GLOBAL'S RESPONSE TO THE COMPETITION COMMISSION'S PROVISIONAL FINDINGS

ANNEX 1

THE EAST MIDLANDS

1. EXECUTIVE SUMMARY

1.1 Global does not agree with the CC's provisional conclusion of a substantial lessening of competition in the non-contracted advertising sector in the East Midlands.

1.2 Firstly, the CC fails to take into account evidence that non-contracted advertisers in the East Midlands view non-radio media as an effective alternative to radio - this is further addressed in Section 2 of this Annex.

1.3 Secondly, within the radio sector, the CC has applied the wrong test in assessing competition in the East Midlands. It has given too much weight to share of listening and non-contracted revenues and insufficient weight to differences in the target demographics and geographies of the relevant stations. The CC's approach is not informative when assessing competition between highly differentiated radio stations in the East Midlands.

1.4 Smooth and Capital target different demographics: Smooth's average listener age is older (49) whereas Capital's is younger (34). Orion's Gem 106 is a much better alternative to both Capital and Smooth with an average listener age of 41. In particular:

(i) In Capital's target demographic, Gem 106's reach is more than twice that of Smooth (135,000 and 54,000 respectively) and its share of local commercial listening is around three times that of Smooth (29% and 10% respectively).

(ii) In Smooth's target demographic, Gem 106 has an equivalent reach as Capital (98,000 and 99,000 respectively – both 20%) and a higher local commercial listening share than Capital (26% and 18% respectively).

1.5 Gem 106 is a strong competitor in the East Midlands, with a much higher share of non-contracted revenues than Smooth (20%-29% for Gem 106 compared with 10%-19% for Smooth) and a very similar share of local commercial listening to Smooth (27% for Gem 106 and 28% for Smooth).

1.6 Capital is predominantly used by local advertisers: [✂]% of Capital's non-contracted customers purchase on a single transmitter basis in the East Midlands. As Smooth is only sold as a regional station, it will not be an effective alternative for the [✂]% of Capital's non-contracted customers who advertise locally in the East Midlands. In particular:

(i) a non-contracted advertiser using Smooth to target customers within Capital Nottingham's coverage area would pay for approximately 48% of wasted population coverage;

(ii) a non-contracted advertiser using Smooth to target customers within Capital Leicester's coverage area would pay for approximately 71% of wasted population coverage; and

(iii) a non-contracted advertiser using Smooth to target customers within Capital Derby's coverage area would pay for approximately 84% of wasted population coverage.

1.7 The above points are addressed in greater detail in Section 3 of this Annex.

2. NON-RADIO MEDIA POSE A STRONG CONSTRAINT IN THE EAST MIDLANDS

2.1 The CC implicitly accepts that across the overlap regions the vast majority of non-contracted customers view non-radio media as substitutable for the parties' radio stations[1] (see further Parts 1 and 2 of this Response).

2.2 In particular, Global and RSL's internal documents evidence plainly that both parties' commercial strategies are focused on:

(i) finding new non-contracted customers by targeting principally users of non-radio media; and

(ii) ensuring that they do not lose existing non-contracted customers to non-radio media.

2.3 In addition, since the publication of the Provisional Findings, the parties have sought to obtain and provide further materials (specifically competitors' marketing materials) evidencing that third parties also recognise radio as competing strongly with non-radio media for advertising revenues.

2.4 As a result, when the parties negotiate prices for campaigns with both new and existing non-contracted customers in the East Midlands, they are constrained by non-radio media. Given that these non-contracted advertisers have equally or more effective non-radio alternatives to the parties' stations, there is no basis for the CC's provisional conclusion that the merger will lead to substantially higher prices for any advertisers in the East Midlands.

2.5 All of the evidence referred to in paragraphs 2.2 and 2.3 above is outlined below.

The CC has failed to take into account Global's internal documents for the East Midlands

2.6 Global loses on average [✄]%[2] of its non-contracted customers every year in the East Midlands through churn (representing an average of [✄]%[3] of its non-contracted

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[1] E.g. The CC states at paragraph 6.39 of the PF that "*the survey results suggest limits to the constraint provided by other media. We note, for example, that the existing customer survey suggests that 15 per cent of existing customers did not consider using any other media at the time of their last campaign and 24 per cent said that they ended up using only radio. Similarly, 9 per cent of respondents said that they could not use any other types of media to meet the same objectives as radio*". A clear implication of the results cited by the CC is that non-radio media constitutes an effective competitive constraint for the remaining 75% to 90% of non-contracted advertisers.

[2] RBB analysis based on Global and RSL's transactional data from 2009/2010 to 2011/2012 (i.e. three years). NMR data is only available up to September 2012; therefore, the average churn by count and revenue does not include a customer who may have purchased on the parties' stations in Q4 2012.

[3] RBB analysis based on Global and RSL's transactional data from 2009/2010 to 2011/2012 (i.e. three years). NMR data is only available up to September 2012; therefore, the average churn by count and revenue does not include a customer who may have purchased on the parties' stations in Q4 2012.

revenues each year in the East Midlands) – it is therefore fundamental to the survival of its business that it succeeds in targeting new non-contracted customers to replace those that churn away (and retains as many existing non-contracted customers as possible) to compensate for lost revenues.

2.7 The CC failed to take into account any internal documents submitted by Global concerning the East Midlands market. An analysis of these internal documents would show that Global's entire strategy for the East Midlands is focused on growing radio's share of the "total media pie" and competing with non-radio media both for new and existing non-contracted customers. In particular, the CC has failed to take into account Global's strategy overview paper, which provided a full description of this non-contracted advertising strategy[4].

<u>Global's [✂] strategy</u>

2.8 As explained in Global's strategy overview paper, Global implemented the [✂] strategy in 2009 with the express focus of addressing customer churn by competing more effectively with non-radio media competitors. Global introduced its current [✂] strategy [✂] in early 2012 with the objective of building on [✂]. The [✂][5] sets out Global's current strategy in the East Midlands specifically.

2.9 The CC has failed to take into account the internal documents relating to the key initiatives in the East Midlands under the [✂] strategy, which include, among others, the following [✂]:

(i) Global's [✂] initiative; and

(ii) Global's [✂] initiative.

<u>Global's [✂] initiative</u>

2.10 As further detailed in Global's strategy overview paper, the [✂] initiative is Global's [✂] commercial scheme for non-contracted advertisers. It is focused on targeting [✂] – i.e. [✂] businesses – that are using non-radio media, particularly [✂].

2.11 Under this initiative, staff members are explicitly instructed to [✂] using the following media (in addition to other radio): "*press*"; "*magazines*"; the "*Internet*"; "*outdoor media*"; and "*TV*".[6] [✂]

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[4] Annex 9 (also provided as part of Global's response to the First Day Letter ("**FDL**"))

[5] [✂] submitted to the CC on 28 January 2013.

[6] Annex 17A(i).039 to Global's response to the Initial Factual Information Request.

Figure 2.1
[✂]

2.12 Similarly, a flyer for a [✂] in Derby is expressly designed for non-radio users, inviting customers to come "*find out about new ways to market [their] business*"[7].

<u>Global's [✂] initiative</u>

2.13 As further detailed in Global's strategy overview paper, Global's sales team identifies [✂] for the East Midlands who are advertising predominantly on non-radio competitors. [✂][8]

2.14 The CC has failed to take into account [✂] for the East Midlands[9], which includes customers advertising exclusively on press titles such as [✂]; TV stations [✂]; cinema; and outdoor media.

2.15 Similarly, the CC has failed to take into account the additional [✂] which are used to identify potential customers in the East Midlands in different sectors [✂], and which detail [✂].[10]

2.16 Furthermore, it is clear from supporting documents relating to the [✂] initiative that the East Midlands market is highly competitive. [✂][11] shows how customers lost are typically lost to non-radio media, e.g. [✂]

<u>Global's press strategy</u>

2.17 As explained in Global's strategy overview paper, Global has identified as a key opportunity [✂] local and regional press: [✂][12]

2.18 Accordingly, Global monitors the performance of press titles in the East Midlands with a view to informing its pitches and marketing materials for customers using or considering using these alternatives. [✂][13]

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[7] Annex 17A(i).036(a) to Global's response to the Initial Factual Information Request.

[8] See e.g. Annex 17A(i).044 of Global's Response to the CC's Initial Factual Information request. ([✂] is an illustration of how the [✂] initiative is implemented in practice.)

[9] Annex 17A(i).046(c) of Global's Response to the CC's Initial Factual Information request.

[10] Annexes 17A(i).001 to 17A(i).005 of Global's Response to the CC's Initial Factual Information request.

[11] Annex 17A(i).047(b) of Global's Response to the CC's Initial Factual Information request.

[12] Annex 15A(ii).004 of Global's response to the CC's Initial Factual Information Request.

[13] Annex 17A(i).016 of Global's response to the CC's Initial Factual Information Request.

2.19 Global has also submitted evidence of analyses comparing the [✂] of, among others, East Midlands press titles [✂][14] This provides clear evidence that Global is monitoring press performance as a competitor.

2.20 The following template slides [✂][15] illustrate how Global uses the above information in its pitches and customer presentations in order to persuade customers that advertising on radio (specifically Capital) will be more [✂] than advertising on press.

Figure 2.2
[✂]

Figure 2.3
[✂]

<u>Global's [✂] strategy</u>

2.21 Global has also provided extensive evidence of how it competes with [✂] in the East Midlands.

2.22 In particular, [✂].

Figure 2.4
[✂]

2.23 As previously explained in Global's strategy overview paper, Global has introduced a commercial initiative focused entirely on attracting spend away from [✂][16]

2.24 Global's [✂] strategy launch presentation details Global's plans relating to [✂] specifically, for example: [✂].[17]

2.25 The CC has however given no weight to this clear evidence of competition between [✂], nor to the extensive body of internal documents relating to this scheme, including: [✂].

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[14] Annex 17A(i).014 to Global's response to the CC's Initial Factual Information Request.

[15] Annex 17A(i).015 of Global's response to the CC's Initial Factual Information Request.

[16] See Annexes 17A(i).044 to 17A(i).049 of Global's response to the CC's Initial Factual Information Request.

[17] See Annexes 17A(i).044 to 17A(i).049 of Global's response to the CC's Initial Factual Information Request.

The CC has not as yet taken proper account of RSL's internal documents for the East Midlands

2.26 The CC refers to the following RSL internal documents, which expressly refer to competition with non-radio media, including identifying as a competitive threat the pricing strategies of non-radio media:

(i) <u>The RSL commercial business plan for the East Midlands</u>: [✄][18]

(ii) <u>The RSL company profiles for the East Midlands:</u> [✄][19] (emphasis added).

2.27 However, the CC not as yet taken proper account of these RSL internal documents, in particular, the constraints posed by non-radio media in the East Midlands. It has failed to take into account RSL's strategy overview paper, which provided a full description of this non-contracted advertising strategy[20], as well as RSL's various strategy documents for the East Midlands, as outlined below.

2.28 RSL loses on average [✄]%[21] of its non-contracted customers every year in the East Midlands through churn (representing an average of [✄]%[22] of its non-contracted revenues each year in the East Midlands) – as with Global, it is therefore fundamental to the survival of RSL's business that it succeeds in targeting new non-contracted customers to replace those that churn away (and retains as many existing non-contracted customers as possible) to compensate for lost revenues.

2.29 As a result, RSL's various strategy documents for the East Midlands are more focused on competition from non-radio media than other radio.

2.30 <u>[✄] presentation – East Midlands</u>[23]

2.31 The CC fails to take into account this key strategy document, despite the fact that – as evidenced in Figure 2.5 - it clearly evidences that RSL's strategy for the East Midlands is focused on increasing Smooth's share of advertising revenues compared with non-radio media in this region.

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[18] Appendix L, Paragraph 34.

[19] Appendix L, Paragraph 35.

[20] Annex 10 (also provided as part of RSL's response to the First Day Letter ("**FDL**")).

[21] RBB analysis based on Global and RSL's transactional data from 2009/2010 to 2011/2012 (i.e. three years). NMR data is only available up to September 2012; therefore, the average churn by count and revenue does not include a customer who may have purchased on the parties' stations in Q4 2012.

[22] RBB analysis based on Global and RSL's transactional data from 2009/2010 to 2011/2012 (i.e. three years). NMR data is only available up to September 2012; therefore, the average churn by count and revenue does not include a customer who may have purchased on the parties' stations in Q4 2012.

[23] Annex 15B.006 of RSL's response to the CC's Initial Factual Information Request.

Figure 2.5
[✂]

2.32 RSL has also submitted materials illustrating how its [✂] identify key advertising opportunities in the market using sources such as [✂]. For example, the following slides are taken from an analysis produced for the East Midlands to maximise an opportunity to [✂].[24] This presentation expressly identifies how little is being spent by these advertisers on Real and Smooth (compared with non-radio media) (see Figure 2.6) and goes on to explain how Real and Smooth should try attract these advertisers away from those alternative non-radio media.

Figure 2.6
[✂]

[✂] strategy documents and [✂]

2.33 In line with the above strategy, RSL employs a [✂] strategy which involves identifying [✂] by using [✂] (among other sources). The CC has failed to take into account the [✂] for the East Midlands, such as the [✂]-focused report[25], which lists target customers spending exclusively on: [✂].

2.34 Once RSL has identified customers as [✂], it undertakes [✂] to understand how best to pitch to these customers. [✂][26]). As the CC will see from the below screenshots, RSL plainly targets non-radio users.

Figure 2.7
[✂]

Figure 2.8
[✂]

Marketing materials

2.35 Using the above intelligence, RSL can tailor its pitches to persuade customers that Smooth will deliver a more [✂] campaign than the non-radio media they are using.

2.36 To illustrate, the following pitch[27] highlights how [✂]

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[24] Annex 17B.025 of RSL's response to the CC's Initial Factual Information Request.

[25] Annex 17B.002 of RSL's response to the CC's Initial Factual Information Request.

[26] Annex 17B.037 to RSL's response to the Initial Factual Information Request.

[27] See [✂] pitch – Annex 17B.052 of RSL's response to the CC's Initial Factual Information Request.

Figure 2.9
[✄]

2.37 Furthermore, the majority of [✄] pitch documents[28] highlight the advantages of radio and relative disadvantages of non-radio media, for example:[29,30,31,32]

Competitors' marketing materials evidence competition between radio and non-radio media

2.38 The publicly available marketing materials for key competitors in the East Midlands also plainly evidence that non-radio media players in the East Midlands consider themselves as competing with the parties for advertising revenues.

2.39 For example, the ITV Central media pack highlights the benefits of TV as an advertising medium compared with radio generally (as well as regional press, cinema and direct mail) (see Figure 2.10).[33]

[28] See Annex 17B of RSL's response to the CC's Initial Factual Information Request.

[29] See [✄] pitch – Annex 17B.054 of RSL's response to the CC's Initial Factual Information Request.

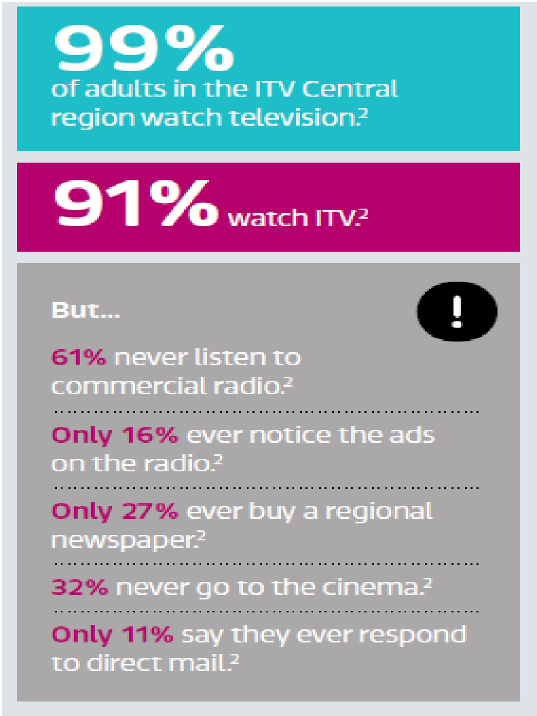
[30] See [✄] pitch – Annex 17B.050 of RSL's response to the CC's Initial Factual Information Request.

[31] See [✄] pitch – Annex 17B.055 of RSL's response to the CC's Initial Factual Information Request.

[32] See [✄] pitch – Annex 17B.049 of RSL's response to the CC's Initial Factual Information Request.

[33] http://www.itvmedia.co.uk/assets/itv_media_new_design/content/downloadables/wales_factsheet_lores.pdf

Figure 2.1
Screenshot of ITV Central media pack



Source: *ITV Central website.*

2.40 ITV Central identifies Smooth specifically as a competitor in the Midlands:

"*Advertising on ITV is not as expensive as you might think. Packages of airtime in the Central region can be bought for as little as £2,180* and your commercial could be seen by up to 31% of adults in the area.*

In a week ITV reaches 79% of adults in the Central region, this is 11 times more than Heart West Midlands, 8 times more than Smooth Midlands Radio and 15 times more than Birmingham Evening Mail. Just one spot on ITV Central could reach 1,399,000 viewers."

2.41 An analysis of the parties' internal documents for the East Midlands, together with those of key competitors, provides strong evidence that the parties compete directly with, and their prices and negotiations are constrained by, a wide range of non-radio media options in the East Midlands.

2.42 This conclusion is consistent with the key results of the Existing Customers and Lost Opportunities Surveys, which provide strong evidence that non-contracted advertisers in the East Midlands consider non-radio media as effective alternatives for the parties' stations.

Existing Customers Survey

(i) Based on weighted results, 35% of respondents indicated that non-radio media would be their next best alternative – this compares with 6% who chose the other party's stations.

(ii) Based on unweighted results[34], 51% of respondents indicated that non-radio media would be their next best alternative – this compares with 15% who chose the other party's station.

Lost Opportunities Survey

(iii) 50% of radio users (i.e. respondents who had used radio in the last three years) chose press having declined a Global proposal – this compares with 19% who chose RSL's stations.

2.43 As explained in Part 2 of the Response, the CC has been unfair in the selection of the results from the Existing Customers and Lost Opportunities Surveys, particularly at a local / regional level – in particular, the sample sizes in the East Midlands were above 50 (i.e. the minimum sample size generally accepted in survey analysis).

2.44 As a result, the merger will not significantly reduce the outside options of the parties' non-contracted customers. Non-contracted advertisers in the East Midlands will retain equally or more effective non-radio media alternatives to the parties' stations.

[34] Unweighted results are provided as per the CC's preference.

3. COMPETITION BETWEEN RADIO STATIONS IN THE EAST MIDLANDS

3.1 The CC accepts that:

(i) Gem is a closer competitor to Capital and Smooth than they are to each other:

(a) "***The main competitor in the region is Orion (Gem 106) by reference to the area of geographic overlap***."[35]

(b) "***The average age of Gem 106 listeners lies between the respective average ages of Capital and Smooth listeners***."[36]

(ii) Capital and Smooth are weak substitutes:

(a) "***Smooth, which reaches an older audience, would be a relatively weaker substitute for Capital, which reaches a younger audience.***"[37]

(iii) Even "***Bauer acknowledged that the parties were not the closest of demographic competitors in the East Midlands.***"[38]

3.2 Nevertheless, the CC provisionally concludes that:

(i) Gem 106 is an insufficiently strong radio competitor to offset the risk of a <u>substantial</u> lessening of competition arising in the non-contracted advertising sector in the East Midlands:

(a) "***The only significant competitor to the parties has [20-29]% of the combined non-contracted revenue of the parties and has fewer than 30 per cent of listener hours, around half of the parties' combined share. As such, we do not consider that it would be able to offer a strong alternative radio option to the parties' combined offer***".[39]

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35 Appendix L, Paragraph 20.

36 Appendix L, Paragraph 24.

37 Provisional Findings, Paragraph 6.75.

38 Appendix L, paragraph 33.

39 Provisional Findings, Paragraph 7.23.

(b) ***"[…] that the only radio alternative is unlikely to have the required share of listeners to be a good alternative for all radio advertisers***".[40]

(ii) The demographic and geographic differences between Capital and Smooth are insufficient to prevent the "outside options" of radio advertisers in the East Midlands being weakened significantly by the transaction:

(a) "***While [the CC] note[s] the parties' arguments that Capital and Smooth are not strong competitors because they target very different demographics and that Capital offers single transmitters in three cities as well as a regional offer, [it] considers that the concentration of radio station ownership in the East Midlands will significantly reduce the options for non-contracted advertisers***".[41]

(b) ***"[The CC] do[es] not consider that the difference in the demographics reached by two of the stations that will be brought under the same ownership by the merger (Capital and Smooth) is sufficient to offset [the CC's] concerns about the reduction in radio alternatives in the East Midlands***".[42]

3.3 The CC therefore provisionally concludes that:

"***In the absence of any countervailing factors, the merger will lead to significant adverse effects in the East Midlands***." [43]

<u>*The CC has applied the wrong test*</u>

3.4 First, the CC has applied the wrong test to assess the competitive interaction between radio stations in the East Midlands. The CC has given more weight to the share of listening and non-contracted revenues than to demographic and geographic factors. The CC's approach is not informative about the competitive interactions of highly differentiated products in heterogeneous product markets and is inconsistent with the CC's provisional findings elsewhere which recognise the critical importance of a station's geographic coverage and demographic positioning[44].

3.5 The CC has not as yet taken proper account of the following key factors.

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[40] Provisional Findings, Paragraph 7.24.

[41] Provisional Findings, Paragraph 7.22.

[42] Provisional Findings, Paragraph 7.24.

[43] Provisional Findings, Paragraph 7.25.

[44] Provisional Findings, Paragraphs 6.73-6.75 and 7.7.

Capital and Smooth are not next best alternatives

3.6 Capital and Smooth are weak alternatives for non-contracted advertisers due to their highly differentiated demographics.

3.7 The CC has accepted that "***Smooth, which reaches an older audience, would be a relatively weaker substitute for Capital, which reaches a younger audience***"[45]. The CC has provisionally concluded in Birmingham that "***We also note that Smooth and Capital reach different demographics. We therefore <u>do not</u> consider Smooth to be a close competitor to Capital for advertisers in Birmingham***"[46] (emphasis added) – the same logic therefore applies to Capital and Smooth in the East Midlands.

Orion's Gem 106 is a better alternative to Capital than Smooth

3.8 Gem 106 is a stronger competitor than Smooth for Capital. Gem 106's share of non-contracted revenues in the East Midlands is much higher than that of Smooth (i.e. 20-29% for Gem 106 compared with 10%-19% for Smooth) while its share of local commercial listening is slightly higher than that of Smooth (28% for Gem 106 instead of 27% for Smooth). Gem 106 also reaches more listeners than Smooth (391,000 for Gem 106 instead of 309,000 for Smooth).

3.9 Gem 106 (average listener age of 41) is a better radio alternative to Capital (average listener age of 34) than Smooth (average listener age of 49), as illustrated in Figure 3.1 below:

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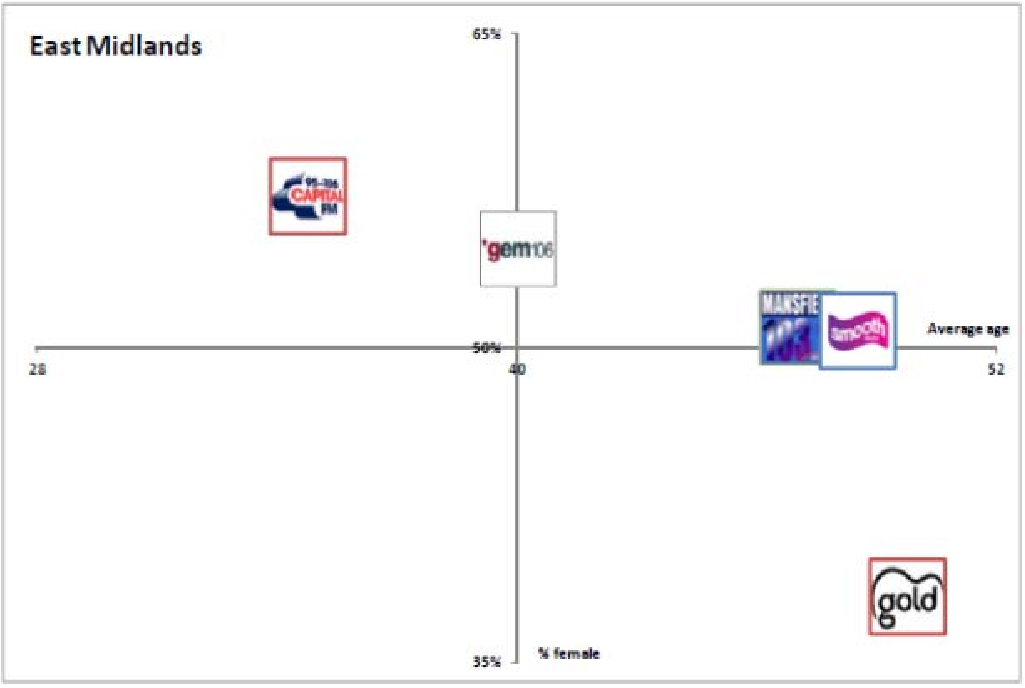
[45] Provisional Findings, Paragraph 6.75.

[46] Provisional Findings, Paragraph 7.31.

Figure 3.1
Brand map of main commercial radio stations - East Midlands



Source: RAJAR demographics data, average of Q1-Q4, 2011.

3.10 In Capital's target demographic (adults aged 15 to 34), Gem 106 has a reach of 135,000 (20%) which is more than double that of Smooth (54,000 or 8%). Further, Orion's Gem 106 has an almost three times higher share of local commercial listening (29%) than Smooth (10%) in Capital's target demographic.

3.11 An analysis of the parties' internal documents, as provided to the CC, clearly evidences that Capital and Smooth do not compete against each other in the East Midlands. None of Capital and Smooth's [✂] pitch documents for the East Midlands compare Capital with Smooth[47]. Instead, they refer almost exclusively to non-radio media (see further Section 2 above) – the [✂] pitch (out of [✂])[48] which refers to a commercial radio competitor is a Capital pitch referencing Gem 106[49], as set out in Figure 3.2.

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[47] The [✂] pitch includes a slide depicting all of the radio stations in the East Midlands, including the BBC stations and the national stations ta kSPORT and Classic FM.

[48] Consistent with the fact that the parties compete predominantly with non-radio media for customers, only [✂] pitches submitted for the East Midlands ([✂]) refer to other radio. By contrast pitches refer extensively to a range of non-radio media, including explicitly identifying other media types as "competitors" – see e.g. Annex 17B.054 of RSL's response to the CC's Initial Factual Information Request.

[49] Annex 17A(ii).031 of Global's response to the CC's Initial Factual Information Request.

Figure 3.2
[✂]

Orion's Gem 106 is a better alternative to Smooth than Capital

3.12 Gem 106's share of local commercial listening is 28%, which is comparable with Capital's (33%). Orion's Gem 106 is a slightly stronger competitor than Smooth in terms of local commercial listening share (28% for Gem 106 instead of 27% for Smooth) and reach (391,000 for Gem 106 instead of 309,000 for Smooth).

3.13 Gem 106 (average listener age of 41) is a better radio alternative to Smooth (average listener age of 49) than Capital (average listener age of 34), as illustrated in Figure 3.1 above.

3.14 In Smooth's target demographic (adults aged 45 to 60), Gem 106 has an equivalent reach to Capital (98,000 and 99,000 respectively – both 20%). In terms of share of local commercial listening, Gem 106 has 26% whereas Capital only has 18%.

Capital's non-contracted customers are local / Smooth's non-contracted customers are regional

3.15 Capital is used predominantly by local advertisers who would not regard Smooth as a suitable alternative in the East Midlands; specifically, [✂]% of Capital's customers in the East Midlands purchase advertising on only one of the three Capital transmitters in the East Midlands. In contrast, Smooth does not have split transmitters and is therefore broadcast regionally in the East Midlands (i.e. 100% of its customers are regional in the East Midlands – it is a regional station).

3.16 As a result, a non-contracted advertiser would experience significant wastage if it used Smooth to target local customers in the East Midlands (i.e. those solely based in the coverage areas of each of the three Capital transmitters in the East Midlands), as illustrated by the following calculations.

3.17 Table 3.1 below sets out the population coverage for the Capital TSA and Smooth TSA in the East Midlands (the former split into three transmitters).

Table 3.1
East Midlands – Population Coverage

Coverage Area	**Coverage ('000s)**
Capital Nottingham	1150
Capital Leicester	616
Capital Derby	454
Smooth East Midlands	2145

Source: RAJAR (Capital coverage areas based on TSAs as at 2010).

3.18 On this basis, Table 3.2 below indicates the degree to which Smooth's population coverage would overspill the Capital transmitters in the East Midlands (or vice versa in the case of Capital Nottingham and Capital Derby, which do not overlap fully with Smooth).

Table 3.2
East Midlands – Wastage analysis (Population Coverage)

	Coverage ('000s)
Smooth's population not covered by Capital Nottingham	1038
Smooth's population not covered by Capital Derby	1796
Smooth's population not covered by Capital Leicester	1529
Capital Nottingham's population not covered by Smooth	43
Capital Derby's population not covered by Smooth	105

Source: *RAJAR.*

3.19 As a result, a non-contracted advertiser using Smooth to target customers within the coverage areas of any of the Capital transmitters in the East Midlands will experience significant wastage of population coverage of between 48% and 84%, as illustrated in Table 3.3 below.

Table 3.3
East Midlands – Wastage analysis (%)

	Wastage (%)
Advertisers on Smooth targeting Capital Nottingham	48
Advertisers on Smooth targeting Capital Leicester	71
Advertisers on Smooth targeting Capital Derby	84

Source: *RAJAR.*

3.20 In addition, an advertiser using Smooth to target customers within the coverage area of the Capital Derby transmitter will not cover 23% of the population in the Capital Derby coverage area (the same is true for the coverage area of Capital Nottingham transmitter, where 4% of that Capital Nottingham population will not be covered).

3.21 The CC has recognised that "***advertisers want to minimize 'wasted' advertising***"[50] and, in the case of Birmingham, has accepted that Smooth and Capital are not close competitors because "***Smooth covers a wider area than Capital and advertisers who want to advertise in Birmingham only would face significant wastage by***

[50] Provisional Findings, Paragraph 6.58.

advertising on Smooth" [51] – the same logic therefore applies to Capital and Smooth in the East Midlands.

3.22 Capital and Smooth are therefore weak alternatives because they target different advertisers (namely, local versus regional). The CC has accepted that "***The geographic area to which a station broadcasts is likely to be an important factor in how radio stations compete but <u>its significance in each case may vary</u>***" [52] (emphasis added). However, it has not as yet taken proper account that the parties' stations are highly differentiated in terms of geography in the East Midlands and, as a result, the parties' stations are not close competitors due to the significant level of resulting wastage.

<u>*Conclusion*</u>

3.23 Within radio, the merger will not significantly change the outside options for either Capital or Smooth non-contracted customers in the East Midlands. Orion's Gem 106 was the best alternative radio option pre-merger and this remains the case post merger.

3.24 Accordingly, Global strongly urges the CC to re-evaluate the evidence before it, as well as new evidence that is being made available to it, with a view to reaching a final conclusion that the merger will not give rise to a <u>substantial</u> lessening of competition in the non-contracted advertising sector in the East Midlands.

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51 Provisional Findings, Paragraph 7.31.

52 Provisional Findings, Paragraph 6.70.

GLOBAL'S RESPONSE TO THE COMPETITION COMMISSION'S PROVISIONAL FINDINGS

ANNEX 2

CARDIFF

1. EXECUTIVE SUMMARY

1.1 Global does not agree with the CC's provisional conclusion of a substantial lessening of competition in the non-contracted advertising sector in Cardiff.

1.2 Firstly, the CC fails to take into account evidence that non-contracted advertisers in Cardiff view non-radio media, in particular press, as an effective alternative to radio - this is further addressed in Section 2 of this Annex.

1.3 Secondly, within the radio sector, the CC has applied the wrong test in assessing competition in Cardiff. It has given too much weight to share of listening and non-contracted revenues and insufficient weight to differences in the target demographics and geographies of the relevant stations. The CC's approach is not informative when assessing competition between highly differentiated radio stations in Cardiff. In particular:

1.4 Real is a regional station in South Wales: only [✂]% of its non-contracted revenues in South Wales is attributable to Cardiff only. As Capital is only broadcast to Cardiff (i.e. it is a local station), it will not be an effective alternative for the [✂]% of Real's non-contracted customers who advertise on a regional basis in South Wales.

1.5 Real and Capital target different demographics[1]: Real's average listener age is older (41) whereas Capital's is younger (35). Town and Country's Nation is a more direct competitor for Capital than Real in Cardiff: it has an average listener age of 33. Nation has only recently been sold on a Cardiff-only split transmitter basis and is expected to grow share of non-contracted revenues (as well as listening) in Cardiff.

1.6 The above points are addressed in greater detail in Section 3 of this Annex.

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[1] Demographic information in this Annex is based on RAJAR Q3 2012.

2. NON-RADIO MEDIA POSE A STRONG CONSTRAINT IN CARDIFF

2.1 The CC implicitly accepts that across the overlap regions the vast majority of non-contracted customers view non-radio media as substitutable for the parties' radio stations[2] (see further Parts 1 and 2 of this Response). However:

(i) The CC has failed to take into account Ofcom's conclusion in the public interest inquiry relating to this merger that there are 1 to 3 newspaper owners (and at least 29 local newspapers) active in Cardiff.

(ii) The CC has not as yet taken proper account of evidence from the parties' internal documents for Cardiff, which clearly establishes that the entire strategy of both companies is to compete directly with non-radio media, [✂], to win business. An analysis of these internal documents confirms that Global and RSL's non-contracted customers in Cardiff have effective non-radio media [✂] options when planning campaigns. In particular, Global and RSL's internal documents evidence plainly that both parties' commercial strategies are focused on:

(a) finding new non-contracted customers by targeting users of non-radio media [✂]; and

(b) ensuring that they do not lose existing non-contracted customers to non-radio media [✂].

2.2 As a result, when the parties negotiate prices for campaigns with both new and existing non-contracted customers in Cardiff, they are constrained by non-radio media and especially press. Given that these non-contracted advertisers have equally or more effective non-radio (in particular press) alternatives to the parties' stations, there is no basis for the CC's provisional conclusion that the merger will lead to substantially higher prices for any non-contracted advertisers in Cardiff.

2.3 All of the evidence referred to in paragraph 2.1 above is outlined below.

The CC has failed to take into account Ofcom's conclusion in the public interest inquiry relating to this merger

2.4 The CC has failed to take into account Ofcom's conclusion that there will continue to be "*a variety of other platforms…newspapers (between 1 and 3 owners)*"[3] in the overlap area between Capital and Real in South Wales (i.e. the "**Cardiff TSA**").

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[2] E.g. The CC states at paragraph 6.39 of the PF that "*the survey results suggest limits to the constraint provided by other media. We note, for example, that the existing customer survey suggests that 15 per cent of existing customers did not consider using any other media at the time of their last campaign and 24 per cent said that they ended up using only radio. Similarly, 9 per cent of respondents said that they could not use any other types of media to meet the same objectives as radio*". A clear implication of the results cited by the CC is that non-radio media constitutes an effective competitive constraint for the remaining 75% to 90% of non-contracted advertisers.

2.5 In particular, there are four major newspaper groups in the Cardiff TSA – Daily Mail and General Trust, Newsquest, Tindle, and Trinity Mirror – owning between them at least 29 local / regional newspapers in the Cardiff TSA. These 29 (or more) local / regional newspapers will continue to be effective alternatives for advertisers in the Cardiff TSA. As Global submitted to Ofcom, a list of these 29 local / regional newspapers available in the Cardiff TSA is set out in Table 1 below:

Table 1
Cardiff TSA – Newspapers

Owner	Title
Daily Mail and General Trust	Metro (Cardiff edition)
Newsquest Media Group	Abergavenny Free Press
Newsquest Media Group	Barry & District News
Newsquest Media Group	Campaign Caerphilly Ystrad Mynach & Bargoed
Newsquest Media Group	Free Press of Monmouthshire Group
Newsquest Media Group	Hereford Times
Newsquest Media Group	Penarth Times
Newsquest Media Group	South Wales Argus – Newport
Newsquest Media Group	Weekly Argus – Newport Cwmbran & Risca
Tindle Newspapers Ltd	Abergavenny Chronicle
Tindle Newspapers Ltd	Abergavenny Gazette & Diary
Tindle Newspapers Ltd	Barry & Penarth Diary
Tindle Newspapers Ltd	Barry Gem
Tindle Newspapers Ltd	Bridgend & Porthcawl Gem
Tindle Newspapers Ltd	Cowbridge Gem
Tindle Newspapers Ltd	Forest & Wye Valley Review
Tindle Newspapers Ltd	Glamorgan Gem
Tindle Newspapers Ltd	Llantwit Major Gem
Tindle Newspapers Ltd	Monmothshire Beacon
Tindle Newspapers Ltd	Wye Valley Beacon
Tindle Newspapers Ltd	Y Cymro
Trinity Mirror plc	Cynon Valley Leader (Aberdare)
Trinity Mirror plc	Glamorgan Gazette (Bridgend)
Trinity Mirror plc	Gwent Gazette
Trinity Mirror plc	Merthyr Express
Trinity Mirror plc	Pontypridd Observer Group
Trinity Mirror plc	Rhondda Leader
Trinity Mirror plc	Rhymney Valley Express

[3] Ofcom, *Report on public interest on the acquisition of Guardian Media Group's radio stations (Real and Smooth) by Global Radio* (11 October 2012).

Owner	Title
Trinity Mirror plc	South Wales Echo

2.6 There are at least two newspapers owned by different newspaper groups in most areas within the Cardiff TSA, with the greatest coverage coming from Trinity Mirror and Newsquest.

2.7 Consistent with Ofcom's conclusion, Global's non-contracted advertising strategy in Cardiff is focused on competing with press in Cardiff both for new and existing non-contracted customers (see further paragraphs 2.20 to 2.22 below), as is RSL's (see further paragraph 2.28 below). [✂]

Figure 1
[✂]

The CC has failed to take into account Global's internal documents for Cardiff

2.8 Global loses on average [✂]%[4] of its non-contracted customers every year in South Wales through churn (representing an average of [✂]%[5] of its non-contracted revenues each year in South Wales) – it is therefore fundamental to the survival of its business that it succeeds in targeting new non-contracted customers to replace those that churn away (and retains as many existing non-contracted customers as possible) to compensate for lost revenues.

2.9 The CC has failed to take into account any internal documents submitted by Global concerning the Cardiff market. An analysis of these internal documents would show that Global's entire strategy for Cardiff is focused on growing radio's share of the "total media pie" and competing with non-radio media [✂] both for new and existing non-contracted customers. In particular, the CC has failed to take into account Global's strategy overview paper, which provided a full description of this non-contracted advertising strategy[6].

<u>Global's [✂] strategy</u>

2.10 As explained in Global's strategy overview paper, Global implemented the [✂] strategy in 2009 with the express focus of addressing customer churn by competing more

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[4] RBB analysis based on Global and RSL's transactional data from 2009/2010 to 2011/2012 (i.e. three years). NMR data is only available up to September 2012; therefore, the average churn by count and revenue does not include a customer who may have purchased on the parties' stations in Q4 2012.

[5] RBB analysis based on Global and RSL's transactional data from 2009/2010 to 2011/2012 (i.e. three years). NMR data is only available up to September 2012; therefore, the average churn by count and revenue does not include a customer who may have purchased on the parties' stations in Q4 2012.

[6] Annex 9 (also provided as part of Global's response to the First Day Letter ("**FDL**"))

effectively with non-radio media competitors. Global introduced its current [✂] strategy [✂] in early 2012 with the objective of building on [✂]. The [✂][7] sets out Global's current strategy in North West and Wales (i.e. including Cardiff)) specifically.

2.11 The CC has failed to take into account the internal documents relating to the key initiatives in Cardiff under the [✂] strategy, which include, among others, the following [✂] and [✂]:

(i) Global's [✂] initiative; and

(ii) Global's [✂] initiative.

<u>Global's [✂] initiative</u>

2.12 As further detailed in Global's strategy overview paper, the [✂] initiative is Global's [✂] commercial scheme for non-contracted advertisers. It is focused on targeting [✂] whose potential spend is only up to £[✂]. In Cardiff, as [✂] are [✂] businesses, the average cost of broadcast media would be [✂]; therefore, they are more likely to be press or online advertisers.

2.13 Global's sales team in Cardiff sources potential [✂] from various non-radio media, as illustrated by [✂]:

Figure 2
[✂]

2.14 Of over [✂] lead sources in Cardiff, only [✂] were from radio competitors; the remainder were sourced primarily from referrals or various non-radio media (e.g. [✂] were from press)[8].

2.15 [✂]

<u>Global's [✂] initiative</u>

2.16 As further detailed in Global's strategy overview paper, Global's sales team identifies [✂] for North West and Wales (i.e. including Cardiff) who are advertising predominantly on non-radio competitors. [✂]

2.17 The CC has failed to take into account [✂] for North West and Wales (i.e. including Cardiff)[9], which includes those advertising exclusively on:

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[7] [✂] submitted to the CC on 28 January 2013.

[8] Attachment 2.1 ("**Lead Sources**") (electronic copy provided only).

[9] FDL, Annexes 17A(i).45(l).

(i) press titles such as [✄];

(ii) TV stations such as [✄]; and

(iii) outdoor media.

2.18 [✄]

Figure 3
[✄]

2.19 [✄]

Global's press strategy

2.20 As explained in Global's strategy overview paper, Global has identified [✄] local and regional press as a key opportunity: [✄][10].

2.21 Accordingly, Global monitors the performance of press titles in Cardiff with a view to informing its pitches and marketing materials for customers using or considering using these alternatives. [✄] illustrate this active monitoring by the Cardiff sales team. [✄]

Figure 4
[✄]

2.22 Global has also submitted evidence of analyses comparing the [✄] of, among others, the following press titles available in Cardiff, including [✄][11]. This provides clear evidence that Global is monitoring press performance as a competitor.

[✄]

2.23 [✄] the recently-awarded local TV licence for Made in Wales will be a growing and effective competitor in Cardiff.

The CC has not as yet taken proper account of RSL's internal documents for Cardiff

2.24 The CC refers to the following RSL internal documents, which clearly demonstrate that RSL competes with non-radio media (in particular press) as well as radio for non-contracted advertising business in Wales (i.e. including Cardiff):

(i) An RSL local strategy document for Wales [✄][12]

[10] FDL, Annex 15A(ii).004.

[11] FDL, Annex 17A(i).014.

(ii) A number of pitch documents [✂][13]

(iii) An RSL internal presentation [✂][14]

2.25 However, the CC has not as yet taken proper account of these RSL internal documents, in particular, the constraints posed by non-radio media [✂] in Cardiff. It has failed to take into account RSL's strategy overview paper, which provided a full description of this non-contracted advertising strategy[15]. Moreover, it has not been fair in its selection of evidence from RSL's local strategy document for Wales (i.e. including Cardiff), as referred to in paragraph 2.24(i) above.

RSL local strategy document for Wales[16]

2.26 The CC has not as yet taken proper account of RSL's non-contracted strategy for Cardiff, which is entirely focused on improving how it identifies and targets non-radio customers [✂] and in turn increasing the share of advertising revenues spent on its radio stations in this region, compared with non-radio media [✂].

2.27 RSL loses on average [✂]%[17] of its non-contracted customers every year in South Wales through churn (representing an average of [✂]%[18] of its non-contracted revenues each year in South Wales) – as with Global, it is therefore fundamental to the survival of RSL's business that it succeeds in targeting new non-contracted customers to replace those that churn away (and retains as many existing non-contracted customers as possible) to compensate for lost revenues.

2.28 As a result, RSL's local strategy document for Wales is more focused on competition from non-radio media, [✂], than from other radio; namely:

(i) understanding how to win new business from press:

(a) [✂]

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12 Appendix L, para. 76.

13 Appendix L, para. 77.

14 Appendix L, para. 78.

15 Annex 10 (also provided as part of RSL's response to the First Day Letter ("**FDL**"))

16 FDL, Annex 15B.007.

17 RBB analysis based on Global and RSL's transactional data from 2009/2010 to 2011/2012 (i.e. three years). NMR data is only available up to September 2012; therefore, the average churn by count and revenue does not include a customer who may have purchased on the parties' stations in Q4 2012.

18 RBB analysis based on Global and RSL's transactional data from 2009/2010 to 2011/2012 (i.e. three years). NMR data is only available up to September 2012; therefore, the average churn by count and revenue does not include a customer who may have purchased on the parties' stations in Q4 2012.

(b) [✂]

(ii) identifying potential press competitors:

Figure 5
[✂]

(iii) identifying the most popular media for various industry sectors, most of which view press as the most popular medium whereas very few would choose radio (which also wins a minority of the advertising budget in those industry sectors):

Figure 6
[✂]

(iv) identifying which advertisers have not spent on radio but have spent on non-radio media, specifically those who have advertised on press and TV with a view to target those advertisers:

Figure 7
[✂]

Conclusion

2.29 An analysis of the parties' internal documents for Cardiff, together with Ofcom's conclusion, provides strong evidence that the parties compete directly with, and their prices and negotiations are constrained by, a wide range of non-radio media options, in particular press, in Cardiff.

2.30 This conclusion is consistent with the key results of the Existing Customers and Lost Opportunities Surveys, which provide strong evidence that non-contracted advertisers in South Wales consider non-radio media, and especially press, as effective alternatives for the parties' stations.

Existing Customers Survey

(i) Based on weighted results, 34% of respondents indicated that non-radio media would be their next best alternative – this compares with 8% who chose the other party's stations (12% chose press).

(ii) Based on unweighted results[19], 42% of respondents indicated that non-radio media would be their next best alternative – this compares with 19% who chose the other party's station (15% chose press).

Lost Opportunities Survey

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[19] Unweighted results are provided as per the CC's preference.

(iii) 49% of radio users (i.e. respondents who had used radio in the last three years) chose press having declined a Global proposal – this compares with 28% who chose RSL's stations.

2.31 As explained in Part 2 of the Response, the CC has not as yet taken proper account of the Existing Customers and Lost Opportunities Surveys, particularly at a local / regional level – in particular, the sample sizes in South Wales were above 90 (i.e. well above the minimum sample size generally accepted in survey analysis).

2.32 As a result, the merger will not significantly reduce the outside options of the parties' non-contracted customers. Non-contracted advertisers in Cardiff will retain equally or more effective non-radio media (in particular press) alternatives to the parties' stations.

3. COMPETITION BETWEEN RADIO STATIONS IN CARDIFF

3.1 The CC accepts that:

(i) the parties' stations are not good alternatives for each other:

(a) "***The parties told us that [✄] per cent of Real revenue in Wales was associated with Cardiff-only non-contracted campaigns***"[20].

(b) "***Capital reaches a slightly older audience than Capital: the average age of Capital listeners is 34 and that of Real listeners is 42***"[21].

(ii) there are at least two other third party radio stations in Cardiff:

(a) "***The alternatives available to advertisers in Cardiff are Bauer's Kiss station and Town and Country's Nation station***"[22].

3.2 Nevertheless, the CC provisionally concludes that:

"***In the absence of any countervailing factors, the merger will lead to significant adverse effects in Cardiff***"[23].

The CC has applied the wrong test

3.3 The CC has applied the wrong test to assess the competitive interaction between radio stations in Cardiff. The CC has given too much weight to the share of listening and non-contracted revenues than to geographic and demographic factors. The CC's approach is not informative about the competitive interactions of highly differentiated products in heterogeneous product markets and is inconsistent with the CC's provisional findings elsewhere which recognise the critical importance of a station's geographic coverage and demographic positioning[24].

3.4 The CC has not as yet taken proper account of the following key factors.

Capital and Real are not next best alternatives

3.5 First, although Real sells South Wales on a split transmission basis (i.e. separately targeting West Wales (Swansea) and Cardiff), in practice, very few Real customers

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[20] Appendix L, para. 61.

[21] PF, para. 7.39.

[22] PF, para. 7.36.

[23] PF, para. 7.41.

[24] PF, paras. 6.73-7.75 and 7.7.

purchase this way: only [✄]% of Real's non-contracted revenues in South Wales are attributable to Cardiff only (i.e. Real is a regional station). In contrast, Capital only broadcasts in Cardiff (i.e. it is a local station).

3.6 Capital is therefore a weak alternative for the vast majority of Real's non-contracted customers who target all of South Wales rather than Cardiff only ([✄]%). The CC has accepted that "***The geographic area to which a station broadcasts is likely to be an important factor in how radio stations compete but <u>its significance in each case may vary</u>***"[25] (emphasis added). However, it has not as yet taken proper account of the fact that the parties target different non-contracted advertisers (i.e. local versus regional).

3.7 Second, the CC has recognised that the parties' stations target different demographics: "***Real reaches a slightly older audience than Capital: the average age of Capital listeners is 34 and that of Real listeners is 42***"[26]. However, it has not as yet taken proper account of the fact that the parties have different target demographics.

<u>*Town and Country's Nation is a better radio alternative to Capital than Real*</u>

3.8 Nation (average listener age of 33) is a better radio alternative to Capital (average listener age of 35) than Real (average listener age of 41) in terms of demographics[27] (see further Figure 8 below). Similar to Capital, Town and Country's media pack describes Nation's music as "*the best music from today*" and "*current*"[28]. In Capital's target demographic (15 to 34), Nation has a 19% share of local commercial listening, slightly higher than Real at 18%.

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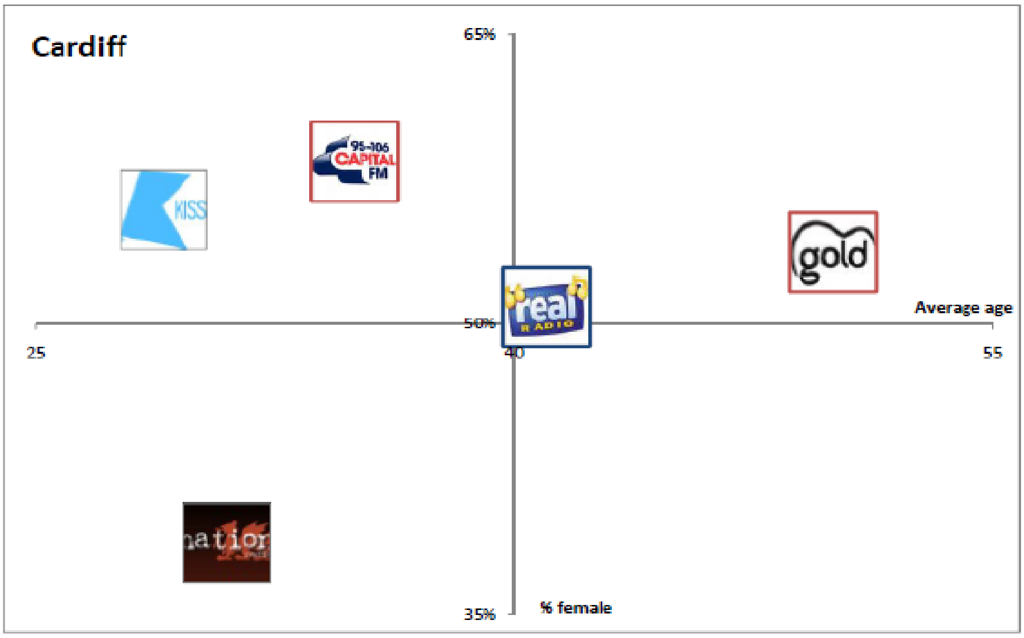
[25] PF, para. 6.70.

[26] PF, para. 7.39.

[27] Average listener age based on RAJAR Q3 2012.

[28] http://www.joinedupradio.com/.

Figure 8
Brand map of commercial radio stations – Cardiff



Source: *RAJAR Q3 2012.*

3.9 As accepted by the CC, "***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***"[29]. Moreover, the CC has recognised that Nation is a new and growing competitor in Cardiff (only first sold on a split transmitter basis in Cardiff in September 2012), stating that "***We consider that this share may be expected to grow***"[30] and "***Its share of revenue may grow in future***"[31].

3.10 However, the CC has not as yet taken proper account of Nation in its competitive assessment of Cardiff, instead provisionally concluding that "***There is no strong radio alternative for Cardiff advertisers***"[32].

T&C and UTV's stations are better alternatives to Real than Capital

3.11 Given that Real is primarily a regional station, a combination T&C and UTV's stations is a better alternative to Real than Capital.

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[29] Appendix L, para. 62.

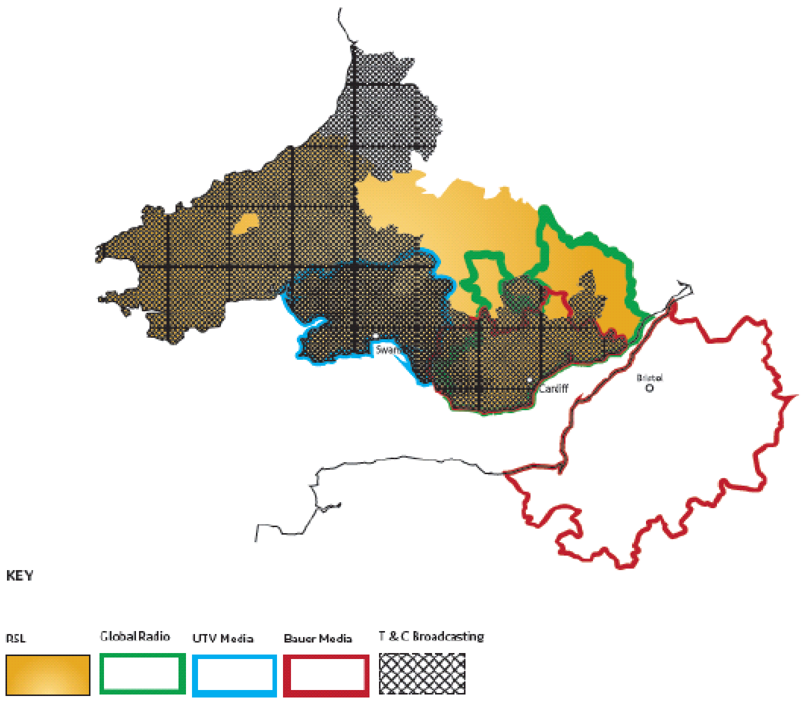
[30] Appendix L, para. 62.

[31] Appendix L, para. 63.

[32] PF, para. 7.40.

3.12 UTV's Wave and T&C's stations in South Wales (i.e. Nation Radio, Nation 80's, The Bridge, Radio Pembrokeshire, Radio Carmarthenshire, Scarlet FM and Radio Ceredigion), together, provide coverage of 90% of the Real's TSA in South Wales, with an audience share in Real TSA in South Wales of 6%. In contrast, Global's Capital and Gold only cover 54% of Real's TSA in South Wales, with an audience share of 5%:

Figure 9
South Wales TSA



Source: *OFT Submission.*

Conclusion

3.13 The merger will not significantly change the outside options for either Capital or Real's non-contracted customers in Cardiff. Town and Country's Nation will remain an effective alternative radio option post merger in Cardiff.

3.14 Accordingly, Global strongly urges the CC to re-evaluate the evidence before it, as well as new evidence that is being made available to it, with a view to reaching a final conclusion that the merger will not give rise to a substantial lessening of competition in the non-contracted advertising sector in Cardiff.

<u>GLOBAL'S RESPONSE TO THE COMPETITION COMMISSION'S PROVISIONAL FINDINGS</u>

<u>ANNEX 3</u>

NORTH WALES

1. EXECUTIVE SUMMARY

1.1 Global does not agree with the CC's provisional conclusion of a substantial lessening of competition in the non-contracted advertising sector in North Wales.

1.2 Firstly, the CC fails to take into account evidence that non-contracted advertisers in North Wales view non-radio media, in particular press, as an effective alternative to radio - this is further addressed in Section 2 of this Annex.

1.3 Secondly, within the radio sector, the CC has not as yet taken account of the differences in the target geographies of the parties' stations, as well as evidence that the parties' stations compete more closely with non-radio media. In particular:

1.4 Heart is predominantly used by local advertisers: [✂]% of Heart's customers purchase on a single transmitter basis in North Wales (i.e. accounting for [✂]% of revenues across the four transmitters in North Wales). As Real is sold only as a regional station, it will not be an effective alternative for the [✂]% of Heart's non-contracted customers who advertise locally in North Wales. Specifically:

(i) a non-contracted advertiser using Real to target customers within Heart Anglesey and Gwynedd's coverage area would pay for approximately 82% wasted population coverage;

(ii) a non-contracted advertiser using Real to target customers within Heart North Wales Coast's coverage area would pay for approximately 65% wasted population coverage;

(iii) a non-contracted advertiser using Real to target customers within Heart Cheshire and NE Wales's coverage area would pay for approximately 72% wasted population coverage; and

(iv) Heart Wirral's coverage area is outside Real's TSA and therefore no non-contracted advertisers targeting the Wirral would consider Real as an alternative.

1.5 Moreover, as the Heart North Wales TSA extends beyond Real's TSA in the overlap area in North Wales, a non-contracted advertiser using Heart North Wales to target customers within Real's TSA in the overlap area in North Wales would pay for 48% wasted population coverage.

1.6 Global's event study on Real entry's into North Wales ("**North Wales Event Study**") clearly evidences that the parties' stations are not close competitors in North Wales. The North Wales Event Study clearly demonstrates that Real's entry into North Wales had [✂] on Heart's non-contracted prices or revenues in North Wales, despite the two being the only (significant) commercial radio stations targeting a similar demographic in North Wales.

1.7 The above points are addressed in greater detail in Section 3 of this Annex.

2. NON-RADIO MEDIA POSE A STRONG CONSTRAINT IN NORTH WALES

2.1 The CC implicitly accepts that across the overlap regions the vast majority of non-contracted customers view non-radio media as substitutable for the parties' radio stations[1] (see further Parts 1 and 2 of this Response). However:

(i) The CC has failed to take into account Ofcom's conclusion in the public interest inquiry relating to this merger that there are 1 to 3 newspaper owners (and at least 24 local newspapers) active in North Wales.

(ii) The CC has not as yet taken proper account of evidence from the parties' internal documents for North Wales, which clearly establishes that the entire strategy of both companies is to compete directly with non-radio media, [✂], to win business. An analysis of these internal documents confirms that Global and RSL's non-contracted customers in North Wales have effective non-radio media [✂] options when planning campaigns. In particular, Global and RSL's internal documents evidence plainly that both parties' commercial strategies are focused on:

(a) finding new non-contracted customers by targeting users of non-radio media [✂]; and

(b) ensuring that they do not lose existing non-contracted customers to non-radio media [✂].

2.2 As a result, when the parties negotiate prices for campaigns with both new and existing non-contracted customers in North Wales, they are constrained by non-radio media [✂]. Given that those non-contracted advertisers have equally or more effective non-radio [✂] alternatives to the parties' stations, there is no basis for CC's provisional conclusion that the merger will lead to substantially higher prices for any non-contracted advertisers in North Wales.

2.3 All of the evidence referred to in paragraph 2.1 above is outlined below.

The CC has failed to take into account Ofcom's conclusion in the public interest inquiry relating to the merger

2.4 The CC has failed to take into account Ofcom's conclusion that there will continue to be "*a variety of other platforms…newspapers (between 1 and 3 owners)*"[2] in the overlap area between Heart and Real in North Wales (i.e. the "**North Wales TSA**").

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[1] E.g. The CC states at paragraph 6.39 of the PF that "*the survey results suggest limits to the constraint provided by other media. We note, for example, that the existing customer survey suggests that 15 per cent of existing customers did not consider using any other media at the time of their last campaign and 24 per cent said that they ended up using only radio. Similarly, 9 per cent of respondents said that they could not use any other types of media to meet the same objectives as radio*". A clear implication of the results cited by the CC is that non-radio media constitutes an effective constraint for the remaining 75% to 90% of non-contracted advertisers.

2.5 In particular, there are four major newspaper groups in the North Wales TSA – NWN Media, Midland News, Tindle and Trinity Mirror – owning between them at least 24 local newspapers in the North Wales TSA. These 24 (or more) local / regional newspapers will continue to be effective alternatives for non-contracted advertisers in the North Wales TSA. As Global submitted to Ofcom, a list of these 24 local / regional newspapers available in the North Wales TSA is set out in Table 2.1 below.

Table 2.1
North Wales TSA – Newspapers

Owner	**Title**
NWN Media Ltd	Chester & District Standard
NWN Media Ltd	Denbighshire Free Press
NWN Media Ltd	Ellesmere Port Standard
NWN Media Ltd	Flintshire Standard
NWN Media Ltd	Oswestry & Border Counties Advertiser
NWN Media Ltd	North Wales Chronicle Series
NWN Media Ltd	North Wales Pioneer
NWN Media Ltd	Rhyl Prestatyn & Abergele Journal
NWN Media Ltd	The Leader – Wrexham & Chester
NWN Media Ltd	Welshpool County Times & Express
NWN Media Ltd	Whitchurch Herald
NWN Media Ltd	Wrexham Leader
The Midland News Association Ltd	Oswestry & Border Chronicle
The Midland News Association Ltd	Shrewsbury / North Shropshire Chronicle
The Midland News Association Ltd	Shropshire Star
Tindle Newspapers Ltd	Cambrian News
Trinity Mirror plc	Caernarfon Herald
Trinity Mirror plc	Chester Chronicle
Trinity Mirror plc	Chronicle Xtra – Chester
Trinity Mirror plc	Corwen Times
Trinity Mirror plc	Daily Post
Trinity Mirror plc	Flintshire Chronicle
Trinity Mirror plc	Mail Series (Bangor & Holyhead)
Trinity Mirror plc	North Wales Weekly News

2.6 Specifically, there are at least two newspapers owned by different newspaper groups in most areas within the North Wales TSA, with the greatest coverage coming from Trinity Mirror and NWN Media.

2.7 Consistent with Ofcom's conclusion, Global's non-contracted advertising strategy in North Wales is focused on competing with press in North Wales (see further paragraphs 2.19 to 2.21 below), as is RSL's (see further paragraph 2.37 below). [✂]

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2 Ofcom, *Report on public interest on the acquisition of Guardian Media Group's radio stations (Real and Smooth) by Global Radio* (11 October 2012).

Figure 2.1
[✂]

The CC has not as yet taken proper account of Global's internal documents for North Wales

Heart and North Wales three-year territory business plan[3]

2.8 The CC states that "***the internal documents summarized in Appendix L suggest that the entry of Real to the area is potentially significant***"[4], noting that "***In the Heart and North Wales three-year territory business plan, Real is listed as a competitor***"[5] (emphasis added).

2.9 The CC fails to take into account Global's submission on this business plan[6], which explained that [✂].

2.10 Moreover, the CC has not been fair in its selection of evidence from this business plan. This business plan clearly evidences that Global competes directly with non-radio media [✂] as well as third party radio stations (but not Real) in North Wales. For example: [✂][7,8,9,10,11]

2.11 The CC has failed to take into account all other internal documents submitted by Global concerning the North Wales market. An analysis of these internal documents would show that Global's entire strategy for North Wales is focused on growing radio's share of the "total media pie" and competing with non-radio media [✂] both for new and existing customers. In particular, the CC has failed to take into account Global's

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[3] Annex 2 to Global's response to the CC's request for information dated 13 December 2012 (submitted 21 December 2012).

[4] PF, para. 7.47.

[5] PF, para. 7.47.

[6] Global's submissions to the CC dated 21 December 2012 and 25 January 2013.

[7] Annex 2 to Global's response to the CC's request for information dated 13 December 2012 (submitted 21 December 2012).

[8] Annex 2 to Global's response to the CC's request for information dated 13 December 2012 (submitted 21 December 2012).

[9] Annex 2 to Global's response to the CC's request for information dated 13 December 2012 (submitted 21 December 2012).

[10] Annex 2 to Global's response to the CC's request for information dated 13 December 2012 (submitted 21 December 2012).

[11] Annex 2 to Global's response to the CC's request for information dated 13 December 2012 (submitted 21 December 2012).

strategy overview paper, which provided a full description of this non-contracted advertising strategy[12].

2.12 Global loses on average [✂]%[13] of its non-contracted customers every year in North Wales through churn (representing an average of [✂]%[14] of its non-contracted revenues each year in North Wales) – it is therefore fundamental to the survival of its non-contracted advertising business that it succeeds in targeting new non-contracted customers to replace those that churn away (and retains as many existing non-contracted customers as possible) to compensate for lost revenues.

<u>Global's [✂] strategy</u>

2.13 As explained in Global's strategy overview paper, Global implemented the [✂] strategy in 2009 with the express focus of addressing customer churn by competing more effectively with non-radio media competitors. Global introduced its current [✂] strategy [✂] in early 2012 with the objective of building on [✂]. The [✂][15] sets out Global's current strategy in North West and Wales (i.e. including North Wales) specifically.

2.14 The CC has failed to take into account the internal documents relating to the key initiatives in North Wales under the [✂] strategy, which include, among others, the following [✂] and [✂]:

(i) Global's [✂] initiative; and

(ii) Global's [✂] initiative.

<u>Global's [✂] initiative</u>

2.15 As further detailed in Global's strategy overview paper, the [✂] initiative is Global's [✂] commercial scheme for non-contracted advertisers. It is focused on targeting [✂] whose potential spend is only up to £[✂]. In North Wales, as [✂] are [✂] businesses, the average cost of broadcast media would be [✂]; therefore, they are more likely to be press or online advertisers.

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12 Annex 9 (also provided as part of Global's response to the First Day Letter ("**FDL**")).

13 RBB analysis based on Global and RSL's transactional data from 2009/2010 to 2011/2012 (i.e. three years). NMR data is only available up to September 2012; therefore, the average churn by count and revenue does not include a customer who may have purchased on the parties' stations in Q4 2012.

14 RBB analysis based on Global and RSL's transactional data from 2009/2010 to 2011/2012 (i.e. three years). NMR data is only available up to September 2012; therefore, the average churn by count and revenue does not include a customer who may have purchased on the parties' stations in Q4 2012.

15 [✂] submitted to the CC on 28 January 2013.

2.16 In North Wales, Global won [✂] new businesses to [✂] in 2012[16]. Global has specifically identified that [✂] in North Wales, among others, were "*strong competition from press*"[17] and "[✂], *we can't compete with the pricing structure of the local press*"[18]. For example, Attachments 3.3 and 3.4[19] provide examples of when a [✂] and switched to press and when Global has lost [✂] a business who chose to advertise on press. In addition to "*local press*", Global lists various non-radio media as its competitors in North Wales, namely "*online*", "*SEO*" "*magazines*", as well as "*other radio stations*" (but does not specifically refer to any radio stations)[20]. It is clear that Global competes directly with non-radio media [✂] to win advertisers [✂].

<u>Global's [✂] initiative</u>

2.17 As further detailed in Global's strategy overview paper, Global's sales team identifies [✂] for North West and Wales (i.e. including North Wales) who are advertising predominantly on non-radio competitors. [✂]

2.18 The CC has failed to take into account [✂] for North West and Wales (i.e. including North Wales)[21]. For example, as illustrated in Figure 2.2 below, of the top [✂]:

(i) [✂] advertise on press ([✂] of which advertise exclusively on press).

(ii) [✂] advertise on other non-radio media (i.e. TV, online, leaflets / flyers).

(iii) [✂] advertise on other radio.

Figure 2.2
[✂]

<u>Global's press strategy</u>

2.19 As explained in Global's strategy overview paper, Global has identified [✂] local and regional press as a key opportunity: [✂][22].

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16 Attachment 3.1 ("[✂] **2012**").

17 Attachment 3.2 ("**Gaining Competitive Advantage**")

18 Attachment 3.2 ("**Gaining Competitive Advantage**")

19 Attachment 3.3 ("**Example Pitched** [✂] **Clients – Lost to Press**") and Attachment 3.4 ("**Example Previous** [✂] **Clients – Lost to Press**").

20 Attachment 3.2 ("**Gaining Competitive Advantage**")

21 FDL, Annex 17A(i).045(l).

22 FDL, Annex 15A(ii).004.

2.20 Accordingly, Global monitors the performance of press titles in North Wales with a view to informing its pitches and marketing materials for customers using or considering using North Wales press alternatives. [✂][23].

2.21 Global has also submitted evidence of analyses comparing the [✂] of, among others, the following North Wales press titles for the periods July 2009 to December 2009, January 2010 to June 2010, and July 2010 to December 2010: [✂][24]. This provides clear evidence that Global is monitoring press performance as a competitor.

The CC has not as yet taken proper account of RSL's internal documents for North Wales

2.22 The CC refers to the following RSL internal documents to conclude that "***the internal documents summarized in Appendix L suggest that the entry of Real to the area is potentially significant***"[25].

2.23 However, the CC has not been fair in its selection of evidence from these RSL internal documents, which clearly demonstrate that RSL competes with non-radio media, [✂], for non-contracted advertising business in North Wales. Instead, in its competitive assessment, the CC only makes reference to Heart being a competitor to Real in North Wales.

RSL's SWOT analysis of North Wales[26]

2.24 The CC states:

[✂][27]

2.25 However, the CC fails to take into account:

(i) the multiple references to non-radio media [✂][28,29,30,31]

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[23] FDL, Annex 17A(i).016.

[24] FDL, Annex 17A(i).014.

[25] PF, para. 7.47.

[26] FDL, Annex 15B.010.

[27] Appendix L, para. 94.

[28] FDL, Annex 15B.010.

[29] FDL, Annex 15B.010.

[30] FDL, Annex 15B.010.

[31] FDL, Annex 15B.010.

(ii) that Real's own SWOT analysis states [✂] is: [✂][32], highlighting Real's [✂] to target local customers, who make up over [✂]% of Heart's customer base in North Wales.

<u>RSL's North Wales Key Business Issues Document</u>[33]

2.26 The CC states: [✂][34].

2.27 The CC has not been fair in its selection of this evidence, which is taken from the following context: [✂][35].

2.28 RSL explains that a creative writer of this type is specific to the radio industry (for example, a press company would not require this type of creative writer). As a result, it is not informative about competition from non-radio media.

<u>Licence application for the North Wales service - forecasts</u>[36]

2.29 The CC states: [✂][37].

2.30 The CC has failed to take into account that the forecasts are estimates only[38]. In fact:

(i) Real North Wales only managed to grow its audience to 61,000 listeners by the end of year two (and only grew its audience by 47,000 by the end of year one). It is therefore highly unlikely that by December 2013 its audience will have grown [✂] in line with the forecast.

(ii) Real North Wales' total revenues (including contracted revenues) amounted to [✂] in FY 2011 / 2012 – of these [✂] related to non-contracted revenue.

(iii) As the CC is aware, Real North Wales' non-contracted revenues are in fact [✂] (see Figure 3.1 below).

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[32] FDL, Annex 15B.010.

[33] FDL, Annex 15B.009.

[34] Appendix L, para. 95.

[35] FDL, Annex 15B.009.

[36] Annexes 1.3 and 1.4 to RSL's response to the CC's request for information dated 13 December 2012 (submitted 21 December 2012).

[37] Appendix L, para. 96.

[38] E.g. "*The BBC Radio Wales TSA according to RAJAR is 2.477m adults aged 15+, Real Radio South Wales' current TSA numbers 1.764m and by adding in the North and Mid Wales potential audience the total combined TSA for the new Real Radio Wales will almost replicate the total BBC coverage – a first for commercial radio in Wales. It is also reasonable to project that within a short period of time Real Radio in North and Mid Wales will enjoy equal popularity with listeners and advertisers as the station has so far enjoyed in the rest of Wales*."

2.31 Forecasts are not a measure of Real's current or future strength in North Wales.

Licence application for the North Wales service – substantive application[39]

2.32 The CC stated that: [✂][40].

2.33 The CC has failed to take account of this evidence in its competitive assessment of North Wales, in particular, the competitive constraints from [✂] in North Wales: [✂][41,42,43].

2.34 Moreover, the CC has failed to take into account that this application makes no express reference to Heart (despite identifying other commercial radio stations by name).

2.35 Generally, the CC has not as yet taken proper account of RSL's other internal documents which evidence, in particular, the constraints posed by non-radio media [✂] in North Wales. It has failed to take account of RSL's non-contracted strategy for North Wales, which is entirely focused on improving how it identifies and targets non-radio customers [✂] and in turn increasing the share of advertising revenues spent on its radio stations in this region, compared with non-radio media [✂], as described in detail in RSL's strategy overview paper[44]. In particular, the CC has not as yet taken proper account of RSL's local strategy document for Wales (which is detailed in Annex 2 – Cardiff) and RSL's business plan for Wales, which is summarised below.

RSL business plan for Wales[45]

2.36 RSL lost [✂]%[46] of its non-contracted customers in the last year in North Wales through churn (representing [✂]%[47] of its non-contracted revenues in North Wales last year) –

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[39] Annex 1.2 to RSL's response to the CC's request for information dated 13 December 2012 (submitted 21 December 2012).

[40] Appendix L, para. 97.

[41] Annex 1.2 to RSL's response to the CC's request for information dated 13 December 2012 (submitted 21 December 2012).

[42] Annex 1.2 to RSL's response to the CC's request for information dated 13 December 2012 (submitted 21 December 2012).

[43] Annex 1.2 to RSL's response to the CC's request for information dated 13 December 2012 (submitted 21 December 2012).

[44] Annex 10 (also provided as part of RSL's response to the First Day Letter ("**FDL**"))

[45] FDL, Annex 15B.008.

[46] RBB analysis based on Global and RSL's transactional data from 2009/2010 to 2011/2012 (i.e. three years). NMR data is only available up to September 2012; therefore, the average churn by count and revenue does not include a customer who may have purchased on the parties' stations in Q4 2012.

as with Global, it is therefore fundamental to the survival of RSL's business that it succeeds in targeting new non-contracted customers to replace those that churn away (and retains as many existing non-contracted customers as possible) to compensate for lost revenues.

2.37 RSL's business plan for Wales (i.e. including North Wales) is more focused on competition from non-radio media than from other media, for example, stating that: [✂][48,49].

Conclusion

2.38 An analysis of the parties' internal documents for North Wales, together with Ofcom's conclusion, provides strong evidence that the parties compete directly with, and their prices and negotiations are constrained by, a wide range of non-radio media options, in particular press, in North Wales.

2.39 This conclusion is consistent with the key results of the Existing Customers and Lost Opportunities Surveys, which provide strong evidence that non-contracted advertisers in North Wales consider non-radio media as effective alternatives for the parties' stations (see further paragraph 2.40 above).

2.40 Moreover, the Existing Customers and Lost Opportunities Surveys clearly evidence that more non-contracted advertisers in North Wales view non-radio media, and especially press, rather than the other party's stations as their next best alternative:

Existing Customers Survey

(i) Based on weighted results, 29% of respondents indicated that non-radio media would be their next best alternative – this compares with 6% who chose the other party's stations (14% chose press).

(ii) Based on unweighted results[50], 43% of respondents indicated that non-radio media would be their next best alternative – this compares with 17% who chose the other party's station (21% chose press).

Lost Opportunities Survey

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[47] RBB analysis based on Global and RSL's transactional data from 2009/2010 to 2011/2012 (i.e. three years). NMR data is only available up to September 2012; therefore, the average churn by count and revenue does not include a customer who may have purchased on the parties' stations in Q4 2012.

[48] FDL, Annex 15B.008.

[49] FDL, Annex 15B.008.

[50] Unweighted results are provided as per the CC's preference.

(iii) 76 % of radio users (i.e. respondents who had used radio in the last three years) chose press having declined a Global proposal – this compares with 16% who chose RSL's stations.

2.41 As explained in Part 2 of the Response, the CC has not as yet taken proper account of the Existing Customers and Lost Opportunities Surveys, particularly at a local / regional level – in particular, the sample sizes in North Wales were above 90 (i.e. well above the minimum sample size generally accepted in survey analysis).

2.42 As a result, the merger will not significantly reduce the outside options of the parties' non-contracted customers. Non-contracted advertisers in North Wales will retain equally or more effective non-radio media (in particular press) alternatives to the parties' stations.

3. COMPETITION BETWEEN RADIO STATIONS IN NORTH WALES

3.1 The CC accepts that the parties' stations are not close competitors:

"***We note the parties' arguments that the parties are not close competitors***"**[51]**

3.2 Nevertheless, the CC provisionally concludes that:

"***In the absence of any countervailing factors, the merger will lead to significant adverse effects in North Wales***"**[52]**.

The CC has applied the wrong test

3.3 The CC has applied the wrong test to assess the competitive interaction between radio stations in North Wales. The CC has given too much weight to share of listening and share of non-contracted revenues than to geographic factors. The CC's approach is not informative about the competitive interactions of highly differentiated products in heterogeneous product markets and is inconsistent with the CC's provisional findings elsewhere which recognise the critical importance of a station's geographic coverage**[53]**.

3.4 The CC has not as yet taken proper account of the following key factors.

Heart and Real are not next best alternatives

3.5 Heart is used predominantly by local advertisers who would not regard Real as a suitable alternative in North Wales; specifically, [✂]% of Heart's customers in North Wales purchase advertising on only one of the four Heart transmitters in North Wales (accounting for [✂]% of revenues generated across all four of these Heart transmitters in North Wales). In contrast, Real does not have split transmitters and is therefore broadcast regionally in North Wales (i.e. 100% of its customers are regional in North Wales – it is a regional station).

3.6 As a result, a non-contracted advertiser would experience significant wastage if it used Real to target local customers in North Wales (i.e. those solely based in the coverage areas of each of the four Heart transmitters in North Wales), as illustrated by the following calculations.

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51 PF, para. 7.47.

52 PF, para. 7.49.

53 PF, paras. 6.73-7.75 and 7.7.

3.7 Table 3.1 below sets out the population coverage in the Real TSA and Heart TSA in North Wales (the latter split into the four transmitters):

Table 3.1
North Wales – Population Coverage

Coverage Area	**Coverage ('000s)**
Heart Cheshire and NE Wales	382
Heart Anglesey and Gwynedd	122
Heart North Wales Coast	244
Heart Wirral	439
Real North Wales	688

Source: RAJAR (Heart coverage areas based on TSAs as at 2010).

3.8 On this basis, Table 3.2 below indicates the degree to which Real's population coverage would overspill the Heart transmitters in North Wales (or vice versa in the case of Heart Cheshire and NE Wales and Heart Wirral, which do not overlap fully with Real).

Table 3.2
North Wales – Wastage analysis (Population Coverage)

	Coverage ('000s)
Real's population not covered by Heart Cheshire and NE Wales	492
Real's population not covered by Heart Anglesey and Gwynedd	566
Real's population not covered Heart North Wales Coast	444
Heart Cheshire and NE Wales's population not covered by Real	186
Heart Wirral's population not covered by Real	439

Source: RAJAR.

3.9 As a result, a non-contracted advertiser using Real to target customers within the coverage area of any of the Heart transmitters in North Wales will experience significant wastage of population coverage of between 65% and 100%, as illustrated in Table 3.3 below.

Table 3.3
North Wales – Wastage analysis (%)

	Wastage (%)
Advertisers on Real targeting Heart Anglesey and Gwynedd	82
Advertisers on Real targeting Heart North Wales Coast	65
Advertisers on Real targeting Heart Cheshire and NE Wales	72
Advertisers on Real targeting Heart Wirral	100

Source: RAJAR Q3 2012.

3.10 Moreover, as the Heart North West and Wales TSA extends beyond Real's TSA in the overlap area in North Wales, a non-contracted advertiser using Heart North West and Wales to target customers within Real's TSA in the overlap area in North Wales would pay for 48% wasted population coverage. Therefore, a non-contracted advertiser using the whole of Heart North West and Wales to reach customers in Real's TSA in the overlap areas would also experience significant wastage.

3.11 The CC has recognised that "***advertisers want to minimize 'wasted' advertising***"[54] and, in the case of Birmingham, has accepted that Smooth and Capital are not close competitors because "***Smooth covers a wider area than Capital and advertisers who want to advertise in Birmingham only would face significant wastage by advertising on Smooth***"[55] – the same logic therefore applies to Heart and Real in North Wales.

3.12 Heart and Real are therefore weak alternatives because they target different advertisers (namely, local versus regional). The CC has accepted that "***The geographic area to which a station broadcasts is likely to be an important factor in how radio stations compete but <u>its significance in each case may vary</u>***"[56] (emphasis added). However, it has not as yet taken proper account that the parties' stations are highly differentiated in terms of geography in North Wales and, as a result, the parties' stations are not close competitors due to the significant level of resulting wastage.

<u>*The North Wales Event Study evidences that the parties are not close competitors in North Wales and, in fact, compete more closely with non-radio media*</u>

3.13 The North Wales Event Study supports the conclusion that the parties' stations are not close competitors in North Wales:

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[54] PF, para. 6.58.

[55] PF, para. 7.31.

[56] PF, para. 6.70.

(i) Following Real's entry in January 2011, Heart's non-contracted prices and revenues [✂], strongly suggesting that [✂].

(ii) Given that Heart and Real are the only two (significant) commercial radio stations targeting a similar demographic in North Wales, it is likely that Heart's [✂] in non-contracted revenues is attributable to [✂] (given that Real's non-contracted revenues also [✂] on its launch).

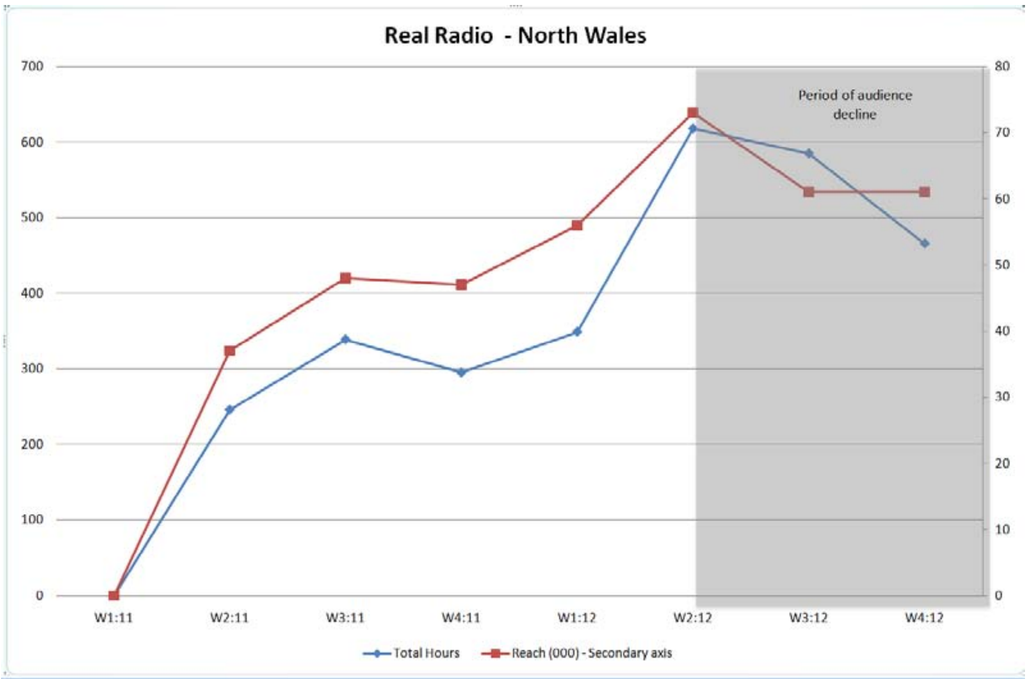
3.14 The CC states:

"***We note that at the time Global acquired RSL, Real's entry was recent and we have been told that it takes time for competition from a new entrant to build up listener share and advertising revenue***"[57]

3.15 Real's entry occurred in January 2011 (i.e. a year and a half pre merger), giving ample time to assess the effect of entry. Contrary to the CC's expectations that Real could grow over time and develop as a more effective competitor in North Wales, Real has in fact faced a substantial decline in [✂] listeners in North Wales during 2012.

Figure 3.1
[✂]

Figure 3.2
Real North Wales – Audience Decline



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[57] PF, para. 7.47.

Source: *RAJAR*.

3.16 For this reason, and given that the North Wales Event Study was carried out over a significant period of time (i.e. 18 months), the CC should take proper account of the North Wales Event Study, which clearly evidences that:

(i) The increase in radio alternatives from "1-to-2" [✄] radio advertising in North Wales – specifically, Heart's prices [✄] – therefore, a reduction in radio alternatives from "2-to-1" would also not be likely to impact the pricing of radio advertising in North Wales.

(ii) The number of radio alternatives does not determine the prices for non-contracted advertisers, primarily because non-radio media are effective competitive constraints on radio advertising in North Wales (and generally) (see further Section 2 above). In the case of the North Wales Event Study, the parties clearly compete more closely with non-radio media than with each other.

Conclusion

3.17 The merger will not significantly change the outside options for either Capital or Real's non-contracted customers in North Wales. Non-radio media will remain effective alternative radio options post merger.

3.18 Accordingly, Global strongly urges the CC to re-evaluate the evidence before it, as well as new evidence that is being made available to it, with a view to reaching a final conclusion that the merger will not give rise to a substantial lessening of competition in the non-contracted advertising sector in North Wales.

GLOBAL'S RESPONSE TO THE COMPETITION COMMISSION'S PROVISIONAL FINDINGS

ANNEX 4

GREATER MANCHESTER

1. EXECUTIVE SUMMARY

1.1 Global does not agree with the CC's provisional conclusion of a substantial lessening of competition ("**SLC**") in the non-contracted advertising sector in Greater Manchester ("**Manchester**").

1.2 Firstly, the CC fails to take into account evidence that non-contracted advertisers in Manchester view non-radio media as an effective alternative to radio - this is further addressed in Section 2 of this Annex.

1.3 Secondly, the two largest stations in terms of listening share, reach and non-contracted revenues in Manchester are Capital and Bauer's Key 103. Based on the CC's own calculations, Capital and Key account for over 80% of non-contracted revenues in Manchester.

1.4 Key 103 and Capital have a similar geographic coverage and audience demographics. The CC has accepted that: "*Bauer Key 103 has a closer demographic to Capital [than Real XS]*;"[1] and "*Bauer's Key 103 station is likely to be a good alternative to the parties for many advertisers wishing to target Manchester and the Greater Manchester area*."[2]

1.5 The CC's principal concern involves the reduction in competition between RSL's Real XS and Global's XFM in Manchester. Both are minor stations – XFM has non-contracted revenues of £[✂] and Real XS has non-contracted revenues of £[✂] for Manchester[3] – less than a [✂] of the revenues generated by either Capital or Key 103.

1.6 Therefore there can be no substantial lessening of competition in Manchester – any potential lessening of competition is trivial.

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[1] Appendix L, Paragraph 132.

[2] Provisional Findings, Paragraph 7.69.

[3] October 2011 to September 2012.

2. NON-RADIO MEDIA POSE A STRONG CONSTRAINT IN GREATER MANCHESTER

2.1 The Provisional Findings implicitly accept that across the overlap regions the vast majority of non-contracted customers view non-radio media as substitutable for the parties' radio stations[4] (see further Parts 1 and 2 of this Response).

2.2 As a result, when the parties negotiate prices for campaigns with both new and existing customers in Manchester, they are constrained by non-radio media.

2.3 These customers have equally or more effective non-radio alternatives to the parties' stations. Therefore there is no basis for the assertion that the merger will lead to substantially higher prices for any advertisers in Manchester.

The CC has failed to take into account Global's internal documents for Manchester

2.4 The CC has not yet taken proper account of the internal documents submitted by Global concerning the Manchester market. An analysis of these documents would show that Global's entire strategy for Manchester is focused on growing radio's share of the "total media pie" and competing with non-radio media both for new and existing customers.

2.5 Global loses on average [✄]%[4] of its customers every year in the North West through churn (representing an average of [✄]%[5] of its non-contracted revenues in this region) – it is therefore fundamental to the survival of its business that it succeeds in targeting new customers to replace those that churn away (and retains as many existing customers as possible) to compensate for lost revenues.

2.6 As explained in Global's Strategy Overview Paper at Annex 9, in 2009 Global implemented the [✄] strategy with the express focus of addressing customer churn by competing more effectively with non-radio media competitors. Global introduced its current [✄] strategy [✄] in early 2012 with the objective of building on [✄]. The [✄][6] sets out Global's current strategy for the North West (including Manchester).

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[4] E.g. The Provisional Findings state at Paragraph 6.39 that "*the survey results suggest limits to the constraint provided by other media. We note, for example, that the existing customer survey suggests that 15 per cent of existing customers did not consider using any other media at the time of their last campaign and 24 per cent said that they ended up using only radio. Similarly, 9 per cent of respondents said that they could not use any other types of media to meet the same objectives as radio*." A clear implication of the results cited by the CC is that other media constitutes an effective constraint for the remaining 75% to 90% of advertisers.

[4] RBB analysis based on Global and RSL's transactional data from 2009/2010 to 2011/2012 (i.e. three years). NMR data is only available up to September 2012; therefore, the average churn by count and revenue does not include a customer who may have purchased on the parties' stations in Q4 2012.

[5] RBB analysis based on Global and RSL's transactional data from 2009/2010 to 2011/2012 (i.e. three years). NMR data is only available up to September 2012; therefore, the average churn by count and revenue does not include a customer who may have purchased on the parties' stations in Q4 2012.

[6] [✄] submitted to the CC on 28 January 2013.

2.7 The CC has not yet taken proper account of the internal documents relating to the key initiatives introduced in Manchester under the [✂] and [✂] strategies. These are considered below.

[✂]

2.8 The [✂] initiative is Global's [✂] commercial scheme for non-contracted customers. It is specifically focused on targeting [✂] businesses [✂] that are using other media, particularly [✂].

2.9 The training session delivered to Global's Manchester sales staff on the [✂] scheme expressly lists the following sources as "possible places [to] uncover [their prospective] clients":[7] [✂]

2.10 Once [✂] have been identified, [✂]. A range of issues are discussed on these [✂], including [✂] its interest in using radio to advertise and critically its other media usage.

Global's [✂] initiative

2.1 As further detailed in Global's Strategy Overview Paper at Annex 9, under this initiative Global's Manchester sales team identifies [✂] for Capital, Gold and XFM which are advertising predominantly on non-radio media competitors.

2.2 The CC has not yet taken proper account of [✂] for the North West[8], which includes Manchester customers advertising exclusively on:

(A) press – e.g. the [✂]

(B) TV – e.g. [✂]

(C) cinema; and

(D) outdoor media.

2.3 Similarly insufficient weight has been given to the [✂] lists submitted to the CC which are used to identify potential customers in Manchester in different sectors [✂], and which detail [✂].[9]

Global's press strategy

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[7] Attachment 4.1 - [✂].

[8] Annex 17A(i).045(k) of Global's Response to the CC's Initial Factual Information request.

[9] Annexes 17A(i).001 to 17A(i).005 of Global's Response to the CC's Initial Factual Information request.

2.4 The CC has also been provided with extensive evidence on the steps taken by Global to capitalise from [✄] local and regional press readership in Manchester[10]. This includes [✄] for press titles in Manchester, undertaken with a view to informing Global's pitches and marketing materials for customers using or considering using these alternatives.

2.5 By way of illustration, Global has submitted reports prepared showing [✄] for a range of Manchester press titles, including the [✄].[11] This provides clear evidence that Global is monitoring press performance as a competitor.

2.6 The attached "business plan" prepared by a Global's Manchester sales manager for Capital and XFM (identifying his own sales objectives for 2012 and 2013) similarly identifies "Press [✄]" as a key opportunity. He also lists "[✄] Spotify" as an "opportunity" and "outdoor", "television" and "Facebook" as "Competitive Media".[12]

2.7 In addition, the below slides are taken from a pitch designed to persuade an advertiser using the [✄] that advertising with Capital and XFM in Manchester would achieve higher reach, in particular among the [✄] consumer group and specifically [✄].[13]

Figure 1
[✄][14]

[10] See for example Annexes 17A(i).014 to 17A(i).020 to Global's response to the CC's Initial Factual Information Request, together with Global's main strategy papers at 15A(ii).001 to 15A(ii).005.

[11] Annex 17A(i).014 of Global's response to the CC's Initial Factual Information Request.

[12] Attachment 4.5 - Global - Sales manager business plan – [✄].

[13] Attachment 4.2 - Global pitch - [✄].

[14] Attachment 4.2 - Global pitch - [✄].

Figure 2
[✂][15]

Figure 3
[✂][16]

Local TV

2.8 Ofcom has awarded the local TV licence for Manchester to the YourTV group. The Manchester channel is expected to cover approximately 1m homes in Manchester and to commence broadcasting by October 2013.

2.9 This will provide advertisers in Manchester with even more media platforms providing specific local content. It will therefore pose a new constraint on Global for advertising revenues in Manchester.

Marketing materials

2.10 Consistent with the above strategy, Global's pitches will often compare its stations' characteristics with those of non-radio media competitors in order to persuade customers that using one of its radio stations in Manchester will deliver a more effective advertising campaign.

2.11 For example, in the below slides taken from a [✂] pitch submitted to the CC (for a campaign targeted at [✂]) XFM is compared directly against a range of press titles, magazines and directories targeted at this demographic, including [✂].[17]

Figure 4
[✂]

Figure 5
[✂]

2.12 This same pitch also compares XFM with a wide range of radio stations but not Real XS. The pitch lists reach for [✂] portfolio stations, [✂] and [✂] – i.e. Real XS is not considered a strong competitor to XFM for this customer, despite this customer's target audience falling squarely within the Real XS demographic – this is further considered in Section 3 below.

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[15] Attachment 4.2 - Global pitch - [✂].

[16] Attachment 4.2 - Global pitch - [✂].

[17] Annex 17A(ii).048 of Global's response to the CC's Initial Factual Information Request.

2.13 An analysis of Global's internal documents for Manchester therefore clearly evidences that Global's business strategy is expressly to grow revenues and address customer churn by attracting spend away from non-radio media competitors.

The CC has failed to take into account RSL's internal documents for Manchester

2.14 The CC has not yet taken proper account of the internal documents submitted by RSL concerning its Real XS strategy.

2.15 An analysis of the relevant documents would show that, like Global, RSL's entire strategy for Real XS (and its other North West stations) is focused on competing with non-radio media both for new and existing customers.

2.16 RSL loses on average [✂]%[18] of its customers every year in the North West through churn (representing an average of [✂]%[19] of its non-contracted revenues in the North West) – it is therefore fundamental to the survival of its non-contracted business that it succeeds in targeting new customers to replace those that churn away (and retains as many existing customers as possible) to compensate for lost revenues.

2.17 The documents evidencing this strategy are considered further below (including North West strategy documents which have been implemented in Manchester specifically).

<u>RSL's regional strategy paper entitled [✂]</u>[20]

2.18 The Provisional Findings give no weight to the fact that RSL's non-contracted strategy for the North West (including Manchester) is entirely focused on improving how it identifies and targets non-radio customers and in turn increases the share of advertising revenues spent on its radio stations in this region, compared with non-radio media. This is illustrated in the slide below.

2.19 RSL loses [✂]% of its customers every year in the North West through churn (representing [✂]% of its non-contracted revenues) – as with Global, it is therefore fundamental to the survival of RSL's business that it succeeds in targeting new customers to replace those that churn away (and retains as many existing customers as possible) to compensate for lost revenues.

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[18] RBB analysis based on Global and RSL's transactional data from 2009/2010 to 2011/2012 (i.e. three years). NMR data is only available up to September 2012; therefore, the average churn by count and revenue does not include a customer who may have purchased on the parties' stations in Q4 2012.

[19] RBB analysis based on Global and RSL's transactional data from 2009/2010 to 2011/2012 (i.e. three years). NMR data is only available up to September 2012; therefore, the average churn by count and revenue does not include a customer who may have purchased on the parties' stations in Q4 2012.

[20] Annex 15B.006 of RSL's response to the CC's Initial Factual Information Request.

Figure 6
[✂]

<u>RSL's [✂] reports for the North West, such as the [✂]</u>[21]

2.20 The CC has attached insufficient weight to the [✂] reports submitted for the North West. For example, a key North West report entitled [✂]:

(A) "*What's happening within the ad market[?]*"; and

(B) "*How [do] we manage change [?]*".

2.21 The report highlights the [✂] and addresses what:

(A) "*it mean[s] for media*";

(B) "*it mean[s] for radio*"; and

(C) "*it mean[s] for GMG Radio [RSL]*".

2.22 The report considers the challenges brought about by the "realities of the new media age", including that:

(A) "*It has never been easier [for advertisers] to advertise*"; and

(B) "*[RSL is] in the midst of a dramatic media change*."

2.23 The report highlights there are now "more media" and "more routes" to advertise (see Figure 7).

Figure 7
[✂]

2.24 Under [✂] RSL lists:

(A) "*The competition – what's happening outside?'*"; and

(B) "*Offer ideas that keep us ahead of other media*."

2.25 The report then explains how sales staff can persuade customers that radio is an effective means of advertising their businesses [✂].

2.26 Under [✂], the report lists:

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[21] Annex 17B.017 and 17B.018 of RSL's response to the CC's Initial Factual Information Request.

(A) "*The enemy is outside!*"; and

(B) "*Expect changes in the media landscape*" (See [✂]).

Figure 8
[✂]

Target customer [✂]

2.27 Consistent with the above documents, the [✂] submitted to the CC for Manchester evidence that RSL's business strategy is to increase its revenues by targeting predominantly non-radio advertisers.

2.28 For example:

(A) The [✂] for [✂];[22] whilst

(B) The [✂] for [✂].[23]

Marketing materials

2.29 In line with the above strategy, RSL's pitches will often compare Real XS' characteristics with those of non-radio media competitors in order to persuade customers that using Real XS will deliver a more effective advertising campaign. RSL has previously submitted slides for Manchester (and the North West generally) illustrating this approach.

2.30 In addition, RSL has attached a copy of a presentation recently delivered to the Manchester sales team, considering [✂] press titles in Manchester and how to use this intelligence to better target those press titles' customers. Example slides from this presentation are included below – these include slides comparing [✂][24]

Figure 9
[✂]

Figure 10
[✂]

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[22] Annex 17B.041 RSL's response to the CC's Initial Factual Information Request.

[23] Annex 17B.042 RSL's response to the CC's Initial Factual Information Request.

[24] Attachment 4.12 – RSL - [✂] Local Press presentation.

Figure 11
[✂]

2.1 Thus an analysis of the parties' internal documents for Manchester, together with those of key competitors, provides strong evidence that the parties compete very strongly with, and their prices and negotiations are constrained by, a wide range of attractive and strong non-radio media options in this region.

2.2 This conclusion is consistent with the key results of the Existing Customers and Lost Opportunities surveys, which evidence that non-contracted advertisers in Manchester and generally in the overlap areas consider non-radio media as effective alternative for the parties' stations. The Existing Customers survey shows that, nationally, 39% of respondents would switch at least some spend to non-radio media if their chosen station were not available, while only 24% would switch at least some spend to other radio stations. In the North West, the related figures are 34% and 21% respectively. The Lost Opportunity survey shows that, nationally, 70% of Global respondents used non-radio media for their campaign after turning down a proposal from Global, relative to 34% that used other radio stations. The related figures in the North West are 62% and 32% respectively.

2.3 As a result, the merger will not significantly reduce the outside options of the parties' non-contracted customers in Manchester. Non-contracted advertisers in Manchester will retain equally or more effective non-radio media alternatives to the parties' stations.

3. COMPETITION BETWEEN RADIO STATIONS IN GREATER MANCHESTER

3.1 Within the radio sector, the scale of any potential lessening of competition in Manchester is trivial.

3.2 Global has the following stations whose TSAs are limited to the Greater Manchester area: Capital, Gold and XFM. RSL is present in this area only with Real XS.

3.3 Bauer is present in this area with Key 103, which has a slightly smaller TSA than Capital, and Magic Manchester.

3.4 The revenues, local commercial listening shares and reach of each of these stations are set out in Table 1 below.

Table 1
Shares of non-contracted airtime revenue shares, listening hours and reach - Manchester

Group / station	Non-contracted revenue		Local commercial listening hours		Reach
	Revenue (£'000s)	Share (%)	Hours ('000s)	Share (%)	('000s)
Global (total)	[✂]	[✂]	**4,561**	**45%**	**717**
Capital	[✂]	[✂]	2,787	28%	504
Gold	[✂]	[✂]	796	8%	110
XFM	[✂]	[✂]	978	10%	190
RSL (total)	[✂]	[✂]	**1,165**	**12%**	**142**
Real XS	[✂]	[✂]	1,165	12%	142
Bauer (total)	[✂]	[✂]	**4,342**	**43%**	**563**
Key 103	[✂]	[✂]	3,488	35%	504
Magic Manchester	[✂]	[✂]	854	8%	88
TOTAL	[✂]	[✂]	**10,068**	**100%**	**1538**

Source: *Revenues: Global and RSL transaction data, Oct 2011-Sep 2012. Global estimates for Bauer. Listening hours and reach: Rajar Q3 2012.*

<u>The next best alternative to Capital is Key 103</u>

3.5 By far the two largest stations in terms of listening share and non-contracted revenues in Greater Manchester are Capital and Bauer's Key 103.

3.6 The CC has accepted that:

"*Bauer's Key 103 station is likely to be a good alternative to the parties for many advertisers wishing to target Manchester and the Greater Manchester area*."[25]

3.7 As illustrated in Table 1 above, Capital and Key 103 together account for over 80% of non-contracted revenues in Manchester and 63% of commercial listening shares.

3.8 Bauer's Key 103 is much more likely to be the next best alternative for Capital advertisers than Real XS, which is a niche station and much smaller in terms of revenue ([5-10%]), local commercial listening share (12%) and reach (9%).

3.9 As accepted by the CC:

"Bauer Key 103 has a closer demographic to Capital [than Real XS]."[26]

3.10 Capital and Key 103 have similar average listener ages of 33 and 36 and both play contemporary and chart music designed to appeal to young adults (whereas Real XS has a niche classic rock focus). This is illustrated by the slide below, taken from the Key 103 media pack at Attachment 4.6.

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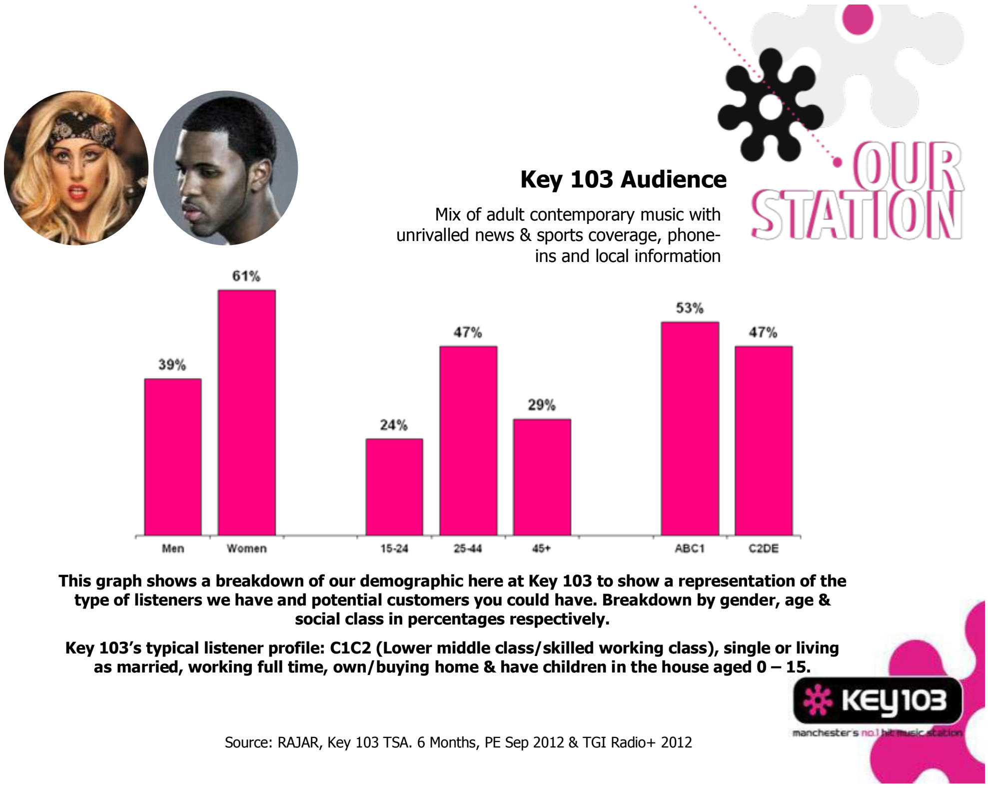
[25] Provisional Findings, Paragraph 7.69.

[26] Appendix L, Paragraph 132.

Figure 12
Key 103 audience demographic profile



Source: *Key 103 / Media pack.*[27]

3.11 Global has attached a sample of customer emails demonstrating that Capital and Key 103 compete head-to-head for a young adult audience in Manchester. For example:

(A) [✂] correspondence includes a request to Capital for a like-for-like quote against a Key 103 proposal:[28]

Figure 13
[✂]

(B) Another customer [✂] explained: [✂][29]

3.12 Moreover, Key 103 is identified as the principal competitor in the attached "business plan" prepared by a Global's Manchester sales manager for Capital and XFM (identifying his own sales objectives for 2012 and 2013). As mentioned above, this plan

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[27] Attachment 4.6 - Bauer - Key 103 and Magic media pack 1.

[28] Attachment 4.7 - Capital customer email - [✂].

[29] Attachment 4.8 - Capital customer email - [✂].

also lists "Press [✂]" and "[✂] Spotify" as opportunities; and "outdoor", "television" and "Facebook" as "Competitive Media".[30]

3.13 Capital also competes very closely with Key for a more mainstream adult audience in its thirties, in relation to which Key is the dominant player.

3.14 Key 103 is the market leader in Manchester in terms of revenues (with a share of [40-45]%, compared with Capital's share of [35-40]%), listening share (35%, higher than Capital's 28% share), and reach of 33% (identical to Capital).

3.15 Bauer describes Key as:

"*the market-leading commercial radio station broadcasting to Greater Manchester to a weekly audience of 512,000 and an impressive 3.7 million listening hours*."[31]

3.16 The Key 103 media pack[32] provides that:

(A) "*Key 103 & Magic 1152 – [is] Still Manchester's Number One.*"

(B) "*Key 103 and Magic 1152 retain their position as the commercial market leader in Greater Manchester with 532,000 listeners tuning into the stations each week*."

(C) "*Key 103's Mike and Chelsea is Manchester's most listened to commercial Breakfast show with 320,000 listeners tuning in each week, and OJ Borg's Home time show continues to grow, increasing the station's share in the afternoon to 8.9% (from 8)"*.

3.17 This pack expressly names Capital as Key 103's main radio competitor and highlights how Key 103 is a significantly stronger player than Capital:

"*In our core 25–44 demographic Key 103 remains number 1 for reach & share commercially, with a 17% higher share than Capital and 97.2% higher share for the demo than Smooth.*"

3.18 The following slides from the Key 103 and Magic media pack evidence how Bauer is also the market leader in terms of reach and listening shares among "all adults 15+" in Manchester.

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[30] Attachment 4.5 - Global - Sales manager business plan [✂].

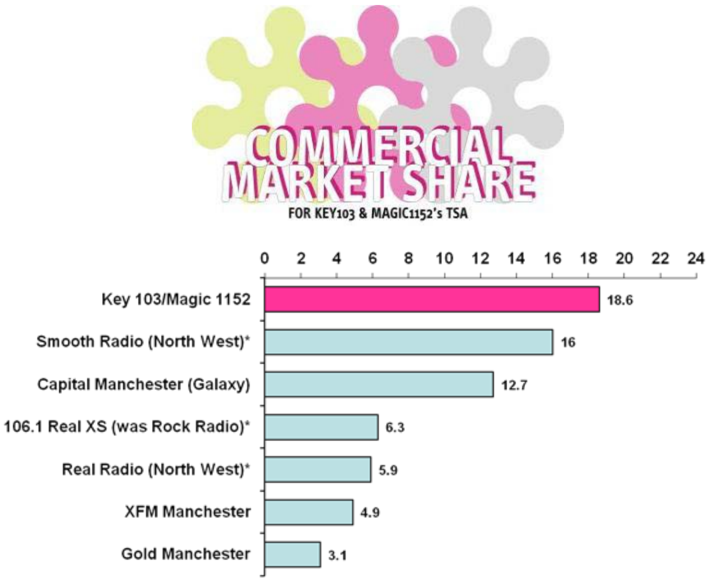
[31] http://radio.bauermediaadvertising.com/stations/detail/key_103

[32] Attachment 4.6 - Bauer - Key 103 and Magic media pack 1.

Figure 14
Slides from Bauer Media Pack

The number of people (in 000s) listening for all commercial radio stations surveyed in the Key 103 TSA.

Source RAJAR, Key 103 TSA. 6 Months, PE Sep 2012. Key 103 & Magic 1152 = Bauer Manchester. Stations marked with a * do not cover the whole TSA



The commercial share of listening in the Key 103 & Magic 1152 TSA.

Source: RAJAR, Key 103 TSA. 6 Months, PE Sep 2012. Key 103 & Magic 1152 = Bauer Manchester. Stations marked with a * do not cover the whole TSA

3.19 Below is an extract from an email sent by a Capital sales person to a prospective customer, who requested audience shares on a demographic basis.[33]

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[33] Attachment 4.9 - Capital customer email [✂].

Figure 15
[✂]

3.20 Global lost to Key because [✂] (i.e. Key has a broader appeal and therefore succeeds in attracting advertisers seeking to reach a wider audience): [✂]

3.21 Accordingly, the merger will not substantially reduce the outside radio options of Capital customers in Manchester – their next best alternative radio option pre-merger was Key 103 and this remains the case post merger.

Gold and Real XS do not compete closely for advertisers

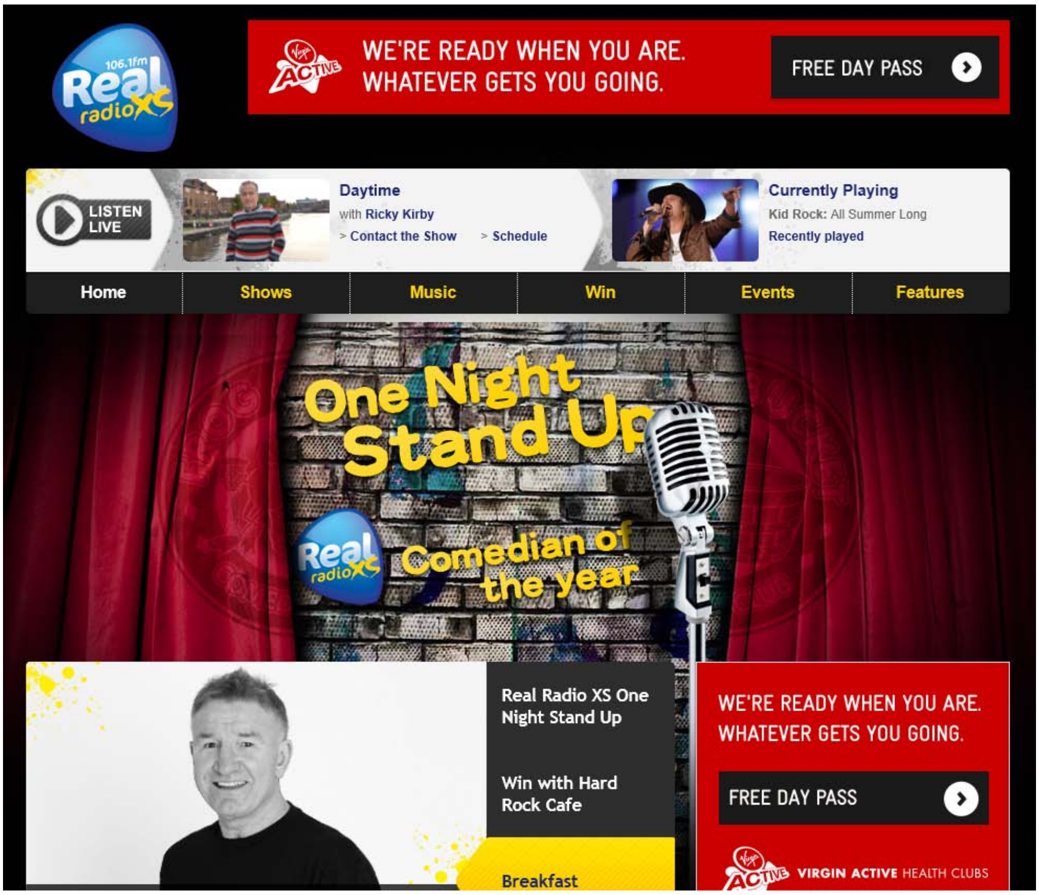
3.22 Global's Gold is a weak substitute for Real XS given their very distinct demographics.

3.23 Gold plays "oldies" predominantly from the 60s and 70s and has a significantly older average listener (aged 51) than Real XS, which is a classic rock station with an average listener age of 37. They therefore appeal to very different audiences and advertisers as illustrated in the screenshots of their websites below - Gold is advertising a competition for a cruise, whereas Real XS is advertising a gym and a stand-up comedy show.

Figure 16
Screenshot of Gold homepage

Source: *Gold website.*

Figure 17
Screenshot of Real XS homepage



Source: *Real XS website.*

3.24 Accordingly, the merger will not substantially reduce the outside radio options of Gold customers in Manchester – Real XS is not Gold's next best alternative and therefore the merger will not result in the removal of Gold's next best alternative.

To the extent the merger reduces competition between Real XS and XFM, its effect on competition in Manchester is trivial

3.25 The CC has raised concerns regarding the demographic overlap between XFM and Real XS:

(A) "[*Real XS and Xfm are] similar 'indie' stations reaching a predominantly male audience with a similar average age (34 and 37 respectively)*."[34]

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[34] Provisional Findings, Paragraph 7.65.

(B) "*The merger will also bring under the same ownership two stations with almost exactly the same geographic and demographic coverage: Real XS and Xfm*." **[35]**

(C) "*Real XS has 11 per cent of listening hours and [5-9] per cent of non-contracted advertising revenue; in the absence of other radio alternatives to Bauer its loss as an option is significant especially given its similarity to Global's Xfm*." **[36]**

(D) "*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*."**[37]**

XFM and Real XS are very different stations

3.26 XFM and Real XS are more distinct stations than the CC has appreciated.

3.27 Consistent with this:

(A) Only 2 (3%) of XFM's 78 customers who used XFM in 2009 switched to Real XS in 2010. No customers who used Real XS in 2009 switched to XFM in 2010.

(B) Only 1 customer (<1%) of XFM's 74 customers who used XFM in 2010 switched to Real XS in 2011; and only 3 (2%) of customers who used Real XS in 2010 switched to XFM in 2011.

Table 2
Analysis of NMR data - non-contracted advertisers switching between XFM and Real XS Manchester

	2009 to 2010		**2010 to 2011**	
	XFM -> Real XS	**Real XS -> XFM**	**XFM -> Real XS**	**Real XS -> XFM**
Count of advertisers switching	2	0	1	3
Number of advertisers using station in 1st year	78	144	74	159
% of advertisers switching	3%	0%	1%	2%

Source: Nielsen.

3.28 As illustrated in the below screenshot of XFM's website, XFM is focused on more current alternative music, primarily indie rock and folk rock.

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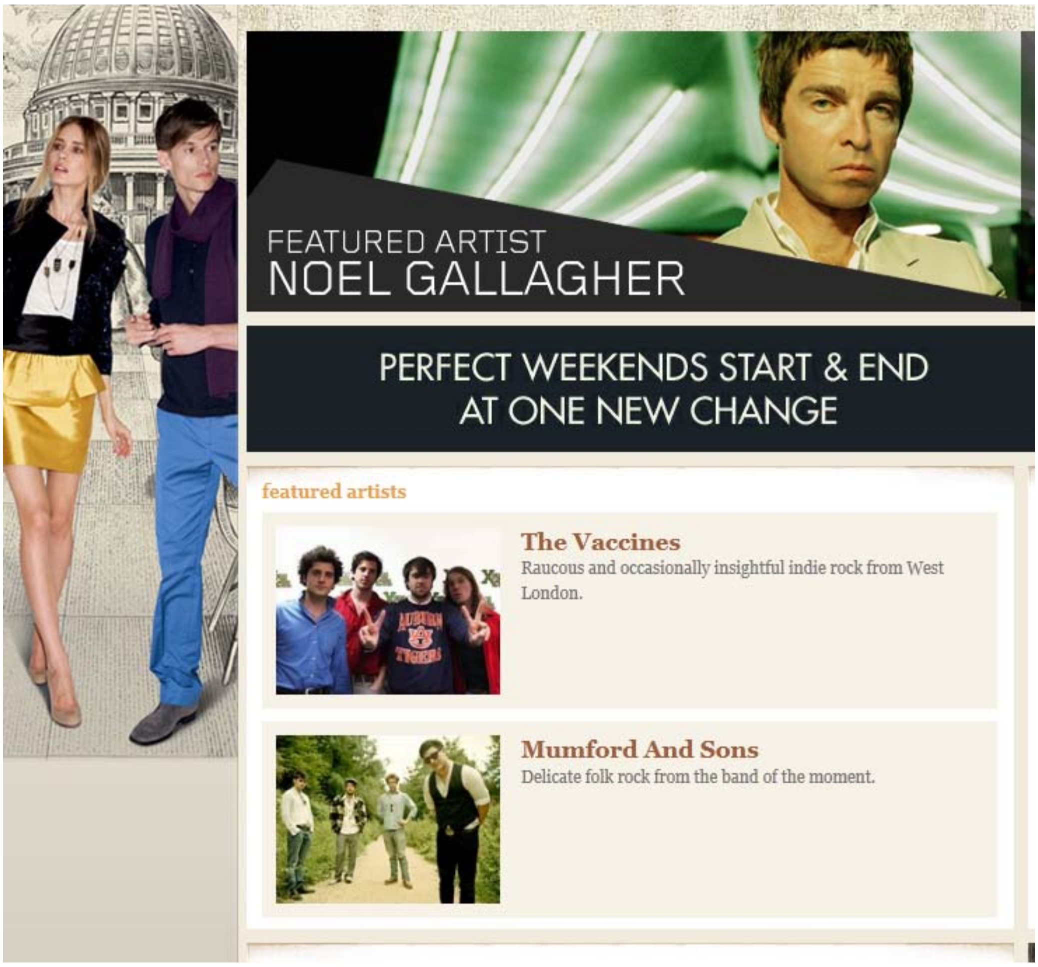
35 Provisional Findings, Paragraph 7.69.

36 Provisional Findings, Paragraph 7.70.

37 Appendix L, Paragraph 132.

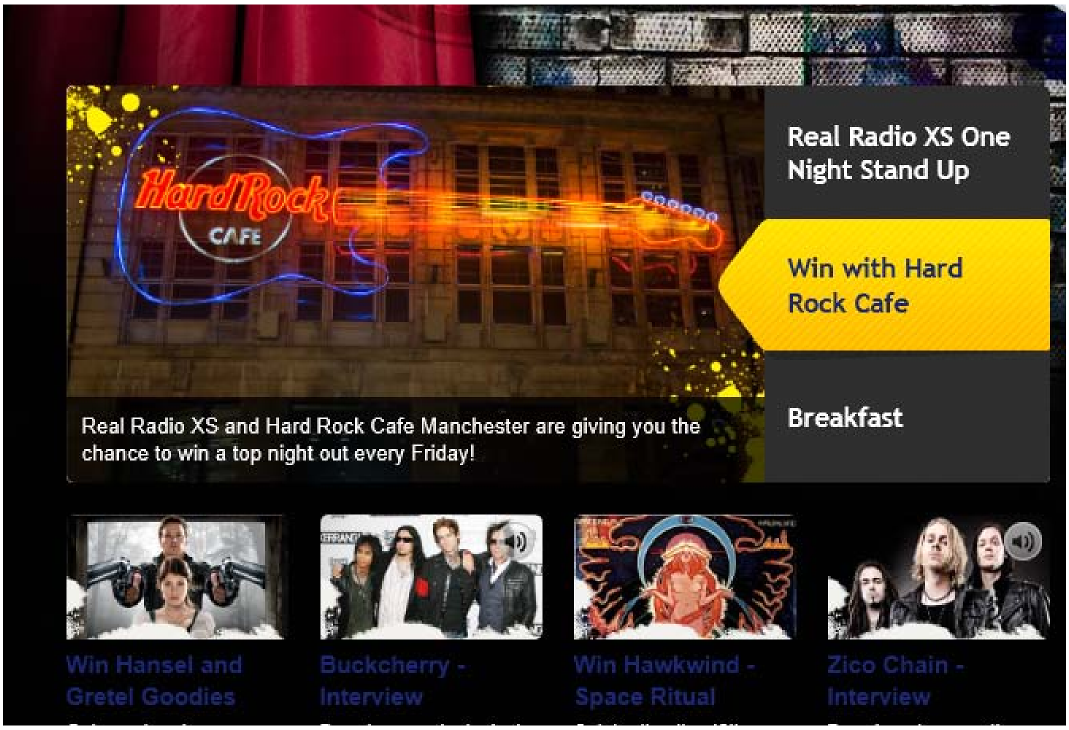
Figure 18
Screenshot of XFM homepage



Source: *XFM website.*

3.29 By contrast Real XS is "*a classic rock station, playing all the essential rock classics from the past 40 years*." The screenshot below from its website shows how it has a classic rock and roll focus – indeed, its website advertises a competition to win a night at the Hard Rock Café.

Figure 19
Screenshot of XFM homepage



Source: *XFM website.*

3.30 Accordingly, they appeal to different listeners - in Q42012 only 7% of XFM listeners also listened to Real XS and only 9% of Real XS listeners also listened to XFM.[38]

3.31 XFM appeals to listeners less likely to have children and more interested in contemporary music and gigs – its focus is predominantly on students and unmarried young adults.

3.32 By contrast, as the following slides from Real XS' pitches demonstrate, the majority of Real XS listeners are "professional", "affluent" homeowners with an average of 2 children and a strong family focus.

Figure 20
[✂]

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[38] Rajar Q2 2012.

Figure 21
[✂][39]

3.33 This means that Real XS and XFM appeal to distinct advertisers (as evidenced by the NMR data above).

3.34 An analysis of the internal documents previously provided for Manchester is consistent with this - Real XS receives limited mention in XFM's pitches.

3.35 As mentioned above, in XFM's [✂] pitch, XFM compares itself with <u>all</u> the commercial radio stations in the North West <u>except</u> Real XS – this is illustrated in the slide below. This is notwithstanding the fact that the pitch relates to a campaign designed to appeal to a target audience falling within the Real XS demographic [✂].

Figure 22
[✂]

<u>To the extent that the merger reduces competition between Real XS and XFM, its effect on competition in Greater Manchester is trivial</u>

3.36 Both XFM and Real XS are minor stations together accounting for approximately £[✂] in non-contracted revenues in total (£[✂] for XFM and £[✂] for Real XS Manchester) (see Table 1 above).[40]

3.37 By contrast, Capital has non-contracted revenues of £[✂] in Manchester[41] (over [✂] the combined revenues of XFM and Real XS); and Key 103 has estimated non-contracted revenues of at least £[✂] (at least [✂] times the combined revenues of both Real XS and XFM). As mentioned, Capital and Key account for over 80% of revenues in Manchester.

3.38 Indeed, the [✂] Global pitch for Manchester that refers to Real XS highlights how small both XFM and Real XS are in this market – see Figure 23 (this pitch relates to a [✂][42]

Figure 23
[✂]

3.39 Accordingly there can be no <u>substantial</u> lessening of competition in Manchester – any potential lessening of competition is trivial.

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[39] See e.g. Attachment 4.10 - Real XS pitch – [✂] and Attachment 4.11 - Real XS pitch – [✂].

[40] October 2011 to September 2012.

[41] October 2011 to September 2012.

[42] Annex 17A(ii).049 of Global's response to the CC's Initial Factual Information Request.

GLOBAL'S RESPONSE TO THE COMPETITION COMMISSION'S PROVISIONAL FINDINGS

ANNEX 5

NORTH EAST

1. EXECUTIVE SUMMARY

1.1 Global does not agree with the CC's provisional conclusion of a substantial lessening of competition ("**SLC**") in the non-contracted advertising sector in the North East.

1.2 Firstly, the CC fails to take into account evidence that non-contracted advertisers in the North East view non-radio media as an effective alternative to radio - this is further addressed in Section 2 of this Annex.

1.3 Secondly, within the radio sector, the CC has applied the wrong test in assessing competition in this region. It has given too much weight to overall regional share of listening and non-contracted revenues and insufficient weight to differences in the target audiences of the relevant stations. The CC's approach is not informative when assessing competition between highly differentiated radio stations.

1.4 The CC recognises that Capital has a "significantly younger audience" than Real. [1] The CC also recognises that Smooth and Capital are weak substitutes.[2]

1.5 Bauer's stations TFM, Metro, Magic Newcastle and Magic Teesside offer much better alternatives to the parties' stations in terms of demographics than the parties' stations do to each other.

1.6 This Annex presents evidence that:

(i) In relation to Capital's target demographic (15-34), Bauer's TFM and Metro have reach and local commercial listening shares almost three times bigger than those of Real (see Table 1). Moreover, Capital's internal documents (including customer emails) refer very regularly to TFM/Metro and very seldomly to Real. Bauer is therefore a much better alternative to Capital than Real.

[1] Appendix L, Paragraph 153.

[2] Provisional Findings, Paragraph 6.75.

Table 1
Reach and listening shares – Capital's target demographic

Station	Reach (%)	Local Commercial Listening share (%)
Capital North East	45%	45%
Metro and TFM	36%	27%
Real Radio North East	14%	11%
Smooth Radio North East	14%	9%
Magic Newcastle and Magic Teesside	11%	8%

Source: Rajar Q3 2012 (12 months).

(ii) In relation to Real's target demographic (25-44), Bauer's TFM and Metro offer higher reach than Capital and a similar local commercial listening share to Capital (see Table 2). In addition, internal documents relating to Real highlight clearly how in demographic terms Bauer offers a much closer alternative than Capital for advertisers seeking to target a mainstream adult audience – they expressly state how Bauer is a better substitute for Real.

Table 2
Reach and listening shares - Real's target demographic

Station	Reach (%)	Local Commercial Listening share (%)
Metro and TFM	35%	26%
Capital North East	33%	32%
Real Radio North East	17%	15%
Smooth Radio North East	16%	18%
Magic Newcastle and Magic Teesside	9%	9%

Source: Rajar Q3 2012 (12 months).

(iii) In relation to Smooth's target demographic (45-60), Bauer's Magic stations, or separately Bauer's TFM and Metro, offer over double the reach and listening share of Capital. The parties' internal documents are consistent with this – Smooth's internal documents expressly note, as the CC has accepted, how Capital is a weak alternative to Smooth.

Table 3
Reach and listening shares – Smooth's target demographic

Station	Reach	Local Commercial Listening share (%)
Smooth Radio North East	26%	28%
Metro and TFM	22%	24%
Magic Newcastle and Magic Teesside	15%	23%
Real Radio North East	16%	15%
Capital North East	12%	10%

Source: Rajar Q3 2012 (12 months).

1.7 Bauer's strategy is deliberately to sell Metro and TFM as a bundle both for non-contracted airtime and S&P, affording regional customers a highly desirable mainstream adult audience across the whole of the North East – this is evidenced by the parties' internal documents, which demonstrate how they lose regional customers to a combination of Metro and TFM more often than they lose customers to each other.

1.8 Moreover, even on an "all adults" basis, Bauer is formidable – it itself describes Metro as "the official number one commercial radio station for Northumberland, Tyne and Wear and County Durham";[3] and TFM as "the biggest commercial radio station in the North East and has been for 35 years".[4]

1.9 Metro and TFM have the highest reach in the North East and a local commercial listening share similar to Capital's. In addition, based on the parties' revenue estimates, TFM and Metro have a non-contracted revenue share of [35-40]% - almost double that of Capital ([20-25]%) and almost three times that of Real ([10-15]%) (see Table 4 below). In other words, Metro and TFM are better and stronger alternatives to Real than Capital, and better and stronger alternatives to Capital than Real.

[3] Attachment 5.1 - North East - Metro Radio quick guide.

[4] Attachment 5.2 - North East - TFM Radio media pack 2012.

Table 4
Adult 15+ reach and local commercial listening shares and shares of non-contracted revenues[1]

Station	Adults 15+ (reach %)	Adults 15+ (listening share %)	Parties' estimates of non-contracted revenues (%)
Metro and TFM	25%	25%	[✂]
Capital North East	23%	25%	[✂]
Smooth Radio North East	18%	21%	[✂]
Real Radio North East	12%	13%	[✂]
Magic Newcastle and Magic Teesside	12%	16%	[✂]

Source: *Listening shares and reach: Rajar Q3 2012 (12 months); Revenues: actuals for parties and estimates for Bauer*

Note: [1] Excludes stations that do not have regional coverage (Sun FM, Star Durham and Star Darlington).

1.10 Accordingly, the merger will not give rise to any SLC as Bauer will remain the parties' strongest and closest competitor.

1.11 The above points are addressed in greater detail in Section 3 of this Annex.

2. NON-RADIO MEDIA POSE A STRONG CONSTRAINT IN THE NORTH EAST

2.1 The Provisional Findings implicitly accept that across the overlap regions the vast majority of non-contracted customers view non-radio media as substitutable for the parties' radio stations[4] (see further Parts 1 and 2 of this Response).

2.2 As a result, when the parties negotiate prices for campaigns with both new or existing customers in the North East, they are constrained by non-radio media.

2.3 These customers have equally or more effective non-radio alternatives to the parties' stations. Therefore there is no basis for the assertion that the merger will lead to substantially higher prices for any advertisers in the North East.

The CC has failed to take into account Global's internal documents for the North East

2.4 The CC has not yet taken proper account of the internal documents submitted by Global concerning the North East market. An analysis of these documents would show that Global's entire strategy for the North East is focused on growing radio's share of the "total media pie" and competing with non-radio media both for new and existing customers.

2.5 Global loses on average [✂]%[5] of its customers every year in the North East through churn (representing an average of [✂]%[6] of its non-contracted revenues in the North East) – it is therefore fundamental to the survival of its business that it succeeds in targeting new customers to replace those that churn away (and retains as many existing customers as possible) to compensate for lost revenues.

2.6 As explained in Global's Strategy Overview Paper at Annex 9, in 2009 Global implemented the [✂] strategy with the express focus of addressing customer churn by competing more effectively with non-radio media competitors. Global introduced its

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[4] E.g. The Provisional Findings state at Paragraph 6.39 that "*the survey results suggest limits to the constraint provided by other media. We note, for example, that the existing customer survey suggests that 15 per cent of existing customers did not consider using any other media at the time of their last campaign and 24 per cent said that they ended up using only radio. Similarly, 9 per cent of respondents said that they could not use any other types of media to meet the same objectives as radio*." A clear implication of the results cited by the CC is that other media constitutes an effective constraint for the remaining 75% to 90% of advertisers.

[5] RBB analysis based on Global and RSL's transactional data from 2009/2010 to 2011/2012 (i.e. three years). NMR data is only available up to September 2012; therefore, the average churn by count and revenue does not include a customer who may have purchased on the parties' stations in Q4 2012.

[6] RBB analysis based on Global and RSL's transactional data from 2009/2010 to 2011/2012 (i.e. three years). NMR data is only available up to September 2012; therefore, the average churn by count and revenue does not include a customer who may have purchased on the parties' stations in Q4 2012.

current [✂] strategy [✂] in early 2012 with the objective of building on [✂]. The"[✂][7] sets out Global's current strategy for the North East.

2.7 The CC has not yet taken proper account of the internal documents relating to the key initiatives introduced in the North East under the [✂] and [✂] strategies. These are considered below.

Global's [✂] initiative

2.8 The [✂] initiative is Global's [✂] commercial scheme for non-contracted customers. It is specifically focused on targeting [✂] businesses [✂] that are using other media, particularly [✂].

2.9 The training session delivered to Global's North East sales staff on the [✂] scheme expressly lists the following sources as "possible places [to] uncover [their prospective] clients":[8] [✂]

2.10 The CC has also been provided with extensive evidence on the steps taken by Global to capitalise from [✂] local and regional press readership in the North East more generally[9]. This includes [✂] for [✂] North East press titles, including [✂][10]

2.11 This provides clear evidence that Global is monitoring press performance as a competitor.

Global's [✂] initiative

2.12 As further detailed in Global's Strategy Overview Paper at Annex 9, under this initiative Global's North East sales team identifies [✂] for the North East which are advertising predominantly on non-radio media competitors.

2.13 The following slides are taken from a presentation delivered at Capital North East's strategy day in 2012 relating to the implementation of the [✂] initiative in the North East. They expressly state that [✂]% of Capital North East's [✂] customers for 2012/13 spend on press and TV and do not spend anything on radio. Only [✂]% of Capital North East's [✂] customers are radio users.[11]

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[7] [✂] submitted to the CC on 28 January 2013.

[8] Attachment 5.3 -North East - Other media - [✂].

[9] See for example Annexes 17A(i).014 to 17A(i).020 to Global's response to the CC's Initial Factual Information Request, together with Global's main strategy papers at 15A(ii).001 to 15A(ii).005.

[10] Annex 17A.014 of Global's response to the CC's Initial Factual Information Request.

[11] Attachment 5.4 - North East - [✂] List.

Figure 1
[✂]

Figure 2
[✂]

2.14 The CC has not yet taken proper account of Global's detailed [✂] for the North East[12], which includes customers advertising exclusively on:

(i) press titles such as the [✂];

(ii) TV stations such as [✂];

(iii) cinema; and

(iv) outdoor media.

2.15 Similarly insufficient weight has been given to the additional [✂] lists submitted which are used to identify potential customers in the North East in different sectors [✂], and which detail [✂].[13]

<u>Global's [✂] strategy</u>

2.16 Capital competes strongly against [✂] in the North East.

2.17 As previously explained in Global's Strategy Overview Paper at Annex 9, Global has introduced a commercial initiative focused entirely on attracting spend away from [✂], including specifically in the North East – Global explains: [✂][14]

2.18 Global's [✂] strategy launch presentation delivered in early 2012[15] details Global's plans relating to [✂] in the North East:[16] [✂]

2.19 The CC has not yet taken account of this evidence demonstrating strong competition between Capital and [✂] in the North East or of the extensive body of internal documents relating to this scheme, including: [✂].

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[12] Annexes 17A(i).046(b) and 045(b) of Global's response to the CC's Initial Factual Information Request.

[13] Annexes 17A(i).001 to 17A(i).005 of Global's Response to the CC's Initial Factual Information request.

[14] See Annexes 17A(i).044 to 17A(i).049 of Global's response to the CC's Initial Factual Information Request.

[15] See e.g. Annex 15A(ii).001 of Global's response to the CC's Initial Factual Information Request.

[16] See Annexes 17A(i).044 to 17A(i).049 of Global's response to the CC's Initial Factual Information Request.

2.20 The below slides are taken from a pitch previously submitted to the CC[17] designed to attract [✂] North East customer. They expressly highlight, for example, how "[✂] [is] most expensive" in the months this specific customer wants to advertise, how "radio is 4x more [✂] than other media" and how "radio is 4 times more [✂] than [✂] specifically".

Figure 3
[✂]

Figure 4
[✂]

Figure 5
[✂]

2.21 The slide deck attached at Attachment 5.5 ([✂])[18] is another example of a template pitch designed specifically to attract a [✂] customer away from [✂] in the North East. In addition to highlighting radio's [✂] (as above), it compares the characteristics of Capital's listeners with those of [✂] and [✂] audiences with the express purpose of convincing the customer that radio is a more effective means to reach its target audience than these competing media.

Figure 6
[✂]

2.22 Global has also attached customer emails evidencing the constraint posed by [✂] on Capital in the North East.

2.23 For example, the [✂] correspondence concerns an [✂] customer which Capital struggled to book (this customer also uses [✂]):[19,20]

[✂]

2.24 Below is an extract from an email from a local advertising agency to a Global sales manager listing the current [✂] for [✂] advertisers on [✂] - [✂] across the North East. This clearly shows that Capital is monitoring [✂] new advertiser packages in order to compete more effectively against it for customers in this area.

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[17] Annex 17A(ii).085 of Global's response to the CC's Initial Factual Information Request.

[18] Attachment 5.5 -North East - Other media - [✂] customer presentation.

[19] Attachment 5.6(a) - North East - Customer email - [✂].

[20] Attachment 6.6(b) - North East - Customer email - [✂].

Figure 7
[✄]

2.25 Global further notes that the Newcastle local TV licence has also now been awarded to "Made in Tyne and Wear", a new local television station for this area.[21] The licence means the station has won the right to broadcast to some 900,000 households in the Newcastle area. This station will provide local Newcastle advertisers with an additional media platform providing specific local content. It will thus pose an a new constraint on Global in the Northern part of the North East TSA (i.e. where it is able to sell airtime on a split transmission basis).

Marketing materials

2.26 Consistent with the above commercial strategy, the vast majority of Global's pitch documents refer explicitly to non-radio competitors[22] – for example, the following slide compares Capital with TV (the X Factor); press ([✄]) and online (Facebook).

Figure 8
[✄]

The CC has failed to take into account RSL's internal documents for the North East

2.27 The CC has not yet taken proper account of the internal documents submitted by RSL concerning the North East market. An analysis of these documents would show that, like Global, RSL's entire strategy for the North East is focused on competing with non-radio media both for new and existing customers.

2.28 RSL loses on average [✄]%[23] of its customers every year in the North East through churn (representing an average of [✄]%[24] of its non-contracted revenues in the North East) – it is therefore fundamental to the survival of its business that it succeeds in targeting new customers to replace those that churn away (and retains as many existing customers as possible) to compensate for lost revenues.

North East Local Strategy plan

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[21] http://www.pressgazette.co.uk/made-tyne-and-wear-awarded-local-tv-licence

[22] Annexes 17A(ii).041 to 17A(ii).046, and 17A(ii).085 of Global's response to the CC's Initial Factual Information Request.

[23] RBB analysis based on Global and RSL's transactional data from 2009/2010 to 2011/2012 (i.e. three years). NMR data is only available up to September 2012; therefore, the average churn by count and revenue does not include a customer who may have purchased on the parties' stations in Q4 2012.

[24] RBB analysis based on Global and RSL's transactional data from 2009/2010 to 2011/2012 (i.e. three years). NMR data is only available up to September 2012; therefore, the average churn by count and revenue does not include a customer who may have purchased on the parties' stations in Q4 2012.

2.29 Appendix L to the Provisional Findings notes that: [✂].[25,26]

2.30 In particular, the North East Local Strategy plan noted by the CC[27] lists, among other key strategic actions for this region:

"*[RSL] will monitor competitor media to identify current users of press, radio, tv and outdoor*."

2.31 In addition [✂], which is listed second to last, it expressly lists the following as "sources" to identify potential customers: [✂] (see Figure 9).

Figure 9
[✂]

2.32 RSL, explains, for example: [✂].

2.33 In addition, the CC has not yet taken proper account of the significant body of other internal RSL documents which evidence the constraint from non-radio media on RSL's non-contracted business in the North East, including:

RSL's regional strategy paper entitled [✂][28]

2.34 This document evidences how RSL's non-contracted strategy for the North East is entirely focused on improving how it identifies and targets non-radio customers and in turn increases the share of advertising revenues spent on its radio stations in this region, compared with non-radio media. This is illustrated in the slide below.

Figure 10
[✂]

The [✂] report for the North East entitled "Performance in the market: Market Share""[29]

2.35 Moreover the CC has not yet taken account of the Q2 and Q3 [✂] for the North East, a strategic presentation for the business which explicitly refers to the "market" as including radio as well as press, outdoor, cinema and TV (see e.g. [✂]); and RSL's [✂].

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[25] Appendix L, Paragraph 164.

[26] Appendix L, Paragraph 165.

[27] Annex 15B.017 of RSL's response to the CC's Initial Factual Information Request.

[28] Annex 15B.006 of RSL's response to the CC's Initial Factual Information Request.

[29] Annex 17B.016 of RSL's response to the CC's Initial Factual Information Request.

Figure 11
[✂]

Target customer [✂]

2.36 Consistent with the above strategy, the [✂] submitted to the CC for the North East evidence that RSL's business strategy is to increase its revenues by targeting predominantly non-radio advertisers.[30]

2.37 For example:

(i) The [✂] for [✂]

(ii) The [✂] for [✂]

(iii) The [✂] for [✂]

(iv) The [✂] for [✂]

(v) The [✂] for [✂] and so on.

Marketing materials

2.38 Also consistent with the above strategy, all of RSL's pitches for the North East refer explicitly to non-radio media, and in particular [✂] (by contrast, fewer than [✂] refer to other radio, as further discussed below). Example slides taken from the pitches previously submitted to the CC are included below by way of illustration.

[30] Annex 17B.039 of RSL's response to the CC's Initial Factual Information Request.

Figure 12
[✂]

Figure 13
[✂][31]

Figure 14
[✂][32]

Figure 15
[✂][33]

Competitors' marketing materials evidence competition between radio and non-radio media

2.1 The publicly available marketing materials for key competitors in the North East also plainly evidence that non-radio media players in the North East consider themselves as competing with the parties for advertising revenues.

2.2 For example, the ITV Tyne-Tees media pack highlights the benefits of TV as an advertising medium compared with radio generally (as well as regional press, cinema and direct mail) (see Figure 16).[34]

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[31] 17B.065 of RSL's response to the CC's Initial Factual Information Request.

[32] 17B.065 of RSL's response to the CC's Initial Factual Information Request.

[33] Annex 17B.072 of RSL's response to the CC's Initial Factual Information Request.

[34] http://www.itvmedia.co.uk/assets/itv_media_new_design/content/downloadables/tynetees_factsheet_lores.pdf

Figure 16
Screenshot of ITV Tyne Tees media pack

Source: ITV Tyne Tees website.

2.3 ITV Tyne Tees also identifies Capital, Real and Metro specifically as competitors in the North East:

"*Advertising on ITV is not as expensive as you might think. Packages of airtime in the Tyne Tees region can be bought for as little as £4,231 and your commercial could be seen by up to 39% of adults in the area.*

In a week ITV reaches 84% of adults in the Tyne Tees region, this is three times more than 95-106 Capital FM, 5 times more than Metro Radio and five times more than Real Radio 100-102FM. Just one spot on ITV Tyne Tees could reach 471,000 viewers."[35]

2.4 Thus an analysis of the parties' internal documents for the North East, together with those of key competitors, provides compelling evidence that the parties compete very

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[35] http://www.itvmedia.co.uk/platforms/itv-regions/tyne-tees

strongly with, and their prices and negotiations are constrained by, a wide range of attractive and strong non-radio media advertising options in this region.

2.5 This conclusion is consistent with the key results of the Existing Customers and Lost Opportunities surveys, which provide strong evidence that non-contracted advertisers in the North East and generally in the overlap areas consider non-radio media as effective alternatives for the parties' stations. The Existing Customers survey shows that, nationally, 39% of respondents would switch at least some spend to non-radio media if their chosen station were not available, while only 24% would switch at least some spend to other radio stations. In the North East, the related figures are 41% and 27% respectively. The Lost Opportunity survey shows that, nationally, 70% of Global respondents used non-radio media for their campaign after turning down a proposal from Global, relative to 34% that used other radio stations. The related figures in the North East are 69% and 40% respectively.

2.6 As a result, the merger will not significantly reduce the outside options of the parties' non-contracted customers. Non-contracted advertisers in the North East will retain equally or more effective non-radio media alternatives to the parties' stations.

3. COMPETITION BETWEEN RADIO STATIONS IN THE NORTH EAST

3.1 The Provisional Findings:

(i) accept that the parties' stations are not good alternatives for one another:

(a) Capital is a poor alternative for Real and vice versa:

"***At 31 years, Capital's average listener is significantly younger than that of RSL's or Bauer's stations***;"[36] and

(b) Capital is a poor alternative for Smooth and vice versa:

"***Smooth, which reaches an older audience, would be a relatively weaker substitute for Capital, which reaches a younger audience***";[37] and

(ii) accept that Bauer's stations are much better alternatives for the parties' stations, in particular:

(a) Bauer's stations Metro, TFM and Magic are better alternatives to Real than Capital; and Metro and TFM are better alternatives to Capital than Real:

(I) "***Real's and Bauer's FM stations target a broad age range and the average age of listeners on these stations is in the late 30s and early 40s***;" and

(II) "***In terms of average age, the demographic of Bauer's FM stations lies between that of Global and RSL, being closest to Real***;"[38] and

(b) Bauer's Magic, Metro and TFM are much better alternatives to Smooth than Capital: "***Global's Capital reaches a younger audience than either RSL's Smooth or Bauer's Magic stations***."[39]

3.2 Nevertheless, the CC provisionally concludes that:

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[36] Appendix L, Paragraph 153.

[37] Provisional Findings, Paragraph 6.75.

[38] Appendix L, Paragraph 153.

[39] Provisional Findings, Paragraph 7.76.

"***in the absence of any countervailing factors, the merger will lead to significant adverse effects in the North East***." [40]

The CC has applied the wrong test

3.3 The CC has given more weight to overall share of listening and share of non-contracted revenues than to demographic factors – this is the wrong test.

3.4 The CC's approach is inappropriate in assessing the competitive interactions of highly differentiated products in heterogeneous product markets and is inconsistent with the CC's findings elsewhere in the Provisional Findings which recognise the critical importance of stations' demographic positioning.

3.5 In particular, the CC's findings do not give sufficient weight to the following key factors.

Capital and Real, and Capital and Smooth, are not next best alternatives

3.6 As the CC has itself accepted:

(i) Capital and Real are weak alternatives:

"***At 31 years, Capital's average listener is significantly younger than that of RSL's or Bauer's stations***;"[41] and

(ii) Capital and Smooth are weak alternatives:

"***Smooth, which reaches an older audience, would be a relatively weaker substitute for Capital, which reaches a younger audience***".[42]

3.7 This is illustrated in the brand chart below.

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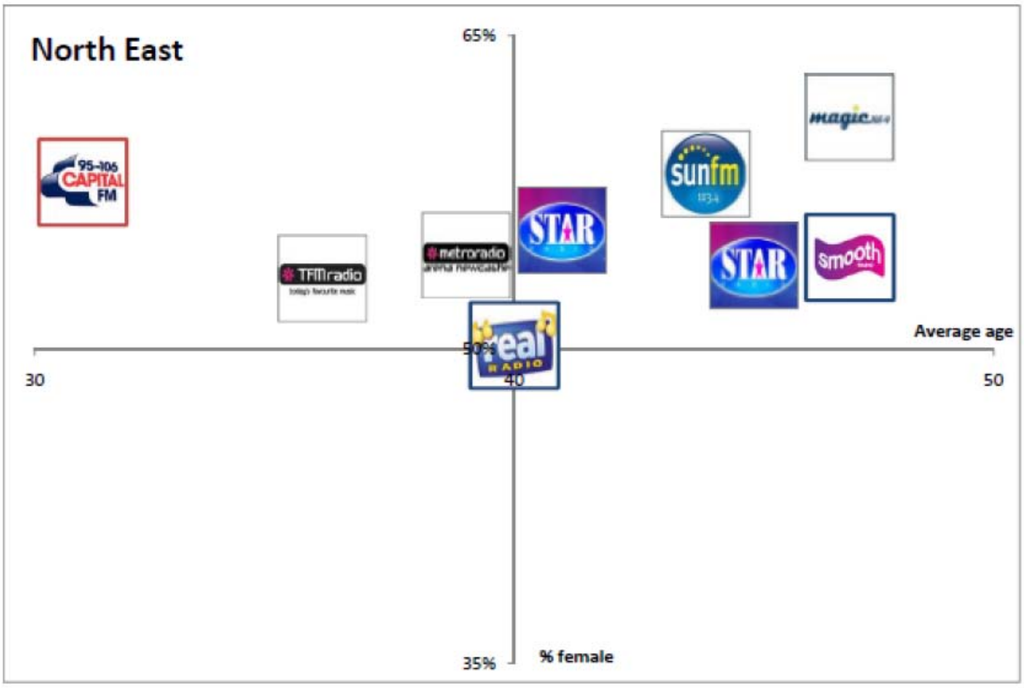
[40] Provisional Findings, Paragraph 7.80.

[41] Appendix L, Paragraph 153.

[42] Provisional Findings, Paragraph 6.75.

Figure 17
Brand map of main commercial radio stations – North East



Source: *Rajar Q3 2012.*

Bauer's stations are better alternatives to the parties' stations than the parties' stations are to each other

3.8 As illustrated in the above brand chart and accepted by the CC, Bauer's stations TFM, Metro, Magic Newcastle and Magic Teesside offer significantly better alternatives to the parties' stations in terms of demographics than the parties' stations do to each other.

3.9 As further evidenced below, Bauer [✂].[43]

3.10 Consistent with this, an analysis of Rajar data for this region confirms that in relation to each demographic (Capital's, Real's and Smooth's) Bauer's stations are stronger than or as strong as the other party's station(s) in terms of both local commercial listening share and reach. This is set out in Table 5 and Table 6 below - the parties' main station targeting the demographic is in green and the largest next alternative is in red.

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[43] Attachment 5.7 - North East - Bauer email - [✂].

Table 5
Reach – by demographic

Station	**Capital demographic (Adults 15-34)**	**Real demographic (Adults 25-44)**	**Smooth demographic (Adults 45-60)**
Capital North East	45%	33%	12%
Real Radio North East	14%	17%	16%
Smooth Radio North East	14%	16%	26%
Metro and TFM	36%	35%	12%
Magic Newcastle and Magic Teesside	11%	9%	15%

Source: Rajar Q3 2012 (12 months).[44]

Table 6
Share of listening – by demographic

Station	**Capital demographic (Adults 15-34)**	**Real demographic (Adults 25-44)**	**Smooth demographic (Adults 45-60)**
Capital North East	45%	32%	10%
Real Radio North East	11%	15%	15%
Smooth Radio North East	9%	18%	28%
Metro and TFM	27%	26%	24%
Magic Newcastle and Magic Teesside	8%	9%	23%

Source: Rajar Q3 2012 (12 months). [45]

3.11 Therefore:

(i) In terms of local commercial listening share and reach, Bauer's Metro and TFM are much better alternatives to Capital than Real in relation to <u>Capital's target demographic</u>: they have over twice the reach and local commercial listening hours of Real. TFM and Metro expressly target a broad demographic including Capital's target audience – this is confirmed by an analysis of their marketing materials and Capital's internal documents outlined below;

(ii) In terms of local commercial listening share and reach, Bauer's Metro and TFM are better alternatives than (or at least as good alternatives as) Capital to Real in relation to <u>Real's target demographic</u>: Metro and TFM achieve a higher reach than Capital and commercial radio listening share only slightly smaller than Capital. As further evidenced below, however, Real's internal documents confirm that given TFM and Metro's closer demographic profile to that of Real,

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[44] Excludes stations without regional coverage.

[45] Excludes stations without regional coverage.

Real competes much more strongly with TFM and Metro than it does with Capital; and

(iii) In terms of local commercial listening share and reach, Bauer's Magic and Metro and TFM are both much stronger than Capital in relation to Smooth's target demographic: they have over double Capital's listening share and significantly more reach. As accepted by the CC, Capital and Smooth are weak substitutes.

3.12 Moreover, even on an "all adults" basis, Bauer is formidable. Metro and TFM have the highest reach in the North East and a listening share equivalent to Capital's. In addition, based on the parties' revenue estimates, TFM and Metro have a non-contracted revenue share of [35-40]% - almost double that of Capital ([20-25]%) and triple that of Real ([10-15]%) (see Table 7). In other words, Metro and TFM are better and stronger alternatives to Real than Capital, and better and stronger alternatives to Capital than Real.

Table 7

Adult 15+ reach and local commercial listening shares and shares of non-contracted revenues

Station	**Adults 15+ (reach %)[1]**	**Adults 15+ (listening share %)[1]**	**Parties' estimates of non-contracted revenues (%)[2]**
Metro and TFM	25%	24%	[35-40]%
Capital North East	23%	24%	[25-30]%
Smooth Radio North East	18%	20%	[15-20]%
Real Radio North East	12%	12%	[15-20]%
Magic Newcastle and Magic Teesside	12%	15%	[1-5]%

Source: *Listening shares and reach: Rajar Q3 2012 (12 months) (Provisional Findings, Appendix L, Table 15); Revenues: actuals for parties (Oct 2011 – Sept 2012); total non-contracted revenue estimates for Bauer*

Note: [1] Includes Sun FM, Star Durham and Star Darlington, which together account for 5% reach and listening share.

[2] Excludes stations that do not have regional coverage (Sun FM, Star Durham and Star Darlington).

<u>TFM and Metro are better alternatives to Capital than Real</u>

Capital and TFM/ Metro are closer competitors in demographic terms

3.13 Bauer's media packs highlight how Metro and TFM cater for listeners interested in the type of music played on Capital. These stations expressly play "*the broadest variety of music*" [46] so that their "*broader appeal extends to all adults 25 to 44.*"[47] The "typical" TFM / Metro listener is therefore described as including:

(i) family-oriented listeners (e.g. housewives) who watch soap operas, read The Daily Mail, shop regularly at Tesco, Asda or Morrisons, have young children and take annual package holidays (i.e. characteristics typical of Real listeners);

(ii) as well as including listeners who enjoy going out regularly, read The Sun newspaper, Closer, Heat and Grazia magazines, and enjoy watching reality TV (i.e. characteristics typical of Capital listeners).[48]

Bauer is mentioned much more regularly than Real in Capital's internal documents

3.14 An analysis of Capital's internal documents shows that TFM and Metro are mentioned much more regularly than Real.

3.15 Example customer emails are attached, which illustrate:

(i) How Capital actively targets TFM and Metro customers – see e.g. the [✂] email from a sales person to this customer stating: [✂].[49]

(ii) How customers will use Metro and TFM if they are not satisfied with Capital's proposed price – see e.g. the [✂] correspondence in which the customer confirmed: [✂].[50]

(iii) How, as a result of Metro and TFM's broad appeal, a customer will sometimes play exactly the same advert on both Capital and Metro/TFM - see e.g. the [✂] correspondence[51]; and

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[46] Attachment 5.2 - North East - TFM Radio media pack 2012.

[47] Attachment 5.2 - North East - TFM Radio media pack 2012.

[48] Attachment 5.2 - North East - TFM Radio media pack 2012.

[49] Attachment 5.9 - North East - Bauer - Customer email – [✂].

[50] Attachment 5.10(a) - North East - Bauer - Customer email - [✂] e mail 1 and Attachment 5.10(b) - North East - Bauer - Customer email - [✂] E mail 2.

[51] Attachment 5.11(a) - North East - Bauer - Customer email - [✂] and Attachment 5.11(b) - North East - Bauer - Customer email - [✂] 2.

(iv) How Metro and TFM are more successful than Capital in reaching a mainstream adult audience – in the [✂] exchange, for example, the customer chose Metro and TFM over Capital because it wanted to reach a wider audience than Capital's target demographic: [✂].[52]

Note that this customer also stated: [✂] (i.e. the customer spent its reduced budget on other media).

3.16 This is corroborated by Bauer's own marketing materials, which expressly highlight how its stations are more successful at reaching a mainstream adult audience than Capital. For example, [✂][53] emphasises how:

(i) [✂] and

(ii) [✂] (Figure 18).

Figure 18

[✂]

Source: *Bauer customer update.*

3.17 Elsewhere in its marketing materials, Bauer describes:

(i) Metro as "the official number one commercial radio station for Northumberland, Tyne and Wear and County Durham";[54] and

(ii) TFM as "the biggest commercial radio station in the North East and has been for 35 years".[55]

Capital also competes much more strongly with Bauer for S&P than with Real

3.18 Global has attached at Attachment 5.12 a list prepared by the Capital North East sales team listing Capital's top [✂] S&P wins from other radio stations (by value) for FY 2012/13. [56]

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[52] Attachment 5.10(a) - North East - Bauer - Customer email - [✂] e mail 1 and Attachment 5.10(b) - North East - Bauer - Customer email - [✂] E mail 2.

[53] Attachment 5.7 - North East - Bauer email - Rajar News from Metro Magic 1152.

[54] Attachment 5.1 - North East - Metro Radio quick guide.

[55] Attachment 5.2 - North East - TFM Radio media pack 2012.

[56] Attachment 5.12 - North East - Top S&P wins and losses.

3.19 All of the [✄] top radio "wins" were won from Metro and/or TFM (one was won from Sun FM). The top "win" was won from both Bauer and other media.

3.20 None were won from Real.

3.21 Of the [✄] S&P pitches lost to other radio in FY 2012/13:

(i) [✄] were lost to TFM and/or Metro (sometimes in combination with other media and/or other radio stations). Reasons given by the customers included: [✄].

(ii) [✄] were lost to Local Radio Company Stations ([✄] in combination with Bauer).

(iii) [✄] were lost to Real and Smooth ([✄] in combination with Bauer and/or other media).[57]

3.22 Below are examples of "top [✄]" lists prepared by the individual sales managers (i.e. reflecting their own top wins and losses). As illustrated in the screenshots below, the [✄] were won from or lost to TFM/Metro and/or other media. None of these sales' managers' bookings were won from or lost to Real.

Figure 19
[✄]

Figure 20
[✄]

Figure 21
[✄]

3.23 Moreover, as illustrated in the screenshots below, S&P campaigns are frequently run across TFM and Metro simultaneously – indeed it is Bauer's strategy to sell these stations together - and the merger will have no impact on advertisers' ability to continue doing so.

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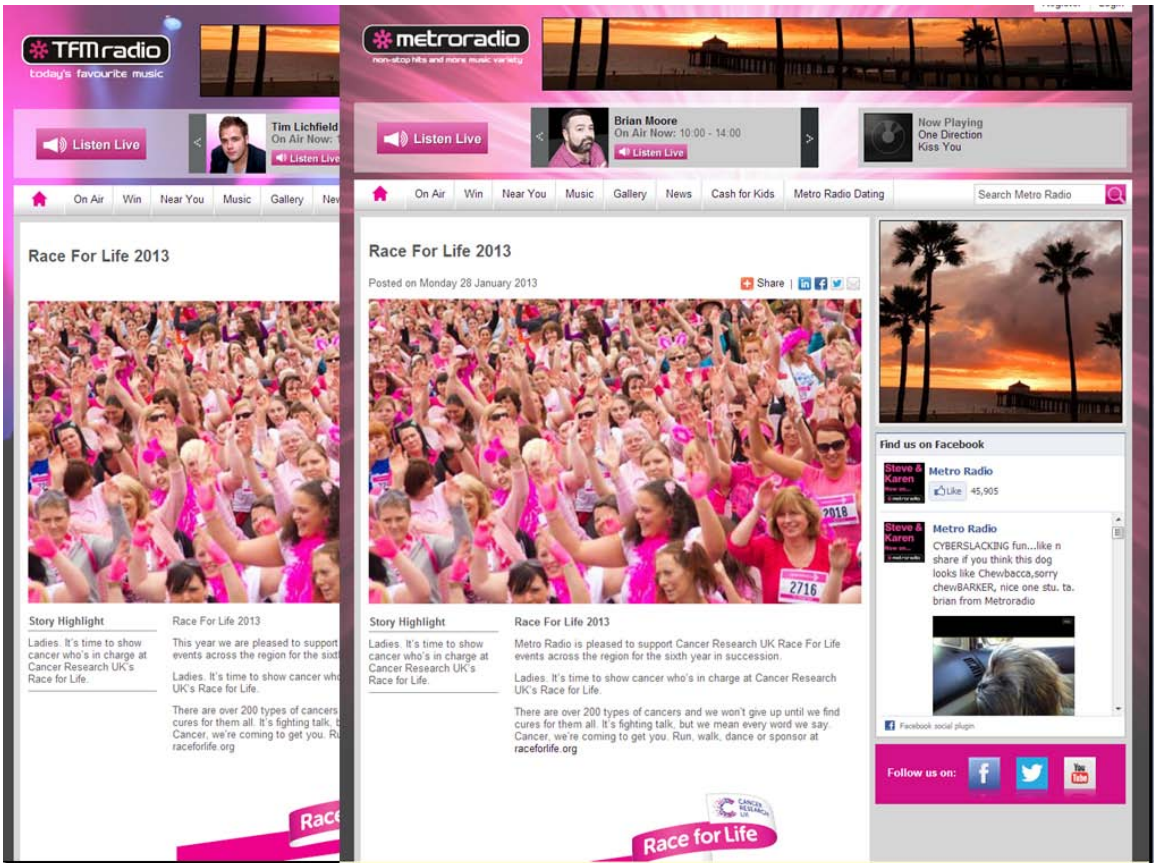
[57] Attachment 5.12 - North East - Top S&P wins and losses.

Figure 22
Example of Bundled S&P campaign on Bauer's stations

Source: *Metro and TFM websites.*

Figure 23
Example of Bundled S&P campaign on Bauer's stations



Source: *Metro and TFM websites.*

3.24 The evidence before the CC therefore strongly demonstrates that Real is a weak competitor to Capital. Bauer's Metro and TFM or other media are by far much stronger competitors.

3.25 Accordingly the merger will not significantly change the outside options for Capital non-contracted customers. Their best alternative radio option pre-merger was a combination of Metro and TFM and this remains the case post merger.

3.26 Therefore, in the event of any attempt to introduce putative price increases in the North East, strong radio options will remain that can be used as alternatives to Global for advertisers seeking to target a young audience in the North East.

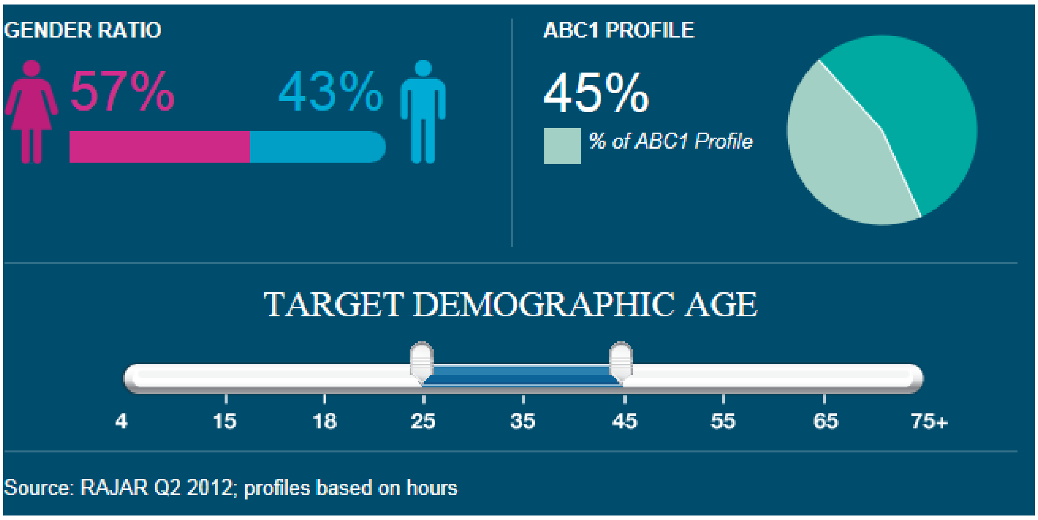
<u>TFM and Metro are better alternatives to Real than Capital</u>

Real and Bauer are closer competitors in demographic terms

3.27 As accepted by the CC, TFM (average age 36) and Metro (average age 39) are closer to Real (average age 41) in demographic terms than Capital (average age 31).

3.28 These stations explicitly target listeners in the Real demographic, namely listeners aged 25 to 44, with a "*core target audience" of "25-34 year olds*"[58] (see Figure 24 and Figure 25).

Figure 24
"Metro Radio listener profile"

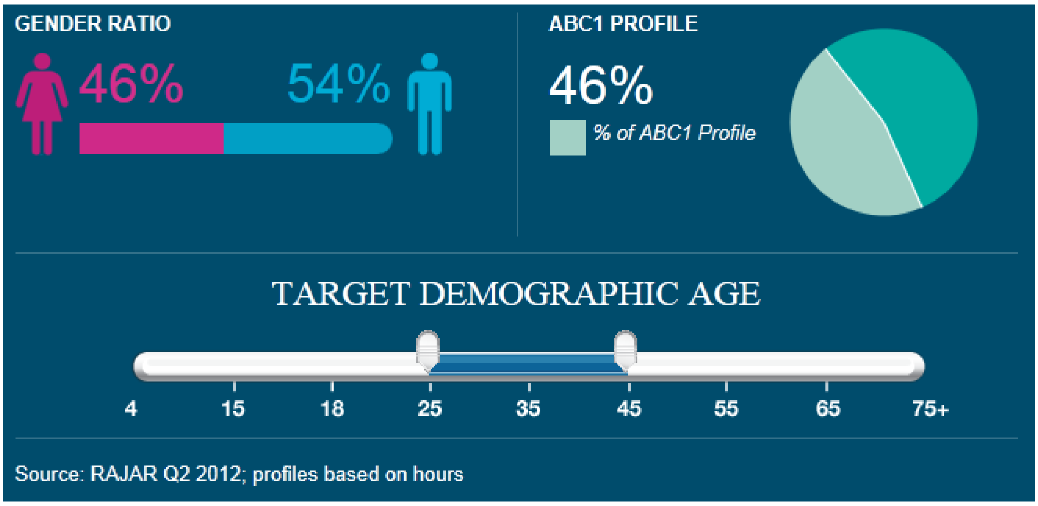


Source: *Bauer (Metro Radio quick guide).*[59]

[58] Attachment 5.2 - North East - TFM Radio media pack 2012.

[59] Attachment 5.1 - North East - Metro Radio quick guide.

Figure 25
"TFM listener profile"



Source: *Bauer (TFM quick guide).*[60]

3.29 Moreover, as summarised above, in relation to Real's target demographic (25-44 year olds), Bauer's TFM and Metro are stronger alternatives to Real than Capital in terms of reach and as strong as Capital in terms of listening share:

(i) For 25 to 44 year olds in the North East, TFM and Metro have a reach of 35%, higher than Capital's reach of 33%; and

(ii) For 25 to 44 year olds in the North East, TFM and Metro have a local commercial listening share of 26%, only slightly smaller than Capital's share of 32%.

3.30 An analysis of Real's internal documents confirms how it competes more strongly with TFM and Metro because of their identical demographics.

3.31 Attached at Attachment 5.14 is a presentation prepared by the RSL sales team to inform pitches made to customers seeking to reach [✂] in the North East. RSL highlights as comparable the demographics of Metro, TFM and Sun FM (i.e. radio stations matching its target demographic) – <u>but not Capital.</u>

3.32 Instead RSL highlights how Capital is a poor substitute for Real: [✂].

[60] Attachment 5.13 - North East - TFM quick guide.

Figure 26
[✄]

3.33 By contrast the same presentation highlights how [✄].

Figure 27
[✄]

3.34 The presentation also includes a slide listing advertisers lost to Bauer in 2011 (and an equivalent for Local Radio Company) (see [✄]). However, the presentation includes no equivalent list for Capital.

Figure 28
[✄]

3.35 Accordingly the merger will not significantly reduce the outside options for Real's non-contracted customers. Their best alternative radio option pre-merger was a combination of Metro and TFM and this remains the case post merger.

3.36 Therefore, in the event of any attempt to introduce putative price increases in the North East, strong radio options will remain that can be used as alternatives to Global for advertisers seeking to target a mainstream adult audience in the North East.

<u>Bauer's stations are much better alternatives to Smooth than Capital</u>

3.37 Finally, as accepted by the CC, Smooth and Capital are weak substitutes.[61]

3.38 Bauer's Magic stations are much better alternatives to Smooth (average age 47) for advertisers than Capital because they reach an identical demographic to Smooth (Magic Teeside and Newcastle also have an average listener age of 47).

3.39 As illustrated in Bauer's media packs attached, Magic explicitly targets an audience of 44 to 65 year olds with "the Best of the 60's, 70's, 80's and more".[62] Like Smooth –and in complete contrast to Capital- Magic is marketed as:

"*a feel good, cool and care-free brand - an oasis of calm in a desert of noise*". [63]

3.40 Similarly, like Smooth's, Magic's "Typical Listener" is:

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[61] Provisional Findings, Paragraph 6.75.

[62] Attachment 5.16 - North East - Magic 1170 quick guide

[63] Attachment 5.16 - North East - Magic 1170 quick guide

"*Someone who has freedom from financial and work worries, children will have left home or will be leaving soon, they have plenty of free time to enjoy shopping, DIY, gardening, holidays and pottering at home. Much independence and a fun, active, sociable lifestyle*."**[64]**

3.41 By contrast, Capital is expressly targeted at the young "Now! Generation" of students and young professionals at the start of their adult lives interested in hit music. It is therefore much less likely to appeal to the Smooth demographic and therefore to advertisers seeking to reach this demographic.

3.42 This is reflected in the Rajar listening data for the Smooth target demographic (adults aged 45-60). Bauer's Magic stations <u>are significantly stronger alternatives</u> than Capital in terms of both listening shares and reach among this demographic:

(i) Magic Newcastle and Teesside have a local commercial listening share of 23%, over double that of Capital (10%) for this demographic; and

(ii) Magic Newcastle and Teesside achieve a reach of 15% for this demographic, higher than Capital's reach of 12%.

Bauer's Metro and TFM also offer advertisers much better alternatives to Smooth than Capital in terms of demographics

3.43 Bauer's Metro and TFM also offer advertisers much better alternatives to Smooth than Capital in terms of demographics because they reach an audience between that of Capital and Smooth and play a range of music including genres that are much more likely to appeal to the Smooth target audience (e.g. 80s, soul, contemporary "chill out" music) - by contrast, Capital is a weak substitute because it plays exclusively current pop and dance music, which is much less likely to appeal to the Smooth demographic.

3.44 This is consistent with the Rajar listening data for Metro and TFM among the 45-60 age group: in terms of listening share and reach, Bauer's TFM and Metro have over double Capital's local commercial listening share and significantly more reach (see Table 5 and Table 6 above).

3.45 RSL's station comparison presentation used to inform customer pitches highlights how Smooth competes with Metro, TFM, Sun and Star:**[65]** [✂]

3.46 (As recognised by the CC, the Local Radio Company's Star Durham (average age 41), Star Darlington (average age 45) and Sun FM (average age 44) also offer much better alternatives to Smooth than Capital in demographic terms.)

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64 See e.g. Attachment 5.17 - North East - Metro and Magic 1152 media pack.

65 Attachment 5.14 - North East - Bauer - RSL presentation on demos.

Figure 29
[✄]

Figure 30
Slide from RSL [✄]

3.47 By contrast this presentation highlights how Smooth and Capital are very weak substitutes: [✄].

Figure 31
[✄]

3.48 The presentation also includes a slide listing advertisers lost to Bauer in 2011 (and an equivalent for Local Radio Company) (see [✄]). However, the presentation includes no equivalent list for Capital.

Figure 32
[✄]

3.49 Therefore, within radio, the merger will not significantly change the outside options for Smooth's non-contracted customers. Their best alternative radio option pre-merger was Bauer's stations and this remains the case post merger. Advertisers will also have the option to use Local Radio Company stations to reach older audiences (as evidenced above, these stations are mentioned much more regularly than Capital in internal documents relating to Smooth).

3.50 Accordingly, in the event of any attempt to introduce putative price increases, strong effective radio options will remain that can be used as alternatives to Global for advertisers seeking to target an older audience aged 45+ in the North East.

Conclusion

3.51 The merger will not significantly change the outside options for either Capital, Real or Smooth non-contracted customers. Their best alternative option pre-merger was a combination of Bauer stations and this remains the case post merger.

3.52 This conclusion is consistent with the key results of the Existing Customers and Lost Opportunities surveys, which provide strong evidence that non-contracted advertisers in the North East consider other radio stations to be better alternatives to the parties' stations than the parties' stations are for each other. The Existing Customers survey shows that, in the North East, 20% of respondents would switch at least some spend to third-party radio stations if their chosen station were not available, while only 11% would switch at least some spend to the other merging party's radio stations. The Lost Opportunity survey shows that, in the North East, while 40% of Global respondents used other radio stations for the campaign Global pitched for unsuccessfully, only 14% of respondents said they used a RSL station.

3.53 Accordingly, Global strongly urges the CC to re-evaluate the evidence before it, as well as new evidence that is being made available to it, with a view to reaching a final conclusion that the merger will not give rise to a substantial lessening of competition in the North East.

GLOBAL'S RESPONSE TO THE COMPETITION COMMISSION'S PROVISIONAL FINDINGS

ANNEX 6

SOUTH AND WEST YORKSHIRE

1. EXECUTIVE SUMMARY

1.1 Global does not agree with the CC's provisional conclusion of a <u>substantial</u> lessening of competition ("SLC") in the non-contracted advertising sector in South and West Yorkshire.

1.2 Firstly, the CC fails to take into account evidence that non-contracted advertisers in South and West Yorkshire view non-radio media as an effective alternative to radio - this is further addressed in Section 2 of this Annex.

1.3 Secondly, within the radio sector, the CC has applied the wrong test in assessing competition in this area. It has given too much weight to overall share of listening and non-contracted revenues and insufficient weight to differences in the target audience of the relevant stations. The CC's approach is not informative when assessing competition between highly differentiated radio stations.

1.4 The parties' stations Capital and Real are weak substitutes:

(i) Firstly, the CC's estimate of customers affected by any potential lessening of competition is likely to substantially overestimate the number of Capital customers who regard RSL's Real as a competitor - the majority of Capital's non-contracted revenues arise from advertising targeting areas outside Real's coverage area which is limited to South and West Yorkshire.

(ii) Secondly, as accepted by the CC, Capital targets a younger demographic than Real. The demographic differences are not "slight" as the CC has suggested.

1.5 Indeed, an analysis of the internal documents before the CC shows that a combination of Bauer, UTV and/or often Lincs FM stations is much more commonly identified as a competitor to Real than Capital. Only [✂] out of [✂] Real customers lost to other radio between January 2012 and February 2013 were lost to Capital (and even these [✂] customers also spent on Bauer or a combination of Bauer and UTV).[1]

1.6 A combination of Bauer's Hallam and Aire and UTV's Pulse or Pulse 2, or Bauer's Aire, Lincs' Trax and Dearne and Pulse / Pulse 2, offer near identical geographic reach, campaign flexibility and most importantly much better demographic fits with the Real target audience.

1.7 In addition, a combination of Bauer's Aire and Hallam and UTV's Pulse are much better alternatives to Capital than Real. All of these stations play music with a broad appeal designed also to attract Capital listeners. They also offer higher listening shares and reach in Capital's target demographic than Real. Consistent with this, a combination of these stations is mentioned more often in Capital's internal documents than Real.

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[1] See Attachment 6.1 RSL email - Money lost to competition (Note that [✂] was lost in 2011).

1.8 The above points are addressed in greater detail in Section 3 of this Annex.

2. NON-RADIO MEDIA POSE A STRONG CONSTRAINT IN SOUTH AND WEST YORKSHIRE

2.1 The Provisional Findings implicitly accept that across the overlap regions the vast majority of non-contracted customers view non-radio media as substitutable for the parties' radio stations[4] (see further Parts 1 and 2 of this Response).

2.2 As a result, when the parties negotiate prices for campaigns with both new or existing customers in South and West Yorkshire, they are constrained by non-radio media.

2.3 These customers have equally or more effective non-radio alternatives to the parties' stations. Therefore there is no basis for the assertion that the merger will lead to substantially higher prices for any advertisers in South and West Yorkshire.

2.4 In reaching its Provisional Findings, the CC has not yet taken into account evidence from the parties' internal documents for Yorkshire which clearly establishes that the entire strategy of both companies is to compete directly with other media to win business. An analysis of these documents confirms that Global and RSL's customers in South and West Yorkshire have effective non-radio media options when planning campaigns.

2.5 In particular, Global and RSL's internal documents evidence plainly that both parties' commercial strategies are focused on:

(i) finding new customers by targeting principally users of other media; and

(ii) ensuring that they do not lose existing customers to other media.

2.6 These documents are outlined below.

2.7 In addition, since the publication of the Provisional Findings, the parties have sought to obtain and provide additional internal documents and competitors' marketing materials evidencing how they compete strongly with non-radio media for share of advertisers' budgets. These are considered in this paper.

The CC has failed to take into account Global's internal documents for South and West Yorkshire

2.8 The CC has not yet taken proper account of the internal documents submitted by Global concerning the South and West Yorkshire market. An analysis of these documents

[4] E.g. The Provisional Findings state at Paragraph 6.39 that "*the survey results suggest limits to the constraint provided by other media. We note, for example, that the existing customer survey suggests that 15 per cent of existing customers did not consider using any other media at the time of their last campaign and 24 per cent said that they ended up using only radio. Similarly, 9 per cent of respondents said that they could not use any other types of media to meet the same objectives as radio*." A clear implication of the results cited by the CC is that other media constitutes an effective constraint for the remaining 75% to 90% of advertisers.

would show that Global's entire strategy for South and West Yorkshire is focused on growing radio's share of the "total media pie" and competing with non-radio media both for new and existing customers.

2.9 Global loses on average [✄]%[2] of its customers every year in Yorkshire through churn (representing an average of [✄]%[3] of its non-contracted revenues in Yorkshire) – it is therefore fundamental to the survival of its business that it succeeds in targeting new customers to replace those that churn away (and retains as many existing customers as possible) to compensate for lost revenues.

2.10 As explained in Global's Strategy Overview Paper at Annex 9, in 2009 Global implemented the [✄] strategy with the express focus of addressing customer churn by competing more effectively with non-radio media competitors. Global introduced its current [✄] strategy [✄] in early 2012 with the objective of building on [✄]. The [✄][4] sets out Global's current strategy plan for Yorkshire.

2.11 The CC has not yet taken proper account of the internal documents relating to the key initiatives introduced in South and West Yorkshire under the [✄] and [✄] strategies. These are considered below.

<u>Global's [✄] initiative</u>

2.12 The [✄] initiative is Global's [✄] commercial scheme for non-contracted advertisers. As illustrated in the below slide (taken from a Yorkshire [✄] presentation) it is expressly focused on "targeting local customers who usually spend in PRESS."[5]

Figure 1
[✄]

2.13 The training session delivered to Global's Yorkshire sales staff on the [✄] scheme expressly lists the following sources as "possible places [to] uncover [their prospective] clients":[6] [✄].

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[2] RBB analysis based on Global and RSL's transactional data from 2009/2010 to 2011/2012 (i.e. three years). NMR data is only available up to September 2012; therefore, the average churn by count and revenue does not include a customer who may have purchased on the parties' stations in Q4 2012.

[3] RBB analysis based on Global and RSL's transactional data from 2009/2010 to 2011/2012 (i.e. three years). NMR data is only available up to September 2012; therefore, the average churn by count and revenue does not include a customer who may have purchased on the parties' stations in Q4 2012.

[4] [✄] submitted to the CC on 28 January 2013.

[5] Attachment 6.2 Yorkshire [✄] presentation.

[6] Attachment 6.3 - [✄] Identify Appoint & Qualification Session.

2.14 Once a prospective customer has been identified, [✂]. A range of issues are discussed on these [✂], their interest in using radio to advertise and critically their other media usage.

2.15 Capital Yorkshire's presentations for the [✂] scheme expressly compare radio with press – e.g. "Press vs Radio – radio is in a great shape as far as consumers are concerned" and Press vs Radio – [radio has a] higher share of voice [than press]"" (see Figure 2).

Figure 2
[✂]

<u>Global's [✂] initiative</u>

2.16 As further detailed in Global's Strategy Overview Paper at Annex 9, under this initiative Global's Yorkshire sales team identifies [✂] for that region which are advertising predominantly on non-radio competitors.

2.17 [✂][7]

2.18 The CC has not yet taken account of Global's [✂] for Yorkshire (including South and West Yorkshire)[8], which includes customers advertising exclusively on:

(i) press titles in South and West Yorkshire such as [✂];

(ii) TV stations such as [✂]; and

(iii) outdoor media.

2.19 The CC has also not yet taken account of Global's [✂] submitted to the CC which are used to identify potential customers in South and West Yorkshire in different sectors [✂] and which [✂].[9]

Global's press strategy

2.20 As explained in Global's Strategy Overview Paper at Annex 9, Global has identified as a key opportunity [✂] local and regional press: [✂][10].

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[7] See e.g. Annex 17A(i).044 of Global's Response to the CC's Initial Factual Information request. ([✂] is an illustration of how the [✂] initiative is implemented in practice.)

[8] Annexes 17A(i).046(b) and 045(b) of Global's response to the CC's Initial Factual Information Request.

[9] Annexes 17A(i).001 to 17A(i).005 of Global's Response to the CC's Initial Factual Information request.

[10] Annex 15A(ii).004 to Global's response to the CC's Initial Factual Information Request.

2.21 Accordingly, Global monitors the performance of press titles in Yorkshire with a view to informing its pitches and marketing materials for customers using or considering using these alternatives.

2.22 By way of illustration, Global has submitted evidence of analyses [✂] of, among others, the following Yorkshire press titles for the periods July 2009 to December 2009, January 2010 to June 2010, and July 2010 to December 2010: [✂].[11]

2.23 This provides clear evidence that Global is monitoring press performance as a competitor.

Global's [✂] strategy

2.24 Global has also provided evidence of how it competes with [✂] in Yorkshire.

2.25 The following slides are taken from a "presentation [entitled [✂]] to [✂] spending clients in Yorkshire" (see [✂]).[12] They highlight how, for example, "radio is four times more cost-effective than [✂]".

Figure 3
[✂]

Figure 4
[✂]

2.26 In addition, Global has previously submitted documents relating to its [✂] strategy, including the [✂] strategy presentation which expressly compares the cost of Capital Yorkshire with that of [✂] (see e.g. Figure 5).

Figure 5
[✂]

2.27 The CC should accordingly take into account the extensive range of documents relating to Global's [✂] strategy which have previously been submitted to it, including presentations and [✂] cost comparison reports prepared by Global with the object of persuading [✂] customers in Yorkshire to switch to Capital.

Local TV

2.28 Global further notes that the Yorkshire local TV licences have also now been awarded to "Lincolnshire Living" in Grimsby, "Made In Leeds" in Leeds and "SLTV / Sheffield Live" in Sheffield. These will provide advertisers in South and West Yorkshire with even more

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[11] Annex 17A(i).014 to Global's response to the CC's Initial Factual Information Request.

[12] Attachment 6.4 - [✂] presentation.

media platforms providing specific local content. They will therefore pose a new constraint on Global for advertising revenues in South and West Yorkshire.

2.29 Together, the above documents provide strong evidence that Global competes much more strongly with non-radio media than it does with other radio stations.

The CC has failed to take into account RSL's internal documents for South and West Yorkshire

2.30 The CC has not yet taken proper account of the internal documents submitted by RSL concerning the South and West Yorkshire market.

2.31 Indeed, RSL notes that the CC has referred to only one internal document in Appendix L in its assessment of the South and West Yorkshire market[13] - and this document is largely irrelevant to the assessment of competition between radio stations for advertising revenues (it is a listener survey).[14]

2.32 An analysis of the relevant documents would show that, like Global, RSL's entire strategy for South and West Yorkshire is focused on competing with non-radio media both for new and existing customers.

2.33 RSL loses on average [✄]%[15] of its customers every year in Yorkshire through churn (representing an average of [✄]%[16] of its non-contracted revenues in Yorkshire) – it is therefore fundamental to the survival of its non-contracted business that it succeeds in targeting new customers to replace those that churn away (and retains as many existing customers as possible) to compensate for lost revenues.

2.34 The documents evidencing this strategy are considered further below.

<u>RSL's [✄]</u>

2.35 The CC has not yet taken proper account of this key RSL strategy document, highlighting that RSL's Yorkshire business "*reviews and identifies sectors to target [✄].*

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[13] Appendix L, Paragraph 124.

[14] It has the express focus of "*[Ascertain[ing] where the greatest number of available target audience non-listeners are so that [Real] can concentrate [its] marketing efforts [i.e. to non-listeners] with cost efficiency*." Indeed, this report expressly analyses BBC Radio 1 and 2's listenership in the same way as it does Capital's (and is focused on Real improving its offering for listeners in its target demographic so as to more effectively distinguish itself from other radio stations).

[15] RBB analysis based on Global and RSL's transactional data from 2009/2010 to 2011/2012 (i.e. three years). NMR data is only available up to September 2012; therefore, the average churn by count and revenue does not include a customer who may have purchased on the parties' stations in Q4 2012.

[16] RBB analysis based on Global and RSL's transactional data from 2009/2010 to 2011/2012 (i.e. three years). NMR data is only available up to September 2012; therefore, the average churn by count and revenue does not include a customer who may have purchased on the parties' stations in Q4 2012.

It tracks [✂] and notes the other media used by the company concerned. In the majority of cases this is the local press, but it also notes that companies are using [✂][17]

2.36 This important strategy plan clearly evidences that the majority of customers actively targeted by RSL in South and West Yorkshire are non-radio media users (particularly press users).

2.37 Moreover, the CC has not yet taken proper account of the majority of RSL's other strategy documents for the region, including:

<u>RSL's regional strategy paper entitled [✂]</u>[18]

2.38 This core strategy paper is specifically focused on analysing how radio is performing on a year-on-year basis with non-radio media for advertising revenues in Yorkshire, with a view to increasing RSL's share of advertisers' total media expenditure.

Figure 6
[✂]

<u>RSL's [✂] report for Yorkshire</u>

2.39 This key Yorkshire strategic analysis evidences how RSL's revenue growth strategy involves attracting revenues from the "wider media pie" in Yorkshire, including press, TV, and outdoor media.[19]

Figure 7
[✂]

2.40 This strategy paper also evidences how RSL identifies opportunities in specific sectors (and with respect to specific customers) having regard to how much they are spending on alternative media in Yorkshire, based on [✂].

<u>Target [✂] for Yorkshire</u>[20]

2.41 RSL has previously provided a large number of [✂] for Yorkshire. These clearly evidence that:

(i) consistent with the above strategy, most of RSL's target customers are non-radio users; and

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[17] Appendix L, Paragraph 123.

[18] Annex 15B.006 of RSL's response to the CC's Initial Factual Information Request.

[19] Annex 17B.021 of RSL's Response to the CC's Initial Factual Information request.

[20] Annex 17B.048 of RSL's Response to the CC's Initial Factual Information request.

(ii) once RSL has identified [✂] (as specified above), it engages a wide range of resources to better understand that lead's media usage and buying habits, so that it can pitch to it more effectively. All of RSL's [✂] for Yorkshire include details of [✂].

2.42 Examples of the [✂] previously submitted to the CC are included below.

Figure 8
[✂]

Figure 9
[✂]

Figure 10
[✂]

RSL's marketing materials

2.43 The CC has not yet taken proper account of fact that RSL will often, consistent with the strategy above, include slides in its Yorkshire pitch documents designed to persuade customers to switch some spend from non-radio media to its stations.

2.44 To illustrate, the following are a sample of slides taken from pitches previously submitted to the CC for Yorkshire:

Figure 11
[✂]

Figure 12
[✂]

Competitors' marketing materials evidence competition between radio and non-radio media

2.45 The publicly available marketing materials for key competitors in South and West Yorkshire also plainly evidence that the parties' competitors consider themselves as competing with different media for advertising revenues.

2.46 For example, UTV's Pulse 1 has implemented a commercial strategy called "**Welcome to r adio**", similar to Global's [✂] initiative, specifically designed to attract non-radio media users away from other media.[21]

2.47 The ITV Yorkshire media pack specifically identifies Real and Lincs FM as close competitors:

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[21] http://www.pulse.co.uk/advertise/why-radio/

"*Advertising on ITV is not as expensive as you might think. Packages of airtime in the Yorkshire region can be bought for as little as £2,856* and your commercial could be seen by up to 31% of adults in the area.*

In a week ITV reaches 84% of adults in the Yorkshire region, this is 14 times more than Lincs FM, 14 times more than Real Radio 106-108FM and 16 times more than Hull Daily Mail. Just one spot on ITV Yorkshire could reach 1,117,000 viewers."[22]

2.48 ITV Yorkshire also compares TV more generally with commercial radio, regional newspapers, cinema and direct mail (see Figure 13).[23]

Figure 13
Screenshot from ITV Yorkshire media pack

Source: ITV website.

2.49 Similarly, SNL Media (which owns the press, magazine and online titles The Star, The Sheffield Gazette, The Sheffield Telegraph, The Metro, The Angling Star, The Green 'Un and Profile Magazine) promotes the benefits of local and regional press and online media compared with other media in its advertiser media pack:

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[22] http://www.itvmedia.co.uk/platforms/itv-regions/yorkshire

[23] http://www.itvmedia.co.uk/assets/itv_media_new_design/content/downloadables/yorkshire_factsheet_lores.pdf

"*The Newspaper Society has developed an ongoing programme of research called the wanted ads. The aim of the research is to demonstrate the strengths of local and regional press. Below are some of the key findings from the research:*

(A) *65% of people believe that local newspapers are the type of media that best represents the local area.*

(B) *30% of people notice the adverts in their local paper.*

(C) *23% find the advertising more relevant and useful.*

(D) *4 out of 5 local press readers act on the advertising – regular reader 83%, occasional reader 78%.*

(E) *Advertising on local media websites is 77% more likely to be relied-upon than advertising on other websites.*

(F) *People are 49% more likely to trust advertising local media (print and on line) than the nearest everyday medium (commercial television).*

(G) *Local advertising media made people 123% more interested in spending in the brand's category compared to people who hadn't seen the advertising*."[24]

2.50 Thus an analysis of the parties' internal documents for South and West Yorkshire, together with those of key competitors, provides strong evidence that the parties compete strongly with, and their prices and negotiations are constrained by, a wide range of attractive and strong non-radio media options in this region.

2.51 This conclusion is consistent with the key results of the Existing Customers and Lost Opportunities surveys, which provide strong evidence that non-contracted advertisers in South and West Yorkshire and generally in the overlap areas consider non-radio media as effective alternatives for the parties' stations. The Existing Customers survey shows that, nationally, 39% of respondents would switch at least some spend to non-radio media if their chosen station were not available, while only 24% would switch at least some spend to other radio stations. In Yorkshire, the related figures are 39% and 35% respectively. The Lost Opportunity survey shows that, nationally, 70% of Global respondents used non-radio media for their campaign after turning down a proposal from Global, relative to 34% that used other radio stations. The related figures in Yorkshire are 63% and 50% respectively.

2.52 As a result, the merger will not significantly reduce the outside options of the parties' non-contracted customers in South and West Yorkshire – the evidence clearly supports a final conclusion that these customers will retain a wide range of equally or more effective non-radio media adverting alternatives to Capital, Real and Smooth.

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[24] http://www2.sheffieldtoday.net/media-packs/industry-research.html.

3. COMPETITION BETWEEN RADIO STATIONS IN SOUTH AND WEST YORKSHIRE

3.1 The Provisional Findings:

(i) accept that:

"***There are some relatively strong radio alternatives in parts of the overlap area***"; [25]

(ii) accept that these are better radio alternatives to both Real and Capital in demographic terms:

"***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***".[26]

3.2 Nevertheless, the CC provisionally concludes that:

(i) It does "***not consider that the difference between the demographics of Real and Capital is significant and note[s] that the average age of listeners is relatively similar at 39 and 33 respectively and both attract slightly more female listeners than male***;"[27] and

(ii) "***there [is] no single direct alternative to the parties' stations for advertisers wishing to advertise across the South and West of Yorkshire [and post-merger advertisers] would have to buy a combination of stations belonging to different owners and these stations would achieve fewer than 40 per cent of the listening hours in the Real TSA***."[28]

3.3 The CC therefore provisionally concludes that:

"***in the absence of any countervailing factors, the merger will lead to significant adverse effects in South and West Yorkshire (the Real TSA)***."[29]

The CC has applied the wrong test

3.1 The CC has applied the wrong test to assess the competitive interaction between radio stations in South and West Yorkshire.

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[25] Provisional Findings, Paragraph 7.60.

[26] Appendix L, Paragraph 107.

[27] Provisional Findings, Paragraph 7.55.

[28] Provisional Findings, Paragraph 7.60.

[29] Provisional Findings, Paragraph 7.61.

3.2 The CC has given more weight to share of listening and share of non-contracted revenues than to demographic and geographic factors. This approach is inappropriate in assessing the competitive interactions of highly differentiated products in heterogeneous product markets and is inconsistent with the CC's findings elsewhere in the Provisional Findings which recognise the critical importance of geographical coverage and demographic position.

3.3 Moreover, the transaction costs of dealing with two radio owners rather than one are minimal – indeed a review of the parties' internal documents previously submitted to the CC shows that the majority of the parties' pitches that refer to other radio refer to a combination of third party radio stations instead of the other party's station – this evidence is set out below.

Capital and Real are not next best alternatives

3.4 As the CC itself accepts Capital and Real target different demographics:

"*The demographics targeted by the relevant stations in the overlap area are slightly differentiated. Capital reaches a slightly younger audience (average age of listeners 33) than the Bauer FM stations, UTV's Pulse and RSL's Real (average age of listeners 36 to 41)*."[30]

3.5 Global does not agree that the parties' demographics are only "slightly differentiated". Capital and Real are significantly differentiated from an advertiser's perspective, with Capital targeting listeners at a markedly different stage of their lives compared with those of Real. This conclusion fails to take account of the clear evidence that:

(i) Capital Yorkshire expressly targets "*The NOW generation […]15-34 year olds [who like to] listen to music that is popular now and more than likely in the charts*" and defines its main competitor as BBC Radio 1;[31]

(ii) Whereas Real Yorkshire expressly targets a more mature mainstream adult audience of 25 to 44 year olds, with a core focus on adults aged 35 to 44.

3.6 Moreover, the CC has accepted that geography is the most important factor in advertiser choice. The majority of Capital's non-contracted revenues ([✂]%) arise from advertising targeting areas outside South and West Yorkshire.[32] Capital offers non-contracted advertisers the ability to advertise on either the South and West Yorkshire transmitters or the East Yorkshire transmitter or across the entire TSA. The fact that only a minority ([✂]%) of customers advertise just in South and West Yorkshire demonstrates that the majority of Capital's non-contracted customers would not

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[30] Provisional Findings, Paragraph 7.55.

[31] See e.g. Annex 16A(ii).006 of Global's response to the CC's Initial Information Request.

[32] Appendix L, Paragraph 108.

consider Real to be a realistic alternative to Capital. The CC's estimate of customers affected by any potential lessening of competition is therefore likely to substantially overestimate the number of Capital customers who regard RSL's Real as a competitor.

As the CC has accepted, third party stations are closer alternatives than Capital for non-contracted advertisers on Real

3.7 A combination of Bauer's Hallam in Sheffield, Bauer's Aire in Leeds and UTV's Pulse or Pulse 2 offers non-contracted advertisers a better alternative for Real than Capital.

3.8 Real's internal documents evidence that in practice, a combination of Bauer's Aire in Leeds and Lincs FM Group's stations (Dearne, Ridings, Rother and particularly Trax) is also much more popular than Capital for customers seeking an alternative to Real.

A combination of Bauer's Aire and Hallam and UTV's Pulse / Pulse 2 are closer alternatives than Capital for non-contracted advertisers on Real

3.9 A combination of Bauer's Aire and Hallam and UTV's Pulse / Pulse 2 provides coverage of 92% of the Real Yorkshire TSA[33], including the key cities Leeds and Sheffield. This combination is therefore an effective geographic alternative for Real.

3.10 In addition, this combination is a better alternative to Real than Capital in terms of demographics.

3.11 The CC accepts that Bauer and UTV are closer in demographic terms to Real than Capital:

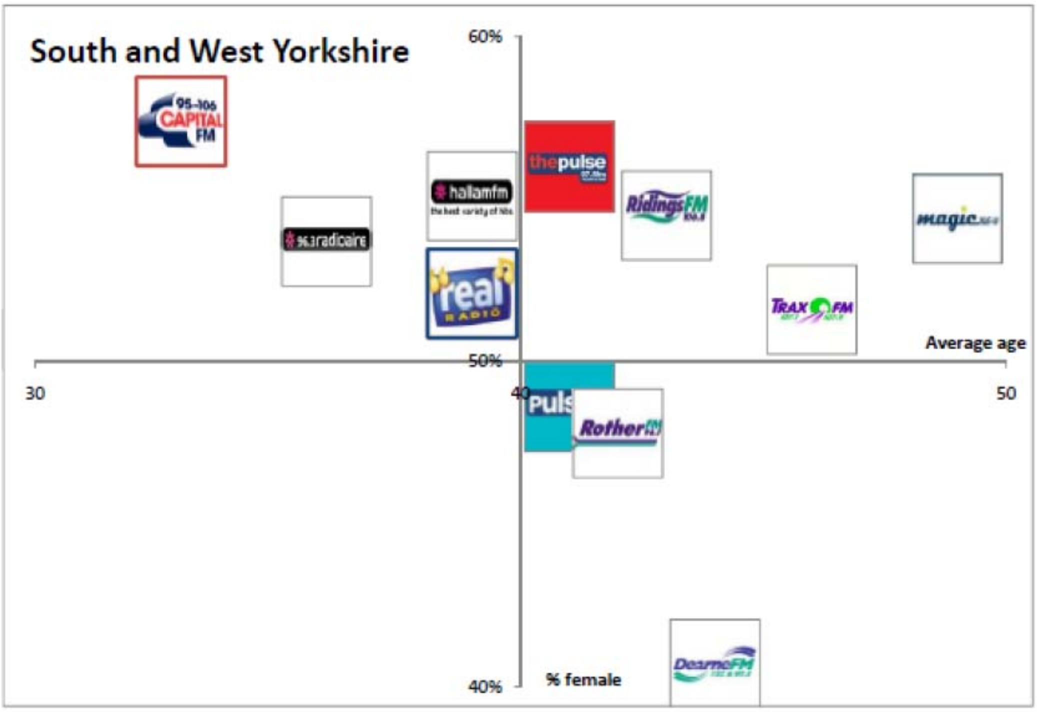
"*Bauer's two stations in the South and West Yorkshire region (Hallam and Aire) and UTV's Pulse and Pulse 2 (AM) stations each have a closer audience demographic to Real than Real does to Capital*". [34]

3.12 This is clearly demonstrated in the brand chart below.

[33] RAJAR, 12 months, W3 2012.

[34] Appendix L, Paragraph 107.

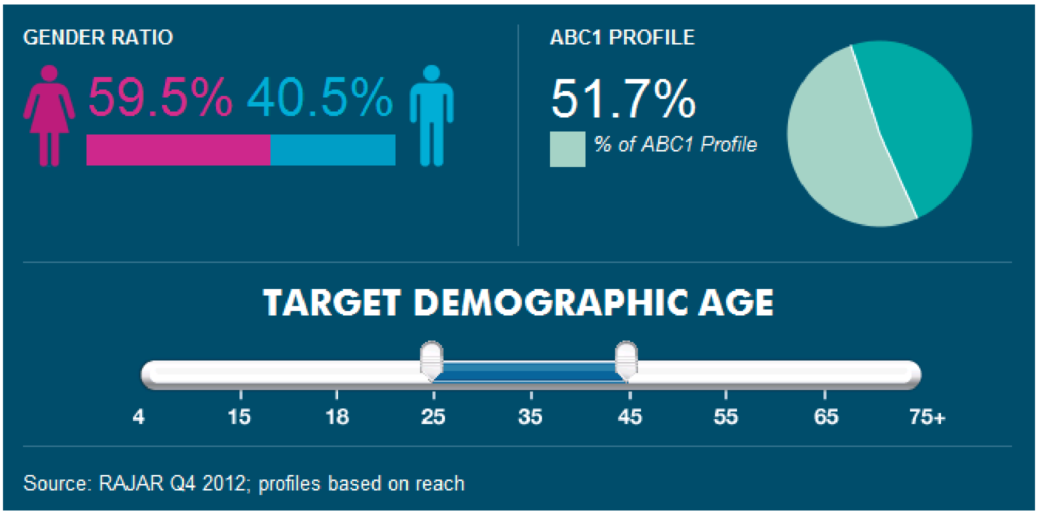
Figure 14
Brand chart for main commercial radio stations – South and West Yorkshire



Source: *Rajar Q3 2012.*

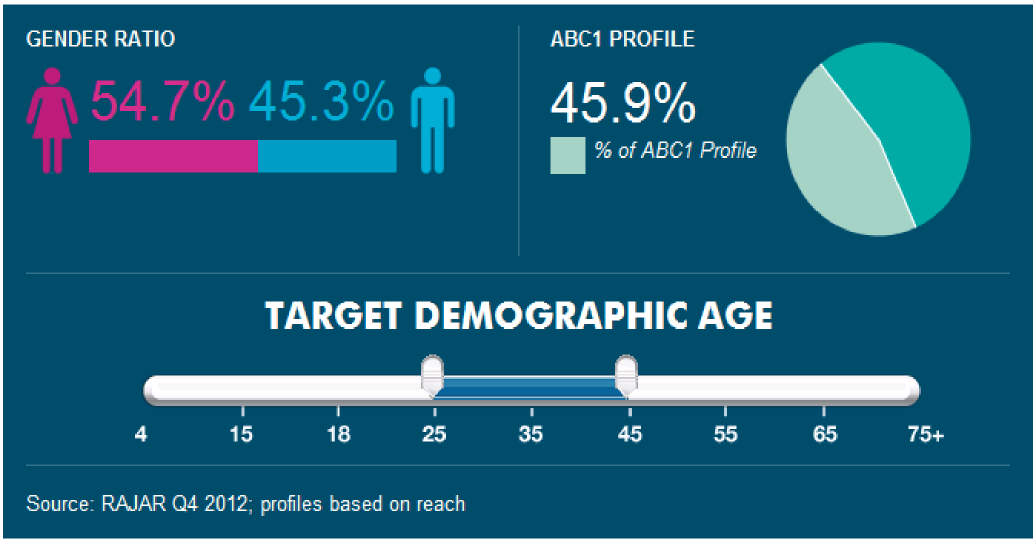
3.13 Bauer's media packs highlight how **Aire** (Figure 15) and **Hallam** (Figure 16) target a mainstream adult audience aged 25 to 44 and play a wide variety of music, including 80s, 90s, contemporary music (including pop) and ballads. These stations therefore offer a much better fit with the Real demographic than Capital, which plays exclusively current hits.

Figure 15
Radio Aire listener profile



Source: Bauer website.

Figure 16
Hallam FM listener profile



Source: Bauer website.

3.14 **UTV's Pulse** is also targeted at an adult audience aged 25 to 44 and plays a mix of mainstream contemporary music and classics designed to have broad appeal:

"*The Pulse plays Today's Best Mix for West Yorkshire. We simply stick-on a stack of the biggest songs of the moment alongside your all-time faves - all tunes that our listeners want to hear, as they get a say on what we play as members of our Music Academy - it's democracy in action!*"[35]

3.15 Like Real's audience, this station's core target listeners are family-oriented adults in their 30s and early 40s:

"*Between the songs you'll hear from The Pulse presenters - grown-ups with real lives and families who understand what makes West Yorkshire tick and always have something relevant to say - there's no pointless, cheesy chatter aimed at the kids on our radio station!*" [36]

3.16 Pulse therefore has a very similar average listener age (41) to that of Real (39).

3.17 Pulse's sister station, **Pulse 2**, also fits much more closely with the Real demographic than Capital. Pulse 2:

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[35] http://www.pulse.co.uk/advertise/why-choose-the-pulse/

[36] http://www.pulse.co.uk/advertise/why-choose-the-pulse/

(i) has a very similar average listener age (41) compared with that of Real (39); and

(ii) plays music that overlaps closely with that of Real – Pulse 2 plays a mix of classic pop music (the "Greatest Hits of All Time)."[37]

3.18 Therefore from both a geographic and demographic perspective, a combination of Bauer's Aire and Hallam and UTV's Pulse or Pulse 2 is a better alternative to Real than Capital.

3.19 Moreover, Bauer is a formidable player in relation to the mainstream 25-44 adult demographic targeted by Real.

3.20 For example, Bauer describes Hallam as "*South Yorkshire's commercial market leader*".[38] As illustrated in the slide below (taken from the Hallam / Magic Sheffield media pack), Bauer's Hallam will also remain a stronger alternative to Real than Capital on an "all adults 15+" basis in Sheffield.

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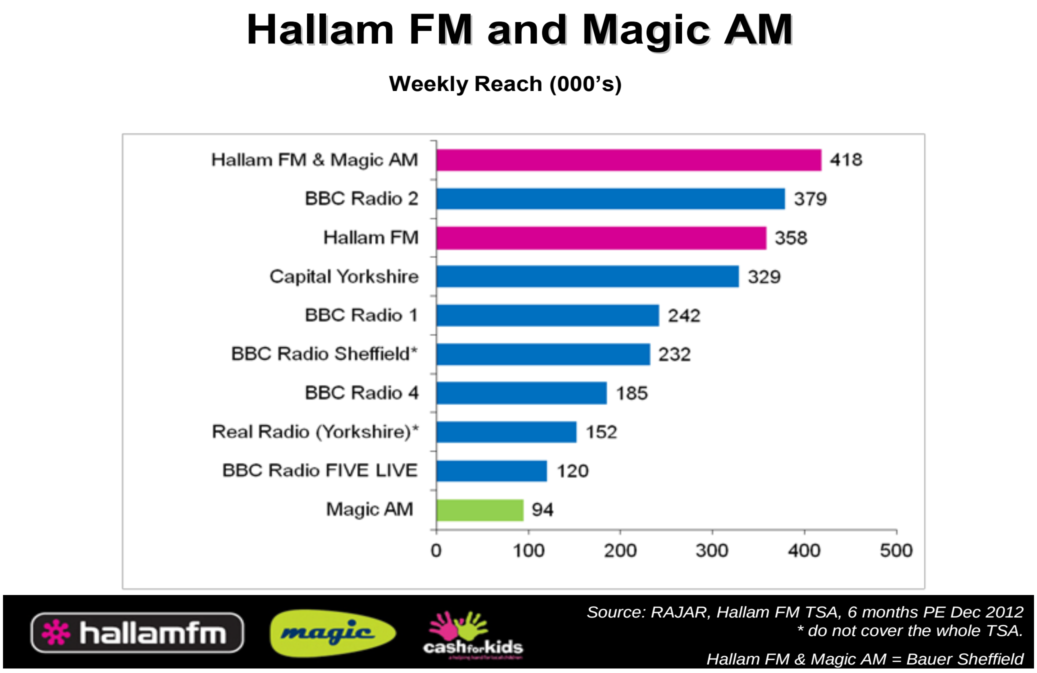
[37] http://www.pulse2.net/advertise/why-choose-pulse-2/

[38] Attachment 6.5 - Hallam and Magic media pack.

Figure 17
Slide from Hallam / Magic Sheffield media pack – reach



Source: *Bauer.*[39]

3.21 Bauer explains:

"With 249,000 listeners weekly, Big John has the most listened to breakfast show in the whole of South Yorkshire… that's 61,000 more listeners than BBC Radio 1's Chris Moyles, 62,000 more than Capital Yorkshire's Hirsty, and even leaves BBC Radio 2's Chris Evans trailing behind by 21,000."[40]

3.22 Aire is also a significant constraint and is mentioned in the majority (3 of 5) Real pitches submitted to the CC that refer to other radio stations – more regularly than Capital (see further the analysis below).

3.23 Moreover, Pulse and Pulse 2 are growing stations (growing by 22,000 listeners in the last year)[41] and Pulse specifically is mentioned in the majority (3 of 5) of Real pitches submitted to the CC that refer to other radio stations – also more regularly than Capital.

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[39] Attachment 6.5 - Hallam and Magic media pack.

[40] http://radio.bauermediaadvertising.com/stations/detail/hallam_fm

[41] http://www.pulse.co.uk/advertise/why-choose-the-pulse/

3.24 Therefore a combination of Bauer’s Hallam and Aire and UTV’s Pulse provide a better alternative to Real than Capital for customers seeking to target a mainstream adult demographic.

3.25 Customer emails confirm how Bauer and UTV perform much better than Real in winning customers interested in targeting a younger audience. For example, the following email from a customer [✂] to a Real sales person explains: [✂].

A combination of Bauer’s Aire in Leeds, Pulse / Pulse 2 and Lincs FM Group’s stations (Dearne and Trax) is a better alternative to Real than Capital

3.26 Dearne and Trax have approximately half the non-contracted advertising revenues of Capital Yorkshire, as estimated by the CC. They are therefore not ineffective competitors as the CC has concluded.

3.27 An analysis of Real’s pitch documents indeed confirms that a combination of Lincs FM Group’s stations Trax and Dearne in South and West Yorkshire (with Bauer’s Aire and if coverage in Bradford is sought, Pulse) is a preferred alternative to Real.

3.28 This is consistent with these stations’ demographic profiles. As illustrated in the brand map above, these stations target an audience in its early to mid forties – they are therefore a better means of targeting the older end of the Capital demographic. This analysis is considered further below.

Real’s pitch documents confirm that a combination of third party stations is a better alternative to Real than Capital

3.29 An analysis of the pitch documents previously submitted to the CC confirms that a combination of third party radio stations owned by Bauer and UTV (or Bauer and Lincs FM) is identified as an effective alternative to Real more regularly than Capital. In particular:

(i) Fewer than [✂] of the RSL pitches submitted to the CC [✂] refer to other radio stations.

(ii) Of these, [✂] refer to Capital[42], [✂] refers to Capital alone[43] ([✂] also refers extensively to non-radio media).

(iii) By contrast, [✂] pitches[44] that refer to other radio refer to third party radio stations, including UTV’s Pulse, Bauer’s Aire, and Lincs FM Group’s stations – generally in combination with one another.

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[42] Annexes 17B.107 and 108 to RSL’s response to the CC’s Initial Information Request.

[43] Annex 17B.107 to RSL’s response to the CC’s Initial Information Request.

[44] Annexes 17B.106, 108, 109, to RSL’s response to the CC’s Initial Information Request.

Real pitches that refer to Capital

3.30 As mentioned above, only [✂][45] pitch out of [✂] refers to Capital alone (it also refers extensively to non-radio media). This pitch expressly highlights how Capital is not a good alternative for the advertiser in question, because Capital reaches a younger audience that would be less interested in purchasing property in the area – for example: [✂].

Figure 18
[✂]

Figure 19
[✂]

3.31 This pitch therefore highlights that Capital is a poor substitute for Real for advertisers seeking to target a more mature, family-oriented audience. Other radio options or other media are better alternatives than Capital.

3.32 The other pitch that refers to Capital also refers to Radio Aire as an alternative, illustrating that for this customer (seeking to target males aged 25 to 55) Aire was considered at least as good an alternative as Capital to Real.

Real pitches that refer to third party stations

3.33 As mentioned, the majority [✂] Real pitches[46] that refer to other radio refer to third party radio stations, including Pulse, Aire, Ridings, and Dearne – whether on their own or in combination with each other. In the following pitches, a combination of radio stations owned by different groups is identified as an alternative whereas Capital is not mentioned at all.

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[45] Annex 17B.107 to RSL's response to the CC's Initial Information Request.

[46] Annexes 17B.106, 108, 109, to RSL's response to the CC's Initial Information Request.

(i) The [✄] pitch compares Real with a combination of three radio stations owned by three groups - Bauer's Aire, UTV's Pulse and Lincs FM Group's Ridings. This pitch highlights how customers will use the flexibility afforded them by the option of a combination to reach listeners in the areas that are most relevant to them (i.e. this customer was seeking coverage in Leeds, Bradford and the Wakefield area specifically, not necessarily across the whole overlap area).

Figure 20
[✄][47]

(ii) Similarly, the [✄] pitch compares Real with a combination of four radio stations owned by three different groups - Bauer's Aire, UTV's Pulse and Lincs FM Group's Ridings and Dearne. Capital is not mentioned as an alternative despite offering the necessary geographical coverage sought by the customer. This is because Capital's audience is less likely to be interested in the product advertised [✄]. As illustrated in the below slides, Real expressly refers to the customer's "target market" as "women 24+ [✄]".

Figure 21
[✄][48]

3.34 Moreover, since the publication of the Provisional Findings, the parties have sought to obtain and provide further materials evidencing that Real customers consider a combination of stations owned by different owners as better alternatives to Capital than Real.

3.35 The figure below is a screenshot from an email prepared by the local sales manager listing the customers she lost to other radio stations between January 2012 and February 2013. A combination of third party stations or of individual third party radio stations (i.e. together with other media to achieve the necessary geographic coverage) were used in <u>100%</u> of cases. In only [✄] of these cases was money lost to Capital (but also to (i) Bauer, and (ii) Bauer and UTV in combination).

Figure 22
[✄]

3.36 This proves that a combination of third party radio stations is currently the next best alternative to Real and a much better alternative than Capital.

3.37 Therefore, the merger will not give rise to a <u>substantial</u> lessening of competition in relation to non-contracted advertisers seeking to target a mainstream adult audience in South and West Yorkshire – the next best alternative to Real will not be removed as a

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[47] Annex 17B.106 of RSL's response to the CC's Initial Factual Information request.

[48] Annex 17B.115 of RSL's response to the CC's Initial Factual Information request.

result of the merger. Bauer and UTV's stations or Bauer and Lincs FM's stations can be used as an alternative to Real following any attempt to introduce putative price increases in this region.

As the CC has accepted, Bauer's stations are closer alternatives than Real for non-contracted advertisers on Capital

3.38 The CC has further accepted that Bauer's stations (in particular Aire) offer closer demographic alternatives to Capital than Real:

"*The demographics targeted by the relevant stations in the overlap area are slightly differentiated. Capital reaches a slightly younger audience (average age of listeners 33) than the Bauer FM stations, UTV's Pulse and RSL's Real (average age of listeners 36 to 41)*."[49]

3.39 Aire, which has an average listener age of 36, expressly targets a mainstream adult audience with a broad variety of music, which is designed to appeal to both the Capital and Real demographics - the description below of Aire's playlist includes artists such as Rhianna and Katy Perry, which would be played on Capital; and Take That, Adele, and "favourites from the past few years" which would be played on Real:

"*[W]e believe in letting our listeners choose the music we play. If it matters to the people of Leeds, then it's on 96.3 Radio Aire. […] 96.3 Radio Aire plays Today's Best Music For Leeds. From Rihanna to Take That, Katy Perry to Adele we play the biggest songs right now and favourites from the past few years*."[50]

3.40 The wider Aire playlist (which includes current hits) is therefore more likely to appeal to the Capital demographic than the Real playlist.

3.41 Although Hallam reaches an average listener age of 41, it similarly plays more contemporary music than Real, as illustrated in the below description from its media pack:

"*[Hallam plays] the best variety of hits for South Yorkshire from artists like Rhianna, Ed Sheeran, Katy Perry, Adele, Lady Gaga, Kelly Clarkson, The Wanted and Jessie J*."[51]

3.42 Hallam is therefore also more likely to appeal to the Capital demographic than Real (which plays a variety of music including some contemporary music, but with less pop and no "club" music).

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[49] Provisional Findings, Paragraph 7.55.

[50] http://radio.bauermediaadvertising.com/stations/detail/radio_aire

[51] http://radio.bauermediaadvertising.com/stations/detail/hallam_fm

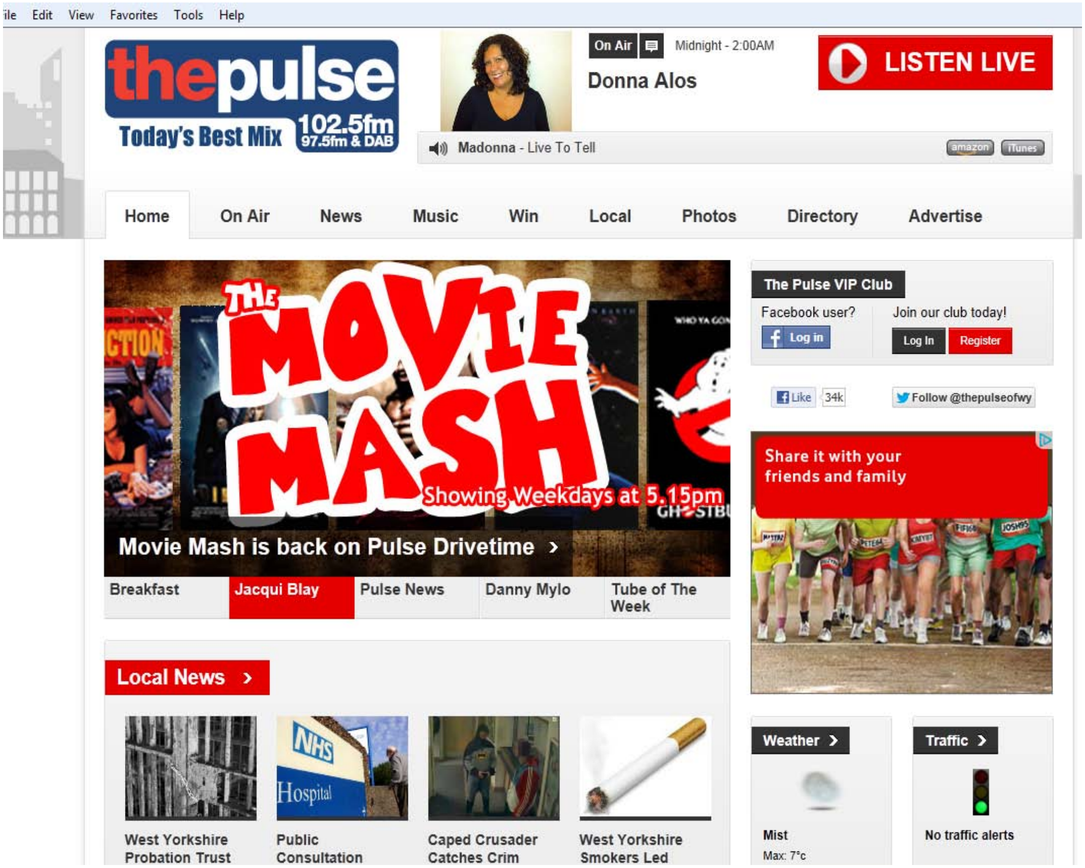
3.43 Pulse also plays more contemporary music than Real, thus despite having an average listener age of 41 is more likely to be attractive to listeners interested in pop music (i.e. the type of music played on Capital). As mentioned:

"*The Pulse plays Today's Best Mix for West Yorkshire. We simply stick-on a stack of the biggest songs of the moment alongside your all-time faves […].*"[52]

3.44 The following screenshot of Pulse's home page illustrates that it has a more mixed appeal - i.e. is designed to appeal to a family-oriented audience in its 30s and 40s but with a youthful lifestyle.

[52] http://www.pulse.co.uk/advertise/why-choose-the-pulse/

Figure 23
Screenshot of Pulse homepage



Source: *Pulse website*.[53]

3.45 Pulse is therefore more likely to attract Capital listeners than Real, which as illustrated below has a more mature focus (e.g. the event advertised is a Mother's Day event and the advert is for a foster care home).

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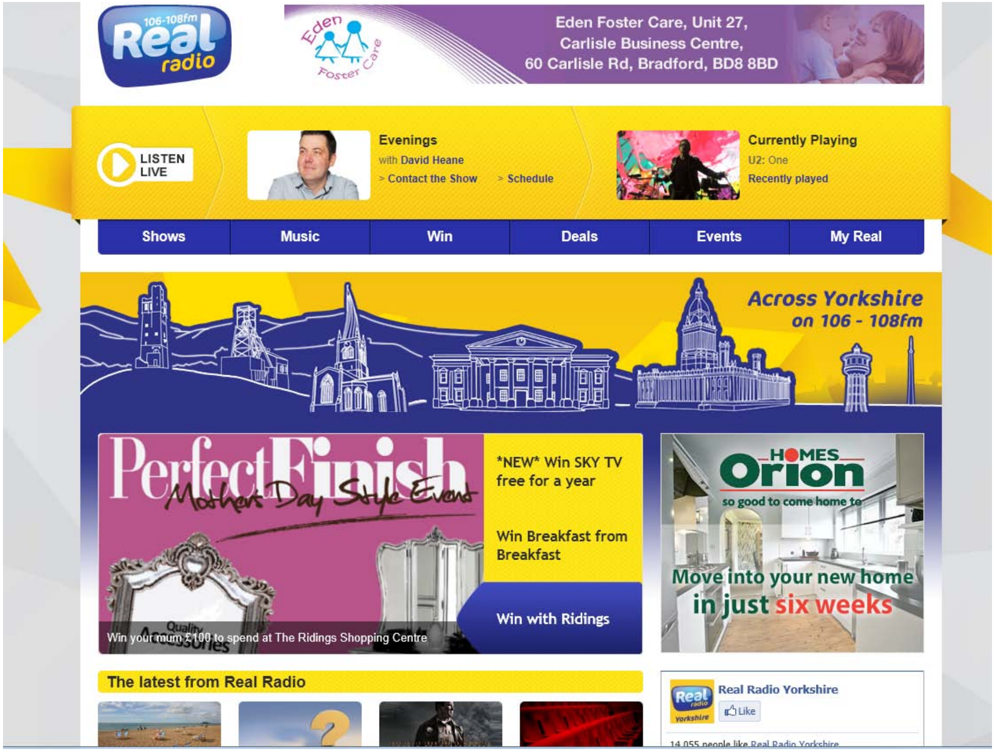
53 http://www.pulse.co.uk/advertise/why-choose-the-pulse/

Figure 24
Screenshot of Real homepage



Source: *Real Yorkshire website.*

3.46 Together, Bauer's Aire and Hallam and UTV's Pulse have a significantly higher reach among Capital's target demographic of 15 to 34 year olds than Real (see Figure 25) and a higher listening share than Real (see Figure 26) – they are therefore also a stronger and more attractive alternative than Real in terms of audience shares.

Figure 25
Reach – Capital demographic (15-34)

Station	Reach (%)
Capital Yorkshire*	44%
Hallam, Aire and Pulse 1	27%
Hallam and Aire	*22%*
Pulse and Pulse 2	*6%*
Real Radio Yorkshire	16%
Magic Leeds and Sheffield	4%

Source: *Rajar Q3 2012 (12 months).*

Figure 26
Share of local/regional commercial listening– Capital demographic (15-34)

Station	Listening share (%)
Capital Yorkshire*	48%
Hallam, Aire and Pulse 1	23%
Hallam and Aire	*20%*
Pulse and Pulse 2	*4%*
Real Radio Yorkshire	20%
Magic Leeds and Sheffield	3%

Source: Rajar Q3 2012 (12 months).

3.47 Capital's pitch documents previously submitted to the CC are consistent with this analysis:

(i) [✂] Capital pitches refer to other radio.

(ii) [✂] refer to Real, however only [✂] refers to Real alone – the other [✂] also refer to (i) Bauer's Aire; or (ii) a combination of Bauer's Hallam, Viking and Aire and UTV's Pulse. [54]

(iii) [✂] pitches that refer to radio competitors name other radio stations (i.e. other than Real) as alternatives to Capital. These include, among others, Bauer's Radio Aire and Hallam and UTV's Pulse.

[54] [✂] pitch and [✂] pitch.

Conclusion

3.48 Within radio, the merger will not significantly change the outside options for either Capital or Real non-contracted customers. Their best alternative radio option pre-merger was a combination of Bauer stations and UTV's Pulse or Pulse 2 and this remains the case post merger.

3.49 This conclusion is consistent with the key results of the Existing Customers and Lost Opportunities surveys, which provide strong evidence that non-contracted advertisers in South and West Yorkshire consider other radio stations to be better alternatives to the parties' stations than the parties' stations are for each other. The Existing Customers survey shows that, in Yorkshire, 24% of respondents would switch at least some spend to third-party radio stations if their chosen station were not available, while 20% would switch at least some spend to the other merging party's radio stations. The Lost Opportunity survey shows that, in Yorkshire, while 50% of Global respondents used other radio stations for the campaign Global pitched for unsuccessfully, only 7% of respondents said they used a RSL station.

3.50 Accordingly, Global strongly urges the CC to re-evaluate the evidence before it, as well as new evidence that is being made available to it, with a view to reaching a final conclusion that the merger will not give rise to an SLC in South and West Yorkshire.

GLOBAL'S RESPONSE TO THE COMPETITION COMMISSION'S PROVISIONAL FINDINGS

ANNEX 7

CENTRAL SCOTLAND

1. EXECUTIVE SUMMARY

1.1 Global does not agree with the CC's provisional conclusion of a substantial lessening of competition ("**SLC**") in the non-contracted advertising sector in Central Scotland.

1.2 Firstly, the CC fails to take into account evidence that non-contracted advertisers in Central Scotland view non-radio media as an effective alternative to radio - this is further addressed in Section 2 of this Annex.

1.3 Secondly, within the radio sector:

(a) Bauer is the leading radio group in Central Scotland

1.4 Clyde and Forth have a commercial radio share of local commercial listening in Central Scotland of 58% (16% higher than that of Global post merger). Clyde and Forth also have a higher reach than Global would have post merger.

1.5 Bauer is as strong in Central Scotland as it is in Glasgow, where the CC has found there is no SLC due to "Bauer's relative strength" (Bauer has a listening share of 60% in Glasgow).

1.6 The CC has underestimated Bauer's share in Central Scotland and overestimated that of RSL by including in Central Scotland Real XS and Smooth which are Glasgow only stations. Just as the CC excluded Real, which unlike Capital is unable to offer advertisers a split transmitter targeting Glasgow, from its analysis of competition in Glasgow, it should also have excluded from its regional analysis Glasgow-only stations.

(b) Bauer is the parties' closest competitor

1.7 In relation to non-contracted advertisers who wish to target the whole of Central Scotland (i.e. "regional" customers), a combination of Bauer's Clyde and Forth stations is a better alternative to Real than Capital.

(i) As acknowledged by the CC: "***Real and Bauer FM stations have a similar average age of listeners (around 40 years old) whereas Capital reaches a younger age on average, with an average listener age of 33 years***;"[1] and

(ii) As further evidenced in this Annex, Bauer's explicit sales strategy is to sell both airtime and S&P as a bundle across East and West Scotland in order to offer customers full central Scotland coverage. Bauer itself describes Real Radio (a regional only station) "***[as] its closest commercial competitor***".[2]

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[1] Appendix L, Paragraph 170.

[2] See Attachment 7.1 - Central Scotland - Bauer media pack - Central Scotland.

1.8 The combination of Clyde FM and Forth FM is also a better alternative to Capital than RSL's stations.

(i) For advertisers looking for an alternative to Capital for a regional Central Scotland campaign, Bauer's stations are a more attractive alternative than Real because they reach more listeners in the Capital target demographic (15-34 year olds); and

(ii) Most of Capital's non-contracted advertisers are local advertisers who buy either the West transmitter area around Glasgow ([✂]%) or the East transmitter area around Edinburgh ([✂]%). Fewer than half ([✂]%) of Capital's non-contracted customers buy the whole Central Scotland region. Therefore most of Capital's customers would not regard Real as a realistic alternative since Real only offers advertisers coverage of the whole Central Scotland region. The CC has accepted that Real does not compete for Capital's local customers. Bauer is a much better alternative for both Capital's local customers and regional customers (as it can sell airtime in the West alone, East alone, or across the whole region).

1.9 The above points are addressed in greater detail in Section 3 of this Annex.

2. NON-RADIO MEDIA POSE A STRONG CONSTRAINT IN CENTRAL SCOTLAND

2.1 The Provisional Findings implicitly accept that across the overlap regions the vast majority of non-contracted customers view non-radio media as substitutable for the parties' radio stations[4] (see further Parts 1 and 2 of this Response).

2.2 As a result, when the parties negotiate prices for campaigns with both new or existing customers in Central Scotland, they are constrained by non-radio media.

2.3 These advertisers have equally or more effective non-radio alternatives to the parties' stations. Therefore there is no basis for the assertion that the merger will lead to substantially higher prices for any advertisers in Central Scotland.

2.4 The CC has not yet taken into account the large body of internal documents for Central Scotland which clearly establish that the entire strategy of both companies is to compete directly with other media to win business.

2.5 The CC's "*review of [the parties'] internal documents*" for Central Scotland is focused on one document (a listener survey) which provides no insights on the competitive relationship between radio and non-radio advertising media.[3]

2.6 An analysis of Global and RSL's internal documents relevant to this relationship evidences plainly that both parties' commercial strategies are focused on:

(i) finding new customers by targeting principally users of other media; and

(ii) ensuring that they do not lose existing customers to other media.

2.7 These documents are outlined below.

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[4] E.g. The Provisional Findings state at Paragraph 6.39 that "*the survey results suggest limits to the constraint provided by other media. We note, for example, that the existing customer survey suggests that 15 per cent of existing customers did not consider using any other media at the time of their last campaign and 24 per cent said that they ended up using only radio. Similarly, 9 per cent of respondents said that they could not use any other types of media to meet the same objectives as radio*." A clear implication of the results cited by the CC is that other media constitutes an effective constraint for the remaining 75% to 90% of advertisers.

[3] Appendix L to the Provisional Findings notes that "[a] review of internal documents highlighted the results of a survey of radio listeners in Central Scotland commissioned by RSL intended to measure the impact of a Real Radio Scotland advertising campaign. Respondents had a high awareness of Real, Bauer and Global." By the CC's own admission, this document relates to a listener survey –i.e. to what extent listeners in the Central Scotland region are familiar with RSL's radio stations. Indeed, in addition to Capital and Bauer's stations Clyde One, Clyde Two, Forth One and Forth Two, the study also considers listener awareness among national commercial radio stations listeners (e.g. Absolute Radio, Talksport and Classic FM).

The CC has failed to take into account Global's internal documents for Central Scotland

2.1 The CC has not yet taken proper account of the internal documents submitted by Global concerning the Central Scotland market. An analysis of these documents would show that Global's entire strategy for Central Scotland is focused on growing radio's share of the "total media pie" and competing with non-radio media both for new and existing customers.

2.2 Global loses on average [✂]%[4] of its customers every year in Central Scotland through churn (representing an average of [✂]%[5] of its non-contracted revenues in Central Scotland) – it is therefore fundamental to the survival of its business that it succeeds in targeting new customers to replace those that churn away (and retains as many existing customers as possible) to compensate for lost revenues.

2.3 As explained in Global's Strategy Overview Paper at Annex 9, in 2009 Global implemented the [✂] strategy with the express focus of addressing customer churn by competing more effectively with non-radio media competitors. Global introduced its current [✂] strategy [✂] in early 2012 with the objective of building on [✂]. The [✂][6] sets out Global's current strategy for Central Scotland.

2.4 The CC has not yet taken proper account of the internal documents relating to the key initiatives introduced in Central Scotland under the [✂] and [✂] strategies. These are considered below.

<u>Global's [✂] initiative</u>

2.5 As further detailed in Global's Strategy Overview Paper at Annex 9, under this initiative Global's Central Scotland sales team identifies [✂] for that region which are advertising predominantly on non-radio competitors.

2.6 The CC has not yet taken into account [✂] for Scotland[7], which includes customers advertising exclusively on:

(i) press titles such as [✂]

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[4] RBB analysis based on Global and RSL's transactional data from 2009/2010 to 2011/2012 (i.e. three years). NMR data is only available up to September 2012; therefore, the average churn by count and revenue does not include a customer who may have purchased on the parties' stations in Q4 2012.

[5] RBB analysis based on Global and RSL's transactional data from 2009/2010 to 2011/2012 (i.e. three years). NMR data is only available up to September 2012; therefore, the average churn by count and revenue does not include a customer who may have purchased on the parties' stations in Q4 2012.

[6] [✂] submitted to the CC on 28 January 2013.

[7] Annexes 17A(i).046(b) and 045(b) of Global's response to the CC's Initial Factual Information Request.

(ii) TV stations such as [✂].

(iii) outdoor media.

2.7 Similarly, the CC has not yet considered the additional [✂] submitted to the CC which are used to identify potential customers in Central Scotland in different sectors [✂], and which detail [✂].[8]

2.8 Global has also introduced [✂] initiatives in Central Scotland such [✂] between sales teams called [✂], in which [✂].

2.9 Sales teams were specifically instructed to [✂][9]

2.10 As illustrated in [✂] below, [✂] customers recorded in [✂] for this initiative[10] as having been "booked" in the wider North region (including Scotland) were expressly won from press and not other radio (i.e. were in fact new to radio altogether). [✂] customers were also expressly won from other forms of media, e.g. "*Test budget from TV*" and "*This client has been solely using magazines, PR and online this is the first campaign that they have placed with a radio group*."

Figure 1
[✂]

2.11 The same slide also lists the [✂] who Global has not managed to book in the "North" region (including Central Scotland). As the CC will see from the following screenshot, almost all of these chose to spend their advertising budgets on alternative media instead of radio (e.g. "*No to radio advertising*"; "*Decided to use budget on TV*"; "*No budget*" [i.e. all spent on other media]'; "*No longer interested in radio*" etc.).

Figure 2
[✂]

2.12 Consistent with the results of the Existing Customers and Lost Opportunities surveys, these materials clearly evidence that non-radio media constrains radio pricing and revenues – see, for example, the entry above for [✂], which indicates that Global did not succeed in winning because "*Radio [was] [✂]*".

Global's [✂] strategy

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[8] Annexes 17A(i).001 to 17A(i).005 of Global's Response to the CC's Initial Factual Information request.

[9] See e.g. Annex 17A(i).044 of Global's Response to the CC's Initial Factual Information request. ([✂] is an illustration of how the [✂] initiative is implemented in practice.)

[10] Annex 17A(i).047(a) of Global's Response to the CC's Initial Factual Information request (the initiative was labelled "Mission Impossible" in this instance).

2.13 Global has also provided extensive evidence of how it specifically targets [✂] stations including [✂] in Scotland. This includes: [✂].

Figure 3
[✂][11]

Global's press strategy

2.14 The CC has not yet taken into account Global's overarching strategy relating to local and regional press, which is detailed in Global's Strategy Overview Paper at Annex 9 – Global explains: [✂][12]

Figure 4
[✂]

2.15 The CC has been provided with extensive evidence on the steps taken by Global to capitalise from [✂] local and regional press readership across all overlap regions, including Scotland[13]. This includes [✂] for [✂] Scottish press titles, [✂][14]

The CC has failed to take into account RSL's internal documents for Central Scotland

2.16 As noted above, the CC's "*review of [the parties'] internal documents*" for Central Scotland is focused on one document which provides no insights into competition between radio and other media.

2.17 Appendix L to the Provisional Findings notes that "[a] review of internal documents highlighted the results of a survey of radio listeners in Central Scotland commissioned by RSL intended to measure the impact of a Real Radio Scotland advertising campaign. Respondents had a high awareness of Real, Bauer and Global."

2.18 By the CC's own admission, this document relates to a listener survey –i.e. to what extent listeners in the Central Scotland region are familiar with RSL's radio stations. Indeed, in addition to Capital and Bauer's stations Clyde One, Clyde Two, Forth One and Forth Two, the study also considers listener awareness among national commercial radio stations listeners (e.g. Absolute Radio, Talksport and Classic FM).

2.19 The CC has not yet taken into account internal RSL documents that are relevant to the analysis, including:

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[11] Annex 17A(i).050 to Global's response to the CC's Initial Factual Information Request.

[12] Annex 15A(ii).004 to Global's response to the CC's Initial Factual Information Request.

[13] See for example Annexes 17A(i).014 to 17A(i).020 to Global's response to the CC's Initial Factual Information Request, together with Global's main strategy papers at 15A(ii).001 to 15A(ii).005.

[14] Annex 17A.014 of Global's response to the CC's Initial Factual Information Request.

<u>RSL's regional strategy paper entitled [✂]</u>[15]

2.20 This document evidences that RSL's non-contracted strategy for Central Scotland is entirely focused on improving how it identifies and targets non-radio customers and in turn increases the share of advertising revenues spent on its radio stations in this region, compared with non-radio media. This is illustrated in the slide below.

Figure 5
[✂]

<u>RSL's [✂] reports, such as the analysis of the [✂] in Scotland</u>[16]

2.21 This sample report considers RSL's opportunity to attract [✂] advertisers away from predominantly non-radio media platforms in Scotland.

2.22 In particular, it lists the "*Biggest Players in [the] Scottish Marketplace*" and where they are advertising, including press, radio, TV and outdoor:

Figure 6
[✂]

2.23 The CC has not yet taken into account the fact that most of RSL's key target customers identified in this report are spending with non-radio media exclusively (it goes on to list "*10 Potentials not currently with [RSL])*". Those advertising on radio are using Bauer – <u>none</u> are using Capital: [✂].

2.24 The report further details how RSL's Scotland sales people should attempt to persuade these target customers to use Real instead of these media platforms- e.g.: [✂]

<u>Target customer [✂]</u>

2.25 Consistent with the above documents, the [✂] submitted to the CC for Scotland evidence that RSL's business strategy is to increase its revenues by targeting predominantly non-radio advertisers.

2.26 For example:

(i) The [✂] for [✂][17] whilst

(ii) The [✂] for [✂]." [18]

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[15] Annex 15B.006 of RSL's response to the CC's Initial Factual Information Request.

[16] Annex 17B.022 of RSL's response to the CC's Initial Factual Information Request.

[17] Annex 17B.043 of RSL's response to the CC's Initial Factual Information Request.

2.27 Additionally, RSL has submitted documents such as the [✂] relating to its key strategic initiatives [✂] (detailed further in RSL's Strategy Overview Paper at Annex 10). As illustrated in the below screenshots relating to Scotland, the vast majority of the customers won through these initiatives are new to radio altogether or, where they are already spending on radio, they are only spending on RSL's other radio stations in the region (i.e. not on Capital).[19]

Figure 7
[✂]

Marketing materials

2.28 Accordingly, RSL's pitches will often compare its stations' characteristics with those of non-radio media competitors in order to persuade customers that using one of its radio stations in Scotland will deliver a more effective advertising campaign. The slides below, taken from pitches previously submitted to the CC, illustrate this approach.

(i) The following slide explains how Smooth [✂]

Figure 8
[✂]

(ii) The following slides highlight the effectiveness and advantages of radio as an advertising medium, compared with specific non-radio media alternatives:

Figure 9
[✂]

Figure 10
[✂]

Figure 11
[✂]

Competitors' marketing materials evidence competition between radio and non-radio media

2.29 The publicly available marketing materials for key competitors in Central Scotland also plainly evidence that both radio and non-radio media players in Central Scotland consider themselves as competing with different media for advertising revenues.

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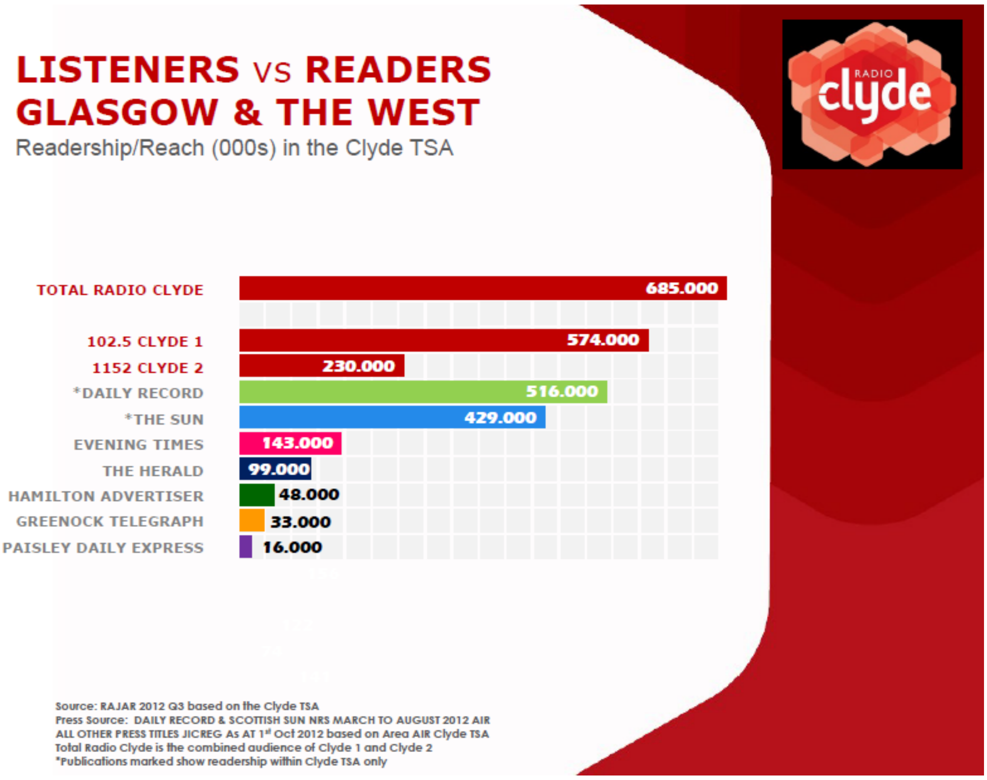
[18] Annex 17B.045 of RSL's response to the CC's Initial Factual Information Request.

[19] Annex 17B.035 of RSL's response to the CC's Initial Factual Information Request.

(i) For example, Bauer's own media pack for Central Scotland (attached at Attachment 7.1) compares its stations' reach with that of a number of Scottish press titles, including the Daily Record, The Sun, the The Herald, the Hamilton Advertiser, the Greenock Telegraph and the Paisley Daily Express (see Figure 12).

Like Global and RSL, Bauer's objective is to persuade customers to use its radio stations instead of these newspaper competitors.

Figure 12
Slide from Clyde media pack



Source: *Clyde media pack.*

2.30 Consistent with this, the commercial media pack for Media Scotland[20], Scotland's largest publishing group (which owns the following titles: The Daily Record, The Sunday Mail, 18 local titles, Metro Scotland, 18 newspaper websites, Insider Magazine, Business7.co.uk, Scotcareers, Road Record and Local Mole), explicitly compares the reach of its press, online and magazine portfolio with those of commercial radio and TV competitors in Scotland:

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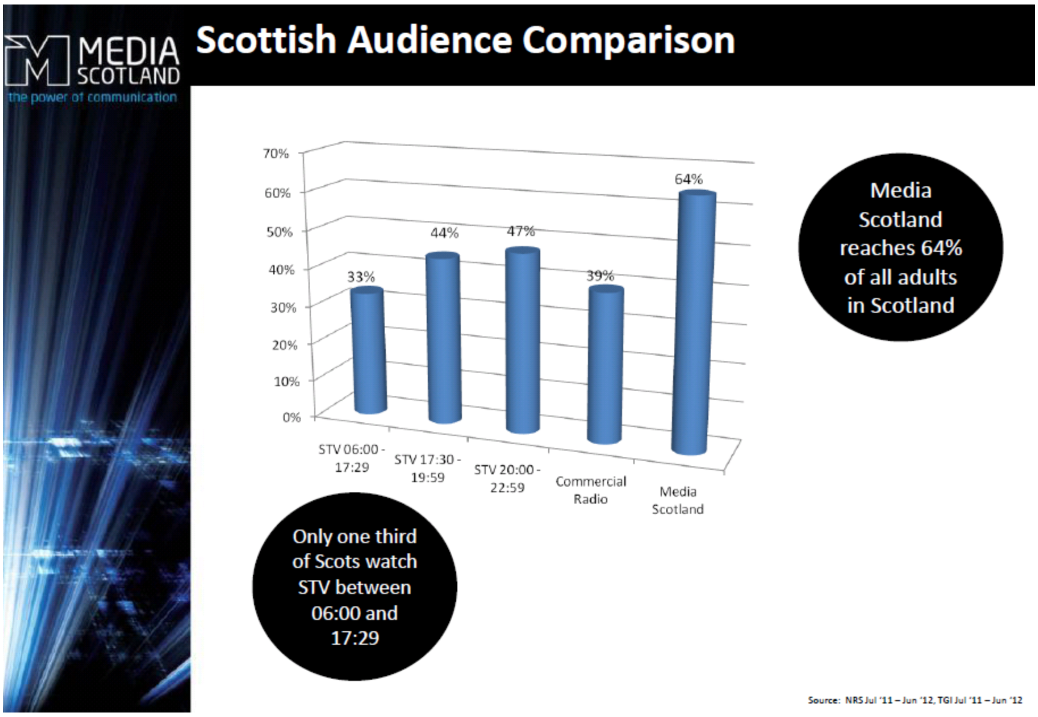
[20] See Attachment 7.2 - Central Scotland -Media Scotland.

Figure 13
Slide from Media Scotland media pack



Source: *Media Scotland.*

2.31 Furthermore, the STV media pack specifically identifies RSL's stations Real and Smooth as key competitors:

"*In a week STV reaches 83% of adults in the Scotland region, this is five times more than Real Radio 100-101, 13 times more than Smooth Glasgow and 16 times more than Evening Express. Just one spot on STV could reach 875,000 viewers."*[21]

2.32 It also compares commercial radio and other media more generally, for example:

(i) It states that "*TV is the most effective at shaping consumers decisions, 84% of consumers believe TV advertising is most likely to influence their buying decisions*;"

(ii) It compares STV's weekly reach with Scottish commercial radio;[22] and

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21 http://stvsales.tv/advertising

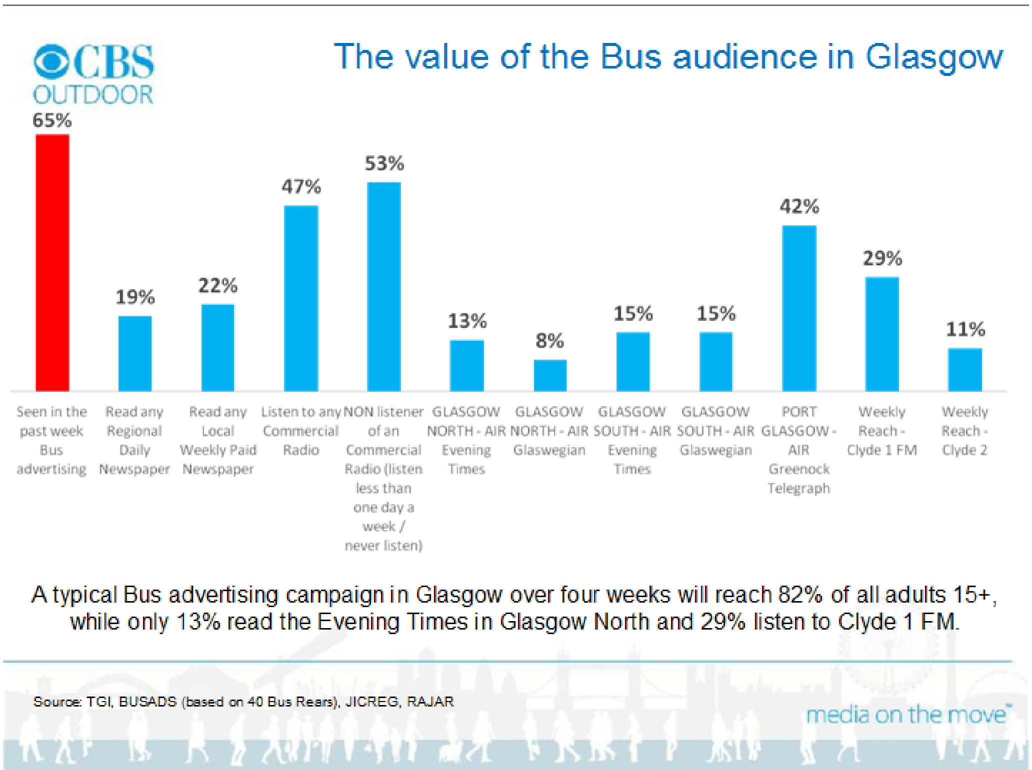
22 http://stvsales.tv/micro_region_maps/stv_central#first-tab

(iii) It compares STV's daily reach with the Sunday Mail, Daily Record, Scottish Sun, Scottish Daily Mail, Sunday Mail, all regional press, the Scotsman, the Herald, and Scotland on Sunday.[23]

2.33 The parties have lost key Scottish customers to STV due to its low CPT rate, including [✂].

2.34 Similarly, CBS Outdoor, the parties' main outdoor competitor in Scotland, highlights in its media pack (attached at Attachment 7.6) why customers should use outdoor instead of commercial radio or press titles. Example slides taken from this pack are included below:

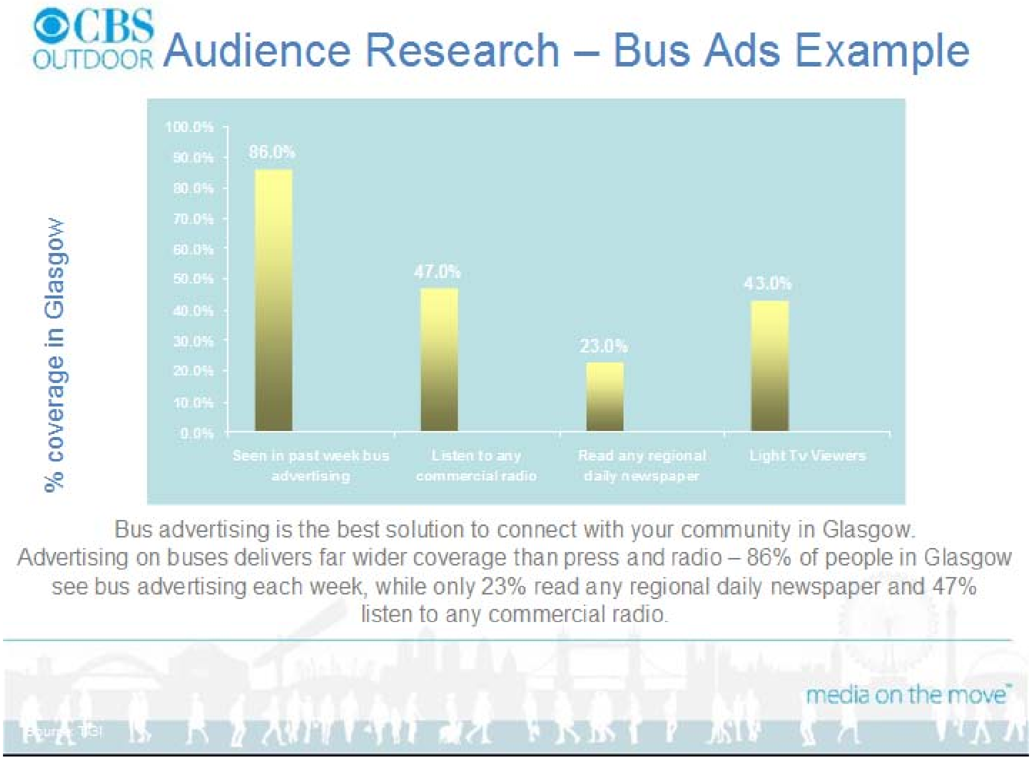
Figure 14
Slide from CBS Outdoor media pack



Source: *CBS.*

[23] http://stvsales.tv/micro_region_maps/stv_central#first-tab

Figure 15
Slide from CBS Outdoor media pack



Source: *CBS.*

2.35 Thus an analysis of the parties' internal documents for Central Scotland, together with those of key competitors, provides compelling evidence that the parties compete very strongly with, and their prices and negotiations are constrained by, a wide range of attractive and strong non-radio media options in this region.

2.36 This conclusion is consistent with the key results of the Existing Customers and Lost Opportunities surveys, which evidence that non-contracted advertisers in Central Scotland and generally in the overlap areas consider non-radio media as effective alternative for the parties' stations. The Existing Customers survey shows that, nationally, 39% of respondents would switch at least some spend to non-radio media if their chosen station were not available, while only 24% would switch at least some spend to other radio stations. In Scotland, the related figures are 37% and 26% respectively. The Lost Opportunity survey shows that, nationally, 70% of Global respondents used non-radio media for their campaign after turning down a proposal from Global, relative to 34% that used other radio stations. The related figures in Scotland are 57% and 52% respectively.

2.37 As a result, the merger will not significantly reduce the outside options of the parties' non-contracted customers. Non-contracted advertisers in Central Scotland will retain equally or more effective non-radio media alternatives to the parties' stations.

3. COMPETITION BETWEEN RADIO STATIONS IN CENTRAL SCOTLAND

3.1 The Provisional Findings:

(i) accept that:

"***The main competitor in the region is Bauer***;"[24]

(ii) accept that Bauer is a strong competitor to the parties' stations in Glasgow, sufficient to prevent an SLC arising despite a reduction in the number of main radio options from 3 to 2:

"***The effect of the merger in Glasgow is to bring together Capital, Real XS and Smooth and effectively reduce the options from three to two for those advertisers wishing to target Glasgow. However, we note the relative strength of Bauer as an option for these advertisers [✂]***";[25]

(iii) accept that Bauer's FM stations Clyde and Forth are better radio alternatives to Real than Capital:

"***Real and Bauer FM stations have a similar average age of listeners (around 40 years old) whereas Capital reaches a younger age on average, with an average listener age of 33 years***;"[26]

and

(iv) implicitly accept that across the overlap regions the vast majority of non-contracted customers view non-radio media as substitutable for the parties' radio stations.[27]

3.2 Nevertheless, the Provisional Findings provisionally conclude that:

*"**The remaining option post-merger, Bauer, is not as strong a competitor to the parties across the region as it is in Glasgow**;"* [28]

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[24] Provisional Findings, Paragraph 7.82.

[25] Provisional Findings, Paragraph 7.86.

[26] Appendix L, Paragraph 170.

[27] E.g. The Provisional Findings state at Paragraph 6.39 that "*the survey results suggest limits to the constraint provided by other media. We note, for example, that the existing customer survey suggests that 15 per cent of existing customers did not consider using any other media at the time of their last campaign and 24 per cent said that they ended up using only radio. Similarly, 9 per cent of respondents said that they could not use any other types of media to meet the same objectives as radio*." A clear implication of the results cited by the CC is that other media constitutes an effective constraint for the remaining 75% to 90% of advertisers.

[28] Provisional Findings, Paragraph 7.87.

and therefore that:

"***in the absence of any countervailing factors, the merger will lead to significant adverse effects across the Central Scotland region***."[29]

3.3 Global disagrees with this provisional finding.

Bauer is the parties' strongest radio competitor across Central Scotland

3.4 Bauer is as strong across Central Scotland as it is in Glasgow.

3.5 The CC's conclusion that "*[t]he remaining option post-merger, Bauer, is not as strong a competitor to the parties across the region as it is in Glasgow*" is not supported by an analysis of Rajar listening data for this region.

3.6 This analysis confirms that Bauer is as strong across Central Scotland in terms of listening shares as it is in Glasgow – as illustrated in Table 1 and discussed further below, Bauer's share of regional commercial listening is 58%, equivalent to its share in Glasgow (60%). Bauer will therefore have a share of listening across Central Scotland 16% greater than that of the merged entity.

3.7 Accordingly, were the CC to apply to Central Scotland the test it applies to Glasgow ("Bauer's relative strength"), the CC would arrive at the conclusion that no SLC is likely to arise in Central Scotland either.

29 Provisional Findings, Paragraph 7.88.

Table 1
Share of listening in Glasgow, Edinburgh and surrounding area and Central Scotland

	Glasgow[1]		Edinburgh and surrounding area[2]		All Central Scotland[3]	
	Hours (000's)	Share (%)	Hours (000's)	Share (%)	Hours (000's)	Share (%)
RSL	**2,412**	**21%**	**n/a**	**0%**	**4,794**	**26%**
Real	n/a	0%	n/a	0%	*4,794*	26%
Smooth	*2,065*	18%	n/a	0%	n/a	0%
Real XS	*347*	3%	n/a	0%	n/a	0%
Global (Capital)	***1,908***	**17%**	***1,136***	**20%**	***2,819***	**16%**
Global + RSL	**4,320**	**38%**	**1,136**	**20%**	**7,613**	**42%**
Bauer Total	**6,805**	**60%**	**3,695**	**65%**	**10,500**	**58%**
Clyde 1	*5,162*	46%			*5,162*	28%
Clyde 2	*1,643*	14%			*1,643*	9%
Forth 1			*2,911*	51%	*2,911*	16%
Forth 2			*784*	14%	*784*	4%
Central FM (independent)	*208*	**2%**	*202*	**4%**		**0%**
Kingdom			*651*	**11%**		**0%**
Total	**11,333**	**100%**	**5,684**	**100%**	**18,113**	**100%**

Source: *Rajar.*

Notes:
[1] Clyde TSA, excluding Real as this station does not offer a Glasgow split.
[2] Forth TSA, excluding Real as this station does not offer an Edinburgh split.
[3] Clyde and Forth TSAs, excluding Smooth and Real XS as these do not cover Edinburgh.

3.8 Even if Smooth and Real XS were included in the assessment of Central Scotland, and Real included in the assessment of Glasgow, Bauer's share of local and regional commercial listening is higher in Central Scotland (49%) than in Glasgow (46%) (see Table 2).[30]

[30] RAJAR W4 2012, 12 months.

Table 2
Share of listening in Glasgow, Edinburgh and surrounding area and Central Scotland

	Glasgow[1]		Edinburgh and surrounding area[2]		All Central Scotland[3]	
	Hours (000's)	Share (%)	Hours (000's)	Share (%)	Hours (000's)	Share (%)
RSL	**5,891**	**40%**	**1,513**	**21%**	**7,206**	**34%**
Real	3,479	23%	1,513	21%	4,794	22%
Smooth	2,065	14%		0%	2,065	10%
Real XS	347	2%		0%	347	2%
Global (Capital)	**1,908**	**13%**	**1,136**	**16%**	**2,819**	**13%**
Global + RSL	**7,799**	**53%**	**2,649**	**37%**	**10,025**	**47%**
Bauer Total	**6,805**	**46%**	**3,695**	**51%**	**10,500**	**49%**
Clyde 1	5,162	35%			5,162	24%
Clyde 2	1,643	11%			1,643	8%
Forth 1			2,911	40%	2,911	14%
Forth 2			784	11%	784	4%
Central FM (independent)	**208**	**1%**	**202**	**3%**	**249**	**1%**
Kingdom			**651**	**9%**	**651**	**3%**
Total	**14,812**	**100%**	**7,197**	**100%**	**21,425**	**100%**

Source: *Rajar.*

Notes: [1] Clyde TSA
[2] Forth TSA
[3] Clyde and Forth TSAs

__The CC's analysis of listening shares in Central Scotland is inconsistent with its analysis for Glasgow__

3.9 The CC has excluded Real's listening shares from its analysis of Glasgow because Real does not sell airtime on a split transmission basis (i.e. to Glasgow only)[31] and is therefore not an alternative for local Glasgow advertisers. On this basis, the CC has concluded that there is no prospect of an SLC arising because Bauer is a sufficiently strong competitor in Glasgow. Global agrees with this analysis.

3.10 However in its analysis of Central Scotland, the CC has included listening shares for Smooth and Real XS, despite these being Glasgow only stations and airtime on these stations being sold in Glasgow only (not across the whole Central Scotland region). Global considers that this is inappropriate as Smooth and Real XS are not alternatives

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[31] Provisional Findings, Paragraph 7.84.

for regional advertisers. A consistent approach should be applied to the Glasgow and Central Scotland analyses.

Applying a consistent approach to the analysis of listening shares in Central Scotland shows that Bauer's listening share across this region is equivalent to its listening share in Glasgow

3.11 Consistent with its approach for Glasgow (where the CC excluded Real), the CC's analysis should exclude Smooth and Real XS from the analysis of Central Scotland, as these are Glasgow only stations.

3.12 On this basis, as detailed in Table 1 above, Bauer's share of regional commercial listening is 58%, which is only marginally lower than its share of local commercial listening in Glasgow (60%) and significantly greater than the parties' combined share of 42%.

<u>*In addition, Bauer is the market leader across Central Scotland in terms of reach*</u>

3.13 Bauer's own media pack for Central Scotland[32] highlights how Bauer has the highest reach of any commercial radio broadcaster across Central Scotland. Based on Q4 2012 Rajar data, Bauer has 1,041k listeners in Central Scotland – more than Real and Capital (858k combined) and even Real, Smooth, Real XS and Capital combined (1036k).

3.14 By contrast, Bauer's reach in Glasgow, where the CC has found no SLC (661k) is less than Global's and RSL's combined reach (754k).

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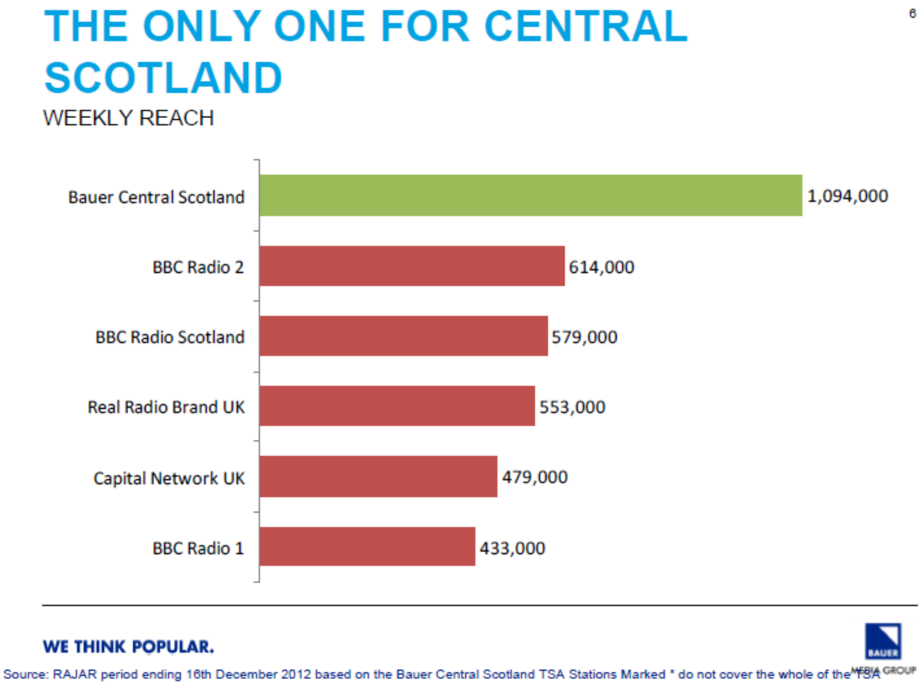
[32] See Attachment 7.1 - Central Scotland - Bauer media pack - Central Scotland.

Figure 16
Slide from Bauer Central Scotland media pack



Source: *Bauer Central Scotland media pack.* [33]

3.15 Bauer explains in its "Total Portfolio" media pack that it is "*No. 1 in 21 out of 21 markets*" across the UK, including Scotland.[34]

3.16 Bauer also highlights its market leadership in Edinburgh and surrounding areas specifically.

3.17 Forth's media pack[35] highlights how in this part of the region:

(i) "*Forth One is [the] market leader across all radio*;"

(ii) "*Forth One delivers 167,000 more listeners than Real Radio*";

(iii) "*Forth One delivers 166,000 more listeners than Capital FM*";

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[33] See Attachment 7.1 - Central Scotland - Bauer media pack - Central Scotland

[34] See Attachment 7.3 - Central Scotland - Bauer media pack - Total portfolio.

[35] See Attachment 7.4 - Central Scotland - Bauer media pack - Forth 1 and 2.

(iv) “*With 244,000 listeners, Boogie In The Morning dominates the airwaves at Breakfast in Edinburgh and the east*”;

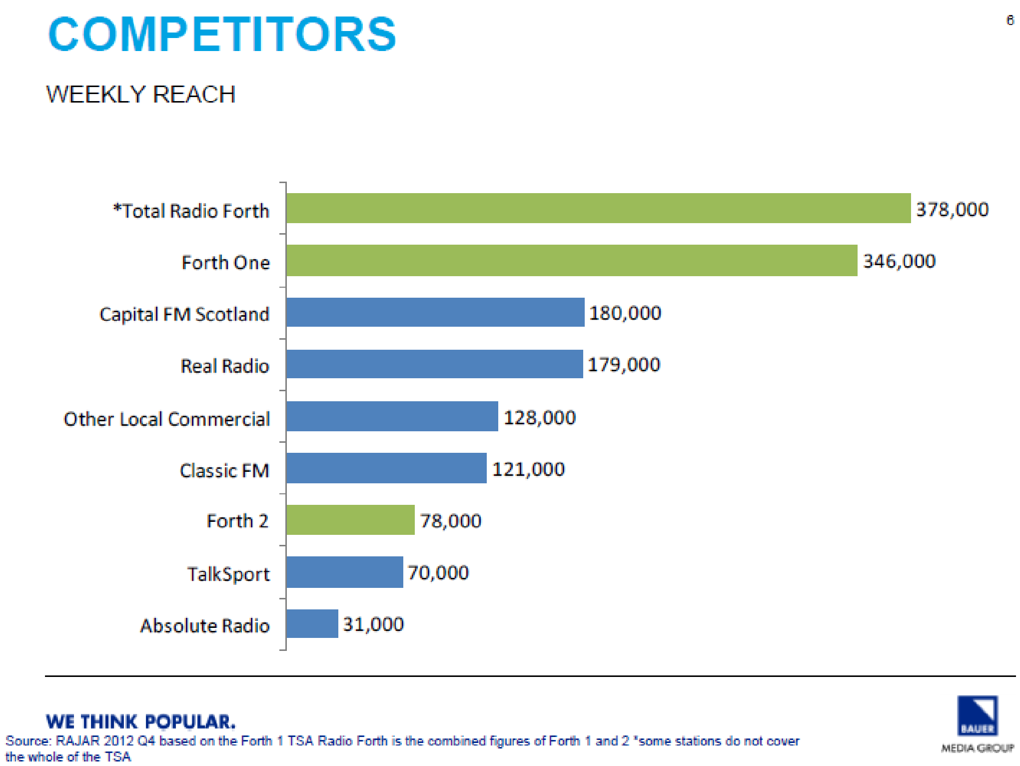
(v) “*Boogie In The Morning has 144,000 more listeners & 542,000 more hours than <u>Real Radio, its closest commercial competitor</u>*”; and

(vi) “*Boogie In The Morning leads Breakfast listening across Edinburgh, The Lothians & Fife with a market share of 20.1%.*”

3.18 This is illustrated in the slides below, which evidence how Forth will have a higher reach (almost 20,000 extra listeners) than Real and Capital combined across Edinburgh and surrounding areas.

Figure 17

Slide from Forth 1 and 2 media pack – weekly reach (Edinburgh and surrounding areas)



Source: *Forth 1 and 2 media pack.* [36]

3.19 Moreover, the CC recognises that Bauer will remain the strongest and most effective competitor to each of the parties’ stations in <u>Glasgow and surrounding areas.</u>

[36] See Attachment 7.4 - Central Scotland - Bauer media pack - Forth 1 and 2.

3.20 This is confirmed by Bauer's media packs. The Clyde 1 and 2 media pack explains that:

(i) "*In terms of weekly Reach; Clyde 1 is the market leading radio station, in Glasgow and the West*."[37]

(ii) "*Radio Clyde reaches out to more listeners in Glasgow and the West than any other commercial broadcasting company*." [38]

3.21 This is illustrated in the slides below, which evidence how Bauer will retain a greater reach than Capital and Real combined in Glasgow and surrounding areas. Currently, Bauer has a reach almost 2.5 times greater than that of Capital and 1.9 times greater than that of Real.

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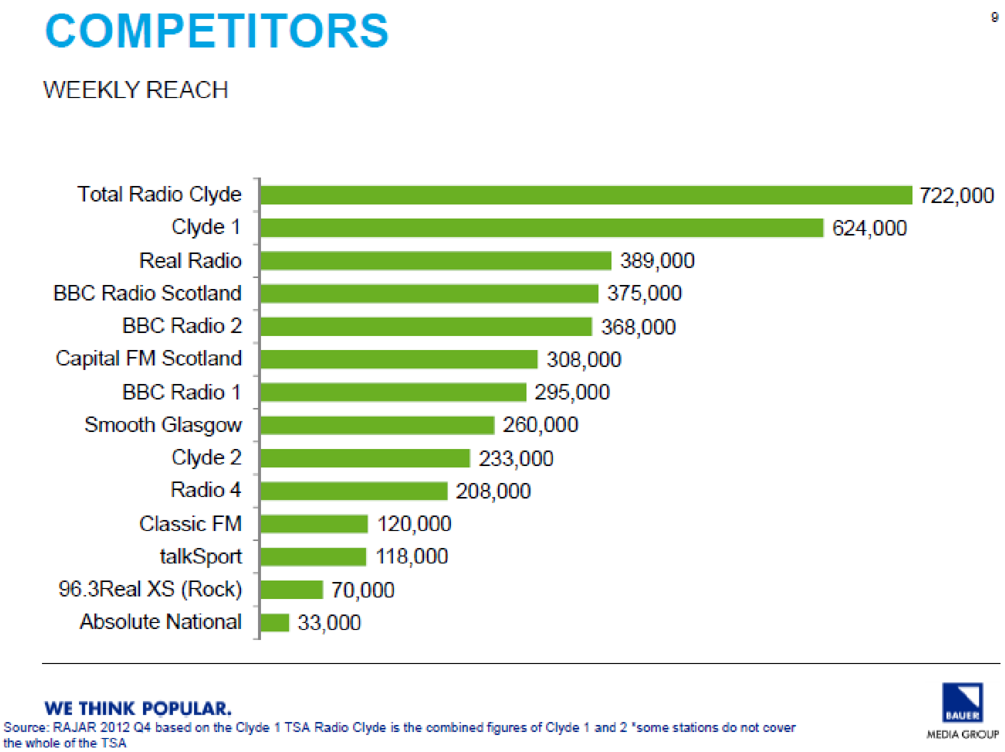
[37] See Attachment 7.5 - Central Scotland - Bauer media pack - Clyde 1 and 2.

[38] See Attachment 7.5 - Central Scotland - Bauer media pack - Clyde 1 and 2.

Figure 18
Slide from Clyde 1 and 2 media pack – weekly reach (Glasgow and surrounding areas)



Source: *Clyde 1 and 2 media pack.* [39]

3.22 The CC has accepted that Bauer's "relative strength" in Glasgow makes it an effective competitor – sufficient to outweigh the risk of an SLC arising despite an "effective reduction in the number of radio options from three to two" in Glasgow.[40]

3.23 Therefore, were the CC to apply consistently to Central Scotland the test it applies to Glasgow ("Bauer's relative strength"), the CC would arrive at the conclusion that no SLC is likely to arise in Central Scotland either.

<u>Bauer is also a strong S&P competitor in Central Scotland</u>

3.24 The parties note UTV's assertion 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.*"[41]

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[39] See Attachment 7.5 - Central Scotland - Bauer media pack - Clyde 1 and 2.

[40] Provisional Findings, Paragraph 7.86.

3.25 However, this assertion is unfounded and inaccurate. As illustrated in the screenshots below, S&P campaigns can currently be run across a bundle of Bauer stations in Central Scotland and the merger will have no impact on advertisers' ability to continue doing so.

3.26 For example, Figure 19 shows an identical promotion run across Clyde 2 and Forth 2 (and advertised also on both of their websites).

Figure 19
Example of Bundled S&P campaign on Bauer's stations

Source: Clyde 2 and Forth 2 websites (Guylian Chocolates campaign).

3.27 Similarly, Figure 20 shows a concurrent promotion run across Clyde 1 and Forth 1 (and advertised on both of their websites).

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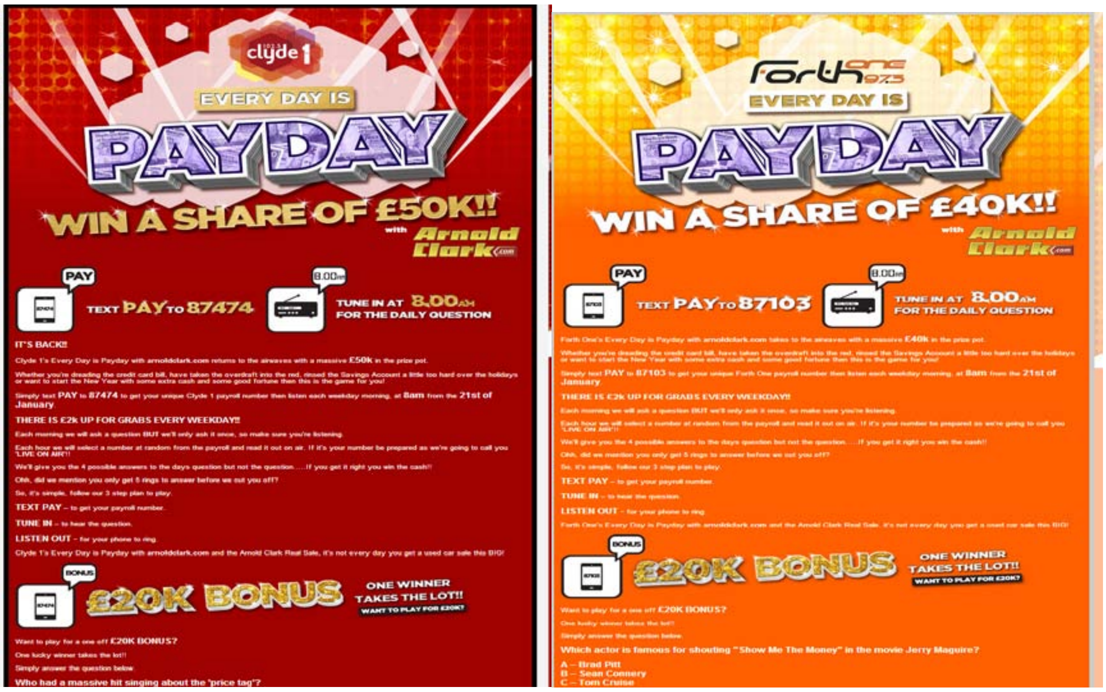
[41] Appendix L, Paragraph 184.

Figure 20
Example of Bundled S&P campaign on Bauer's stations



Source: *Clyde 2 and Forth 2 websites (Arnold Clark campaign).*

3.28 Indeed, Bauer's stations afford it the flexibility to offer S&P campaigns across the whole region, just East or just West. Moreover, Global notes that Bauer's portfolio enables it to offer customers a high degree of flexibility with their campaigns – for example, the customer shown in Figure 20 was able to offer listeners a prize of £50,000 in Glasgow and a different prize of £40,000 in Edinburgh. Bauer will therefore remain a highly effective competitor in relation to S&P as well as for all Central Scotland regional campaigns.

Bauer's Clyde and Forth are much better radio alternatives to Real than Capital

3.29 In addition to being the strongest radio stations across the Central Scotland region in terms of listening shares and reach, Bauer's stations are much better radio alternatives to Real than Capital in terms of demographics.

3.30 Indeed, the CC accepts that:

"***Real and Bauer FM stations have a similar average age of listeners (around 40 years old) whereas Capital reaches a younger age on average, with an average listener age of 33 years***."[42]

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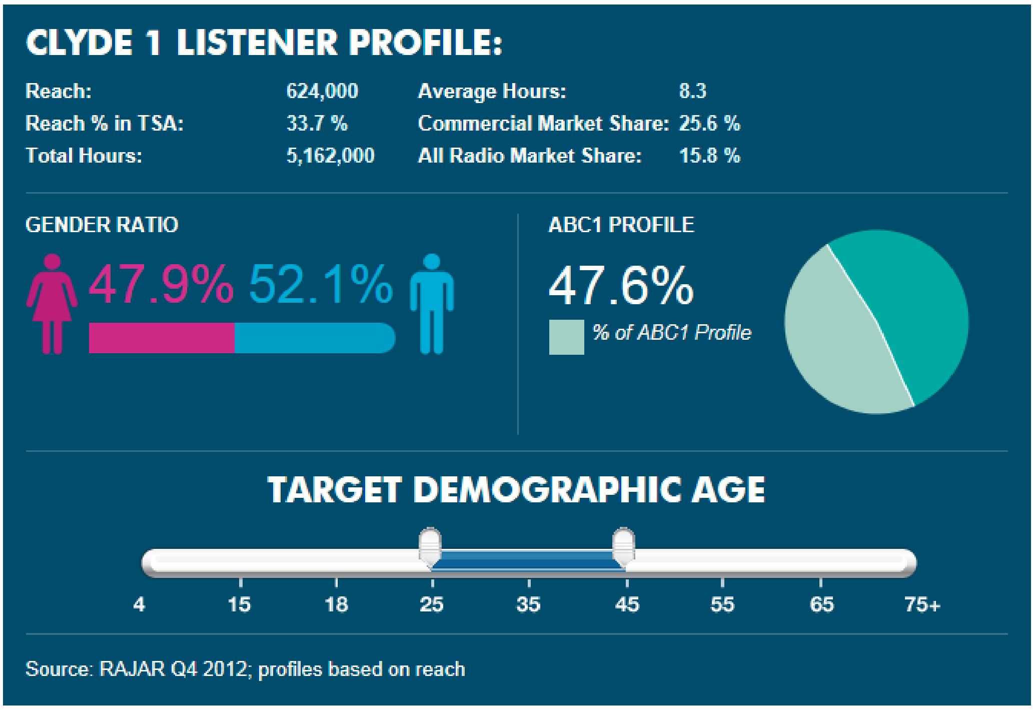
[42] Appendix L, Paragraph 170.

3.31 Real expressly targets listeners aged 25 to 44.

3.32 The CC has received clear evidence that Forth 1 and Clyde 1 target this same demographic – this is further confirmed by Bauer's media pack extracts below.

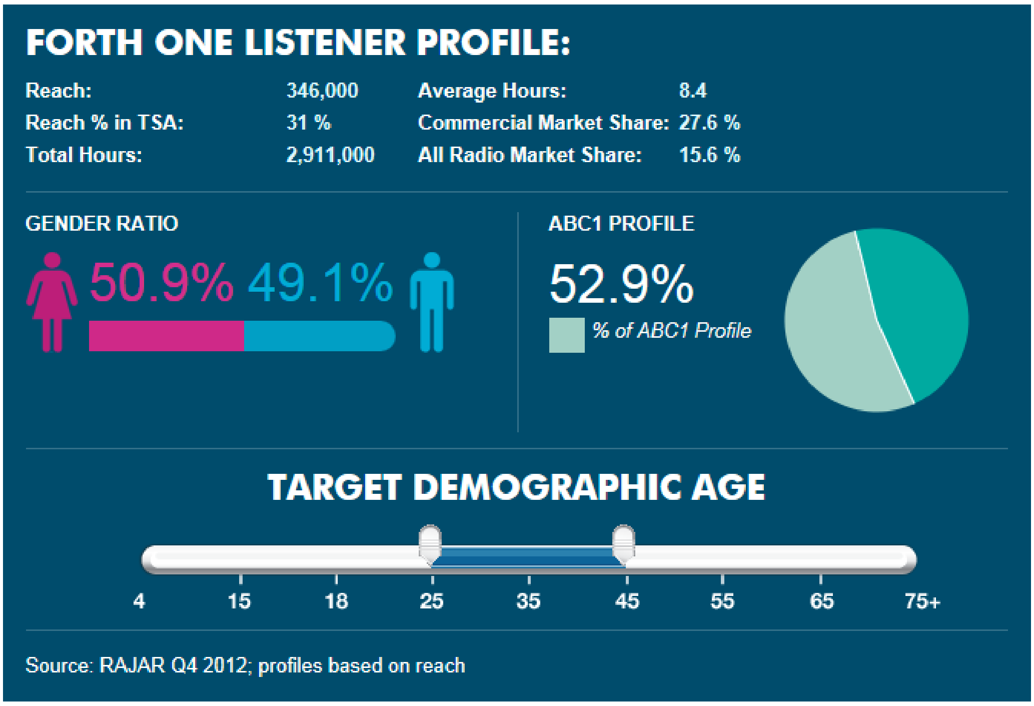
Figure 21
Extract from Bauer's Clyde 1 fact sheet



Source: Bauer.[43]

[43] http://radio.bauermediaadvertising.com/stations/detail/clyde_1/

Figure 22
Extract from Bauer's Forth 1 fact sheet



Source: *Bauer.*[44]

3.33 As a result, the average age actually reached by Real, Clyde 1 and Forth 1 is almost identical – Capital has an average listener age of 34, whereas Real has an average age of 40, Forth 1 has an average listener age of 41 and Clyde 1 has an average listener age of 40 (see Figure 23).

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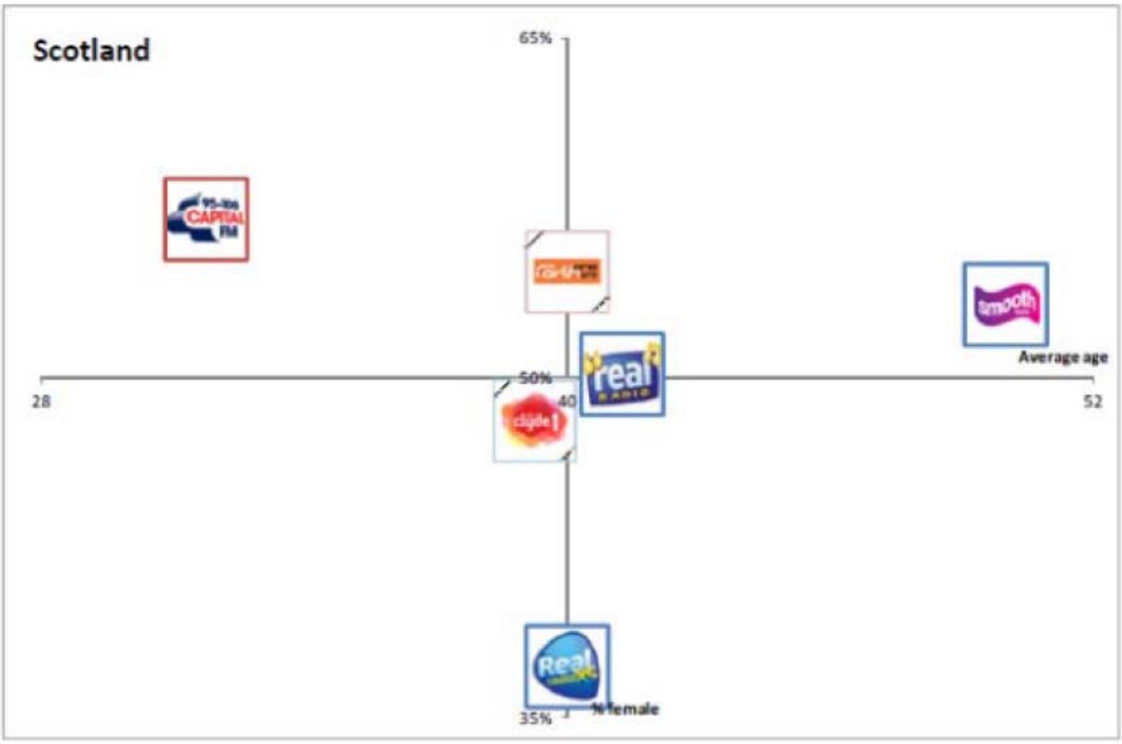
[44] http://radio.bauermediaadvertising.com/stations/detail/forth_one

Figure 23
Brand Map of Parties' and Bauer's Stations – Central Scotland



Source: *RAJAR demographics data, average of Q1-Q4, 2011.*

3.34 In addition, the CC has not yet taken into account the parties' internal documents which illustrate that:

(i) The parties' seldom refer to other radio stations in their customer pitches; and

(ii) In the small number of instances where they do refer to other radio, they refer to Bauer's stations (not each others' stations).

3.35 Of the [✂] customer pitches submitted for Scotland ([✂]), only [✂] refer to other radio stations. [✂] are Real pitches which refer extensively to Clyde 1 and [✂] is a Smooth pitch which similarly refers to Clyde 1. These are considered below. [45]

3.36 RSL's [✂] pitch[46] highlights that: [✂].

3.37 This pitch also compares the reach of Real with Clyde 1 in the Real TSA (see Figure 24).

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[45] RSL notes that Real's [✂] pitch (Annex 17.B084) includes a slide comparing Real's reach to all radio stations in Scotland, including the BBC stations (Radio 2 and Radio 4) and national stations (specifically Classic FM). This slide is excluded from this analysis.

[46] Annex 17B.083 of RSL's Response to the CC's Initial Factual Information request.

3.38 This pitch makes no reference whatsoever to Capital.

Figure 24
[✄]

3.39 <u>RSL's [✄] pitch</u>[47] highlights that: [✄].

3.40 Similarly, this pitch compares Real's reach with that of Clyde 1 in the Real TSA (see Figure 25) and makes no reference whatsoever to Capital.

Figure 25
[✄]

3.41 Finally, Smooth's pitch to [✄] highlights that: [✄].

3.42 Again, no reference is made to Capital.

Figure 26
[✄]

Figure 27
[✄]

3.43 An analysis of these documents would therefore show that Real's target customers view Clyde 1 (and Forth 1) as much better radio alternatives to Real than Capital.

<u>Clyde and Forth are much better radio alternatives to Capital than Real for advertisers seeking regional coverage</u>

3.44 In addition, for non-contracted customers less focused on demographics and targeting an audience across Central Scotland, Bauer's stations are much better alternatives to Capital than Real.

3.45 Bauer's stations play a mainstream mix of music that also appeals to listeners in the Capital demographic (i.e. adults aged 15-34) and - critically - have a significantly higher share of listening and reach than Real in relation to this demographic.

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[47] Annex 17B.085 of RSL's Response to the CC's Initial Factual Information request.

Figure 28
Reach of regional commercial stations – Capital demographic (15-34)

Station	Reach (%)
Forth 1 and Clyde 1	39%
Capital	30%
Real	25%

Source: Rajar Q3 2012. (Regional stations only, incl. Central FM)

Figure 29
Listening share of regional commercial stations – Capital demographic (15-34)

Station	Listening share (%)
Capital	44%
Forth 1 and Clyde 1	38%
Real	27%

Source: Rajar Q3 2012. (Regional stations only, incl. Central FM)

Forth is also a much better radio alternative to Capital than Real for advertisers seeking coverage in Edinburgh and surrounding areas only

3.46 Real is not an option for customers wishing to reach advertisers in Edinburgh and surrounding areas, as this would involve significant wastage – 59% of the population reached by Real falls outside of Edinburgh (thus the advertisement would be irrelevant to more than half of the listeners reached).[48] For these local customers, Bauer's Forth 1 is a much better radio alternative to Capital than Real in geographic terms.

3.47 It therefore follows from the CC's own analysis that there is no group of non-contracted advertisers in any part of Scotland for whom Real and Capital are the closest alternatives.

Real and Capital are not the best alternatives for the majority of Capital's non-contracted customer in Central Scotland

3.48 The majority of Capital's non-contracted revenues ([✂]%) relate to campaigns run on only the East transmitter or West transmitter – i.e. fewer than half of Capital's revenues relate to campaigns using both of these transmitters and therefore broadcast across the whole Central Scotland region. Capital's customers are predominantly local customers, not regional customers. By contrast, Real's customers are all interested in achieving regional coverage since Real can only be bought for the whole Central Scotland region.

Conclusion

[48] Rajar Q3 2012.

3.49 Within radio, the merger will not significantly change the outside options for either Capital or Real's non-contracted customers in Central Scotland. Their best alternative radio options pre-merger were Bauer's stations and this remains the case post merger.

3.50 This conclusion is consistent with the key results of the Existing Customers and Lost Opportunities surveys, which provide strong evidence that non-contracted advertisers in Central Scotland consider other radio stations to be better alternatives to the parties' stations than the parties' stations are for each other. The Existing Customers survey shows that, in Scotland, 23% of respondents would switch at least some spend to third-party radio stations if their chosen station were not available, while only 5% would switch at least some spend to the other merging party's radio stations. The Lost Opportunity survey shows that, in Scotland, while 52% of Global respondents used other radio stations for the campaign Global pitched for unsuccessfully, only 4% of respondents said they used a RSL station.

3.51 Accordingly, Global strongly urges the CC to re-evaluate the evidence before it, as well as new evidence that is being made available to it, with a view to reaching a final conclusion that the merger will not give rise to an SLC in Central Scotland.

Further response to the CC's Price Concentration Analysis

RBB Economics, 07 March 2013

1. Introduction and summary

The Provisional Findings (PFs) conclude that the proposed transaction is likely to give rise to a substantial lessening of competition in 7 regions. The key evidence that underpins that conclusion is the results of the CC's Price Concentration Analysis (PCA). In particular:

- The CC claims that the PCA demonstrates that advertisers currently pay on average higher prices for radio advertising where there are fewer strong radio alternatives (i.e. that the number of radio alternatives is a significant driver of radio prices).[1] This is used to justify the CC's regional competitive assessment which focuses solely on the reduction in the number of effective radio alternatives (i.e. excluding non-radio media alternatives). Absent these results the CC would have no justification for this approach given that it accepts that the majority of advertisers do not view the parties as close competitors and consider non-radio media as an effective alternative.[2]

- The CC claims that the PCA demonstrates that the number campaigns which are not easily substitutable for other media is "significant" and therefore that a reduction in the number of strong radio alternatives would lead to a substantial lessening of competition (i.e. satisfying its legal test).[3] Absent this evidence, the CC would have no justification for claiming that the reduction in competition arising from the merger would be substantial, particularly as it has accepted that a small proportion of advertisers (i.e. 9%-11%) on average would have their outside options affected.

This paper responds to these claims. It summarises evidence already presented to the CC in a staff level meeting on 22nd February and builds on RBB's first submission on the PCA results of 28th January 2013.

As we demonstrate below, **the results of the PCA model are not robust** – i.e. under the large majority of robustness checks advocated by the CC no relationship between radio prices and concentration are observed.[4] **This fundamentally undermines the CC's regional competitive assessment of the transaction as there is no basis for focussing only on the radio alternatives within each region or for concluding that a reduction in the number of radio competitors will lead to a substantial lessening of competition.** The CC should reassess competition at the regional level taking account of competition from non-radio media alternatives.

As discussed with the CC in the staff level meeting, we have undertaken the following three step process to test the robustness of the CC's PCA model. We note that all code and data used to produce these results has been submitted to the CC following that meeting. The CC

1 PF para. 7.8 "*we note the results of our price-concentration analysis that showed that non-contracted advertisers in areas with relatively weak radio alternatives generally face higher prices.*"

2 See Response to Competition Commission Provisional Findings Report Part 1: Global's principal comments.

3 PF, para. 6.109(a). *"Our price-concentration analysis shows that the presence of good radio alternatives affects price and therefore that the number of such campaigns which are not easily substitutable for other media is significant"*

4 This conclusion is in line with evidence submitted by RBB on 28 January 2013. We have reflected in our latest results comments made by the CC in its PFs.

has also confirmed that it can replicate these results in full. It is therefore clear on the basis of the CC's own analysis that the PCA results are not robust.

- **Step 1: Remove agreed anomalies.** When we remove agreed anomalies – i.e. Gold Sussex and one result from Gold Home Counties **we observe no statistically significant relationship in 2 of 4 models.** The claim that this model is robust to these changes is incorrect.[5]

- **Step 2: undertake agreed robustness checks having removed agreed anomalies.** When we remove the agreed anomalies and undertake robustness checks employed by the CC – including removing the split between direct and indirect customers and using a log specification **– we observe no statistically significant relationship in the large majority of models.** There is no sound basis for arguing that the model is robust to these agreed robustness checks.[6]

In addition to these robustness checks we also implement an alternative "fixed effects" model which controls for time invariant unobserved factors which may affect radio stations' CPT rates and therefore offers significant benefits over the CC's model which does not do so. This is our preferred model and suggests **no statistically significant relationship between price and concentration.** This strongly supports the conclusions above – i.e. that the CC's model is not robust to changes in specification. We note here that the fixed effects model is a strongly preferred alternative from an academic perspective as it allows us to control for factors that we cannot observe which vary across regions. It has been possible to implement this model in the additional time given to respond to this paper.[7] A separate paper drafted by Proffessor Joao Santos Silva discusses separately the merits of the fixed effects model.

Table 1 below presents a summary of our findings after making these adjustments and which the CC has confirmed it can replicate. As is clear, when the appropriate adjustments are made **we observe no statistically significant relationship between price and concentration in the radio segment in the vast majority of cases**.

Moreover, we **note that there is no sound basis for the approach which places any weight on statistically insignificant results -** statistical significance is a basic and well accepted benchmark for interpreting any econometric results and we are not aware of any cases where the CC has been willing to place weight on results that are not statistically significant

[5] We note that the PFs accept that these data points are erroneous. Paragraph 34 notes hat "*Global* ***provided evidence that its mis-allocation of one particular revenue stream had led to an implausibly high CPT for Gold Sussex in seven out of the 16 quarters for which we used data in our analysis***." Footnote 26 of Appendix I notes that "***In addition to Gold Sussex in 2011 and 2012, we saw one other anomalous observation***". We note that the PFs appear to incorrectly assert that the models are robust to he removal of these data points (see secion 3).

[6] We note that the PFs appear to incorrecly assert that the models are robust to these checks (see section 4 and 5).

[7] The original deadline for response to the CC's PCA analysis allowed us only 5 working days to respond. It was not possible to consider alternatives specifications in this timeframe.

Table 1: Summary of results under different model specifications

	Step 1 – remove agreed anomalies	Step 2 – run agreed robustness checks*		fixed effects model*
	Exclude Gold Sussex and outlier	Remove direct/indirect customer distinction	Log specification	Fixed effects
Results	No statistical significance in 2 of 4 CC models	No statistical significance in 3 of 4 models (no statistical significance on all 4 models at 5% level)	No statistical significance in all 8 CC models (i.e. with or without direct/indirect distinction)	No statistical significance in any model

*Source: RBB regression analysis. All other aspects of the CC's models are retained including the CC's company share measure. * Agreed anomalies are removed in all models. The fixed effects model is not affected by the removal of these anomalies – i.e. a statistically significant relationship is not observed even when these observations are included.*

These results have profound implications for the CC's competitive assessment. We note in particular that the finding that the PCA results are not robust **undermines the CC's "regional competitive assessment" which ignores non-radio competition and is entirely premised on the assumption that a reduction in the number of radio alternatives will give rise to higher average radio prices**. As this evidence is incorrect it has no evidentiary basis for asserting that a reduction in the number of radio alternatives from 3 to 2 or 2 to 1 will give rise to a <u>substantial</u> lessening of competition or for ignoring the weight of evidence of non-radio media competition.[8]

In view of these issues we consider that the CC should reconsider its competitive assessment of the merger and conclude that no SLC is likely due to the strength of competition from non-radio media alternatives.

The remainder of this paper presents these results in more detail.

- **Section 2** provides a summary of RBB submissions on the CC's PCA and the CC's response in the provisional findings and in a subsequent staff level meeting.
- **Section 3** presents results excluding Gold Sussex and the outlying value identified by the CC as anomalous;
- **Section 4** presents these results correcting for the unjustified distinction between direct and indirect advertisers (i.e. the CC's first agreed robustness check);
- **Section 5** presents results for log specifications of the model (i.e. the CC's second agreed robustness check);
- **Section 6** presents the results of the fixed effects model.
- **Section 7** comments on the importance of statistical significance in econometric analysis

[8] [INSERT REFERENCE TO PF RESPONSE PART 1]

2. Summary of RBB submissions and CC responses

The CC first presented its PCA working paper to the parties on the 18th January. The full code was then provided on January 22nd 2013 with a deadline for response of 28th January (i.e. giving approximately 5 working days to respond).

In the time available for response RBB identified a number of issues with that data used by the CC in its PCA model.[9] RBB noted in particular that there were a number of "anomalous" data points relating to Gold stations resulting from the misallocation of revenues for campaigns where it was booked alongside other stations as part of a package (e.g. where it was booked as part of Global's non-standard "Limited Edition" discounted airtime packages). RBB advocated removing Gold stations from the analysis or focussing on "normal airtime" (which excluded these non-standard discount items).

RBB also highlighted a number of more general concerns with the analysis. This included:

- The analysis artificially split the data into two categories - contracted customers that purchase airtime directly from Global and those that purchase indirectly via non-contracted agencies. This resulted in the creation of data points that were not independent.

- The analysis used a measure of concentration that was not justified – it included in a parties' share audiences of radio stations that advertisers would never actually buy.

- It did not control for local variations in the pricing of non-radio media alternatives. This was identified as a significant flaw given that the aim of the model was to test whether the price of non-radio media constrained the price of radio advertising.

In response to these issues the CC accepted that the data-points relating to Gold Sussex as well as one data point relating to Gold Home Counties were anomalous – i.e. incorrect. It therefore re-ran its models excluding these data points as "agreed robustness checks" to its model. Copies of the code used to re-run the results were provided to RBB on 14th February 2013.

The CC explicitly rejected RBB's more general contention that results should remove Gold or focus on normal airtime – although it did note that if this approach was taken it reversed the findings of the model – i.e. no statistically significant relationship was observed between price and concentration.[10] It did so on the basis that – unlike Gold Sussex – RBB had not

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[9] See RBB report: An economic response to the CC Price Concentration Analysis working paper RBB Economics, 28 January 2013

[10] See PF Appendix I para. 34(c) *"We also note that under Global's two proposed approaches (excluding all Gold stations and excluding non-standard airtime), concentration continues to have a positive effect—higher concentration continues to be associated with higher prices (<u>though for most specifications the effect is no longer statistically significant</u>)."*

demonstrated that these data points were erroneous as the observed CPT rates were not above those on comparable Heart stations.[11]

In respect of RBB's comments on the artificial "direct/indirect" split, the CC did not provide any response as to why it considered this approach to be appropriate. Nevertheless the PFs do include as an "agreed robustness check" a specification of the model that removes this split. The PFs also include one further "agreed robustness check" in the form of a log specification of the model.

Finally, the CC rejected RBB's general concerns regarding the construction of variables and the shortcomings of the model in failing to correctly control for the price of non-radio media alternatives. We do not discuss these issues further here but note that the CC has no adequately addressed a number of our concerns.[12]

In view of the above, the approach we take in this response is to focus only on results where there is agreement between RBB and the CC. That is, we use the variables used by the CC and only exclude from our analysis "agreed anomalies". We then proceed to undertake the "agreed robustness checks" undertaken by the CC removing these agreed data anomalies. We note that we have received further email correspondence from the CC that it has been able to replicate all of the results in this paper and has expressed no concerns with RBB's results or analysis.[13] Finally we present an alternative fixed effects specification of the CC's PCA model which takes account of "time invariant" unobserved factors which may affect radio station pricing.

As we discuss below **we observe no robust statistically significant relationship between price and concentration under any of these alternative specifications.**

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11 The PFs note in this regard that "Global had never previously drawn our attention to its mis-allocation of this particular revenue stream". We note in this regard that a meeting with the CC to discuss the pricing data was explicitly requested by RBB at the beginning of this process to discuss issues such as these. The CC however postponed that meeting and did not seek to reschedule it. Had that meeting taken place issues such as this could have been dealt with at a far earlier stage.

12 For example, the CC has noted that "regional dummies" would control effectively for variations in the strength of competition from non-radio media across regions. However, those dummies also pick up a range of other regional factors that affect price and may not therefore adequately proxy for variations in the strength on non-radio compeition. Moreover, they do not control for local variations in the strength of non-radio media competition.

13 See email from Tim Jarvis on 04th March 2013.

3. Summary of results excluding Gold Sussex and one outlier identified by the CC

Any statistical model must be based on data that is not demonstrably incorrect or misleading. In this regard, we understand from Appendix I of the CC's provisional findings that it agrees that results relating to Gold Sussex and one outlying result for Gold Home Counties should be removed from the data.[14] [15] There was also agreement at the staff level meeting that these data points should be removed from the analysis and the CC provided stata code to RBB which excluded these data points as discussed above. This is in contrast to results generally for Gold stations or non-standard airtime where the CC argues that insufficient information has been provided to remove the results. We therefore understand that there is agreement that these results should be removed from any further analysis to avoid distortions from misleading data.

The CC has claimed in its Provisional Findings that the removal of these agreed anomalies does not affect the results. The Provisional Findings state in particular that:

> *"If we exclude just Gold Sussex from the data, it makes little difference to our estimated effects—that is the estimated coefficients on concentration are robust to the exclusion of the observations which appear to have been affected by Global's mis-allocation of its revenue from Limited Edition airtime packages. " (paragraph 34(b) of Appendix I)*

We believe that this statement is incorrect and not supported by the data or the CC's own analysis.

Table 1 presents the results of regression results using the CC's methodology. The corrections made in this model are <u>only</u> to remove Gold Sussex and one outlying value which the CC's PF's accept are misleading and the result of data errors. We retain all other aspects of the CC's model.

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[14] Paragraph 34 notes that *"Global **<u>provided evidence that its mis-allocation of one particular revenue stream had led to an implausibly high CPT for Gold Sussex in seven out of the 16 quarters for which we used data in our analysis</u>**. We note, however, that Global did not provide similar evidence for any other Gold station. We compared average CPTs for other Gold stations with average CPTs for Heart stations in the same area, but did not see evidence of a similar problem for the other Gold stations. Therefore, we do not consider that Global has provided adequate reason to exclude all Gold stations from the analysis, nor to limit the data to ' standard airtime', ie to exclude from the analysis Limited Edition and all other non-standard revenue."* Footnote 26 of Appendix I notes that *"**<u>In addition to Gold Sussex in 2011 and 2012, we saw one other anomalous observation</u>**"*

[15] In the staff level meeting the CC raised the question of whether the accuracy of other data points could be guaranteed. We note for the reasons discussed in our previous analysis that they may not be. However, as the CC rejected our analysis we have focused on the agreed anomalies. We do not consider that we would be able to develop a systematic test for including or excluding data points that the CC would agree with. We further note that it is ultimately up to the CC to determine if the data is reliable given that it has proposed the PCA analysis.

Table 1: Summary of results of CC's PCA models – Gold Sussex and outlier indentified by CC excluded

	Coefficient estimates
Specification 1: *HHI, no regional dummies*	.48
Specification 2: *Company share, no regional dummies*	.007**
Specification 3 *HHI, with regional dummies*	.89
Specification 4 *Company share, with regional dummies*	.0091**

*Source: RAJAR listening share data provided by the CC. CC results taken directly from PCA working paper. CPT values based on Global and RSL transaction level data, calculated by RBB. Significance at *10% level, **5% level, ***1% level.*

Table 1 demonstrates that:

- Using this model with the corrections advocated by the CC we find that **2 of the 4 CC specifications show no statistically significant relationship between price and concentration**.
- This **invalidates the statement made in the provisional findings** that removing these data points *"makes little difference to our estimated effects—that is the estimated coefficients on concentration are robust to the exclusion of the observations which appear to have been affected by Global's mis-allocation of its revenue from Limited Edition airtime packages".*[16] [17]
- We note here that that the CC sent through stata codes that it used to run this robustness check on 14th February 2013. When we run those codes we observe the same results - i.e. that 2 of 4 models do not show a statistically significant relationshop between price and concentration. The CC's own analysis therefore demonstrates that the models are not robust to this correction.
- We note that further that it would be incorrect to suggest that the remaining two models that do exhibit a statistically significant relationship are "robust" in this context. In particular, this analysis confirms that the model overall is not robust to changes in the measure of concentration advocated by the CC in its original analysis. As there is no reason to prefer one measure of concentration over another (and the CC has expressed no preference for any particular model), this serves to suggest that the relationship between price and concentration is not robust – i.e. the results change as we flex the measure of concentration that we employ.

[16] See paragraph 34(b) of Appendix I.

[17] We note here that the CC sent through codes that it used to run this robustness check on 14th February 2013.

4. Summary of results without CC data split

As noted in our original report the CC's sampling approach splits the sample between non-contracted customers that purchase airtime directly from Global and those that purchase indirectly via non-contracted agencies. We note that the CC has in the PF's considered whether the model is "robust" to the removal of this distinction between direct and indirect customers. In particular the PF's note that:

> *"In order to check whether our separate weighted average CPTs for direct and agency customers affected the results, we recalculated the regression with a single weighted average CPT. The results were similar." (CC PF's Appendix I paragraph 25)*

We disagree both with the continued use of a model that retains this split and with the statement that the results are "similar" (i.e. that there remains a robust statistical relationship between price and concentration when this split is removed)

(i) No sound basis for the continued use of a model with direct/indirect split

As noted in our original report the CC's sampling approach splits the sample between non-contracted customers that purchase airtime directly from Global and those that purchase indirectly via non-contracted agencies. By splitting the data in this way the CC has effectively doubled the size of its sample by introducing two observations per quarter and by station – i.e. one for direct customers and one for customers that purchased indirectly via non-contracted agencies.

However, this artificial creation of sample is unjustified. In particular we note that it may only be appropriate to distinguish between customers in this way if there exhibited systematic differences in the price they paid for airtime. The CC's model confirms that this is not the case - the "dummy variable" for indirect and direct purchasing of airtime is not found to be statistically significant in the model. Moreover, we note that splitting airtime purchases in this way reduces significantly the number of individual campaign observations which make up each quarterly CPT estimate. We note for example that on Capital London only 8 campaign entries make up the CPT estimate for direct customers in Q1 2011 (i.e. the highest CPT estimate in an area where Global has a high company share).

A further risk in splitting the data in this way is that it creates data points that are highly correlated with one another, casting doubts on the results obtained with procedures that do not account for this feature of the data. We note in this regard that the CPT rates for direct and indirect customers exhibit a significant degree of correlation – i.e. over 70%.

We note further that the CC's provisional findings do not provide any response to these issues, nor do they provide an economic justification for this approach.

On this basis we conclude here (as we did in our initial report) that the appropriate specification of the CC's PCA should not artificially split the sample in this way.

(ii) No sound basis for claim that there exists a robust statistical relationship between price and concentration under this specification

We believe that the PF's are factually incorrect in stating that results are "*similar*" under this specification – i.e. that there remains a statistically significant relationship between price and concentration.

Table 2 presents the results of regression results where the direct/indirect split is removed. We remove agreed anomalies from this model – an approach which is clearly appropriate given that both RBB and the CC consider that these results are likely to be incorrect and misleading. We retain all other aspects of the CC's model.

Table 2: Summary of results of CC's PCA models – Gold Sussex and outlier indentified by CC excluded and CC data split removed

	Coefficient estimates
Specification 1: *HHI, no regional dummies*	.39
Specification 2: *Company share, no regional dummies*	.0059
Specification 3 *HHI, with regional dummies*	.73
Specification 4 *Company share, with regional dummies*	.0081*

*Source: RAJAR listening share data provided by the CC. CC results taken directly from PCA working paper. CPT values based on Global and RSL transaction level data, calculated by RBB. Significance at * 10% level, **5% level, ***1% level.*

Table 2 demonstrates that:

- Using this model we find that all 4 CC specifications show no statistically significant relationship between price and concentration at the 5% significance level. Only 1 model shows significance at the 10% level.
- This **invalidates the statement made in the provisional findings** that *"The results were similar"* under this specification (i.e. that there was a consistent statistically significant relationship between price and concentration under this specification).[18]
- We note further that it would be incorrect to suggest that the remaining model that does exhibit a statistically significant relationship is "robust" in this context. In particular:
  - this analysis confirms that the model overall is not robust to changes in the measure of concentration used or to the inclusion or exclusion of regional dummies. As there is no reason to prefer one measure of concentration over another (and the CC has not expressed any preference for a particular model in its assessment), this serves to suggest that the relationship between price and

18 See paragraph 34(b) of Appendix I.

concentration is not robust – i.e. the results change as we flex the measure of concentration that we employ or when regional dummies are included.

  - the model where statistical significance is identified only exhibits statistical significance at the 10% level of significance. This is an extremely weak statistical finding, particularly in view of the large sample size used to estimate this model. We note here that good economic practice would be to dismiss these results as non-significant in these circumstances.

- We note that the reason for the difference in our results and the CC's results appear to be that that the CC has <u>not</u> removed agreed anomalies before undertaking this further check.[19] This approach is unjustified - agreed anomalies *must* clearly be removed before any further checks to the data are undertaken for those checks to have any relevance.

[19] This is confirmed by an analysis of codes sent through by the CC on 18th February 2013.

5. Robustness test – log specification

We note that the CC has in the PF's considered whether the model is "robust" to the application of a log specification. In particular the PF's note that:

> *"As a further check, in relation to specifications 3 and 4 we estimated a slightly different regression equation, which related the log of non-contracted CPT to the log of HHI and log of company share. Results for these versions of specification 3 and 4 were similar: HHI and company share remained statistically significant and the coefficients on the other explanatory factors remained similar. This further analysis suggests the results are robust" (CC PF's Appendix I paragraph 25)*

We believe that the PF's are factually incorrect in stating that there exists a robust statistical relationship between price and concentration under this specification.

Table 3 presents the results of regression results using a log model as described by the CC (i.e. one where we regress the log of CPT rates on the log of concentration measures). Again we continue to exclude the agreed anomalies from this analysis. We retain all other aspects of the CC's model.

Table 3: Summary of results of CC's PCA models – Log /Log model with Gold Sussex and outlier indentified by CC removed

	Coefficient estimates	
	Direct/indirect split retained	**Direct/indirect split removed**
Specification 1: *HHI, no regional dummies*	.069	.1
Specification 2: *Company share, no regional dummies*	.072	.056
Specification 3 *HHI, with regional dummies*	.25	.24
Specification 4 *Company share, with regional dummies*	.095	.076
Number of observations	**1623**	**813**

*Source: RAJAR listening share data provided by the CC. CC results taken directly from PCA working paper. CPT values based on Global and RSL transaction level data, calculated by RBB. Significance at *10% level, **5% level, ***1% level.*

Table 3 demonstrates that:

- Using this model we find all of the 8 CC specifications show no statistically significant relationship between price and concentration.

- This **invalidates the statement made in the provisional findings** that *"This further analysis suggests the results are robust"* (i.e. that there was a consistent statistically significant relationship between price and concentration under this specification).[20]

- We note that the reason for the difference in our results and the CC's results appear to be that that the CC has not removed agreed anomalies before undertaking this further check.[21] This approach is entirely unjustified - agreed anomalies *must* clearly be removed before any further checks to the data are undertaken for those checks to have any relevance.

[20] See paragraph 34(b) of Appendix I.

[21] This is confirmed by an analysis of codes sent through by the CC on 18th February 2013. The CC also fails to log the price variable as the PFs claim it has done.

6. Fixed effects model

In the further time available for this submission we have also considered the appropriateness of other aspects of the CC's PCA model specification.

We note in particular that the dataset used by the CC is in fact a "panel" (i.e. it has cross-section and time series elements). We note that the benefit of a panel is that this can be used to control for unobserved "time invariant" factors which may systematically impact on station level CPT rates and which may therefore give rise to a bias in the results of a standard regression specification such as that employed by the CC.

In the working level staff PCA meeting where the fixed effects model was presented to the CC one of a small number of questions that was raised was whether we were able to identify unobserved factors which may have driven the CC's findings of a significant relationship between price and concentration. That is, were we able to point to hypothetical factors that would explain high prices in high radio concentration areas. We note however that one of the benefits of the fixed effects model is that we do not need to identify explicitly the unobserved factors which drive these results. If, under the fixed effects model, the price concentration result disappears, that in itself is sufficient to suggest that there are indeed factors that we do not observe that are driving the observed price concentration relationship.[22]

The fixed effects model is particularly relevant in this case as there is sufficient "within station" variation to allow for the accurate testing of the relationship between price and concentration.[23] This is demonstrated in Table 4 below which shows that there is on average a significant degree of variation in both the HHI measure and Company share measure within radio stations (i.e. 30%). This negates standard concerns with that model.[24]

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[22] Notwithstanding this we do however note that plausible factors include the strength of competition from other media. Areas with fewer radio alternatives may tend to be those with smaller available audiences as radio stations will tend to only be viable where there exists a sufficient audience to warrant the fixed costs associated with setting up and running a station. In areas with scarce audience the price of non-radio media may also tend to be higher – non-radio media alternatives such as the press will have a small "audience capacity" to sell to advertisers which will tend to increase the price of reaching each listener (i.e. their equivalent "cost per hit" rate). In these areas the fixed costs of running media operations such as newspapers will also be higher per unit of advertising sold. As newspapers are a predominantly fixed cost business those higher average fixed costs may further impact upon the pricing decision of those media operators (i.e. prices may tend to be higher on a "per audience" basis to ensure the recoupment of fixed costs). Hence, we may expect the price of non-radio media to be higher in areas where we observe higher radio station pricing and higher concentration in the radio segment. If, as the parties' stations argue, they set their prices in response to compeition from non-radio media then this would result in CPT rates being higher when the price of non-radio media is higher (i.e. in areas with smaller audiences and hence higher radio concentration). Ignoring that relationship would however give rise to the incorrect inference that those higher prices are driven by higher concentration in the radio segment. This is not inconsistent with the argument that non-radio media is an effective constraint across all areas – although areas with higher non-radio media prices will also have higher radio prices, an increase in the relative price of radio may still result in advertisers switching to non-radio media.

[23] We note for example that over 75% of stations in our sample exhibit a change in company share and HHI of over 15% over he relevant period.

[24] If the CC were concerned that a lack of variation would invalidate the fixed effects model an alternative would be a random effects model. That model again shows no statistically significant relationship between price and concentration.

Table 1: Change in concentration within radio station TSAs

	HHI	Company Share
Proportion of stations with 15% change in concentration measure	79%	75%
Proportion of stations with 20% change in concentration measure	51%	58%
Proportion of stations with 25% change in concentration measure	42%	40%
Average change	30%	28%

Notes: Change is measured as the percentage difference between the minimum and the maximum values of HHI/Company share for a particular radio station.

Table 4 presents the re sults of regre ssion results usin g a fixe d effects mo del. Again we continue to exclude the agreed anomalies from thi s analysis as discussed above but retain all other aspects of the CC's model including their company share measure.[25]

Table 4: Summary of results of CC's PCA models – fixed effects model with Gold Sussex and outlier indentified by CC removed

	Coefficient estimates	
	Direct/indirect split retained	**Direct/indirect split removed**
Specification 1: *HHI, no regional dummies*	.085	-.32
Specification 2: *Company share, no regional dummies*	-.00025	-.0043
Specification 3 *HHI, with regional dummies*	.085	-.32
Specification 4 *Company share, with regional dummies*	-.00025	-.0043
Number of observations		

*Source: RAJAR listening share data provided by the CC. CC results taken directly from PCA working paper. CPT values based on Global and RSL transaction level data, calculated by RBB. Significance at * 10% level, **5% level, ***1% level. Note that results are the sa me irrespective of the inclus ion of regio nal dummies. T his is because t hese dummies are removed automatically under this specification as they are perfectly correlated with the station dummies.*

Table 4 demonstrates that:

- Using this model we find that none of the specifications exhibit a statistically significant relationship between price and concentration.

25 We note that results do not change if the anomalies are not retained.

- The coefficient estimates in this model can be seen to be near zero and fluctuate between being positive and negative depending on specification – strongly indicating that there exists no positive relationship between price and concentration.

- This therefore supports the conclusion that the CC's model is not robust to changes in specification. It also indicates that the positive relationship identified by the CC may be driven by the bias resulting from failing to account for the unobserved time invariant factors which affect prices across local areas.

7. Comment on inference from statistically insignificant results

As noted above, our analysis finds no statistically significant relationship between price and radio concentration. This therefore invalidates the claims in the PF's that such a statistically significant relationship is observed in the data.

However, we note that the CC's provisional findings appear to suggest that it would be willing to draw inference from coefficient estimates that are statistically insignificant but that nonetheless show a positive relationship between price and concentration. The PF's note for example that:

> *"under Global's two proposed approaches (excluding all Gold stations and excluding non-standard airtime), concentration continues to have a positive effect—higher concentration continues to be associated with higher prices (though for most specifications the effect is no longer statistically significant" (Appendix I paragraph 34(a))"*

We strongly disagree with this approach – statistical significance is a basic benchmark for interpreting any econometric results and we are not aware of any cases where the CC has been willing to place weight on results that are not statistically significant. We note in particular that:

- The definition of a statistically significant result is *"one that is unlikely to have occurred by chance".*[26] By inference, a statistically insignificant result is one that may have occurred by chance, and cannot form the basis of a finding of a causal relationship between concentration and price.

- Econometric analysis is, by its nature a statistical means of assessing (with confidence) whether there exist significant relationship between a dependent variable (in this case CPT rates) and a (potentially significant number) of dependent variables. Drawing inference from statistically *insignificant* results would serve to undermine the value of these methods as analytical tools.

- For these reasons (to the best of our knowledge) we are not aware of any instances where the Competition Commission has considered statistically insignificant PCA results in previous cases.

On this basis our view is that no weight can be placed on insignificant results in the PCA analysis.

[26] EC Commission best practice guidance on the submission of economic evidence

Notes on the use of the fixed effects estimator in the price concentration analysis

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28 February 2013

The Competition Commission (CC) has performed a price concentration analysis to study whether the average price paid for advertising in a radio station is related to measures of radio station alternatives.

For this study the CC uses a panel with quarterly data from Q4:2008 to Q3:2012 for 57 local Global or GMG radio stations. The CC then splits each of these observations into two by considering that for each station and each quarter there are two observations: one with the cost per thousand impacts (CPT) for direct customers and another for customers who book advertising through an agency. In short, there are multiple observations per station both because of the time dimension of the panel and also because of the CC's decision to split the data into direct and agent customers; these observations are likely to be strongly correlated.

The CC uses this dataset to estimate by ordinary least squares (OLS) models in which the CPT depends on a measure of radio station alternatives and on some observed characteristics of the stations. This approach is unsatisfactory on two counts. First, the estimation method used does not account for the likely correlation between observations form the same station and therefore it is inefficient. Second, and more seriously, by using OLS to estimate the models of interest the CC does not take advantage of the main reason to use panel data: the ability to eliminate an import-

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ant source of omitted-variable bias (see, e.g., Wooldridge, 2013, pp. 443-444). Indeed, using appropriate estimation methods, the availability of panel data permits the elimination of the bias caused by the unobservability of time-invariant characteristics of the stations that are correlated with the regressors. Therefore, the results obtained by the CC are based on an estimator that is almost certainly inefficient and biased.[1]

Both of these problems can be avoided by using the so-called fixed effects (FE) estimator. This method can be interpreted as the OLS estimator of an augmented regression model that includes a dummy variable for each station. These account for the time-invariant characteristics and therefore remove a potential source of omitted-variable bias. In parallel, the additional dummies eliminate a source of correlation between the errors of the observations from the same station.

Naturally the FE estimator has limitations. In particular, its validity depends on the validity of the (relatively mild) assumptions on which it is based, but these can be tested.[2] Also, it does not allow the identification of the effects of time-invariant regressors (that are sub-summed into the FE), but this is not an issue in the particular problem we are considering. A related problem is that if the regressor of interest has little time variation it is difficult to accurately estimate its effect because it is difficult to distinguish it from the FE. Again, this does not appear to be a major concern in the context of this particular application.

It is also important to point out that, having ensured that the FE estimator is valid, it is possible to test whether ignoring the FE leads to bias; this can be done using the Hausman test that is described in standard textbooks (e.g., Wooldridge, 2013). In case it is found that omitting the FE does not lead to bias, estimation may be performed using the random-effects estimator which accounts for the correlation between observations from the same unit (i.e., stations) and therefore is more efficient that OLS.

[1] More precisely, inefficient and inconsistent.

[2] In this particular application I did not find any indication that the FE estimator would be invalid.

In summary I would say that the FE estimator is the "gold-standard" in this kind of analysis and that very strong and objective reasons would be needed not to consider it the preferred estimator in this particular problem.

REFERENCE

Wooldridge, J.M (2013). *Introductory Econometrics: A Modern Approach* (5th. Edition), Cincinnati (OH): South Western.

Global Radio / Real and Smooth Limited

Overview of Global Radio's non-contracted commercial strategies and internal documents evidencing key promotional initiatives

1. Executive Summary

1.1 This paper provides an overview of Global's two most recent commercial strategies relating to its non-contracted airtime business[1]:

(A) '[redacted], which covers the period [redacted] and

(B) [redacted], which covers the period [redacted]

1.2 In addition, this paper presents evidence from Global's internal documents relating to the key promotional initiatives introduced under the above strategies which demonstrates that Global's non-contracted airtime business model is focused on competing with non-radio media for share of advertising revenues.

Section 2 sets out the background to [redacted]

1.3 When Global acquired GCap in 2008, the business was suffering from a rapid and very serious decline – both its listening hours [redacted] had slumped dramatically since its formation three years earlier (by approximately 20% [redacted] .

1.4 Global therefore [redacted] to help diagnose the issues facing Global's non-contracted airtime business and to formulate recommendations on how to drive sales. [redacted] concluded that:

(A) Global needed to better capitalise on the opportunity to attract advertisers away from [redacted] non-radio media, in particular local and regional press. Given the size of the local and regional press sector (12% of the total UK advertising market in 2009, compared to total radio's 2.8%[2] - of which non-contracted advertising only accounts for approximately one third), a [redacted] local and regional press sector represented a wealth of potential customers for Global;

(B) Global was losing [redacted] non-contracted customers through "churn" (i.e. [redacted]% of customers were not advertising on Global's stations in the following year, and [redacted]);

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[1] I.e. airtime purchased on a campaign by campaign basis pursuant to a spot purchase negotiated directly with one or more stations on which the campaign will be broadcast. Non-contracted advertising is typically purchased by direct customers or small agencies.

[2] Figures relate to advertising revenues. World Advertising Research Centre (WARC), 2012.

(C) [redacted]

(D) [redacted]

<u>Section 3 provides an overview of the</u> [redacted] *<u>strategy</u>*

1.5 In order to address the three key issues and respond to the key opportunity identified by [redacted], Global launched the [redacted] strategy in [redacted]. This comprised [redacted] initiatives, each falling under [redacted].

<u>Section 4 provides an overview of the key</u> [redacted] *<u>initiatives dealing with the</u>* [redacted]

1.6 These were initiatives introduced in [redacted] which were concerned with maximising Global's non-contracted revenues by [redacted].

(A) Firstly, these initiatives were aimed at [redacted] This paper discusses, in particular, improvements made to:

(i) <u>how Global monitored the wider media marketplace in order to identify potential customers</u>, and in turn how it <u>improved its understanding of those potential customers</u>. Among other improvements, this involved [redacted]; and

(ii) <u>how Global prepared pitches</u>. Global's [redacted] in [redacted] in order to improve the quality of their customer proposals.

(B) Secondly, Global launched initiatives aimed at introducing [redacted] targeted at [redacted] clients, particularly those

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[3] [redacted]

using local or regional press (the most important of which are [redacted] and

(C) Thirdly, Global launched initiatives aimed at introducing new products designed to simplify and facilitate the purchase of non-contracted airtime (such as the Global-developed website radiorunner.co.uk, which was introduced in response to increased competition from [redacted]).[4]

Section 5 then provides an overview of the background to and key elements of Global's latest non-contracted commercial strategy, [redacted]

1.7 In preparation for its nex[redacted] strategy, Global assessed its non-contracted sales performance under [redacted] The [redacted] initiatives introduced under [redacted]

1.8 Global recognised, however, that that it was still [redacted] In particular, although Global had succeeded in attracting more customers, it saw an opportunity for growing its revenues by retaining those customers [redacted]

1.9 Moreover, Global identified that the competitive marketplace was changing faster than ever before. In particular, Global recognised that in order to capitalise on the significant revenue opportunities available in the wider media marketplace, it would benefit from:

(A) taking advantage of opportunities such as the departure of customers from [redacted] and the [redacted] of local and regional press; and

(B) enhancing the technology behind certain areas of its business model in order to compete more effectively with new forms of online and digital media.

1.10 Therefore, with the dual aims of building on the initiatives introduced through [redacted] and responding to the challenges and opportunities identified above, Global launched the [redacted] strategy.

Section 6 provides an overview of the key [redacted] *initiatives designed to respond to the challenges posed, and opportunities presented, by the changing media landscape*

1.11 [redacted] comprises [redacted] elements:

[redacted]

---

4 [redacted]

[redacted]

1.12 This section sets out in particular the initiatives introduced under:

(A) the [redacted]" element of Global's strategy, including:

(i) [redacted]

(ii) the [redacted] designed to attract [redacted] advertisers [redacted]

(iii) Global's pilot daily deals website "welovelocal.com"; and

(iv) Global's [redacted] strategy; and

(B) the [redacted] element of Global's strategy, designed to deliver technological improvements into Global's business model - in particular plans for [redacted] developed in response to the threat of competitors such as [redacted]

1.13 The suite of initiatives introduced under [redacted] and [redacted] demonstrates that at each stage of its non-contracted sales process, Global is focused on attracting and retaining customers using a range of media solutions.

2. Background to Global's non-contracted commercial strategy [redacted] and [redacted]

<u>The GCap business acquired by Global required an urgent strategic overhaul in order to avoid further major decline</u>

2.1 When Global acquired the GCap brands in 2008, it inherited a portfolio of struggling stations in decline.

2.2 GCap's stations' share of listening hours had fallen steeply since the 2005 merger of GWR and Capital – listening hours dropped by 18% between Q1 2005 and Q1 2008 alone. Airtime revenues had [redacted] since the GWR/Capital merger – from [redacted].

2.3 Moreover, at the time of the GCap merger, the state of commercial radio overall was suffering from a dramatic decline in revenues. Whilst online advertising revenues (excluding search) grew by 306% between 2004 and 2008, commercial radio advertising revenues fell by 17% in nominal terms during the same period (from £545m in 2004 to £454m).[5] Media market analysts such as Enders Analysis predicted that as a result, commercial radio could die out within 15 to 20 years.[6]

2.4 As subsequently confirmed by [redacted] is discussed further below[7], GCap's decline was certain to continue absent a radical reinvention of its business model, including revitalising its sales processes and introducing a commercial strategy focused on attracting revenues outside of the "shrinking radio pot" – i.e. on targeting advertisers using other media.

<u>Global engaged [redacted] to diagnose the specific issues facing Global's non-contracted airtime business and to formulate recommendations on how to drive sales</u>

2.5 Following an extensive review of Global's non-contracted business model [redacted] produced an analysis (the [redacted]")[8] which identified three key issues facing Global's business and one key opportunity:

(A) **Key issue 1:** <u>A [redacted] share of customers [redacted] were "churning" away from Global's stations each year (i.e. using other media the next year).</u> As can be seen from Figure 2.1, advertisers representing approximately [redacted] of revenues

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[5] World Advertising Research Centre (WARC), 2012.

[6] See Guardian Newspaper, "UK commercial radio 'dying out'", 19 March 2009 (available at http://www.guardian.co.uk/media/2009/mar/19/uk-commercial-radio)

[7] See [redacted] attached at Annex 15A(i).001.

[8] See [redacted] attached at Annex 15A(i).001.

in the financial year ending 2007 did not re-advertise on Global's stations in the financial year ending 2008 (this represented a loss of approximately [redacted] of customers by number). Churn [redacted] the following year, with [redacted] diagnosing the issue as a [redacted][9]

Figure 2.1

[redacted]

[redacted]

[redacted] [redacted]

The [redacted] concluded that Global could not rely on the repeat business of customers to deliver revenues but had to instead compete vigorously to, firstly, win new customers to replace those that leave and, secondly, to persuade current customers to continue to use its stations.

(B) **Key issue 2:** Global had [redacted]

(C) **Key issue 3:** Global was [redacted] and

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[9] [redacted] diagnosed that [redacted] See [redacted] attached at Annex 15A(i).001.

(D) **Key opportunity 1:** The opportunity to attract advertisers away from non-radio media, in particular local and regional press [redacted] (see Figure 2.2).

Figure 2.2

[redacted]

[redacted]

[redacted] [redacted]

3. Overview of [redacted] strategy

3.1 In order to address the key issues and respond to the key opportunity identified by [redacted], Global launched the [redacted] strategy in [redacted] was a [redacted] commercial strategy designed to deliver a [redacted] of [redacted] initiatives, each of which was formulated to <u>respond to one or more of the key issues or the opportunity identified in the</u> [redacted] (see Figure 3.1).

Figure 3.1

[redacted]

[redacted]

[redacted]

3.2 Global's [redacted] strategic initiatives each fell under [redacted]

Figure 3.2

[redacted]

[redacted]

[redacted] [redacted]

3.3 Section 4 provides an overview of the key [redacted] initiatives dealing with the (i) [redacted] – i.e. Global's initiatives introduced or refined [redacted] which were concerned with maximising Global's non-contracted revenues by [redacted]. For each of these initiatives, the key insights to be drawn from the related internal documents attached at Annex 15A(i), 15(A)(ii), 17A(i) and 17A(ii) are also noted.

3.4 Strategy papers on the initiatives forming part of [redacted], includin [redacted] are attached at Annex 15A(i).

3.5 Additionally, strategy papers concerned with restructuring Global's non-contracted airtime business – i.e. with creating a [redacted], are attached at 15A(i)

4. Overview of key [redacted] initiatives designed to [redacted]

4.1 This set of initiatives was:

(A) firstly, aimed at introducing a [redacted] which involved radically overhauling Global's non-contracted sales practices; and

(B) secondly, aimed at **<u>introducing, with</u>** [redacted] **<u>assistance, improvements at every stage of Global's non-contracted airtime sales process</u>**. In particular, Global invested [redacted] This section deals in particular with the following improvements:

(i) Improvements to [redacted] of Global's non-contracted sales process. These were designed to improve how Global [redacted] in order to identify potential customers, and in turn to improve its understanding of those potential customers. [redacted]

(ii) Improvements to the [redacted] of Global's non-contracted sales process. Among other improvements, [redacted]

4.2 A number of initiatives were, secondly, aimed at [redacted]. These [redacted], notably the [redacted], were intended to attract [redacted] customers away from other media (usually local press) by offering them [redacted].

4.3 Thirdly, Global introduced initiatives focused on **<u>introducing new products designed to simplify and facilitate the purchase of non-contracted airtime</u>**, including giving customers the ability to design, book and manage their campaigns **online** using new tools such as the Global-developed website **radiorunner.co.uk**.

4.4 These key initiatives are discussed in turn.

(A) Key [redacted] initiatives designed to improve Global's non-contracted sales process

(i) [redacted]

4.5 The [redacted] concluded that the inherited GCap business was debilitated by [redacted] In particular, Global's non-contracted airtime business was facing a [redacted] due, among others, to the following [redacted]:

[redacted]

Figure 4.1

[redacted]

4.6 As set out in the strategy slide above, [redacted]

4.7 Global therefore introduced a fundamental change to its business model; namely the [redacted]

4.8 [redacted]

Figure 4.2

[redacted]

[redacted]

[redacted] [redacted].

4.9 Figure 4.3 and Figure 4.4 compare Global's direct sales process [redacted] with the processes introduced through the [redacted] strategic overhaul [redacted]

Figure 4.3

[redacted]

[redacted]

[redacted] [redacted]

Figure 4.4

[redacted]

[redacted]

[redacted] [redacted]

(ii) Dramatic improvements at each stage of the sales process

4.10 With the aim of "taking the [redacted] to the next level", Global engaged [redacted] to develop recommendations designed to <u>refine Global's practices at every stage of its non-contracted sales process using</u> [redacted] The various stages of Global's non-contracted airtime sales process are depicted in Figure 4.5, which is taken from [redacted] and attached at Annexes 15A(i).034 and 15A(i).035 (together, the '[redacted]).

Figure 4.5

[redacted]

4.11 [redacted] has enabled Global to deploy practices specific to [redacted] at each stage of the above process. This section focuses on improvements at the [redacted] stages.

<u>Specific improvements introduced at the</u> [redacted] <u>of Global's sales process</u>

4.12 The [redacted] of Global's non-contracted sales process, known as [redacted] is designed to [redacted].

4.13 Following the [redacted] recommendations, Global adapted its business model so that it became more organised in how it identified potential leads (i.e. advertisers using other media) by [redacted]_ This focus is in recognition of the fact that radio represents only a tiny share of advertising revenues in the UK (i.e. around 2.7%), and moreover that the radio "pot" was shrinking rapidly at the time of [redacted] – therefore targeting the large number of advertisers using other media was identified as Global's best chance of winning the greatest number of new customers.

4.14 The [redacted] identified various sources where non-contracted sales teams should look for leads. As can be seen from Figure 4.6 and Figure 4.7 below, these include:

[redacted]

Figure 4.6

[redacted]

[redacted]

[redacted] [redacted]

Figure 4.7

[redacted]

[redacted]

[redacted] [redacted]

4.15 Under Global's new non-contracted sales process, sales managers are also required to regularly carry out [redacted] identified above (such as [redacted]) (see Figure 4.8).

Figure 4.8

[redacted]

[redacted] [redacted]

4.16 [redacted]

[redacted]

4.17 ‘[redacted]

[redacted]

Figure 4.9

[redacted]

[redacted]

[redacted] [redacted]

Figure 4.10

[redacted]

[redacted]

[redacted] [redacted]

4.18 [redacted] demonstrate that Global's staff are focused on identifying leads using a range of non-radio media. See, for example, [redacted] forecasting media sector expenditure trends and the expected growth in competition from new online media (including [redacted]

Figure 4.11

[redacted]

[redacted]

[redacted] [redacted]

Figure 4.12

[redacted]

[redacted]

Source: *Global (Goldmine).*

Figure 4.13

[redacted]

[redacted]

[redacted] [redacted]

4.19 In addition to using [redacted] reports fo [redacted] Global's sales people use the [redacted] at the [redacted] of Global's sales process (in particular the [redacted] stage) in order to better inform and tailor Global's proposals to potential customers.

4.20 To illustrate, Figure 4.14 and Figure 4.15 are examples of [redacted] presentations shared on [redacted] demonstrating how [redacted]

Figure 4.14

[redacted]

[redacted]

[redacted] [redacted]

Figure 4.15

[redacted]

[redacted]

[redacted] [redacted]

4.21 [redacted], such as those depicted in Figures Figure 4.16 and Figure 4.17, are similarly used to make Global's pitches more attractive to customers using non-radio media.

Figure 4.16

[redacted]

[redacted] [redacted]

Figure 4.17

[redacted]

[redacted] [redacted]

4.22 Finally, Global actively follows the initiatives being taken by or in relation to other media types. For example, [redacted]

Specific improvements introduced at the [redacted] stage of Global's sales process

4.23 [redacted]

[redacted]

4.24 As illustrated in Figure 4.18, [redacted] recognised that in order to best manage the relationship with a potential lead and ultimately persuade it to switch some or all of its media budget to radio, it is essential for Global to [redacted]."

Figure 4.18

[redacted]

[redacted]

[redacted] [redacted]

4.25 The extract from [redacted] at Figure 4.19 below (developed as part of the [redacted]), demonstrates that Global's standard practice is to [redacted]

[redacted] (see, for example, [redacted]

Figure 4.19

[redacted]

[redacted] [redacted]

Specific improvements introduced at the [redacted] stage of Global's sales process

4.26 The improvements introduced at this stage of the sales process under the [redacted] strategy were specifically designed to enable Global to better tailor its pitches in order to compete more effectively with its non-radio competitors. [redacted] had diagnosed, for example, that [redacted]

4.27 In response, Global [redacted] designed to enable sales teams to develop more attractive proposals.

4.28 As mentioned above, Global's key [redacted]

4.29 Each of these [redacted] is discussed in turn below.

[10] See [redacted] attached at Annex 15A(i).001.

[redacted]

4.30 [redacted]

4.31 [redacted]

Figure 4.20

[redacted]

[redacted] [redacted]

[redacted]

4.32 [redacted]

Figure 4.21

[redacted]

[redacted]

Figure 4.23

[redacted]

[redacted]

[redacted] [redacted]

Presentations on radio and other media

4.33 Materials typically shared by Global's sales people via [redacted] and relied upon in order to create, inform or supplement customer pitches include a collection of locally produced presentations, as well as internally and externally produced documents, which focus on the benefits of adding radio to the media mix and occasionally [redacted] of radio with that of other media, as informed by [redacted] undertaken by Global.[11]

4.34 As can be seen from the presentation screenshots below, and from the representative sample of presentations and research materials on other media attached at Annexes 17A(i).008 to 17A(i).034, Global is focused on responding to the need identified in the [redacted] to convince customers using other media that radio is an effective advertising medium.

4.35 In light of the fact that radio is a very small medium (and that Global's customers tend to use a range of different media), Global recognises that it would be difficult to persuade all potential customers to switch their entire budget away from other media to radio. Global's strategy is therefore to persuade such advertisers to switch at least a proportion of their budget by showing how using radio with other media delivers better results. Presentations, therefore, often suggest how radio complements other media including cinema, direct mail, press, television and online alternatives; however in doing Global's objective is to convince customers to substitute spend on other media with spend on radio.

Figure 4.24

[redacted]

[11] See for example Annex 17A(i).054.

[redacted]

[redacted] [redacted]

Pitch documents

4.36 Finally, having gathered know-how and information on the potential customer and its business through the earlier stages of the sales process, and developed a persuasive body of materials using the presentations and research papers described above, Global will prepare a proposal detailing the solution it can deliver for the customer [redacted] A representative sample of Global's pitch documents for each of the regions where the parties overlap is included at Annex 17(A)(ii).

4.37 As explained above, given radio's small share as an advertising medium, Global's strategy is to persuade those customers less likely to stop advertising across a range of media to reduce their spend on one or more other media types and switch it to radio. Global's pitch documents therefore often highlight the benefits of adding radio to the media mix.

(B) Key [redacted] initiatives aimed at [redacted] particularly the [redacted] initiative

4.38 As outlined above, Global's new sales approach involves [redacted]

4.39 One of Global's [redacted] initiatives delivered into the non-contracted airtime business was focused on targeting [redacted] using other media, particularly [redacted] by [redacted] in order to incentivise them with [redacted] Of these, the [redacted] initiative (which is [redacted] has been [redacted]

4.40 [redacted] is designed to offer customers a '[redacted] The initiative operates according [redacted]

4.41 Global's strategy for generating customer leads for the [redacted] scheme makes clear that its best opportunity for increasing sales comes from targeting advertisers using a range of media titles. For example, in a [redacted] memorandum given to London sales teams, various media alternatives are cited in the section [redacted] In addition to competing radio stations, these include the press, magazines, internet, outdoor media and TV.[12]

4.42 Once leads have been identified, [redacted] its interest in using radio to advertise and critically the lead's other media usage.

4.43 Documents relating to the [redacted] initiative, including examples of flyers and [redacted] slides, are attached at Annexes 17A(i).035 to 17A(i).040.

[redacted]

4.44 The London version of [redacted] – also known as [redacted] – is a clear example of how [redacted] (and more broadly [redacted]) were deliberately focused on improving Global's competitiveness against [redacted] press titles.

4.45 Press was identified in the [redacted] growth plan[13] as the initiative's key opportunity for [redacted] growth in London – [redacted]

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[12] See Annex 17A(i).039

[13] See Annex 17A(i).038.

[redacted] see Figure 4.25 and Figure 4.26).

Figure 4.25

[redacted]

[redacted]

[redacted] [redacted]

Figure 4.26

[redacted]

[redacted]

[redacted] [redacted]

4.46 As a result of this initiative, non-contracted advertisers have benefitted from [redacted] (see Figure 4.27).

Figure 4.27

[redacted]

[redacted]

[redacted] [redacted]

4.47 Over the same period [redacted] – directly as a result of attracting more advertisers (see Figure 4.28). The impact of this initiative on [redacted] demonstrates both Global's commitment to focusing its commercial strategy on growth through non-radio opportunities and the sensitivity of its local customers [redacted]

Figure 4.28

[redacted]

[redacted]

[redacted] [redacted]

4.48 Internal documents relating the [redacted] initiative, including the [redacted] are attached at Annexes 17A(i).037 to 17A(i).040.

(C) <u>Key [redacted] initiatives focused on introducing new products designed to simplify and facilitate the purchase of non-contracted airtime, particularly radiorunner.co.uk</u>

4.49 A third set of initiatives introduced as part of the [redacted] strategy was focused on making airtime easier to buy, including in particular giving customers the ability to design, book and manage their campaigns online using new tools such as the Global-developed website **radiorunner.co.uk**.

4.50 radiorunner.co.uk is a website targeted at frequent, lapsed and/or infrequent advertisers, typically SMEs, who are advertising on other media (in particular [redacted]). The website enables advertisers to purchase, manage and create advertising online – this was a direct response by Global to the growing threat posed by online media channels such as [redacted] which offer customers straightforward means of purchasing advertising by themselves.

4.51 Global explains on the website:

"*We've made it our mission to make booking radio quicker, easier and much more convenient. Our loyal customers kept asking us why they couldn't just book online rather than go through a time-consuming meeting. They told us that they loved radio but* *often they could be too busy to see us. We invented RadioRunner as a way they could repeat successful campaigns at the click of a button. And now we can offer this service to new customers as well.*"[14]

4.52 The website explains the relative benefits of advertising on radio compared to other media, as well as the benefits of using radio alongside other media, and is clearly designed to persuade advertisers to allocate spend that they might otherwise have allocated to other media on radio. For example:

(A) In relation to **local press**:

(i) *"[n]aturally the listeners to a local radio station are locals. But more importantly they are also the right kind of locals. Compared to the typical local newspaper readers, commercial radio listeners tend to be significantly younger"*.[15]

(ii) *"[…] there are two major disadvantages with local newspapers. The first is clutter: not only do people skip over the ads in the paper, but there often seem to be more ads than editorial on the page. The second problem is age profile: most local newspapers are read mainly by older people (50+) and this means they are far from cost-effective for advertisers wanting to reach younger audiences. They also tend to focus – unlike radio – on bad news, and this depressing tone can create a difficult environment for advertisers who are trying to excite or stimulate their customers."*[16]

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[14] See http://www.radiorunner.co.uk/guides/what-is-radio-runner.php

[15] See http://www.radiorunner.co.uk/guides/how-radio-can-work-for-you.php

[16] See http://www.radiorunner.co.uk/guides/using-radio-alongside-other-media.php

Figure 4.29
Screenshot of radiorunner.co.uk online guide – newspapers

Local Newspaper Advertising

Strengths	*Weaknesses*
Authority: "it's in black & white"	Some titles are very low quality
Full page ads can demonstrate stature	Diminishing returns on costly full-page ads
Room for detailed information	Ageing readership for most titles
Can be in relevant sections	Ads are avoided
Demonstrates localness	Cluttered environment
Newsiness, "what's on" factor	Tend to focus on bad news

What will radio add?

- Radio can cut through to create awareness and stand-out
- Radio can create excitement and then add "see local press for details"
- Radio is much more cost-effective for reaching the under-50s in most areas

Source: *http://www.radiorunner.co.uk/guides/using-radio-alongside-other-media.php*.

(B) In relation to **direct mailshots**:

(i) *"[…] mailshots tend to suffer from two crucial weaknesses. The first is list quality: unless you have compiled the list yourself, it is extremely difficult to establish the quality of a mailing list (we all know what it's like to receive a mailing which makes a wrong assumption about us). But the biggest problem is avoidance. People call it "junk mail" because that's how they feel about it: they are brutal about disposing of it, sometimes not even opening the envelope."* [17]

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[17] See http://www.radiorunner.co.uk/guides/using-radio-alongside-other-media.php

Figure 4.30
Screenshot of radiorunner.co.uk online guide – direct mailshots

Direct Mailshots

Strengths	*Weaknesses*
Highly targeted (e.g. lapsed customers only)	Highly avoided
Personal, named communication	Recipients have low expectations ("junk mail")
On paper, tangibility of print	Quality of mailing lists is highly variable
Can use attractive graphics	Clutter/competition on the doormat
Can use samples	Can become expensive productions
Opportunity for detailed information	Long deadlines
Can measure direct response	Questionable long-term effect on the business

What will radio add?

- Radio can cut through to create awareness and stand-out
- Radio can create excitement before a potentially valuable mailshot arrives

Source: *http://www.radiorunner.co.uk/guides/using-radio-alongside-other-media.php*.

(C) In relation to **internet advertising**:

(i) *"[…] internet advertising also has limitations. The biggest limitation is that people avoid it! The RAB 2005 Ad Avoidance Study showed that people avoid banners and pop-ups even more than they avoid junk mail. This resistance is made worse by the fact that people don't like clicking on unfamiliar links. So radio is ideally placed to play a complementary role to internet advertising. One of radio's greatest strengths is that people don't avoid the advertising – they zone in and out of the commercials depending whether they find them interesting or relevant."* [18]

Figure 4.31
Screenshot of radiorunner.co.uk online guide – internet advertising

Internet Advertising

Strengths	*Weaknesses*
Connects people to the company	People are wary of clicking on unproven links
Internet is funky, sexy, modern	Easy for ads to get lost there, clutter
Can be placed in very relevant pages	Ads get ignored (highest avoidance)
Reaches a wider audience	Wastage – e.g. surfers from abroad
Trackability – click-throughs can be counted	Hard to assess value of a mere click
Information can be constantly updated	Not everyone uses the internet

What will radio add?

- Radio can reach out to consumers, especially those who think they are not interested or who are not yet in the market
- Radio can build up name awareness in advance

Source: *http://www.radiorunner.co.uk/guides/using-radio-alongside-other-media.php*.

[18] See http://www.radiorunner.co.uk/guides/using-radio-alongside-other-media.php

(D) In relation to **directory listings**:

(i) *"In the old days, directories meant Yellow Pages – there were no rivals, and almost every local business was listed there. These days there are not only other directories distributed, but online directories have become hugely important – places like UpMyStreet.co.uk. But, online or offline, all these directory-based media work in the same way: people turn to them in their time of need (either urgent need like plumbers or for more pleasant things like wedding hire). This is simultaneously the greatest strength and the greatest weakness of directories as a promotional medium for business. Everyone turns to them in their hour of need – and completely ignores them the rest of the time. This is where radio can help. Radio builds up awareness and understanding about a company BEFORE the consumer turns to the directory – this allows the company to stand out from all its rivals (which are of course all listed in the same section of the directory)."*[19]

Figure 4.32
Screenshot of radiorunner.co.uk online guide – directory advertising

Directory Advertising

Strengths	*Weaknesses*
Reaches customers at their time of need...	...ignored for the rest of the time
The most relevant environment	It's where all your rivals are
Many have long-established credibility	Difficult/expensive to stand out
Directories in almost every household	Difficult to make a distinctive offer
Tend to feature local businesses	Anyone can advertise there (inc cowboys)

What will radio add?

- Radio can build up name awareness in advance of the time of need
- Radio can also add a friendly personality to a company's image

Adapted from information from Radio Advertising Bureau website (www.rab.co.uk) – it's filled with great examples of radio and case histories

Source: http://www.radiorunner.co.uk/guides/using-radio-alongside-other-media.php.

[19] See http://www.radiorunner.co.uk/guides/using-radio-alongside-other-media.php

5. Overview of [redacted] strategy

5.1 In preparation for its next [redacted] strategy, Global assessed its non-contracted airtime sales performance under [redacted] The [redacted] of [redacted] initiatives introduced under [redacted] was deemed a success in terms of [redacted]

Figure 5.1

[redacted]

[redacted]

[redacted] [redacted]

5.2 Global recognised, however, that it was still facing [redacted] customer churn (losing [redacted] non-contracted customers per year), [redacted]. In other words, although Global had succeeded in attracting more customers, it saw an opportunity for growing its revenues by retaining those customers [redacted] – i.e. [redacted]

5.3 Moreover, Global identified that the <u>competitive marketplace was changing rapidly</u>. The following series of slides taken from a template strategy presentation delivered to a regional sales team in early 2012[20] demonstrates that Global was concerned with:

(A) responding to the mounting challenges posed by new forms of media; and

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[20] See Annex 15A(ii).003

(B) taking advantage of opportunities such as [redacted] other traditional media types.

5.4 In particular, Global was focused on:

(A) [redacted] local and regional press and directories – [redacted]

[redacted]

(B) [redacted] decision to [redacted], and the resultant opportunity to target its [redacted] customers – [redacted][22]

[redacted]

[21] See Annex 15A(ii).004.

[22] See Annex 15A(ii).004.

(C) the unprecedented growth of online advertising channels – [redacted]

[redacted]

5.5 Therefore, with the dual aims of building on the initiatives introduced through [redacted] and responding to the challenges and opportunities identified above, Global launched the [redacted] strategy in [redacted] - a [redacted] strategy designed to achieve its objectives by [redacted]

5.6 [redacted] comprises [redacted] main elements:

[redacted]

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23 See Annex 15A(ii).004.

Figure 5.2

[redacted]

[redacted]

5.7 Global's strategy papers relating to each of these elements are attached at Annex 15A(ii). For the purposes of this paper, Global has highlighted the insights to be drawn from the internal documents relating to:

(A) the [redacted] element of the strategy - [redacted] "welovelocal.com", and Global's [redacted] strategy are discussed further at Section 6 below; and

(B) the '[redacted] element of the strategy – Section 6 also discusses briefly technological improvements recently introduced by Global in order to allow it to compete more effectively with non-radio media.

6. [redacted] initiatives designed to respond to the challenges posed, and opportunities presented, by the changing media landscape

(A) <u>Initiatives forming part of [redacted] element of [redacted] strategy</u>

[redacted]

6.1 [redacted]

Figure 6.1

[redacted]

6.2 Under [redacted] with potential customers. [redacted]

6.3 [redacted] demonstrating that Global's target customers are now engaging with a competitor set which has expanded significantly in the three years since Global's acquisition of GCap, in particular one comprising a range of attractive new online alternatives for advertisers [redacted]

6.4 For example:

[redacted]

[redacted]

6.5 The '[redacted] is a programme being rolled out as part of the [redacted] strategy, which involves inviting [redacted] customers (i.e. Global's customers with [redacted] to [redacted] which offers them [redacted]

6.6 Global's intention is to encourage [redacted] customers to use radio [redacted] and for [redacted] campaigns, therefore increasing their airtime. In particular, Global aims [redacted]

6.7 In order to qualify for the [redacted] customers must [redacted]

6.8 Global's sales people monitor the advertising patterns of prospective [redacted], including Global's objectives with respect to such customer, the customers' advertising histories and their other media usage.

6.9 The [redacted] demonstrates Global's aim for radio to be included as a core element of an advertiser's media spend and has been introduced as a direct response to the fact that advertisers make more long-term commitments to non-radio media than they do to radio (which need not be used continuously).

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[24] See Annex 17A(i).041.

[25] See Annex 15A(ii).004.

[redacted] ***customer initiative***

6.10 The [redacted] furthers the work of an initiative introduced by Global designed to improve Global's service to [redacted] customers [redacted] The intention behind this initiative is to [redacted] As with the [redacted] Global's sales teams regularly collate information on the media usage of its core customers with a view to better understanding these customers' media patterns.

6.11 Moreover, Global regularly undertakes [redacted] For example, the [redacted] project was a [redacted] initiative launched in [redacted] specifically designed to target Global's [redacted] customers which Global knew were spending budget with other media. Global's non-contracted sales teams were asked to target advertisers that might credibly switch budget away from their current media alternatives to its stations. Each sales team was provided with a [redacted] during the course of the project using a range of resources including [redacted] across a range of media including the press, outdoor and TV. An overview of the [redacted] initiative provided to staff, together with a sample of [redacted] is attached at Annexes 17A(i).044 to 17A(i).049.

6.12 Presentations from Global's senior management team to its regional teams make clear that the [redacted] should contain advertisers currently using a range of media and that sales teams' challenge is to win those advertisers away from these alternatives[26].

welovelocal.com

6.13 Welovelocal.com is a "daily deals" website [redacted], which provides customers with the opportunity to offer short-term deals to their customers at a local level. The deals on the website can then be promoted on Global's radio stations. The initiative gives customers in effect a combined online and radio based advertising alternative. The introduction of Welovelocal.com is a direct response to the increasing competitive threat from online alternatives including [redacted] As explained during a regional launch presentation of the [redacted] strategy:

[redacted]

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[26] See launch [redacted] at Annex 17A(i).049.

[27] See Annex 15A(ii).004.

Global's [redacted] strategy

6.14 A key aspect of Global's [redacted] strategy is its plan to specifically target [redacted] customers motivated to leave [redacted] due to increased advertising costs. As explained in the main [redacted] presentation in July 2011:

[redacted]

[28] See Annex 15A(ii).004.

6.15 Global has as part of its wide [redacted] strategy [redacted], in order to better its understanding of how to compete with [redacted]

Figure 6.2

[redacted]

[redacted] ***initiative***

6.16 Global's [redacted] strategy builds on an initiative launched in [redacted] called '[redacted], which was aimed at targeting customers advertising on [redacted]

6.17 Global relied on a range of market intelligence (including [redacted] to identify [redacted] advertisers.

6.18 Global also developed [redacted] For example, Figure 6.3 provides [redacted] prepared by Global in the context of the [redacted] initiative are included at Annex 17A(i).054.

Figure 6.3

[redacted]

6.19 [redacted]

[redacted]

6.20 Examples of Global's [redacted] presentations, together with internal communications relating to its [redacted] strategy and the [redacted] initiative, are included at Annexes 17A(i).050 to 17A(i).055.

(B) [redacted] **nitiatives designed to make Global compete more effectively with new digital media competitors**

6.21 [redacted] ncludes the introduction of further technological improvements into Global's sales process. These are specifically designed to respond to the threat of online media and to keep Global abreast of changes in customer buying habits. They include:

[redacted]

Figure 6.4

[redacted]

[29] See Annex 15A(ii).004.

[redacted]

[redacted] [redacted]

[redacted]

6.22 Together with the improvements introduced into Global's non-contracted sales model under [redacted] in particular the fundamental changes made to every stage of Global's sales process and the initiatives specifically designed to attract customers [redacted] its stations – these steps demonstrate that Global is focused on competing with non-radio media for share of advertisers' budgets.

6.23 It is clear from Global's consistent and significan [redacted] into improving its commercial offering to customers that Global intends to, and indeed must, continually strive to improve its business model in order to attract customers in an increasingly changing marketplace.

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[30] See Annex 15A(ii).004.

[31] See Annex 15A(ii).004.

[32] See Annex 15A(ii).004.

Response to Questions 15 and 17 contained in Annex C of the Competition Commission's letter of 11 October 2012 (Initial factual information requested from Global Holdings Limited ("Global") / Real and Smooth Limited ("RSL")

<u>Overview of RSL's non-contracted commercial strategy and internal documents</u>

1. Introduction to RSL's business model and executive summary

1.1 Real and Smooth Limited ("**RSL**") operates in a two-sided market. As a commercial radio company, it needs to attract listeners to stations – the more attractive a station is to listeners, the more attractive it will be to advertisers seeking access to those listeners, thus increasing revenues.

1.2 RSL's business model is therefore focused on (i) improving the quality of its offering to listeners; and (ii) "monetising" that listener base via the sale of airtime to advertisers. This "monetising" aspect involves three steps:

(i) monitoring the wider media marketplace in order to identify potential advertisers who may be interested in buying airtime on RSL's stations (i.e. "leads") – this will include new customers who have never advertised on its stations as well as advertisers who have previously used its stations ('[redacted]);

(ii) narrowing the scope of those leads so RSL targets only those who are most likely to buy airtime – this involves improving RSL's understanding of the relevant customer (e.g. its buying habits and advertising needs) and market (i.e. relevant product category or sector) ('[redacted]"); and

(iii) pitching an attractive advertising proposal to the lead with the aim of persuading it to buy airtime on RSL stations ('[redacted]").

1.3 RSL's local / regional commercial strategy relating to non-contracted airtime sales ("**non-contracted commercial strategy**") is primarily concerned with improving this "monetising" aspect of RSL's business model, with the objective of increasing advertising revenues. As a result, RSL's strategy documents are largely dedicated to how best to "monetise" its listener base. [redacted]

1.4 This paper sets out the key elements of RSL's non-contracted commercial strategy, having regard to RSL's internal documents and the insights which can be drawn from them. In particular:

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[1]See Annex 15B.020 ([redacted] and Annex 15B.021 [redacted].

(i) **Section 2** presents an overview of RSL's strategy papers. The non-contracted commercial strategy is focused on increasing revenues by improving the quality of RSL's leads (i.e. to enable RSL to pursue only those which deliver the most value and to address the issue of "customer churn" most efficiently). To identify higher quality leads, RSL has implemented initiatives to better understand the competitive marketplace in which it operates in order to identify opportunities for new or repeat business;

(ii) **Section 3** describes the key phases of RSL's business generation process, designed to identify higher quality leads and to close a sale; namely, [redacted]; and

(iii) **Section 4** sets out additional specific initiatives and tools developed by RSL in order to persuade advertisers to buy airtime on RSL stations.

2. Overview of RSL’s non-contracted commercial strategy

(A) [redacted] strategy - the [redacted]

2.1 As early as [redacted] RSL identified that it was facing [redacted] challenges across its business. [redacted]

Figure 2.1

[redacted]

[redacted]

[redacted] [redacted]

2.2 [redacted] Although various areas of RSL’s business were struggling, RSL decided to focus on increasing revenues from its sale of non-contracted airtime. [redacted] produced a report recommending key improvements to RSL’s local / regional business model (‘[redacted]’)[2], which now forms the basis of RSL’s current non-contracted commercial strategy.

2.3 [redacted] identified that RSL, as with all commercial radio operators, faced the challenge of “customer churn” (i.e. a [redacted] share of advertisers who use RSL’s stations one year do not return to RSL’s stations the next year). Specifically, Deloitte observed that ‘[redacted]”, as evidenced in Figure 2.2 below. Essentially, this means that RSL was “churning” [redacted] of its customer base, which represented approximately [redacted] of its revenue in [redacted]

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[2] See Annex 15B.001 ([redacted]).

Figure 2.2

[redacted]

[redacted]

[redacted] [redacted]

2.4 [redacted] It is therefore evident that RSL needed to grow the number (and value) of its established accounts (i.e. by persuading current customers to keep advertising on its stations beyond the one-year mark thus addressing the challenge of customer churn).

2.5 As a result, [redacted] recommended that RSL (i) grow existing customer accounts and (ii) ensure new business leads are of a higher quality, in order to address the issue of customer churn as efficiently as possible. As described in further detail in Section 3 below, RSL's internal documents demonstrate a particular focus on the second limb of [redacted] recommendation; namely, a focus on driving new business by way of higher *quality* (not quantity) leads (i.e. those that deliver maximum value) to address customer churn. Such focus ensures that [redacted]

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[3] RSL defines [redacted]

[4] RSL defines [redacted]

[redacted], thus also improving the efficiency and effectiveness of the sales process.

2.6 To do so, [redacted] key advice to RSL was to <u>know its market better</u> in order to identify and maximise untapped value in existing and potential customer markets. As described in greater detail in Section 3 below, RSL's internal documents evidence that it specifically monitors the wider media marketplace to target advertisers currently using other media, with the aim of persuading them to advertise on radio. Such focus is in recognition of the fact that the vast majority of advertisers use other non-radio media alternatives; therefore, they represent the maximum untapped value for RSL.

2.7 As a direct result of the [redacted] RSL introduced a range of improvements across its local / regional business including steps to:

(i) improve the generation of new business, in particular by identifying and pursuing higher quality leads;

(ii) utilise [redacted] to identify and prioritise untapped value in existing accounts and new business; and

(iii) improve the efficiency and effectiveness of the sales process and performance,

all with the aim of increasing the revenues of RSL's local / regional business. Each of these steps is described in further detail in Section 3 below.

2.8 RSL's non-contracted commercial strategy was [redacted]

(B) [redacted] <u>strategies</u>

2.9 In addition to the [redacted] On the whole, these reflect the key elements of RSL's non-commercial contracted strategy; however, they may be tailored [redacted] (e.g. the competitive set).

2.10 These [redacted] strategy papers particularly demonstrate RSL's focus on targeting non-radio media as its key opportunity to increase revenues, by persuading advertisers to use radio rather than the other media alternatives they may currently use.

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5 [redacted]

6 See Annex 15B.002 ([redacted]

2.11 All [redacted] strategy papers are included at Annex 15B, which demonstrate that:

(i) RSL compares advertising on radio against non-radio media, specifically cinema, outdoor, press and TV, instead of other radio stations (as evidenced in Figure 2.3 regarding the [redacted]

Figure 2.3

[redacted]

[redacted]

[redacted] [redacted]

(ii) as a result, RSL focuses on winning advertising spend from non-radio media. The [redacted] strategy paper specifically states that the aim is “to take a larger share out of the [redacted] Media Market”[8]. Similarly, the [redacted] strategy papers focus on generating new business and new revenues from “especially non radio advertisers, focusing on current press, magazine, outdoor and TV users”[9]. The [redacted] business plan aims to “feed” RSL brands “through to non-radio advertises”[10];

(iii) this is in recognition of the fact that most advertisers use non-radio media and therefore the maximum untapped value lies in non-radio media. For example, the [redacted] local strategy paper identifies that advertisers using non-radio media

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[7] See Annex 15B.012 ([redacted] **Local Strategy**”).

[8] See Annex 15B.012[redacted] **Local Strategy**”).

[9] See Annexes 15B.017 and 15B.018 (“[redacted] **Local Strategies”**).

[10] See Annex 15B.016 ([redacted] **Business Plan**”).

accounted for [redacted] in revenue in Q1 2011; conversely, advertisers using radio but not Real accounted for [redacted] in revenue in Q1 2011[11]; and

(iv) therefore, as described in the [redacted] strategy papers, RSL will "monitor competitor media to identify current users of press, radio, TV and outdoor."[12]

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[11] See Annex 15B.007 ([redacted] **Local Strategy**").

[12] See Annexes 15B.017 and 15B.018 ([redacted] **Local Strategies"**).

3. Key elements of RSL's local / regional business generation process designed to grow existing customer accounts and win new business

3.1 As set out in the Deloitte Report (see Figure 3.1), RSL follows a [redacted] process to generate new business and address the challenge of customer churn as efficiently as possible[13]:

(i) [redacted] – this involves identifying leads from a number of sources by [redacted] [redacted] [redacted];

(ii) [redacted] – this involves ascertaining the likelihood of a lead's spend by analysing the business; and

(iii) [redacted] – this involves persuading a customer to advertise on RSL's stations, in particular by developing pitches to close the sale. RSL aims to differentiate its pitches through [redacted].

This section presents an overview of the key elements of each of these phases.

Figure 3.1

[redacted]

[redacted]

(A) [redacted] <u>phase</u>

3.2 In order to generate higher quality leads, RSL specifically [redacted] in its local / regional business to identify and qualify potential leads (as recommended by the

[13] See Annex 17B.001 [redacted] for an overview of the [redacted] and [redacted] phases.

[redacted]. RSL [redacted] Although other members of the account management or sales teams also take part in identifying and qualifying potential leads, the [redacted] provide in-depth and detailed insights into the potential customers and markets (i.e. product categories or sectors).

Sources

3.3 [redacted] identify leads by reviewing a number of sources, such as [redacted] Examples of these various lead sources are included at Annex 17B. In particular, [redacted] monitor the local media marketplace to identify potential customers who are using other media alternatives, with the aim of RSL persuading them to switch to radio. For example, the [redacted] included at Annex 17B evidence that advertising spend is monitored across a wide range of media including press, outdoor and TV.

[redacted]

3.4 In addition to reviewing already existing sources, [redacted] regularly produce [redacted] showing which advertisers or which product categories or sectors provide the most opportunities for growth (e.g. new or growing markets and seasonable opportunities)[14]. Figure 3.2 shows the key opportunities in the [redacted]

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[14] See Annex 17B.015 ([redacted] for an analysis of [redacted]

Figure 3.2

[redacted] -

[redacted]

[redacted] [redacted]

3.5 Using this intelligence, RSL's sales teams can then exploit the demand in a particular product category or sector by targeting the relevant businesses. For example, [redacted] may identify the top spenders in a particular product category or sector and, at the same time, compare their advertising spend across the different media. Figure 3.3 compares the advertising spend of certain [redacted] as between outdoor, press, radio and TV:

Figure 3.3

[redacted]

[redacted]

[redacted] [redacted]

3.6 Understanding the market better means that RSL will only invest time and resources pursuing potential leads that want / need to advertise (i.e. higher quality leads), thus generating more revenues and addressing customer churn as efficiently as possible. RSL's particular focus is on understanding the wider media marketplace in which it operates. A representative sample of [redacted] are included at Annex 17B.

Other [redacted] mechanisms

3.7 As recommended by the [redacted] RSL strives to improve the efficiency and effectiveness of its sales team. In addition to enabling its sales teams to only pursue high quality leads:

(i) RSL has invested time and resources in [redacted] its sales teams about [redacted] (i.e. [redacted] with the primary aim of addressing customer churn and generating higher quality leads. Examples of these [redacted] are included at Annex 17B, which identify various sources to find leads including [redacted] and "other media and other radio stations"[15]. Additionally, Figure 3.4 is a [redacted] provided to sales

[15] See Annex 17B.141 ([redacted]).

teams reminding them of the sources from which they can find new business[16], the large majority of which are from non-radio sources; and

Figure 3.4

[redacted]

(ii) RSL utilises [redacted] which follow the life of a lead (e.g. [redacted]. RSL's focus on targeting non-radio media can also be seen [redacted] by the way that RSL analyses each lead by its spend on different media. Examples of [redacted] are included at Annex 17B.

(B) [redacted] phase

[redacted]

3.8 Having identified potential leads, [redacted] [redacted] (i.e. enabling RSL to differentiate key characteristics of an

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[16] See Annex 17B.140 ([redacted]).

[17] See footnote 5 above.

advertiser [redacted] allows RSL to decide whether to invest time and resources pursuing a particular lead, thus addressing customer churn efficiently. Compare for example the benefits of [redacted]

Figure 3.5

[redacted]

[redacted]

[redacted]

3.9 As part of assessing the likelihood of a potential lead's spend, [redacted] also regularly produce detailed [redacted] These provide an insight into a local / regional business and show advertising spend [redacted], as demonstrated in Figure 3.6. Benefits to RSL are two fold:

(i) they allow RSL to understand [redacted] thus ascertaining the likelihood of that lead spending more on advertising and on radio specifically – this ensures that RSL invests time and resources only pursuing leads which will deliver maximum return, thus addressing customer churn efficiently; and

(ii) they enable RSL to identify the media on which a lead currently advertises thus allowing RSL to tailor pitches accordingly.

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[18] See Annex 15B.007 ([redacted] **Local Strategy**").

Figure 3.6

[redacted]

[redacted]

[redacted] [redacted]

3.10 As evidenced in Figure 3.7, many [redacted] also demonstrate that advertising is largely spent on non-radio media. It is therefore clear that the majority of customers RSL seeks to persuade to advertise are currently using or have used other media alternatives.

Figure 3.7

[redacted]

[redacted]

[redacted] [redacted]

3.11 A representative sample of [redacted] are included at Annex 17B. These include existing customers as well as potential leads evidencing the two limbs of RSL's strategy: to grow existing customer accounts and to win new business.

(C) [redacted] phase

Pitches

3.12 Once RSL has identified which leads to pursue, it aims to close a sale by using all of the information gathered to date to pitch an attractive advertising proposal to a potential customer. RSL's customer and market knowledge enables it to differentiate pitches [redacted]

3.13 RSL's approach is to tailor a pitch according to the needs of a potential customer. In particular, it will seek to propose [redacted] as possible in light of its intelligence about a potential customer's buying habits and spending history. RSL will also specifically seek to persuade a potential customer that (i) its target audience are RSL's listeners and (ii) its business is a match for RSL's brands. As demonstrated in Figure 3.8, RSL sought to persuade [redacted] to Real listeners because the demographics of Real listeners fitted with [redacted] product offerings:

Figure 3.8

[redacted]

[redacted]

[redacted] [redacted]

3.14 In its pitches, RSL also compares itself with the specific non-radio media which a lead currently uses in an attempt to persuade that lead that radio is a better advertising solution. RSL's research into non-radio media therefore informs and supplements its pitches. For example, in Figure 3.9, the [redacted] pitch explains why radio is a better advertising solution than other non-radio media:

Figure 3.9

[redacted]

[redacted]

[redacted] [redacted]

3.15 Lastly, RSL may also use [redacted] in its pitches to persuade an advertiser in the same product category or sector to use radio. Examples of [redacted] can be found in certain pitches included at Annex 17B or as standalone [redacted] (also included in Annex17B).

3.16 RSL's pitches largely highlight the benefits of using radio compared to other media alternatives. In some cases, RSL recognises that given the small scale of radio, it is unrealistic to expect a customer to switch its entire media spend to radio – in such cases, RSL's pitches may highlight the benefits of adding radio to the media mix. RSL's strategy is nevertheless to encourage advertisers to switch some (if not all) of the budget they may be spending on other media to radio.

3.17 A representative sample of pitches are included at Annex 17B, which have largely been supplemented by presentations and research into targeting non-radio media (examples of which are also included at Annex 17B).

<u>Other [redacted] mechanisms</u>

3.18 RSL has also invested time and resources in [redacted] its sales teams about how to make appointments and deal with negotiations, as a direct response to the [redacted] recommending improvements to the efficiency and effectiveness of its sales process and performance. Examples of these [redacted] are included at Annex 17B.

4. Specific initiatives and tools designed to encourage advertisers to use radio instead of non-radio media

4.1 In addition to the improvements made to its business generation process described above in Section 3, RSL has introduced a number of initiatives and tools aimed at encouraging advertisers to use radio instead of non-radio media, examples of which are included at Annex 17B.

4.2 The following initiatives were aimed at targeting local / regional advertisers by offering radio as the most competitively priced solution for businesses:

(i) [redacted] – this is an example of a [redacted]

(ii) [redacted] – this is an example of a [redacted]

(iii) [redacted] – this is an example of an [redacted]

(iv) [redacted][22] – this is an example of how [redacted].

4.3 Each of the above initiatives attempt to persuade advertisers to use radio as the most [redacted] effective advertising solution: radio targets effectively – it reaches the right people at the right times (e.g. [redacted] – and [redacted] than other media.

4.4 RSL also offers standard [redacted] multimedia tools which enable a customer to maximise its exposure to listeners in addition to airtime. For example, listeners may have access to an advertiser's campaign via [redacted], digital display and UK Radio Player, as well as online generally (i.e. on RSL websites and RSL social media including Facebook and Twitter). RSL therefore aims to provide a multimedia offering to advertisers in response to the changing (increasingly digital) media

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[19] See Annex 17B.152 ('[redacted]")

[20] See Annex 17B.154 ([redacted])

[21] See Annex 17B.155 ([redacted]

[22] See Annex 17B.153 ([redacted])

marketplace. Examples of these multimedia tools can be found in certain pitches included at Annex 17B.