

**GLOBAL RADIO HOLDINGS LIMITED/GMG RADIO HOLDINGS LIMITED
COMPLETED MERGER INQUIRY**

**Summary of hearing with [Media Agency D]
held on 29 November 2012**

Background

1. [Media Agency D (Agency D)], [X], was a media buying agency purchasing advertising on television, radio, online, in the press, via online searches and outdoors.
2. The majority of [Agency D's] clients were not heavily reliant on radio and used other media as well, and customers were a mixture of national and regional advertisers. An example was an advertisement for a new retail outlet that would be likely to involve a particular regional bias.

Contracts

3. [Agency D] had annually negotiated contracts in place with Global and Bauer on a minimum share of advertising spot revenue ([X] per cent and [X] per cent respectively). These contracts guaranteed agreed rates, booking incentives and quantity requirements.
4. [Agency D] could negotiate share deals with other radio networks but the size of a media agency like itself meant that it had sufficient leverage that this was not necessary.

Sponsorship and promotion

5. [Agency D] considered sponsorship and promotion (S&P) to be a growing market with a current estimated revenue for radio operators of about 20 per cent.
6. The use and timing of S&P was difficult to predict but there would be likely to be incentives in place so that with more S&P arrangements prices and value would be increased for the buyer.
7. In choosing whether and with whom to enter into S&P arrangements, the main factor for consideration would be a fit between the client and the chosen channel, and whilst formal demographic criteria were important, this was not 'the be all and end all'.
8. Whilst [Agency D] valued the flexibility of S&P for clients, it was unlikely that Global, for example, would include this feature in contract negotiations because the majority of its revenue came from spot advertising and as such, negotiations were held separately for S&P.

National, regional and local advertising

9. From the outset of the most recent negotiation it was clear that Global sought to incentivize national and regional advertising over local advertising. Once negotiated,

it would be difficult to renegotiate 'down' from national advertising to regional advertising.

10. [Agency D] told us about changes made by Global to its Heart network of radio stations. The local Heart radio stations were no longer measured on RAJAR at the local level and as such, audience figures were not recorded; instead audience figures were recorded at a regional level. Global encouraged regional advertising by charging about 50 per cent more for advertising on the local Heart stations. It was an example of Global's monopolistic power with this network that it was more cost effective to buy all of Heart than, for example, 95 per cent of the network.
11. Whilst the price increased dramatically for local advertising wishing to remain local after these changes, regional advertisers who continued to advertise regionally had experienced a price rise but not on the same scale.
12. It was difficult to predict with confidence what might happen to RSL but in [Agency D's] experience, when other media owners had acquired a greater number of channels they had put in place policies to encourage sales on the largest possible scale because it was more cost efficient to do so.

Alternatives to the merging parties

13. If Global continued to encourage advertisers away from local advertising, it would be difficult to find alternate radio operators on a local level to fill the gap because the number of independent radio stations was decreasing. In addition to this, attempting to achieve the same level of coverage would be made difficult because any advertising campaign on a station with a smaller audience would quickly reach the point when an advertisement was heard too many times by individual listeners, resulting in saturation.
14. Global would be likely to attempt to increase the price of advertising on RSL as a result of the merger and some customers would end up paying more, but radio was not a strong enough medium to justify any price moves that could be considered aggressive to prevent customers moving to other media as a result.
15. However, withdrawing from advertising with Global was, in effect, to withdraw from radio advertising itself, which would not be a decision taken lightly and nor could it be done quickly and would involve some months of planning and discussion between an agency and its client(s).
16. [Agency D] considered the main alternative to RSL to be Global but the alternative to Global was other media because it would not be cost effective or efficient to buy around Global. An important factor in this was that the advertising on most of the nationally broadcast syndicated networks was sold by Global.
17. In a scenario where [Agency D] was actively looking at an alternative to Global, it suggested that relations would have soured to the point that to buy advertising on the syndicated networks may not be an option. Even if it were an option, the syndicated networks were not like-for-like comparisons for spot advertising.

Impact of the merger

18. [Agency D] predicted that Global would be in a position to set higher prices and, because of RSL's affiliation with its new owner, to negotiate for a higher share of advertising revenue, but this was to be expected.

19. To make it viable, commercial radio had long needed an investment to match the BBC, and Global had made that investment, successfully built radio brands and established itself as a leader in the industry. It would be atypical of a media owner in Global's position if it did not seek to benefit from the merger by increasing prices.
20. If negotiations for increased share minimums were pushed for by Global, this would be most likely to result in [Agency D] reducing share with Bauer rather than with smaller radio stations.
21. If the merger were cleared, then other radio networks might consider how they could prevent Global's ability to raise advertising prices.