licence for Heart East Midlands (paragraphs 7 to 13), and second Adventure Radio's brand licence for Heart (paragraphs 14 to 18).

Orion Heart

6. Global told us that [✂][4]

7. [✂]

8. Orion told us that: [✂].

9. [✂]

10. [✂]

11. [✂]

12. A list of services provided by Global to Orion under the service agreements is set out in Annex 1.

Adventure Radio agreement

13. Adventure Radio bought the radio station which broadcast to Watford and Hemel Hempstead in 2005. Adventure Radio has its own building and its own studios but operates the station under a brand-licensing agreement with Global under its Heart brand. As part of this agreement it takes the majority of its content and various support services from Global.

14. [✂]

15. [✂] Global told us that there were constraints within network programming in terms of what Adventure Radio could deliver on air in terms of S&P. It believed that there was enough flexibility to deliver local S&P so long as it fitted with the Heart brand.

16. [✂].

Views of third parties on brand licensing

17. [✂]

18. [✂]

19. [✂]

20. Bauer told us that a brand-licence agreement would determine how much content was provided; what that content was like; how the audience was delivered; what the audience target looked like; how national sales would be taken; how national S&P

[4] Global told us that [✂].

would be taken; what the charges for all of those would be, leaving the provider of the local franchise to monetize the audience locally. It stated that as a licensee, it would want some competitive tension in a relationship around the way national advertising, S&P and content were conducted and offered as well as the ability to amend the price of that content according to the performance of the station. Bauer also argued that a franchise arrangement would necessarily be a long-term arrangement.[5]

21. [Competitor B] argued that Smooth's move to a national network created cost synergies. It considered that while certain cost synergies might be lost as a result of a partial divestiture, a brand licence could enable the separate divestitures to continue to operate as viable multi-regional/local radio stations. In addition, it noted that multiple acquisitions of licences by one purchaser might also preserve cost synergies.[6]

22. Orion told us that [✂].

23. Town and Country considered that, [✂].

Brand-specific issues

Smooth

Importance of London

24. [Competitor]B told us that GMG had reorganized Smooth into a national brand and extended its reach by broadcasting it on D1 as the individual licences separately were not profitable. [Competitor B] believed that the programming synergies created by removing regional programming teams were significant and necessary, at the time, to move the Smooth radio network from being a loss-making station, towards breaking even.[7] [Competitor B]'s view was that, given the history of the licences, if the licences did not share the same brand they might not be profitable in their own right. It would depend greatly on who acquired the licence and on what terms.

25. [Competitor B] believed that a Smooth network without a London FM presence and no FM presence in the UK's second largest city, Birmingham, might not attract the levels of advertising revenue that it currently did. Removing London and the West Midlands region it calculated would reduce listening hours by 6.4 million (30 per cent of Smooth's total listening hours).[8] It argued that without these two key population centres, and in particular London, which represented a particularly strategic centre in regards to the ability for the Smooth network operator to be able to sell sufficient levels of airtime to national advertisers, the impact on revenues could be even more significant than the loss of audience. This would exacerbate the financial impact of a split of Smooth from a cost perspective.[9]

26. Bauer also argued that without a London 'shop window' and without a station in the West Midlands there would be issues as to the viability (and attractiveness) of the Smooth network. It argued that the London Smooth station was important to the network as it was not just the source of content and programming but also

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[5] Bauer's response to the Notice.
[6] Competitor B's response to the Notice.
[7] Competitor B's response to the Notice.
[8] [Competitor B] assumes that all hours associated with London and the West Midlands were analogue (ie FM rather than DAB) hours.
[9] Competitor B's response to the Notice.

represented the 'shop window' of the Smooth network to the advertiser/agency community that was largely based in London. A London station within the network allowed Smooth to compete more effectively for contracted advertising campaigns and this in turn provided an important source of revenue which increased the station's viability. The presence of a London station therefore increased the viability of all of Smooth's stations in this regard. Indeed a London station might be necessary to ensure the effectiveness of the divestiture for these operations to continue within the Smooth network.[10]

Third party views on the implications for divestiture of Smooth

27. [Competitor B] argued that the integration of Smooth with Real might increase the composition risks associated with a remedy that involved individual divestitures.[11] [Competitor B] also argued that the importance of Smooth being able to continue to operate as a national radio network in order to remain a viable stand-alone business meant that the divestiture of the Smooth network as a whole would minimize composition risks.[12]

28. [✂][13,14]

Real

Third party views on divestiture of Real

29. [✂]

30. [✂]

31. Bauer told us that were it to acquire all the stations in the Real network it would [✂]. It argued that a part acquisition would not be as attractive because there was a risk that the acquirer would have to rebrand. This added complexity.

Access to digital platforms

Real and Smooth's digital broadcasting

32. Five of Real's FM licences have been recently renewed and are simulcast on regional/local DAB multiplexes. The requirement for DAB broadcasting is therefore included within their licence Formats. Real North and Mid Wales is currently in its first licence term (this expires in January 2023) and Real XS Manchester's licence expires in May 2020. There are currently no local DAB multiplexes operating in North Wales. As such, Real North and Mid Wales is not broadcast on DAB. Multiplex services are due to start in April/May 2013. Real XS Manchester is broadcast on the MXR DAB multiplex owned by a consortium comprising Global, RSL and Arqiva.

33. Smooth London, Smooth North-West and Smooth West Midlands' licences have been renewed under 'digital protection'. The FM licence for Smooth East Midlands is due to expire in February 2015, Smooth Glasgow in September 2016, and Smooth North-East in August 2019. To qualify for renewal under 'digital protection' the

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[10] Bauer's response to the Notice.
[11] Competitor B's response to the Notice.
[12] Competitor B's response to the Notice.
[13] For example, it would be necessary to have ongoing networking arrangements between the purchaser and Global.
[14] Bauer's response to the Notice.

holder(s) of these licences will need to be providing a 'relevant' DAB service either by continued carriage on D1, or the relevant local DAB multiplex.

Third party views

34. Bauer argued in general that any divestiture package would need to include access to digital broadcasting capacity.[15] Bauer believed that finding local DAB access could be a challenge for a new owner, depending on whether it already owned some of that capacity or whether it was coming to the market for the first time. In addition to Smooth's requirement for DAB access Real needed capacity for all its licences.

35. Bauer noted that the decision by MXR not to renew its regional multiplex licences meant that stations previously broadcast on these multiplexes would need to find new DAB access to avoid re-advertisement on the closure of MXR. It stated that it understood that Global had acquired capacity which it could sublet to a purchaser, but that subletting arrangements were not directly subject to any fair and effective competition obligations in the relevant multiplex licence.

36. Bauer believed that digital access was required as:

(a) a growing proportion of the audience listened via digital and operators would not want to lose that audience; and

(b) access to digital capacity would be increasingly important as radio switchover to digital approached with broadcasters needing to maintain their digital presence as the audience moved away from analogue.[16]

Purchaser suitability—third party views

37. Third parties expressed the following views to us about the attractiveness of specific Global and/or RSL stations:

(a) [One party] told us that [✂].

(b) [Competitor B] told us that it was interested in acquiring both Real and Smooth networks without a brand-licence arrangement. [Competitor B] told us that it would look at the Smooth licences on a case-by-case basis although it was unlikely to be interested in buying individual Smooth licences if they were part of a brand-licence arrangement with shared programming. [Competitor B] considered that as the individual Real stations were separable they might be attractive to purchasers. It stated that it would be interested in acquiring the Real brand along with the licences as 'there has been a lot of investment in it and it has good brand loyalty,' although it would also be interested without it.

(c) [Competitor B] considered that if Real XS stations were sold on their own it was highly unlikely they would be viable and as such there would not be bidders. Bauer considered that as niche operations which were incremental to the Real stations in those areas it would not be an attractive option for purchasers.

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[15] Following a decision by the owners of MXR, the DAB regional licences for the North-East, North-West and Severn Estuary were not renewed and as a consequence these services will cease in mid-2013 along with the automatic protection for the relevant Real licences. A new owner would need to secure digital capacity in order to avoid re-advertisement. It is understood that Global has acquired capacity which it could sublet to a purchaser. It should be noted that subletting arrangements are not subject to any fair and effective competition obligations.
[16] Bauer's response to the Notice.

(d) Orion told us that [✂].

(e) Town and Country told us that [✂].

List of services provided by Global under the Orion TSAs

[✂]

Summary of Global and RSL licences (excluding London and the West Midlands)

TABLE 1 **East Midlands**

Licence number	*Company owning licence*	*Registered company number*	*Brand*	*Area*	*Service name*	*Format*
AL059	Leicester Sound Ltd	1433194	Capital	Leicester and surrounding area	Capital FM (East Midlands)	A locally oriented contemporary and chart music and information station for under 44s in the Leicester area.
AL107	GWR Group Ltd	715143	Capital	Nottingham and Derby	Capital FM (East Midlands)	A locally oriented contemporary and chart music and information station for under 44s in the Nottingham and Derby area.
AL106	GCap Media (AM) Ltd	3074908	Gold	Nottingham and Derby area	Gold (Nottingham and Derby)	A classic pop hits station targeted primarily at 35–54 year-olds in the Nottingham and Derby area.
AL277	Smooth Radio Midlands Limited	2942105	Smooth	East Midlands area	Smooth Radio (East Midlands)	A melodic station, featuring lifestyle-oriented speech, primarily targeting listeners in the East Midlands area aged 50 plus, with at least 12 hours of identifiable specialist music programmes each week.

Source: Ofcom, broadcast licences.

TABLE 2 **Cardiff and South Wales**

Licence Number	*Company owning licence*	*Registered company number*	*Brand*	*Area*	*Service name*	*Format*
AL020	Cardiff Broadcasting Company Ltd	1369605	Capital	Cardiff & Newport area	Capital FM South Wales	A locally oriented contemporary and chart music and information station for under 44s in the Cardiff and Newport area.
AL019	Cardiff Broadcasting Company Ltd	1369605	Gold	Cardiff & Newport area	Gold (Cardiff & Newport)	A classic pop hits station targeted primarily at 35–54 year-olds in the Cardiff & Newport area.
AL261	Real Radio Limited	3815009	Real	South Wales	Real Radio (South Wales)	A full-service adult contemporary music station for the South Wales, targeting primarily 25–54 year olds, treating news, speech, information about Wales, sport and listener interactivity as important ingredients, and running 24-hour news.

Source: Ofcom, broadcast licences.

TABLE 3 **North Wales**

Licence number	*Company owning licence*	*Registered company number*	*Brand*	*Area*	*Service name*	*Format*
AL222	Marcher Radio Group Ltd	1606318	Heart	Caernarfon area	Heart Anglesey & Gwynned	A bilingual music and information station centring firmly on the tastes and interests of the Caernarfon area, evenly blending both English and Welsh throughout its music and speech output.
AL087	Marcher Radio Group Ltd	1606318	Heart	Chester, Wrexham and Wirral area	Heart North West & Wales	An adult contemporary music and information station for 15–44 year olds in the Chester, Wrexham and Wirral area.
AL152	Marcher Radio Group Ltd	1606318	Heart	North Wales Coast area (Bangor)	Heart North West Coast	A locally oriented pop (past and present) and information station for the North Wales Coast, with one-hour programmes in the Welsh language at least six days a week.
AL086	GCap Media (AM) Ltd	3074908	Gold	Wrexham and Chester area	Gold—Wales (Wrexham & Chester)	A classic pop hits station targeted primarily at 35–54 year-olds in the Wrexham and Chester area.
AL329	Real Radio Limited	3815009	Real	North and Mid Wales	Real Radio (North and Mid Wales)	A full-service adult contemporary music station for North and Mid Wales, targeting primarily 25–54 year olds, treating news, speech, information about Wales, sport and listener interactivity as important ingredients, and running 24-hour news.

Source: Ofcom, broadcast licences.

TABLE 4 **Great Manchester and the North-West**

Licence number	*Company owning licence*	*Registered company number*	*Brand*	*Area*	*Service name*	*Format*
AL033	Galaxy Radio Manchester Ltd	2848034	Capital	Greater Manchester area	Capital FM Manchester	A rhythmic-based (eg dance, club etc) music-led service for 15–29 year-olds supplemented with news, information and entertainment. The service should have particular appeal for listeners in their 20s and at least 26 hours a week of identifiable specialist music programmes.
AL161	Capital Gold Manchester Ltd	4364461	Gold	Manchester area	Gold (Manchester)	A classic pop hits station targeted primarily at 35–54 year-olds in the Manchester area.
AL298	Xfm Manchester Ltd	5337066	Xfm	Manchester area	Xfm (Manchester)	An alternative music format for 15–34 year olds in the Manchester area, playing generally guitar-led, quality modern and classic 'music with attitude' created by artists who challenge the mainstream pop aesthetics, with at least three 'live' sessions a week and comedy elements.
AL325	Real Radio XS Limited	4128825	Real XS	Manchester	Real Radio XS (Manchester)	A classic rock and speech service for 35–64 year olds, with a strong commitment to local news, current affairs and interactive debate. Peak-time programming will include a sub-stantial amount of relevant speech.
AL220	Real Radio (North West) Limited	3409448	Real	North-West region	Real Radio (North West)	A full-service adult contemporary music station for the North-West region, targeting primarily 25–54 year olds, treating news, speech, regional information, sport and listener interactivity as important ingredients, and running 24-hour news.
AL164	Smooth Radio Limited	2775358	Smooth	North-West England	Smooth Radio (North West)	An easy listening station featuring easy listening music including music influenced by jazz and soul and lifestyle-oriented speech, targeting a North-West audience aged 50 plus, and broadcasting 12 hours a week of specialist music programmes during evenings or weekend daytime.

Source: Ofcom, broadcast licences.

TABLE 5 **North-East**

Licence number	*Company owning licence*	*Registered company number*	*Brand*	*Area*	*Service name*	*Format*
AL236	Galaxy Radio North East Ltd	3139918	Capital	North-East of England	Capital FM North East	A rhythmic-based (eg dance, club etc) music-led service for 15–29 year-olds supplemented with news, information and entertainment. The service should have particular appeal for listeners in their 20s and at least 26 hours a week of identifiable specialist music programmes.
AL165	Real Radio (North East) Limited	2802028	Real	North-East region	Real Radio (North East)	A full-service adult contemporary music station for the North-East region, targeting primarily 25–54 year olds, treating news, speech, regional information, sport and listener interactivity as important ingredients, and running 24-hour news.
AL311	Smooth Radio NE Limited	5094550	Smooth	North-East England	Smooth Radio (North East)	An easy listening station featuring melodic music from the past six decades and today mixed with lifestyle-oriented speech, primarily targeting listeners in the North-East aged 50 plus, with at least 10 hours of identifiable specialist music programmes each week.

Source: Ofcom, broadcast licences.

TABLE 6 **South and West Yorkshire**

Licence number	*Company owning licence*	*Registered company number*	*Brand*	*Area*	*Service name*	*Format*
AL190	Galaxy Radio Yorkshire Ltd	3052392	Capital	Yorkshire area	105 Capital FM (Yorkshire)	A rhythmic-based (eg dance, club etc) music-led service for 15–29 year-olds supplemented with news, information and entertainment. The service should have particular appeal for listeners in their 20s and at least 26 hours a week of identifiable specialist music programmes.
AL269	Real Radio (Yorkshire) Limited	36798969	Real	South and West Yorkshire	Real Radio (Yorkshire)	A full-service adult contemporary music station for Yorkshire, targeting primarily 25–54 year olds, treating news, speech, regional information, sport and listener interactivity as important ingredients, and running 24-hour news.

Source: Ofcom, broadcast licences.

TABLE 7 **Central Scotland**

Licence number	*Company owning licence*	*Registered company number*	*Brand*	*Area*	*Service name*	*Format*
AL243	Galaxy Radio Scotland Ltd	SC168821	Capital	Central Scotland	Capital FM Scotland	A rhythmic-based (eg dance, club etc) music-led service for 15–29 year-olds supplemented with news, information and entertainment. The service should have particular appeal for listeners in their 20s and at least 26 hours a week of identifiable specialist music programmes.
AL168	Real Radio (Scotland) Limited	SC145214	Real	Central Scotland	Real Radio (Scotland)	A full-service adult contemporary music station for Central Scotland targeting primarily 25–54 year olds, treating news, speech, regional information, sport and listener interactivity as important ingredients, and running 24-hour news.
AL141	Real Radio (Scotland) Limited	SC145214	Real XS	Paisley	Real Radio XS (Paisley)	A locally focused rock/pop music and information station for the Paisley area.
AL290	Smooth Radio Scotland Limited	SC243652	Smooth	Glasgow	Smooth Radio (Glasgow)	A melodic station, featuring lifestyle-oriented speech, primarily targeting listeners in the Glasgow area aged 50 plus, with at least 12 hours of identifiable specialist music programmes each week

Source: Ofcom, broadcast licences.

Non-contracted airtime and local S&P sales agency arrangement

1. In this appendix we set out further evidence in respect of a sales agency arrangement for airtime and S&P for non-contracted advertisers.

The parties' views

2. Global submitted that a sales agency agreement for airtime and S&P for non-contracted advertisers would include the following key terms:

   (a) a fixed period (this would be agreed between the parties, but likely to be around five years);

   (b) an exclusive right for the counterparty to sell airtime and S&P on the station to non-contracted advertisers (together with terms specifying the process for agreeing the maximum amount of non-contracted inventory available to be sold);

   (c) an exclusive right for the counterparty to retain revenues from non-contracted airtime and S&P sales;

   (d) licences as required over Global intellectual property (eg trademarks) required for materials/tools used in carrying out the non-contracted sales operation;

   (e) [✂]

   (f) an obligation on Global to produce and deliver all non-advertising programming (network and local) for the station;

   (g) an obligation on Global to pay all operational costs for the station, with the exception of costs explicitly carved out as being payable by the counterparty (ie relating to the non-contracted sales function);

   (h) a right for Global to sell airtime and S&P to contracted customers; and

   (i) an obligation on Global to provide additional operational services to the counterparty, as agreed (eg the implementation of necessary advertising scheduling systems, back office services, email services etc, depending on the counterparty's requirements).

Third party views

3. [✂] It thought that one example of the type of difficulty that could arise at a practical level was the possibility of product clashes between Global-sold advertising and that sold by the sales agent.[1] In such circumstances the question would arise as to which advertiser had priority and how the process of agreeing priority could be included within the sales agency agreement in such a way that would ensure effective competition at the local level.

[1] [✂] gave the example of two brewers, one sponsoring a broadcast at a national level across the Global network, the other wanting to sponsor at the local level only. In such a situation it is unclear who would get priority, or how such a conflict would be resolved. It may not be possible for both brewers to have their S&P in the same broadcast because the messages they wish to convey conflict.

4. [✂]

5. Bauer argued that a sales agency arrangement would not be an effective remedy to address the SLC for a number of reasons including:

(a) Global, as the operator of an outsourced station, would have access to a considerable level of competitively sensitive detail about the airtime being sold (it would know the client and campaign details since it controlled play-out and the price via the outsourcing arrangement). Firewalls would need to be put in place to prevent this information spilling across to the non-outsourced local Global stations which would be operating out of the same premises.

(b) Such an arrangement was unlikely to be attractive to radio operators and it might be difficult to find other local sales teams that would find this attractive with the appropriate skills to sell radio airtime effectively.

(c) It was likely to be harder to sell local S&P where there needed to be a close interaction between the sales team and the programme makers but where Global might be competing locally for the same S&P pitch through a non-outsourced station.

Relevant customer benefits

Introduction

1. This appendix summarizes in more detail views from Global and third parties on the RCBs discussed in Section 9 of the main report.

Listener benefits

[✂]

Regulatory considerations

2. Global told us that it strongly believed that [✂].

3. Global believed [✂].

4. Global stated that [✂].

5. Ofcom told us that [✂].

6. [✂]

7. [✂]

8. [✂]

9. [✂]

The effect of consolidation on diversity

10. We were not able to explore the specifics of Global's [✂] with other radio operators, as these details were confidential. However, we did discuss in more general terms with Ofcom and some other radio operations, the suggestion that consolidation would lead to greater diversity of programming.

11. Ofcom told us that it had undertaken some research previously, in the context of the assessment of local media and the OFT's role in scrutinizing newspaper mergers, which suggested that intense competition might lead to a fight for the middle ground and some under-provision of services for specific groups. However, Ofcom noted that the issues here were relatively complex, and that there were scenarios in which consolidation might not lead to greater diversification. Ofcom also noted that it had regulatory duties to secure range and diversity and broaden choice. Consequently, radio in the UK was not a completely unregulated market in which the players could choose whether to cluster around the middle or separate themselves, because they were differentiated to some degree through the licensing process and format regulation.

12. Orion said that consolidation of local radio ownership encouraged greater diversity of music offered as owners tried to differentiate their stations to attract advertisers.

13. [Competitor B] noted that while competition in some radio markets might lead to a lack of diversity, with all operators seeking to attract an 'average' listener, this was unlikely to be the case in markets with format regulation, such as the UK. This regime ensured that there was diversity in terms of radio offering and that a broad cross-section of the community was served by the licences. This, along with the role of the BBC, was a significant difference between the UK and the USA.

The launch of improved news services for Wales and Scotland

Views of third parties

14. Ofcom told us that, over the years, the way in which radio formats had been regulated in relation to news, sport and other areas had moved away from detailed specification of what was to be delivered, towards setting out in broader terms what was expected of a licence holder and allowing that operator to meet these requirements in the way it judges most appropriate. The format changes proposed by Global for news programming were set out in a much higher degree of specificity than was normal, or appeared in any other licences. From a regulatory perspective, Ofcom did not consider these changes to be substantial, as they were effectively adding to what was an obligation to treat news and regional information as important ingredients in the three relevant Real licences. As this was not a substantial change, Ofcom had not been required to consider whether this proposal was beneficial to listeners or anyone else, and had not conducted such an analysis.

15. Bauer told us that, if it were operating radio stations in Wales, there would be a degree of self-interest in being active in the Welsh economy and in Welsh issues. This was how it operated in Scotland, where it had a political editor, covered the Scottish Parliament from its Edinburgh operation and was very active in covering issues of interest to Scotland, including politics, sport and other stories of local interest. In its submissions to Ofcom, Bauer argued that one effect of the merger would be to reduce the extent of news, documentary and local content on the stations acquired by Global and as such, it did not consider that the Welsh and Scottish news services represented a net benefit to consumers.

16. [Competitor B] considered that the two offers that Global had made to Ofcom in Scotland and Wales were not necessarily reflected by editorial ambitions for those services. [Competitor B] told us that, if listeners wanted greater coverage of Scottish or Welsh stories, then these would be included in the programming for commercial reasons, because listeners would respond to that move. As an operator of radio stations in Wales, [Competitor B] queried whether listeners to Real in Wales would in fact place a high value on employment of a Welsh political editor on that station, for example, or whether they would derive more benefit from coverage of a range of local issues, including events and entertainment as well as news. [Competitor B] also noted that in-depth news coverage of the Welsh Assembly was available on BBC Radio Wales or on BBC's Welsh language station.

17. The Welsh Government responded to our provisional findings to support the merger and said that as a result of the merger the parties would be able to offer an all-Wales commercial radio news service. This would increase plurality of news services and enhance consumer choice.

18. Another third party[1] regarded the requested format change as 'cynical'. This individual noted the proposal to introduce 20-minute news programmes in Wales and

[1] [Individual 2] response to our provisional findings.

Scotland at 6.40pm on weekdays: RAJAR listening figures showed that listening had dropped dramatically by that time of day and therefore this news service would have a small audience, at a time when it would be in direct competition with regional television news on BBC 1 and ITV. This third party also expected that news output during the day, when people were actually listening to the radio, would be reduced. The third party also stated that the amount of local programming on the RSL stations had already been reduced since the merger down to the minimum of 7 hours a day on weekdays.

Advertisers benefits

Lower advertising prices for contracted advertisers

Global's submissions

[✂]

19. Global submitted that it would be incentivized to offer increased network discounts for contracted advertisers on the [✂] networks post-merger. Global submitted that any such discounts were most likely to take the form of [✂]. This would be in addition to discounts already offered for advertisers purchasing the current [✂].

20. Global told us that this incentive would arise because the merger would bring together the [✂] under single ownership. This differed from the current contracted market structure in which Global acted as sales agent for RSL. Global submitted that this would give it the incentive to offer additional discounts to customers in order to internalize 'Cournot pricing efficiencies'. These are demand-side efficiencies, which may arise when products are complements such that lowering the price of one product increases demand for it and for other products that are used with (but not instead of) the first product (for example, airtime on geographically or demographically complementary radio stations).[2]

21. Global told us that its incentives would differ from the pre-merger scenario as it would benefit from 100 per cent of any uplift in sales on [✂] stations resulting from changes to its pricing (compared with its average of [✂] per cent sales commission under the current structure).[3] It submitted that such benefits were likely to arise in practice because the [✂] because Global's current practice was to give network discounts for network bookings. Absent the merger, Global submitted that a [✂] discount was not likely to be offered as Global would not be incentivized to introduce this discount. Consequently, Global submitted that any divestment of [✂] would result in the loss of at least part of these benefits to advertisers.

[✂]

22. Similarly, Global told us that it intended to offer increased [✂] discounts [✂].

23. Global submitted that these discounts were most likely to take the form of [✂]. This would be in addition to discounts already offered for advertisers purchasing [✂]. Global told us that this was likely to lead to benefits in practice, because [✂].

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[2] Global noted that a similar argument had been accepted by the OFT in its consideration of Global/GCap (see, for example, Completed acquisition by Global Radio UK Limited of GCap Media plc, ME/3638/08, the OFT's decision on reference under section 22(1) given on 8 August 2008. Full text of decision published on 27 August 2008, paragraphs 156 & 157).
[3] Global's core commissions [✂].

24. The merger would [✂]. This differs from the current contracted market structure in which Global acts as sales agent for RSL. Global submitted that it would have a greater incentive, post-merger, to offer contracted customers a further discount for buying airtime [✂]. Global submitted that, absent the merger, [✂]. Consequently, any [✂] would result in the loss of at least part of these benefits to advertisers.

Multi-network discounts

25. In addition to the [✂], Global told us that it would be incentivized to offer increased multi-network discounts for contracted advertisers [✂].

26. Global submitted that these discounts were most likely to take the form of an [✂].

27. The merger will bring together the current [✂] network and the current [✂] networks under single ownership. This differs from the current contracted market structure in which Global acts as sales agent for RSL. Global submitted that it would have a greater incentive, post-merger, to offer contracted customers a discount for buying airtime [✂].

Views of third parties

28. Bauer told us that it was sceptical about these alleged benefits to advertisers. It argued that the effect of the SLC was that prices were likely to increase. This increase would cancel out any benefits from increased discounts contracted customers may obtain (assuming that they were made available and continued post-integration). (Bauer argued that many non-contracted (local) advertisers did not purchase across more than one station. As such, these advertisers would not benefit from any discounts which Global implemented as a result of the merger. Bauer argued that the result of an enlarged network was likely to be that advertisers would have to purchase a greater total amount of advertising across the network to obtain a discount.[4]

Lower advertising prices for non-contracted advertisers

Global's submissions

29. Global considered that these discounts were most likely to take the form of a [✂] per cent discount for advertisers that purchased more than one station. Global has analysed the current discounts received by non-contracted advertisers buying single-region, multi-brand campaigns. This analysis has shown that, on average, these advertisers receive an [✂] discount. This amount also accords with Global's existing pricing practice which would be to offer an [✂] per cent discount for adding a further brand or station to a campaign.

30. The merger would bring together a number of different radio stations at the regional level (eg Global's Heart and Capital brands with RSL's Smooth and Real brands). Global submitted that it would have a greater incentive, post-merger, to offer non-contracted customers a discount for buying airtime on both networks because most non-contracted advertisers would view these brands as complementary. Global submitted that, although most non-contracted advertisers attached importance to the demographic target of a radio station, some did not and might use radio stations together to reach a wider audience.

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[4] Bauer's comments on Global's response to the Notice.

31. The merger would enable Global to offer non-contracted advertisers who wish to target a wide demographic within a region the opportunity of buying a bundle of slots on [✂]. Global submitted that benefits were likely to accrue to non-contracted advertisers post-merger because, in its view, the parties' stations were regarded as complements for most non-contracted advertisers and because Global's current practice was to give discounts for multi-station single-region bookings.

Glossary

Agreement	National Sales Agency Agreement. The agreement entered into between **Global** and **RSL** for the sale of certain airtime by **Global** on **RSL**'s behalf.
AM	Amplitude modulation. Type of modulation produced by varying the strength of a radio signal. This type of modulation is used by broadcasters in three frequency bands: medium frequency (also known as medium wave); low frequency (also known as long wave); and high frequency (also known as short wave). The term AM is also used to refer to the medium frequency band.
BT40	The Big Top 40 Show, a weekly chart show produced by **Global**.
Contracted airtime	Airtime that is sold to advertisers via media agencies by radio stations, or a radio group or sales house selling on the station's behalf, under a fixed term contract.
Cost per slot	The cost of a unit of airtime on radio, a commonly used measure in relation to airtime advertising.
CPT	Cost per thousand impacts (ie when an advertisement is listened to 1,000 times), a commonly used measure in relation to radio advertising.
DAB	Digital audio broadcasting, a digital radio transmission system whereby one or more analogue audio streams are converted to a digital format.
Digital switchover	The point at which analogue radio transmissions will be permanently replaced by digital radio.
DTV	Digital television.
Fill-rates	The rate at which airtime made available for advertising is used.
FM	Frequency modulation. Type of modulation produced by varying the frequency of a radio carrier in response to the signal to be transmitted. This is the type of modulation used by broadcasters in part of the very high frequency band, known as VHF Band 2.
Format	The output of each commercial radio station is regulated by a format document which is part of the radio licence. This sets out the character of the service which a station must deliver as a condition of its licence.
FRS	First Radio Sales, a sales house for over 100 local commercial radio stations.
Global	Global Radio Holdings Limited, the parent company of **Global Radio**, and purchaser of **GMG Radio**. Global is one of the merging parties.

Global Radio	Global Radio Limited, owned by **Global**, and owner of Global's radio interests through a number of subsidiary companies.
GMG Radio	GMG Radio Holdings Limited, the entity that was sold to **Global** and which is now known as **RSL**.
ILR	Independent local radio.
IRN	Independent Radio News, the provider of news service to commercial radio in the UK.
Multiplex	The process of converting one or more analogue audio streams into a digital format and then combining the signals into a single digital stream.
MXR	MXR Holdings Ltd, the holding company of MXR Limited which in turn owns and operates a series of regional DAB multiplex services.
Network buys	A campaign booked across all stations on a brand's network rather than on a single station or subset of stations.
NMR	Nielsen Media Research market data, a resource that collates data on advertising and promotional campaigns on radio, television and in other media.
Non-contracted airtime	Airtime that is sold by radio stations to advertisers typically on a campaign-by-campaign basis.
Ofcom	The independent regulator and competition authority for the UK communications industries.
OFT	The Office of Fair Trading.
RadioCentre	The trade body of commercial radio operators within the UK.
RAJAR	Radio Joint Audience Research Limited, a non-profit-making body that is jointly owned by the BBC and **RadioCentre** which measures radio audience figures and associated demographics within the UK.
Reach	Defined by **RAJAR** as the number of people who tune into a radio station for at least 5 minutes (within at least one 15-minute period) in a given week.
RSL	Real and Smooth Limited, formerly **GMG Radio** and one of the merging parties.
S&P	Sponsorship and promotion of radio content by advertisers.
Share of listening	The proportion of total listening hours that a station achieves compared with total listening hours of all stations.
Simulcast	The broadcasting of a television or radio programme service on more than one transmission technology (eg **FM** and medium wave, **DAB** and **FM**, and digital television).

TSA	Total survey area. The total area that a station's signal covers, usually together with any areas surrounding it that contribute to a proportion of their listening time to that radio station.