

## **BAUER/4 LOCAL RADIO ACQUISITIONS – PHASE 2 MERGER INQUIRY**

### **Summary of calls with independent radio groups (all of whom are customers of First Radio Sales (FRS))**

1. This note summarises relevant evidence from a series of calls CMA staff conducted with 5 independent radio groups (representing a larger number of stations). All the groups are customers of FRS.

### **Advertising**

2. We were told that most independent radio stations generate 80-85% of their revenue from sales to local advertisers, and that the majority of these advertisers are likely to be SMEs (eg local car dealerships, tyre retailers, carpet retailers, etc). Many of these advertisers will therefore operate in only one town. This provides local stations with a competitive edge because of their local content, and ability where using multiple transmitters to split signal. Being able to split signal makes local radio advertising accessible to smaller customers who would not be able to afford the larger stations.
3. Where stations (or groups of stations) have multiple transmitters, they will sell 'packages' of stations. Larger or regional customers may be interested in buying inventory across a large grouping of local areas, if their target audience is spread out across the regions those radio stations reach. However, it is rare for local customers to purchase across large areas, for example, one independent radio group told us 80-90% of its customers buy inventory on one of its stations only. For larger customers, the selling point of smaller stations compared to the larger stations is price.
4. We were told that advertising revenues fluctuate, but that they were currently in decline, with local advertising revenue in the industry as a whole down 20% this year relative to last year. Some independent radio groups said that while they tried to increase local advertising revenues, this was challenging and was unlikely to replace any loss of revenue from FRS advertising. Reasons given for declining local advertising revenues included competition from digital advertising, and the current political uncertainty meaning that advertisers are operating on smaller budgets, and radio advertising is one of the costs they are most likely to cut first. One independent radio group said it was difficult for stations not based in London to find good account managers especially if they were expected to re-locate.
5. We were told that whether a larger or regional station is seen as an alternative to a local station by local advertisers depends on the size of the overlap and whether it covers too large a Total Survey Area (TSA) for local advertisers. We were told that there is no rule of thumb in the industry concerning the degree of overlap between two TSAs for the owners of these TSAs to consider another media owner a close competitor.

6. Local stations top up revenues from local advertisers with income through sales to national advertisers through FRS. We were told such sales through FRS are very important to the independent radio groups. We were told that having national advertising on a station also makes that station sound more credible and appealing to local advertisers, as they want their products or services to be mentioned alongside expensively produced adverts for nationally-recognised brands.
7. We were told that FRS charges cheaper rates than Global and Bauer because it has a smaller aggregate audience to sell than the big groups do, and that because the importance of FRS is progressively declining; media buying agencies see it as a decreasingly attractive option, or a 'last resort'.
8. Views differed on the effects of Bauer's four acquisitions on FRS. One independent radio group suggested that FRS could potentially survive the loss from its portfolio of the stations Bauer bought. It could downsize the workforce and function under a different model. However, another independent station group thought that the acquisitions would be likely to weaken FRS substantially and reduce it to a scale unattractive to national media buying agencies.

### **Alternatives to representation by FRS**

9. We were told that establishing an independent FRS equivalent for the remaining independent radio stations is very unlikely to be an option because of the start-up and running costs involved.
10. No other potential national sales representation was identified. One independent radio group said it could potentially sell inventory directly to media buying agencies in its area but it would still require third party representation with respect to media buying agencies based in London.
11. Quidem has recently agreed a brand and licencing deal with Global whereby Quidem will broadcast 21 hours of Capital content per day. Only the local adverts broadcast in each of its stations, as well as the news and weather bulletins, will remain 'local'. For the remaining three hours of the day (ie during the afternoon drive-time), Quidem will broadcast its own version of Capital. Quidem said that as it broadcasts in areas where Capital's presence is not strong, it believes its interests are aligned with Global's and Global therefore has every incentive to sell Quidem's inventory.
12. Other independent radio groups told us they would have to turn to Bauer and Global for representation if FRS were not available. None of these other independent radio groups said they had been approached or entered into discussions for representation.
13. However, there was concern that Bauer could discriminate against independent stations in favour of its own by not automatically including the independents on all relevant campaigns, thereby favouring their own wholly owned stations, or that account managers would not be sufficiently incentivised to secure sales for the independents as they might get more financial reward or political kudos by prioritising Bauer owned stations internally. Nevertheless, one independent radio group said it was open to

considering guarantees which could provide comfort of equal treatment and a fair share in revenue growth. Another independent radio group said that if national sales representation is not provided by an independent entity, then this representation should be overseen by an independent authority.

## **Industry trends**

14. There were differing accounts on audience trends for local radio, but several independent radio groups reported that their audiences were in decline. We were told that there has been a decline in listener demand for local content. According to research by Ofcom, where a program is physically broadcast from is decreasingly relevant to listeners. Another explanation offered for falling listener numbers was that to have a sufficient audience in a limited broadcast area, a local station cannot afford to target its content to specific demographics or tastes. This means that it will not be as appealing to specific demographic groups in the same way as specialised national or networked stations would be.
15. We were told that Ofcom has allowed different stations to combine more of their output to a greater degree than previously allowed. As a result, Global can now network all of its output apart from three hours per day (during which time it has to broadcast local content). Ofcom has also broadened what it considers 'local' so this can now cover far larger areas.
16. One independent radio group said that it would like Ofcom to loosen local content requirements so that it can broadcast more content which is relatable to a wider audience across its region.

## **Competition against digital, papers and magazines and DAB**

17. There were varying views on the nature and extent of competition from non-radio advertising. One independent radio group said it viewed other mediums of advertising as complementary to radio advertising. One told us social media and online activity in general has become a more important source of competition, so it encourages its customers to use a range of media. Several of the stations told us they had been looking to diversify their offering to advertisers to include digital and visual content or other services.
18. Another independent station group said that other than areas where stations overlapped closely in the catchment areas, it primarily competes against other advertising mediums. Two independent station groups said they compete against newspapers and magazines, although local press is clearly in decline. One said that community radio is not much of a competitive threat as it is too small and restricted on its ability to sell advertising.

## **Concerns about the acquisitions**

19. There were mixed views on the acquisitions, with concerns centring on any consequent closure of FRS and the impact this could have on national advertising revenues and their viability. However, several independent radio groups said that there should be conditions on the large radio groups so they had to provide reasonable terms to represent independent stations. Several

independent radio groups were resistant to any idea of having to take branding or content. One independent radio group said that the acquisitions could enable Bauer to catch up with and compete more effectively with Global.