



Competition Commission

**Completed acquisition by Global Radio
Holdings of GMG Radio Holdings
Limited
(now Real and Smooth Limited)**

An IPA response to the Competition Commission's
Statement of Issues

November 2012

Competition Commission: Completed acquisition by Global Radio Holdings of GMG Radio Holdings Limited (now Real and Smooth Limited)

This paper responds to the Competition Commission's statement of issues with regard to the above.

I About the IPA

The Institute of Practitioners in Advertising is the trade body and professional institute for UK advertising, media and marketing communications agencies. Our 240 corporate members, who are based throughout the country, handle over 80% of the UK's advertising agency business with an estimated value of £16.1 billion in 2011 (Source: Advertising Association 2012), on behalf of many tens of thousands of their client companies and organisations.

As the Competition Commission will be aware, the IPA is vitally concerned regarding any consolidation in the media marketplace, which could potentially affect the ability of our members to buy airtime/space fairly and effectively on behalf of their clients.

It is therefore with this in mind that the following observations are made.

II. Background

The Competition Commission will already have seen the IPA's submission to the OFT on this issue and will therefore be aware that we have viewed the acquisition in question with mixed feelings.

On the plus side, the move might be seen to enable Commercial Radio, as a whole, to compete more effectively for audience with the BBC's national and local radio output by:

- Extending Global's acknowledged management and production skills across the Real and Smooth stations;
- Opening the opportunity – as a result of Global's more centralised approach to programming and greater financial muscle – to market the enlarged group more strongly and to buy in a higher quality of broadcasting talent more able to take on the Corporation (- whose considerable budgets and ability to cross-promote across media have long rendered this sector an uneven playing field).

Having said this, on the less favourable side, these benefits have to be balanced against a situation in which:

- Global is already by far the largest commercial radio station operator in the country, with an advertising market share of 40%, and whose acquisition of GMG Radio will take it to more than 50% of the sector;
- The move will create a number of areas where Global will hold a dominant position in the local radio market, with all the dangers that poses for potential abuse.

III. Key Issues

The Competition Commission will appreciate that, as an industry body, we do not buy airtime ourselves and we cannot therefore comment on those detailed trading questions which have been put to our member agencies.

We can, however, respond with regard to a number of general issues first highlighted in our paper to the OFT in August.

At its simplest, these break down into two areas:

- The impact the move would have in terms of Global's regional power;
- What the move might mean in terms of the enlarged company's pricing and sales policies.

a) Global's regional power

We should state at the outset that the IPA is concerned about *any* concentration of media ownership, which results in a company controlling 50% or more of the advertising revenues in a single medium.

Global, whose overall market share would rise to more than 50%, would not be unique in going beyond this level – Google will hold a significantly larger share in on-line search – however, we believe such control is rarely good for a market - with the potential to constrain innovation, discourage competition and open the opportunity for the abuse of power.

In the case of Global, there is an additional factor in that failure by an agency to reach acceptable terms with the group could impact on the use of commercial radio as a whole, with advertisers thinking twice about the validity of using the medium and simply transferring that budget elsewhere (eg into local press, or posters).

Having said this, our concerns with regard to the Global takeover of GMG have concentrated less on its total share of the market, than on the various regional dominances the move would create.

As is revealed by the chart below, analysis of commercial hours by region serves not only to underline Global's strength without GMG, but the extent to which the acquisition would ensure that this dominant position is replicated across the country as a whole.

<i>ITV Region (BARB)</i>	<i>Share of commercial (hours) without GMG stations</i>	<i>Share of commercial (hours) with GMG stations</i>
<i>London</i>	<i>52%</i>	<i>54%</i>
<i>Midlands</i>	<i>40%</i>	<i>51%</i>
<i>North East</i>	<i>28%</i>	<i>52%</i>
<i>Meridian (ex. Channel Islands)</i>	<i>51%</i>	<i>52%</i>
<i>East of England</i>	<i>52%</i>	<i>55%</i>
<i>South West</i>	<i>50%</i>	<i>51%</i>
<i>HTV Wales</i>	<i>30%</i>	<i>54%</i>

Source: RAJAR June 2012

This dominance clearly brings with it risks, not just for national advertisers - who would find constrained their ability to play one broadcaster off against another to obtain fair value, but more especially local companies who might lack the ability or knowledge to switch monies out of the medium, should they find the dominant broadcaster adopting an overly "robust" pricing policy.

As has been pointed out in earlier papers, as a result of the acquisition, it would become increasingly difficult in some areas not to use Global-owned stations e.g. in Cardiff where its stations will include Capital Radio Wales, Real Radio Wales and Gold South Wales – making it impossible to substitute stations and maintain an effective campaign.

Likewise, in Manchester, Global would own five out of the six FM licenses – creating a convenient one-stop shop for advertisers, but effectively locking out radio competition in the area.

Historically, the IPA has not over concerned itself with regional dominance since:

- Local monopolies are not new – from 1973 and the launch of Commercial Radio until 1990 and the awarding of the first incremental licence (Jazz in London), all local commercial radio stations were monopolies;
- We have held the belief that radio could be relatively easily substituted by other media – at least as far as national advertisers were concerned – and that this facility would act as a brake against cavalier behaviour by the media owner.

However, the development of super-groups of stations operating collective sales policies is leading our members to reassess this stance and now to seek safeguards where such dominance is shown to exist.

In the Global/GMG context, this has led to concerns being expressed not only with regard to South Wales and Manchester (as mentioned above) but also to Glasgow and Birmingham.

With regard to the situation in Wales, the following analysis illustrates the difficulty in obtaining adequate levels of reach without the use of Global and GMG stations – a situation which becomes even more acute, in the Cardiff region, where a typical campaign, including Global and GMG would reach around 37% of the population and below 9% if they were excluded.

Example: Wales

Schedule 1 including Global & GMG Stations: Average weight (4 OTH) 30 sec campaign across Wales

Budget: £4,500

Reach: 31%

OTH: 4

Stations: Capital South Wales, Gold South Wales, Real Radio Wales & FRS (Wales stations)

Schedule 2: excluding Global & GMG Stations: Average weight (4 OTH) 30 sec campaign across Wales

Budget: £4,500

Reach: 23%

OTH: 10.5

Stations: FRS (Wales stations)

Source: RBP & Rajar Q1 2012

However, these problems become even more acute in Birmingham and Glasgow as the below schedules, based on the same investment levels, reveal:

Example: Birmingham (all figures are based on those living within the Capital Birmingham TSA)

Schedule 1 Using all stations (includes; Kerrang 105.2, talkSPORT Midlands, Capital Birmingham, Classic FM (Midlands), Smooth Radio West Midlands, Free Radio)

Reach - 43.11%

OTH 4.01

Schedule 2 Avoiding Global owned and GMG Stations: (Includes Kerrang 105.2, Free Radio and talkSPORT Midlands, excludes; Capital Birmingham, Classic FM (Midlands), Smooth Radio West Midlands)

Reach 25.34%
OTH 5.01

Schedule 3 Avoiding all Global sales: (Includes Kerrang 105.2 and talkSPORT Midlands, excludes: Capital Birmingham, Classic FM (Midlands), Smooth Radio West Midlands, Free Radio)

Reach 14.05%
OTH 7.90

Example: Glasgow (all figures based on those living within Bauer Glasgow TSA)

Schedule 1 Using all options (includes Bauer Glasgow, Capital Scotland, Classic FM (Scotland), Smooth Radio Glasgow, Total Real Radio Scotland, talkSPORT (Scotland))

Reach 52.55%
OTH 4.04

Schedule 2 Avoiding Global owned and GMG Stations (includes Bauer Glasgow, talkSPORT (Scotland) excludes Capital Scotland, Classic FM (Scotland), Smooth Radio Glasgow, Total Real Radio Scotland)

Reach 36.51%
OTH 6.77

b) The potential impact of the move on pricing and collective sales policies

As noted in our submission to the OFT, we believe the motive behind Global's decision to acquire GMG is likely to have been the development of a "national" Heart brand - created by extending the reach of that network beyond the Midlands and into the North and Scotland.

In this context, such a move is made easier by the fact that the listener profile of the GMG "Real" network (adults 25 – 44 years old) matches Heart, enabling a comparatively smooth transition for audiences in any rebranding exercise.

While it would be down to the broadcaster to ensure this process did not alienate Real's existing audience, such a move has both pluses and minuses for the advertiser.

As a plus, agencies would enjoy the benefits of a national/near national network (simplicity of purchase, homogeneity of output, uniform quality etc).

However, as a minus, we should expect to see Real's pricing, which has historically been sold by the Global sales force at a discount versus Capital/Heart brought up to Heart's level.

Pricing for all stations is set from historical benchmarks and as the Real and Smooth stations were new entrants, they have traded at a lower ratio to more established stations. We are not privy to the commercial terms that Global had with GMG to sell these stations and what expectations GMG as a company had with regard pricing for their stations. What is clear however with full ownership, we expect Global to utilise their full portfolio to its advantage with regard to market pricing for these stations.

Although, in theory, agencies would have the freedom to switch away from the medium, if they felt unhappy with this, in reality, the situation is likely to be more complex – given that agencies act on behalf of their clients, who may have specific campaign objectives which can only be met through local radio, in areas where there are no effective alternatives to Global-owned stations.

Likewise, it is probable that Global would seek to use the power of its wholly owned national networks to create a range of volume-based packages designed to lock in advertisers to given spends – which would have the effect of drawing away budgets from smaller broadcasters.

If such national packages were created, we therefore believe it vital:

- That access to individual stations should be maintained without swingeing cost penalties (ie that local flexibility should be kept);
- That individual RAJAR data should be maintained for these stations so that such local purchases can be made on the basis of sound audience information.

c) So should the Competition Commission block the acquisition?

On the basis of the above, it would appear that the IPA would favour the Competition Commission blocking Global's takeover of GMG Radio.

This is not so.

At the same time as we are aware of the dangers posed by Global's regional domination, we are mindful of the need to ensure a healthy and vibrant Commercial Radio industry as a whole - and that this requires strong players like Global which have shown themselves prepared to take leadership roles.

While the GMG stations have been justifiably proud of the quality of their historical output, it remains the case that faced with the monolith of BBC radio and its massive funding (in 2011, the BBC's national and local radio budget was £638.1m* – almost £100million more than the *total revenues* for UK Commercial Radio of £532.5m**) – the greater financial muscle resulting from amalgamation with Global will enable the new group, better to compete for broadcasting talent and counter the marketing activity of the publicly funded broadcaster.

Global Radio has had great success in the past with its re-brands of the Capital and Heart networks and has contributed considerably to the health of the sector, which suffered in the downturn.

Having said this, for the acquisition to go ahead, we believe that remedies can – and must – be found to address the very real concerns which have been highlighted above - and that if these safeguards are not forthcoming, the move would open agencies and their advertiser clients to unacceptable risk.

* *BBC Annual Report*

** *Radio Advertising Bureau*