RESPONSES TO GENERAL QUESTIONS IN EMAIL DATED 22 OCTOBER 2012

(i) Information as to Global Radio’s current competitors in the radio services industry in the UK, and what new competitors Global Radio may face in the future

We consider Global Radio’s current competitors in the radio services industry in the UK to be as follows:

- Their main competitors are Bauer Radio, TIML Radio Limited (the Absolute Radio network), and UTV (including TalkSport).
- They also, to a lesser extent, compete with the smaller radio stations/groups which would include Orion Radio, The Local Radio Company/UKRD, Celador Radio, Lincs Radio Group, Town & Country Radio, Quidem Radio, Tindle Group, CN Group, Jazz FM and Planet Rock.

Aside from these groups and, where relevant, their national sales houses, there is also First Radio Sales which is a national sales house that sells advertising for many of these smaller groups.

The likelihood of Global Radio facing any new competitors in the future is minimal for the reasons described below.

We do not consider the BBC to be a relevant competitor of Global Radio for the purposes of the Competition Commission’s investigations. Although BBC radio competes head-on with commercial radio stations for listeners, it does not compete for radio advertising spend. Therefore, the presence of BBC radio does not act as any form of restraint on the increased dominance of a merged Global Radio/GMG Radio in terms of its relationship with advertisers.

Moreover, the existence of other forms of media and the ability to advertise on these other forms does not eliminate competition concerns. The environment that radio offers to its listeners is something that cannot be replicated by other media. Radio is the second most consumed media after television, accounting for more than a quarter of time spent with media across the day (according to IPA touchpoint data). Radio’s uniqueness comes from the fact that it’s available freely and effortlessly on any platform where it can play an emotional role in a listener’s life. It can reach listeners who are engaged in other tasks (for example, while driving or at work), something that no other media is capable of doing to the same extent. It’s able to target specific audiences efficiently, reaching them at relevant times and in the right places. And radio, uniquely, acts as a “friend” providing a valuable context for an advertiser to appear in. In relation to advertising, it is quick to turn around both in terms of media booking and creative production and so offers a route to market for advertisers who need to advertise quickly.

(ii) How easy or difficult would it be to enter this market?

There are significant barriers to entry and expansion in the UK commercial radio market that make it difficult for a new player to enter or an existing player to expand within. This is because of a number of factors:

- Loss of market share to the BBC: commercial radio has lost share in recent years to the BBC which does not include advertisements and is therefore attractive to listeners.
• A limited number of available licences: there is a limit on the number of analogue radio licences available in a given area at any given time.

• Global Radio is already a dominant force in commercial radio.

• Profit levels are low in commercial radio.

• The lack of independent national sales houses.

In a market where there is an overall decline in radio advertising and commercial radio has been losing its share to the BBC, an increasingly dominant player only serves to limit competition further. The switchover to DAB as the main broadcast platform is, in itself, unlikely to improve competition as new broadcast platforms do not have a tendency to change listener patterns in terms of the stations that they listen to. It is also some time away from being implemented.

(iii) The effect of the acquisition on current and future customers, suppliers or competitors.

Of particular concern to us is the impact the transaction will have on the way national and regional advertising spending is split across the commercial radio marketplace.

Agency national revenues are currently split into a \( \frac{1}{3} / \frac{1}{3} / \frac{1}{3} \) ratio with Global Radio Sales receiving \( \frac{1}{3} \)% of the spend, Bauer Radio taking \( \frac{1}{3} \)% and the remaining \( \frac{1}{3} \)% split amongst all the other commercial radio operators including Absolute Radio, UTV (Talksport), First Radio Sales and smaller players such as Planet Rock and Jazz FM. First Radio Sales represents 118 small stations.

A major concern is that the acquisition will threaten these ratios to an even greater extent, making advertising on smaller stations less attractive. In an industry characterised by high fixed costs, even a small change to market shares can have a dramatic impact on the profitability of smaller stations. Without appropriate safeguards, the merger could threaten the vibrancy of the UK radio industry and threaten the viability of smaller radio stations in each case reducing competition.

This concern is informed by both the prior conduct of Global Radio after previous acquisitions and the increasing pressure on advertising agencies to reduce costs for their clients. This is particularised in more detail below:

(a) Heart incentivise multi-station buys and draw money away from both local and national competitors

Global Radio’s first three “Heart” radio stations were Heart 106.2 in London, Heart 100.7 in the West Midlands and Heart 106 in the East Midlands. By the end of 2009 that number had increased to 33 after Global Radio re-branded many of their stations to “Heart”. These stations became collectively known as the “Heart Network”.

Once established, media agencies were incentivised to buy the full Heart Network. This undoubtedly influenced radio planners’ previous practise of “picking and choosing” which of the constituent Heart stations they wished to buy. It also moved Global Radio Sales’ historically regional sell of Heart stations into more direct competition with national propositions. The Heart Network is
currently quasi-national; they have a degree of national coverage through digital services but the core of their listening is through FM services which lack presence in the North of England and Scotland where GMG Radio services are stronger.

Subsequently, the 33 Heart stations in the Network became 19 when the individual local stations were reorganised to form regional aggregates e.g. “Heart South West” was formed from Heart Exeter, Heart Torbay, Heart Plymouth, Heart North Devon, Heart South Devon and the recently acquired Atlantic FM (now Heart Cornwall). Global Radio directed RAJAR to measure the new aggregate stations’ audiences as one audience. Data relating to the component stations was not released from Q4 2010 onwards.

This moved Global Radio into more direct competition with local stations. Prior to this, radio planners would pick and choose stations from multiple sales points within a region in order to select those most appropriate to meet the ends of their objectives.

Precedence has shown that the commercial radio marketplace has been influenced by changing the trading options available to buyers thereby reducing competition. We would expect this to extend further should Global Radio’s purchase of GMG Radio go ahead.

(b) Driving price increases

Should Global Radio gain ownership of the GMG Radio stations then we would expect an attempt to inflate former GMG Radio stations’ pricing, both as a whole because they are relatively cheap, but particularly on any stations that became “Heart” branded.

(c) Absorbing share of radio “spot” advertising spend

Even if Global Radio do not push for greater share within their contractual agreements with media agencies, they could attain a higher share simply through restricting the trading options available to agencies by increasing the entry cost to buying an enlarged Heart Network proposition.

(d) Reduced competition in the Branded Content market

Pre-merger, GMG Radio’s own sales team had sold its own branded content. The acquisition would mean that it would be merged into Global Radio’s overall sales operations.

Smaller players can compete more effectively in this sector based on their ideas, creativity, delivery and pricing.

In making the acquisition of GMG Radio, there is a high probability that Global Radio’s share of these revenues will grow substantially.

Media agencies and advertisers are naturally keen to reduce costs wherever possible. When buying radio promotions at a national level, they are able to save costs whenever a national proposition is available as they will often be able to pay for a single prize fund instead of several.

Any networked proposition that Global Radio Sales offers (that includes GMG Radio stations) would be more attractive through offering greater geographic coverage. This would drain money
away from local competitors in those regions that Global Radio expands into. It would also put Global Radio Sales in more direct competition with national propositions and lessen the ability of smaller stations to compete effectively with Global Radio to the extent they were able to pre-merger.

Commercial radio is the only media sector where a dominant player (in the form of Global Radio) can command such a high share of the advertising market. The proposed merger will increase Global Radio’s dominant position and potentially enable them to abuse this position through their contractual relationships with agencies.

We strongly believe that as part of its investigation the Competition Commission should investigate and gain a full understanding of the contractual and incentive arrangements that Global Radio has in place with buying agencies with a view to ensuring that a merged entity is not in a position to distort the market to an even greater extent. As noted in our submissions to the OFT, the Contract Rights Renewal (CRR) regulation that was designed to prevent an enlarged ITV from abusing its dominant position following the merger of Carlton and Granada, remains in place today. ITV’s family of services achieved a 39.5% share of commercial impacts in 2011. This is significantly below the market share of a combined Global Radio and GMG Radio group, particular when adding in the other sales packages that Global Radio Sales achieve including Newslink, the Big 40 UK chart show and Orion Media’s national sales. Therefore, we believe that the Competition Commission should give serious consideration to regulations equivalent to the CRR regulations that apply to the television market.