Global Radio / Real and Smooth Limited

REGIONAL ANALYSIS

For each of the 7 SLC regions identified by the CC, Global has assessed the scale of the SLC and the customer benefits which will be lost through a divestment of any of the parties' core stations (i.e. Smooth, Real, Capital and Heart). Global has quantified both the maximum likely scale of the SLC in each region and the customer benefit likely to be lost through divestment of core stations (to the extent this can be quantified). As a result of this analysis, Global has evidenced that any divestment of a core station would not be proportionate or reasonably justified in any of the 7 SLC areas. We comment on each of the 7 SLC areas in turn.

1. EAST MIDLANDS

Executive Summary

1.1 The scale of the SLC in the East Midlands is trivial. Based on the CC's Provisional Findings, the revenues affected by the merger in the East Midlands are £[✂].

1.2 While not accepting that any SLC found by the CC would lead to an increase in price, Global considers that any such increase would be small (not greater than 5%) given that the parties are not close competitors in the East Midlands and that Orion is a much closer competitor to both Capital and Smooth than they are to each other. A 5% price increase on the affected revenues in the East Midlands would imply the harm from the SLC is £[✂].

1.3 Any harm from the SLC is substantially outweighed by the advertiser discounts that will be lost as a result of the divestment of Smooth East Midlands (£[✂]) which comprise:

(i) Lost network discounts of £[✂]for contracted advertisers; and

(ii) Lost single-region multi-brand discounts of £[✂] for non-contracted advertisers.

1.4 Any harm from the SLC is also substantially outweighed by the advertiser discounts that will be lost as a result of the divestment of Capital East Midlands (£[✂]). In particular:

(i) Lost network discounts of £[✂] for contracted advertisers; and

(ii) Lost single-region multi-brand discounts of £[✂] for non-contracted advertisers.

1.5 In addition, these estimates do not reflect the following additional costs that would result from the divestment of Smooth or Capital in the East Midlands:

(i) The reduced geographic scope of the Smooth or Capital networks would lower the quality of the overall Smooth or Capital networks and make them less attractive to contracted advertisers for airtime and S&P giving rise to substantial customer detriment;

(ii) Listeners would lose a higher quality, relaunched Smooth station that will receive significant post-merger investment from Global including marketing, better content, better presentation and better production.

1.6 However, if a remedy were regarded as necessary by the CC, a divestment of Gold would be a proportionate and effective remedy because:

(i) It is Smooth advertisers' next best alternative for a similar demographic target audience.[1]

(ii) It covers the same geography as that covered by Capital and largely the same geography as Smooth.[2]

(iii) Its share of commercial listening hours is proportionate to the SLC: Gold is responsible for 7% of local commercial listening hours in the East Midlands.[3]

(iv) Of the parties' stations in the East Midlands, Gold has the greatest share of its advertising revenue from non-contracted customers ([✂]%).[4]

(v) The loss of customer benefits associated with a divestment of Gold is limited.

The Scale of the SLC in the East Midlands is Trivial

1.7 According to the CC's own Provisional Findings, the scale of the SLC in the East Midlands is limited to a small proportion of non-contracted customers and revenues generated by the parties' stations in this area.[5] In particular:

(i) No SLC for contracted advertisers who account for approximately half of the revenues on the parties' stations in the East Midlands.

Table 1
Shares of contracted revenues in the East Midlands

	Total revenues (£'000)	**Total contracted revenues (£'000)**	**% share of revenues attributable to contracted advertisers**
Capital FM East Midlands	[✂]	[✂]	[✂]
Gold East Midlands	[✂]	[✂]	[✂]
Smooth Radio East Midlands 106.6	[✂]	[✂]	[✂]
Total	[✂]	[✂]	[✂]

Source: Global and RSL transaction data, Oct 2011-Sep 2012.

[1] Provisional Findings, para 7.21.

[2] Provisional Findings Appendix, L9, Figure 1.

[3] Provisional Findings Appendix, L10, Table 3.

[4] See Table 1 below.

[5] Provisional Findings, para 6.77.

(ii) The non-contracted customers who consider the parties to be next best alternatives are likely to be a small minority - as stated by the CC:[6]

> "*Based on the parties' existing customers survey, we estimate the proportion of respondents' non-contracted revenue, accounted for by customers with one of the other party's stations as their closest alternative, to be between 9 and 11 per cent.*"

Based on the CC's own findings, the SLC is likely to affect only around 11% of the parties' non-contracted customers by revenue (absent any exacerbating regional factors). The revenues likely to be affected by an SLC in the East Midlands are trivial at only £[✂]. Given that Gem is a more suitable alternative for non-contracted advertisers on Capital or Smooth, than Capital and Smooth are for each other, the likely price effect of the merger in the East Midlands is very limited. Global has based its quantification of the SLC found by the CC in its Provisional Findings on a 5% price increase which it considers to be an upper bound of any possible SLC in this area.

Table 2
Non-contracted revenues related to SLC concerns in the East Midlands

	Revenues attributable to non-contracted advertisers (£'000)	**Revenues affected by the SLC (11% of the revenues attributable to non-contracted advertisers) (£'000)**	**The value of a hypothetical 5% price increase on affected revenues (£'000)**
Capital FM East Midlands	[✂]	[✂]	[✂]
Gold East Midlands	[✂]	[✂]	[✂]
Smooth Radio East Midlands 106.6	[✂]	[✂]	[✂]
Total	[✂]	[✂]	[✂]

Source: Global and RSL transaction data, Oct 2011-Sep 2012.

(iii) There is no reason to consider that the non-contracted revenues affected by the transaction are materially greater in the East Midlands than the 9-11% average quoted by the CC. In particular:

(a) The CC acknowledges that demographics and geography will determine the likely percentage of affected non-contracted customers in each region:[7]

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[6] Provisional Findings, para 6.77.

"*These results are also aggregates across each area: we would expect the proportions to be higher in areas where the parties' stations are closer substitutes and lower in other areas where the parties' stations are more differentiated by demographics and geography.*"

(b) The parties' stations are highly differentiated by demographics and geography in the East Midlands:

(i) The majority of Capital East Midlands' non-contracted customers are local, rather than regional, customers: [✂]**%** buy only one of three transmitters used to broadcast Capital East Midlands.[8] Smooth is unlikely to be regarded as a suitable alternative for Capital's local advertisers given the wastage involved in advertising on Smooth's regional station.

(ii) Capital and Smooth target different demographics: the average age of Capital East Midlands' listeners is 34 compared to 49 for Smooth Radio East Midlands' listeners.[9] The CC accepts that "*Smooth […] would be a relatively weaker substitute for Capital*" given their markedly different demographic targets.[10]

(iii) Smooth advertisers are more likely to consider Gem 106 or Gold as their next best alternative in the East Midlands than Global's Capital stations: Gem 106 and Gold have average listener ages of 41 and 51 respectively, as can be seen from Figure 1 below.[11]

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[7] Provisional Findings, para 6.77.

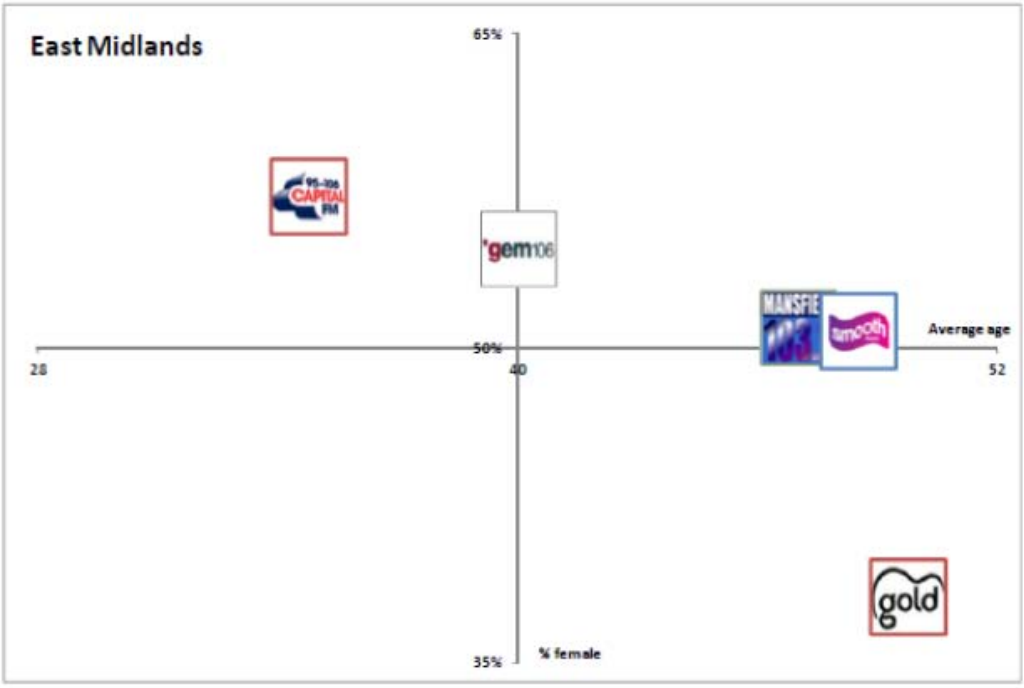
[8] As recognised in the Provisional Findings Appendix at L11, para 25: "*It stated that [✂] per cent of Capital non-contracted customers used a single transmitter so Capital was predominantly used by local advertisers*".

[9] Provisional Findings Appendix, L11, Table 4.

[10] Provisional Findings, para 6.77.

[11] Provisional Findings Appendix, L11, Table 4.

Figure 1
Brand map of main commercial radio stations - East Midlands



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

(c) Moreover, Gem is a highly successful station that is a much more significant competitor for Capital than Smooth. Gem's non-contracted revenues are substantially greater than that of Smooth.[12] Gem targets a more sought after demographic than Smooth.

An Appropriate Remedy

1.8 Given the limited scale of the SLC in the East Midlands and the costs of a divestment, there is no appropriate remedy in the East Midlands.

1.9 However, if the CC considers that a divestment is still required, the only proportionate divestment remedy that the CC should contemplate for the East Midlands is Gold. Gold is an effective and appropriate remedy because:

(i) It is Smooth advertisers' next best alternative for a similar demographic target audience as acknowledged by the CC: "*Global's Gold AM station reaches a similar age group (average age 51) to RSL's Smooth (average age 49) though*

[12] Gem 106's share of revenue from non-contracted revenue is [20-29%] compared to Smooth East Midlands' [10-19%] share of non-contracted revenue: Provisional Findings Appendix, L10, Table 3.

both reach an older audience than Global's main station, Capital (average age 34)".[13]

(ii) It covers the same geography as that covered by Capital and largely the same geography as Smooth.[14]

(iii) Its share of commercial listening hours is proportionate to the SLC: Gold is responsible for 7% of local commercial listening hours in the East Midlands.[15]

(iv) Of the parties' stations in the East Midlands, Gold has the greatest share of its advertising revenue from non-contracted customers ([✂]%).[16]

(v) The loss of customer benefits associated with a divestment of Gold is limited relative to Capital or Smooth.

Divestment of Smooth or Capital would be highly costly for advertisers

1.10 Even without taking into account listener benefits and the value to advertisers of increased quality networks, Table 3 demonstrates that the divestment of Smooth or Capital would cost significantly more in lost advertiser discounts (£[✂] for Smooth and £[✂] for Capital) than any potential detriment from an SLC estimated at £[✂]. A full analysis of these lost benefits is provided in the Advertiser Benefit Annex. The loss of Gold would not trigger material customer benefit losses.

Table 3
Customer benefits lost due to station divestments: East Midlands

Station	Current network discounts lost (CY 2012)	Lost additional Heart/ Real discount	Lost Heart/Real/ Smooth discount	Lost Gold/ Smooth discount	Lost non contracted multi-brand discounts	Total lost benefit
Capital FM East Midlands	[✂]				[✂]	[✂]
Gold East Midlands	[✂]			[✂]	[✂]	[✂]
Smooth Radio East Midlands 106.6	[✂]		[✂]	[✂]	[✂]	[✂]

Source: Global & RSL transaction data (Oct 2011 - Sep 2012) and NMR data (Jan 2012 - Dec 2012). For detailed methodology, see the Advertiser Benefit Annex.

[13] Provisional Findings, para 7.21.

[14] Provisional Findings Appendix, L9, Figure 1.

[15] Provisional Findings Appendix, L10, Table 3.

[16] See Table 1 above.

1.11 The reduced geographic scope of the Smooth or Capital networks would lower the quality of these networks and make them less attractive to contracted advertisers for airtime giving rise to substantial customer detriment:

(i) The divestment of Capital East Midlands would reduce the post-merger Capital network's coverage by [✂]%.[17]

(ii) The divestment of Smooth Radio East Midlands would reduce the post-merger Smooth network by [✂]%.[18]

1.12 Such a divestment would result in a significant loss of single-network discounts for contracted customers either on the Smooth or Capital networks due to a reduced network size:

(i) The loss of Capital East Midlands would result in the following costs to customers:

(a) Contracted customers using the Capital network would be likely to lose £[✂] in network discounts through the absence of this station alone.[19]

(ii) The loss of Smooth Radio East Midlands would result in the following costs to customers:

(a) Contracted customers using Smooth Radio East Midlands would lose £[✂] in network discounts through the absence of this station alone.[20]

(b) Contracted customers would lose the opportunity to receive additional lower advertising prices through multi-network discounts (such as a bundle of Heart and Smooth, or a bundle of Smooth and Gold networks equating to £[✂].[21]

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[17] RAJAR W3 2012 (12 months). Reach includes out-of-analogue area listening via DAB, online and digital TV.

[18] RAJAR W3 2012 (12 months). Reach includes out-of-analogue area listening via DAB, online and digital TV. [✂]

[19] The value of lost discounts from current network bookings has been calculated by Global using its transaction data. Global has calculated the total value of network bookings for each agency during 2012 and then applied the relevant level of network discount in each agency's contract to calculate the total value of network discounts during this period.

[20] The value of lost discounts from current network bookings has been calculated by Global using its transaction data. Global has calculated the total value of network bookings for each agency during 2012 and then applied the relevant level of network discount in each agency's contract to calculate the total value of network discounts during this period.

[21] The total value of each category of "additional" network discounts has been calculated using the methodologies described in the Advertiser Benefits Annex. Those additional discounts have been apportioned to individual stations on the basis of their share of contracted airtime revenue amongst the relevant stations for each type of discount.

Divestment of Smooth or Capital would be costly for purchasers of national S&P

1.13 The reduced geographic scope of the Smooth or Capital networks would lower the quality of the networks and make them less attractive to purchasers of national S&P.[22] Customers could no longer purchase a national S&P campaign covering Smooth East Midlands or Capital East Midlands. This would result in a significant loss in benefits to advertisers in addition to those set out in Table 3 above.

Divestment of Smooth or Capital would be costly for non-contracted advertisers

1.14 The divestment of either of these core stations would also give rise to significant costs for non-contracted advertisers. They would lose the opportunity of receiving lower advertising prices through single region multi-brand discounts resulting from Cournot pricing efficiencies (in line with the OFT's 2008 *Global/GCap* decision). Global estimates that were it to have to divest either Smooth East Midlands or Capital East Midlands, non-contracted advertisers would suffer substantially from the loss of the additional discounts that would have been obtained from offering a bundle of Smooth and Capital slots to non-contracted customers.

1.15 Global has estimated these costs at £[✂] being the loss of a [✂]% discount for Smooth or Capital advertisers also purchasing another Global or RSL station in the East Midlands.[23]

Table 4
Summary of lost customer benefits associated with each divestment

Estimated SLC in the East Midlands	£[✂]
Cost of divesting Capital FM East Midlands	
Lost discounts for advertisers	
Current Capital network discounts lost	£[✂]
Lost opportunity for non-contracted multi-brand discounts	£[✂]
Total lost discounts	£[✂]
Lost other benefits to contracted advertisers	
Reduced geographic scope for the Capital network	[✂]% loss in network coverage
Inability to purchase a national S&P campaign covering Capital East Midlands	[✂]% loss in network coverage

[22] A full explanation of any divestment's impact on purchaser of national S&P is explained further in the Advertiser Benefits Annex at Section 5.

[23] A full explanation of Global's methodology is in the Advertiser Benefits Annex at Section 2.

Estimated SLC in the East Midlands	£[✂]
Cost of divesting Smooth Radio East Midlands 106.6	
Lost discounts for advertisers	
Current Smooth network discounts lost	£[✂]
Lost opportunity for additional multi-network discounts [✂]	£[✂]
Lost opportunity for additional discount [✂])	£[✂]
Lost opportunity for non-contracted multi-brand discounts	£[✂]
Total lost discounts	£[✂]
Lost other benefits to contracted advertisers	
Reduced geographic scope for the Smooth network	[✂]% loss in network coverage
Inability to purchase a national S&P campaign covering Smooth East Midlands	[✂]% loss in network coverage
Lost benefits to listeners	
Loss of a relaunched higher quality Smooth network for listeners	Loss of significant investment

2. CARDIFF

Executive Summary

2.1 The scale of the SLC in Cardiff is trivial. Based on the CC's Provisional Findings, the revenues affected by the merger in Cardiff are £[✂]. These are overestimates because they are based on regional revenue in South Wales (and not only Cardiff).

2.2 While not accepting that any SLC found by the CC would lead to an increase in price, Global considers that any such increase would be small (not greater than 5%) given that the parties' stations are not the next best alternatives for non-contracted customers in Cardiff. A 5% price increase on the affected revenues in Cardiff would imply the harm from the SLC is £[✂].

2.3 Any harm from the SLC is substantially outweighed by the advertiser discounts that will be lost as a result of the divestment of Real Radio Wales (South) (£[✂]) which comprise:

(i) Lost Real network discounts of £[✂]for contracted advertisers;

(ii) Lost opportunity to receive additional lower advertising prices [✂]; and

(iii) Lost single-region multi-brand discounts of £[✂] for non-contracted advertisers.

2.4 Any harm from the SLC is also substantially outweighed by the advertiser discounts that will be lost as a result of the divestment of Capital South Wales (£[✂]). In particular:

(i) Lost Capital network discounts of £[✂] for contracted advertisers; and

(ii) Lost single-region multi-brand discounts of £[✂] for non-contracted advertisers.

2.5 In addition, these estimates do not reflect additional costs for contracted customers that would result from the divestment of Real or Capital in Cardiff. In particular the reduced geographic scope of the Real or Capital networks which would lower the quality of the networks and make them less attractive to contracted advertisers for airtime and S&P giving rise to substantial customer detriment.

2.6 In addition, these estimates do not reflect the following additional costs that would result from the divestment of Real or Capital in Cardiff:

(i) Listeners would lose the benefit of:

(a) The dedicated Welsh evening news programme focusing on news from around Wales, including coverage of the Welsh Assembly as well as the dedicated Welsh political editor and reporting staff;

(b) a higher quality Real station [✂] that will receive significant post-merger investment from Global including marketing, better content, better presentation and better production; and

(c) a higher quality Gold station [✂] that will receive significant post-merger investment from Global including better content, better presentation and better production.

(ii) The reduced geographic scope of the [✂] or Capital networks would lower the quality of the networks and make them less attractive to contracted advertisers for airtime and S&P giving rise to substantial customer detriment.

The Scale of the SLC in Cardiff is Trivial

2.7 According to the CC's own Provisional Findings, the scale of the SLC in Cardiff is limited to a small proportion of non-contracted customers and revenues generated by the parties' stations in this area.[24] In particular:

(i) No SLC for contracted advertisers who account for a significant share of the revenues on the parties' stations in Cardiff:

Table 5
Share of contracted revenues in Cardiff

	Total revenues (£'000)	**Total contracted revenues (£'000)**	**% share of revenues attributable to contracted advertisers**
Capital South Wales	[✂]	[✂]	[✂]
Gold	[✂]	[✂]	[✂]
Real Radio Wales (South)	[✂]	[✂]	[✂]
Total	[✂]	[✂]	[✂]

Source: Global and RSL transaction-level data, Oct 2011-Sep 2012.

Note: The Real figures substantially understate the level of contracted advertising which is largely sold on an all Wales basis and account for [✂]% of all Real's revenues in Wales.

(ii) The non-contracted customers who consider the parties to be close competitors are likely to be a small minority - as stated by the CC:[25]

> "*Based on the parties' existing customers survey, we estimate the proportion of respondents' non-contracted revenue, accounted for by customers with one of the other party's stations as their closest alternative, to be between 9 and 11 per cent.*"

[24] Provisional Findings, para 6.77.

[25] Provisional Findings, para 6.77.

Based on the CC's own findings, the SLC is likely to affect only around 11% of the parties' non-contracted customers by revenue (absent any exacerbating regional factors). The revenues likely to be affected by an SLC in Cardiff is small as the majority of Real's non-contracted customers are regional customers or customers outside Cardiff. Global has based its quantification of the SLC found by the CC in its Provisional Findings on a 5% price increase which it considers to be an upper bound of any possible SLC in this area.

Table 6
Non-contracted revenues related to SLC concerns in Cardiff

	Revenues attributable to non-contracted advertisers (£'000)	**Revenues affected by the SLC (11% of the revenues attributable to non-contracted advertisers) (£'000)**	**The value of a hypothetical 5% price increase on affected revenues (£'000)**
Capital South Wales	[✂]	[✂]	[✂]
Gold	[✂]	[✂]	[✂]
Real Radio Wales (South)	[✂]	[✂]	[✂]
Total	[✂]	[✂]	[✂]

Source: Global and RSL transaction data, Oct 2011-Sep 2012.

(iii) There is no reason to consider that the non-contracted revenues affected by the transaction are materially greater in Cardiff than the 9-11% average quoted by the CC. In particular:

(a) The CC acknowledges that demographics and geography will determine the likely percentage of affected non-contracted customers in each region:[26]

"*These results are also aggregates across each area: we would expect the proportions to be higher in areas where the parties' stations are closer substitutes and lower in other areas where the parties' stations are more differentiated by demographics and geography.*"

(b) The parties' stations are highly differentiated by demographics and geography in Cardiff:

(I) <u>The majority of Real's non-contracted customers are regional customers or customers outside Cardiff</u>. Only [✂]**%** of Real's non-contracted revenues in Wales are from advertising

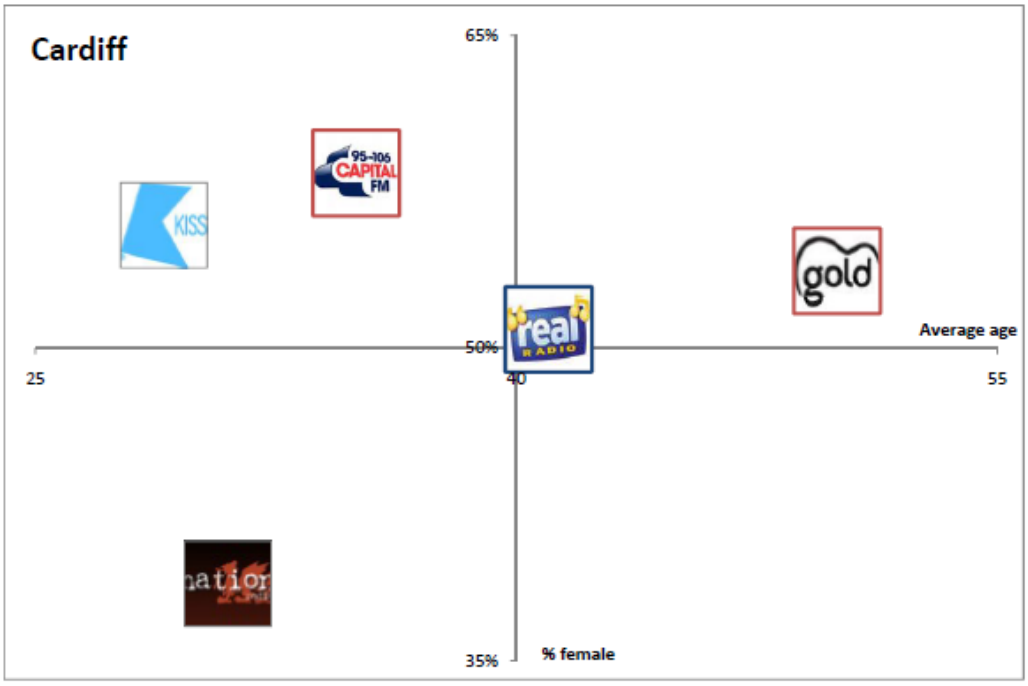
[26] Provisional Findings, para 6.77.

purchased solely for Cardiff.[27] Further, the CC has significantly overstated Real's market share in Cardiff by taking into account Real's revenues throughout its entire TSA, rather than just Cardiff. Therefore, the CC's estimate of the relative strength of the parties' station is incorrect.

(II) Capital and Real target different demographics. As the CC notes "*the average age of Capital listeners is 34 and that of Real listeners is 42*".[28]

(III) Capital advertisers are more likely to consider other media as their next best alternative to Capital, rather than Real. Further, in radio, Capital advertisers are more likely to consider Bauer's Kiss or Town and Country's Nation as their next best radio alternative for reaching a similar target demographic. Kiss (average listener age of 31), and Nation (34) target a similar type of listener to Capital (34) while Real targets an older listener (42).[29]

Figure 2
Brand map of main commercial radio stations - Cardiff



[27] Provisional Findings Appendix, L24-25, para 61.

[28] Provisional Findings, para 7.39.

[29] Provisional Findings Appendix. L24, Table 8.

Source: RAJAR Q3 2012 (12 months).

Customer Benefits in Cardiff

2.8 The transaction will give rise to substantial benefits to listeners in Cardiff. In particular, Global has committed to Ofcom that it will introduce, for the first time, a daily 20 minute in-depth Welsh news programme broadcast in peak time on commercial radio, a dedicated Welsh political editor and a fully-fledged commercial radio Welsh news desk if the RSL and Global brands are fully merged in Wales. There is no other commercial radio station offering such in-depth dedicated Welsh news coverage. These listener benefits are explained fully in the Listener Benefits Annex but are summarised below.

2.9 Global has committed to Ofcom that, post-merger, it will: [30]

(i) Introduce a new 20 minute evening news programme entitled 'The Way It Is In Wales' every weeknight at 18:40 "*focusing on news from around Wales, including coverage of the Welsh Assembly and matters in relation to which the Welsh Assembly has powers*".[31]

(ii) Appoint a dedicated Welsh political editor who "*must be principally based at the Welsh Assembly*".

(iii) Ensure that news bulletins are "*under the overall editorial control of a dedicated News Editor not responsible for other stations in Wales*" - currently there is no dedicated news editor at RSL for Wales.

(iv) Ensure that "*at least one news reporter [is] principally based within the North and Mid Wales licensed area*".

(v) Ensure that "*[n]ews from across Wales (including coverage of the Welsh Assembly and matters in relation to which the Welsh Assembly has devolved powers) shall be an important ingredient*" of Real Radio Wales' service.

Greater choice of dedicated, in-depth local news coverage in Wales

2.10 Global's commitment to Ofcom will provide a significant alternative source of Welsh news and current affairs for radio listeners to the BBC and increase the diversity of Welsh news coverage more generally.

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[30] See http://stakeholders.ofcom.org.uk/broadcasting/radio/formats-content/changes/format-changes-2012.

[31] The commitment refers to this news programme being broadcast "each week during daytime after 7am". Global intends to broadcast the programme at 18.40.

Higher quality and innovative Welsh news coverage

2.11 Global's proposals to Ofcom would lead to the appointment of a dedicated news editor for Wales, a dedicated Welsh political editor based at the Welsh Assembly and a new 20 minute peak time in-depth local news programme, leading to a significant increase in the range and quality of Real Radio Wales' local news programming.

Higher quality Real station

2.12 Global will significantly invest in Real Radio Wales (South) [✂]. Listeners will benefit from better content, better presentation and better production.[32]

No Appropriate Remedy

2.13 Given the high costs of divesting Real or Capital, there is no appropriate remedy in Cardiff.

Divestment of Real or Capital would be highly costly for listeners

2.14 Divestment of Real or Capital in South Wales would be highly costly for listeners because they would lose:

(i) the dedicated Welsh evening news programme "*focusing on news from around Wales, including coverage of the Welsh Assembly and matters in relation to which the Welsh Assembly has powers*" as well as the dedicated Welsh political editor and reporting staff.[33]

(ii) [✂]

Divestment of Real or Capital would be highly costly for advertisers

2.15 Even without taking into account listener benefits and the value to advertisers of networks of increased quality, Table 7 demonstrates that the divestment of Real or Capital would cost significantly more in lost advertiser discounts (£[✂] for Real and £[✂] for Capital) than any potential detriment from an SLC estimated at £[✂]. A full analysis of these lost benefits is provided in the Advertiser Benefits Annex.

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[32] As discussed further in the Listener Benefits Annex at Section 2.

[33] See http://stakeholders.ofcom.org.uk/broadcasting/radio/formats-content/changes/format-changes-2012.

Table 7
Customer benefits lost due to station divestments: Cardiff

Station	Current network discounts lost (CY 2012)	Lost additional Heart/ Real discount	Lost Heart/Real/ Smooth discount	Lost Gold/ Smooth discount	Lost non contracted multi-brand discounts	Total lost benefit
Capital FM South Wales	[✂]				[✂]	[✂]
Gold South Wales	[✂]			[✂]	[✂]	[✂]
Real Radio Wales	[✂]	[✂]			[✂]	[✂]

Source: Global & RSL transaction data (Oct 2011 - Sep 2012) and NMR data (Jan 2012 - Dec 2012). For detailed methodology, see the Advertiser Benefit Annex.

Divestment of Real or Capital would be highly costly for contracted advertisers

2.16 The reduced geographic scope of the Heart or Capital networks would lower the quality of the networks and make them less attractive to contracted advertisers for airtime giving rise to substantial customer detriment:

(i) The divestment of Real Radio Wales (South) would reduce the post-merger [✂] network's coverage by [✂]%.[34]

(ii) The divestment of Capital South Wales would reduce the post-merger Capital network's coverage by [✂]%.[35]

2.17 Such a divestment would result in a significant loss of single network discounts for contracted advertisers either on the Real or Capital networks due to a reduced network size:

(i) The loss of Real Radio Wales (South) would result in the following costs to customers:

(a) Contracted customers using the Real network would lose £[✂] in network discounts through the absence of this station alone.[36]

(b) Contracted customers would lose the opportunity to receive additional lower advertising prices through [✂] of £[✂].[37]

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[34] RAJAR W3 2012 (12 months). Reach includes out-of-analogue area listening via DAB, online and digital TV.

[35] RAJAR W3 2012 (12 months). Reach includes out-of-analogue area listening via DAB, online and digital TV.

[36] The value of lost discounts from current network bookings has been calculated by Global using its transaction data. Global has calculated the total value of network bookings for each agency during 2012 and then applied the relevant level of network discount in each agency's contract to calculate the total value of network discounts during this period.

(ii) The loss of Capital South Wales would result in the following costs to customers: contracted customers using the Capital network would lose £[✂] in network discounts through the absence of this station alone.[38]

Divestment of Real or Capital would be costly for purchasers of national S&P

2.18 The reduced geographic scope of the Real or Capital networks would lower the quality of the networks and make them less attractive to purchasers of national S&P.[39] Customers could no longer purchase a national S&P campaign covering Real Radio Wales (South) or Capital South Wales. This would result in a significant loss in benefits to advertisers in addition to those set out in Table 7 above.

Divestment of Real or Capital would be costly for non-contracted advertisers

2.19 The divestment of either of these core stations would also give rise to significant costs for non-contracted advertisers. They would lose the opportunity of receiving lower advertising prices through multi-brand single region discounts resulting from Cournot pricing efficiencies (in line with the OFT's 2008 *Global/GCap* decision).

2.20 Global has estimated these costs at £[✂] being the loss of a [✂]% discount for Real or Capital advertisers also purchasing another Global or RSL station in Cardiff.[40]

Table 8
Summary of lost customer benefits associated with each divestment

Estimated SLC in South Wales	£[✂]
Cost of divesting Capital FM South Wales	
Lost discounts for advertisers	
Current Capital network discounts lost	£[✂]
Lost opportunity for non-contracted multi-brand discounts	£[✂]
Total lost discounts	£[✂]
Lost benefits to listeners	
Loss of innovative and unique dedicated Welsh evening news	Significant lost benefit

[37] The total value of each category of "additional" network discounts has been calculated using the methodologies described in the Advertiser Benefits Annex. Those additional discounts have been apportioned to individual stations on the basis of their share of contracted airtime revenue amongst the relevant stations for each type of discount.

[38] The value of lost discounts from current network bookings has been calculated by Global using its transaction data. Global has calculated the total value of network bookings for each agency during 2012 and then applied the relevant level of network discount in each agency's contract to calculate the total value of network discounts during this period.

[39] A full explanation of any divestment's impact on purchaser of national S&P is explained further in the Advertiser Benefits Annex at Section 5.

[40] A full explanation of Global's methodology is in the Advertiser Benefits Annex at Section 2.

programme, Welsh political editor and reporting staff	to listeners
Lost other benefits to contracted advertisers	
Reduced geographic scope for the Capital network	[✂]% loss in network coverage
Inability to purchase a national S&P campaign covering Capital FM South Wales	[✂]% loss in network coverage

Estimated SLC in South Wales	£[✂]
Cost of divesting Real Radio Wales (South)	
Lost discounts for advertisers	
Current Real network discounts lost	£[✂]
Lost opportunity for additional discount [✂]	£[✂]
Lost opportunity for non-contracted multi-brand discounts	£[✂]
Total lost discounts	£[✂]
Lost benefits to listeners	
Loss of innovative and unique dedicated Welsh evening news programme, Welsh political editor and reporting staff	Significant lost benefit to listeners
[✂]	Significant lost benefit to listeners
Lost other benefits to contracted advertisers	
Reduced geographic scope [✂]	[✂]% loss in network coverage
Inability to purchase a national S&P campaign covering Real Radio Wales (South)	[✂]% loss in network coverage

3. NORTH WALES

Executive Summary

3.1 The scale of the SLC in North Wales is trivial. Based on the CC's Provisional Findings, the revenues affected by the merger in North Wales are £[✂].

3.2 While not accepting that any SLC found by the CC would lead to an increase in price, Global considers that any such increase would be small (not greater than 5%) given that the parties are not next best alternatives in North Wales. A 5% price increase on the affected revenues in North Wales would imply the harm from the SLC is £[✂].

3.3 Global further notes that Real North Wales, in particular, has very low non-contracted revenues in the region - i.e. £[✂]. The scale of any SLC in relation to this station is therefore likely to be extremely low making any divestment disproportionate.

3.4 The advertiser discounts that will be lost as a result of the divestment of Real Radio Wales (North) (£[✂]) would be significant and comprise:

(i) Lost network discounts of £[✂] for contracted advertisers; and

(ii) Lost single-region multi-brand discounts of £[✂] for non-contracted advertisers.

3.5 Any harm from the SLC is substantially outweighed by the advertiser discounts that will be lost as a result of the divestment of Heart North West and Wales (£[✂]) which comprise:

(i) Lost network discounts of £[✂] for contracted advertisers;

(ii) Lost opportunity to receive additional lower advertising prices (an additional [✂]% discount) on the new Heart/Real network equating to £[✂]; and

(iii) Lost single-region multi-brand discounts of £[✂] for non-contracted advertisers.

3.6 In addition, these estimates do not reflect the following additional costs that would result from the divestment of Real or Heart in North Wales:

(i) Listeners would lose the benefit of:

(a) [✂]

(b) The dedicated Welsh peak time news programme "*focusing on news from around Wales, including coverage of the Welsh Assembly*" as well as the dedicated Welsh political editor and reporting staff;

(c) a higher quality Real station [✂] that will receive significant post-merger investment from Global including marketing support, better content, better presentation and better production; and

(d) a higher quality Gold station [✂] that will receive significant post-merger investment from Global including marketing support, better content, better presentation and better production.

(ii) The reduced geographic scope of the [✂] networks would lower the quality of the networks and make them less attractive to contracted advertisers for airtime and S&P giving rise to substantial customer detriment.

3.7 Divestment of Real or Heart North West and Wales are not appropriate remedies because the lost customer benefits significantly outweigh the harm from any SLC.

The Scale of the SLC in North Wales is Trivial

3.8 According to the CC's own Provisional Findings, the scale of the SLC in North Wales is limited to a small proportion of non-contracted customers and revenues generated by the parties' stations in this area. In particular:

(i) No SLC for contracted advertisers who account for a large share of the revenues on the parties' stations:

Table 9
Share of contracted revenues in North Wales

	Total revenues (£'000)	**Total contracted revenues (£'000)**	**% share of revenues attributable to contracted advertisers**
Heart North West and North Wales	[✂]	[✂]	[✂]
Gold	[✂]	[✂]	[✂]
Real Radio Wales (North)	[✂]	[✂]	[✂]
Total	[✂]	[✂]	[✂]

Source: Global and RSL transaction-level data, Oct 2011-Sep 2012. "Real Radio Wales (North)" includes revenues of Real Radio Wales attributed to the region North Wales and the revenues of Real Radio Wales North. We do not include the revenues of Real Radio Wales attributed to the region "Wales Total Area" in this table.

Note: The Real figures substantially understate the level of contracted advertising which is largely sold on an all Wales basis and account for [✂]% of all Real's revenues in Wales.

(ii) The non-contracted customers in North Wales who consider the parties, stations to be their next best alternatives close competitors are likely to be a small minority – as stated by the CC:[41]

> "*Based on the parties' existing customers survey, we estimate the proportion of respondents' non-contracted revenue, accounted for by customers with one of the other party's stations as their closest alternative, to be between 9 and 11 per cent.*"

Based on the CC's own findings, the SLC is likely to affect only around 11% of the parties' non-contracted customers by revenue (absent any exacerbating regional factors). The revenues likely to be affected by an SLC in North Wales are small. Given that the parties have different geographic targets as Heart's customers are predominantly local whereas Real only offers regional advertising, the likely price effect of the merger in the North Wales is very limited. Global has based its quantification of the SLC found by the CC in its Provisional Findings on a 5% price increase which it considers to be an upper bound of any possible SLC in this area.

Table 10
Non-contracted revenues related to SLC concerns in North Wales

	Revenues attributable to non-contracted advertisers (£'000)	**Revenues affected by the SLC (11% of the revenues attributable to non-contracted advertisers) (£'000)**	**The value of a hypothetical 5% price increase on affected revenues (£'000)**
Heart North West and Wales	[✂]	[✂]	[✂]
Gold	[✂]	[✂]	[✂]
Real Radio Wales (North)	[✂]	[✂]	[✂]
Total	[✂]	[✂]	[✂]

Source: Global and RSL transaction data, Oct 2011-Sep 2012. "Real Radio Wales (North)" includes revenues of Real Radio Wales attributed to the region North Wales and the revenues of Real Radio Wales North. We do not include the revenues of Real Radio Wales attributed to the region "Wales Total Area" in this table.

[41] As noted at Provisional Findings, para 6.77.

(iii) There is no reason to consider that the non-contracted revenues affected by the transaction are materially greater in North Wales than the 9-11% average quoted by the CC. In particular:

(a) The CC acknowledges that geography will determine the likely percentage of affected non-contracted customers in each region:[42]

"*These results are also aggregates across each area: we would expect the proportions to be higher in areas where the parties' stations are closer substitutes and lower in other areas where the parties' stations are more differentiated by demographics and geography.*"

(b) The parties' stations are highly differentiated by geography in North Wales. Heart's customers are primarily local: [✂]% of Heart's local customers purchase advertising on only one of the four Heart transmitters (with [✂]% of revenues across all four of these transmitters generated by advertisers that have purchased only on a single transmitter basis). In contrast, a significant proportion ([✂]**%**) of Real's revenues are sold across all of Wales. The CC has accepted that geography is the most important factor in advertiser choice.

(c) Therefore, as our existing customers' survey said, 29% of non-contracted advertisers are more likely to consider press and other media as their next best alternative to either of the parties' stations (as opposed to 11% who would use other radio).

Customer Benefits in North Wales

3.9 The transaction will give rise to substantial benefits to listeners in North Wales:

(i) [✂]

(ii) The introduction, for the first time on commercial radio, of a daily 20 minute in-depth Welsh news programme broadcast in peak time, a dedicated Welsh political editor and a fully-fledged commercial radio Welsh news desk (if the RSL and Global brands are fully merged in Wales). There is no other commercial radio station offering such in-depth, dedicated Welsh news coverage. These listener benefits are explained fully in the Listener Benefits Annex but are summarised below.

(iii) Global has committed to Ofcom that, post-merger, it will: [43]

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[42] As noted at Provisional Findings, para 6.77.

[43] See http://stakeholders.ofcom.org.uk/broadcasting/radio/formats-content/changes/format-changes-2012.

(a) Introduce a new 20 minute evening news programme entitled 'The Way It Is In Wales' every weeknight at 18:40 "*focusing on news from around Wales, including coverage of the Welsh Assembly and matters in relation to which the Welsh Assembly has powers*".[44]

(b) Appoint a dedicated Welsh political editor who "*must be principally based at the Welsh Assembly*".

(c) Ensure that news bulletins are "*under the overall editorial control of a dedicated News Editor not responsible for other stations in Wales*" - currently there is no dedicated news editor at RSL for Wales.

(d) Ensure that "*at least one news reporter [is] principally based within the North and Mid Wales licensed area*".

(e) Ensure that "*[n]ews from across Wales (including coverage of the Welsh Assembly and matters in relation to which the Welsh Assembly has devolved powers) shall be an important ingredient*" of Real Radio Wales' service.

Greater choice of dedicated, in-depth local news coverage in Wales

3.10 Global's commitment to Ofcom will provide a significant alternative source of Welsh news and current affairs for radio listeners to the BBC and increase the diversity of Welsh news coverage more generally.

Higher quality and innovative Welsh news coverage

3.11 Global's proposals to Ofcom would lead to the appointment of a dedicated news editor for Wales, a dedicated Welsh political editor based at the Welsh Assembly and a new 20 minute peak time in-depth local news programme, leading to a significant increase in the quality of Real Radio Wales' local news programming.

Higher quality Gold station

3.12 Listeners will receive a higher quality Gold station [✂] after significant post-merger investment from Global including from marketing support, better content, better presentation and better production.

No Appropriate Remedy

3.13 Given the limited scale of the SLC in North Wales and the costs of divestment, there is no appropriate remedy in North Wales.

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[44] The commitment refers to this news programme being broadcast "each week during daytime after 7am". Global intends to broadcast the programme at 18.40.

3.14 Divestment of Real or Heart would be a disproportionate remedy because a large share of these stations' revenues are from contracted customers,[45] the stations are not non-contracted advertisers' next best alternatives and either divestment would incur significant costs outweighing any SLC.

Divestment of Real or Heart would be highly costly for listeners

3.15 Divestment of Real or Heart would be highly costly for listeners because:

(i) [✂]

(ii) Loss of the dedicated Welsh evening news programme "*focusing on news from around Wales, including coverage of the Welsh Assembly and matters in relation to which the Welsh Assembly has powers"* as well as the dedicated Welsh political editor and reporting staff.

(iii) [✂]

Divestment of Real or Heart would be highly costly for advertisers

3.16 Even without taking into account listener benefits and the value to advertisers of increased quality networks, Table 11 demonstrates that the divestment of Real or Heart would cost more in lost advertiser discounts (£[✂] on Heart and £[✂] on Real), reduction in network quality and lost listener benefits than any potential detriment from an SLC estimated at £[✂]. A full analysis of these lost benefits is provided in the Advertiser Benefits Annex.

Table 11
Customer benefits lost due to station divestments: North Wales

Station	Current network discounts lost (CY 2012)	Lost additional Heart/ Real discount	Lost Heart/Real/Smooth discount	Lost Gold/ Smooth discount	Lost non contracted multi-brand discounts	Total lost benefit
Gold North West & Wales	[✂]			[✂]	[✂]	[✂]
Heart North West & Wales	[✂]	[✂]			[✂]	[✂]
Real Radio Wales	[✂]	[✂]			[✂]	[✂]

Source: Global & RSL transaction data (Oct 2011 - Sep 2012) and NMR data (Jan 2012 - Dec 2012). For detailed methodology, see the Advertiser Benefit Annex.

[45] Real Radio Wales (North) [✂]**%**, (once revenues for Wales Total area have been included, their share is [✂]%), Heart North West and Wales [✂]**%**.

Divestment of Real or Heart would be highly costly for contracted advertisers

3.17 The reduced geographic scope of the Real or Heart networks would lower the quality of the networks and make them less attractive to contracted advertisers for airtime giving rise to substantial customer detriment:

(i) The divestment of Real North Wales would reduce the post-merger [✂] network's coverage by [✂]%.[46]

(ii) The divestment of Heart North West and Wales would reduce the post-merger Heart network's coverage by [✂]%.[47]

3.18 Such a divestment would result in a significant loss of single-network discounts for contracted customers either on the Real or Heart networks due to a reduced network size:

(i) The loss of Real North Wales would result in the following costs to customers:

(a) Contracted customers using the Real network would be likely to lose £[✂] in network discounts through the absence of this station alone.[48]

(b) The value of these losses is small because Real North Wales itself has small revenues. It should be noted however that by the same logic the scale of the adverse effects from any SLC are likely to be low.

(ii) The loss of Heart North West and Wales would result in the following costs to customers:

(a) Contracted customers using Heart North West and Wales would lose £[✂] in network discounts through the absence of this station alone.[49]

(b) Contracted customers would lose the opportunity to receive additional lower advertising prices through Heart and Real combined network discount equating to £[✂].[50]

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[46] RAJAR W3 2012 (12 months). Reach includes out-of-analogue area listening via DAB, online and digital TV.

[47] RAJAR W3 2012 (12 months). Reach includes out-of-analogue area listening via DAB, online and digital TV.

[48] The value of lost discounts from current network bookings has been calculated by Global using its transaction data. Global has calculated the total value of network bookings for each agency during 2012 and then applied the relevant level of network discount in each agency's contract to calculate the total value of network discounts during this period.

[49] The value of lost discounts from current network bookings has been calculated by Global using its transaction data. Global has calculated the total value of network bookings for each agency during 2012 and then applied the relevant level of network discount in each agency's contract to calculate the total value of network discounts during this period.

Divestment of Real or Heart would be highly costly for purchasers of national S&P

3.19 The reduced geographic scope of the Real or Heart networks would lower the quality of the networks and make them less attractive to purchasers of national S&P.[51] Customers could no longer purchase a national S&P campaign covering Real Radio Wales (North) or Heart North West and Wales. This would result in a significant loss in benefits to advertisers in addition to those set out in Table 11 above.

Divestment of Real or Heart would be costly for non-contracted advertisers

3.20 The divestment of either of these core stations would also give rise to significant costs for non-contracted advertisers. They would lose the opportunity of receiving lower advertising prices through single region multi-brand discounts resulting from Cournot pricing efficiencies (in line with the OFT's 2008 *Global/GCap* decision). Global estimates that were it to have to divest either Real Radio Wales (North) or Heart North West and Wales, non-contracted advertisers would suffer substantially from the loss of the additional discounts that would have been obtained from offering a bundle [✂] to non-contracted customers.

3.21 Global has estimated these costs at £[✂] being the loss of a [✂]% discount for Real or Heart advertisers also purchasing another Global or RSL station in North Wales.[52]

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[50] The total value of each category of "additional" network discounts has been calculated using the methodologies described in the Advertiser Benefits Annex. Those additional discounts have been apportioned to individual stations on the basis of their share of contracted airtime revenue amongst the relevant stations for each type of discount.

[51] A full explanation of any divestment's impact on purchaser of national S&P is explained further in the Advertiser Benefits Annex at Section 5.

[52] A full explanation of Global's methodology is in the Advertiser Benefits Annex at Section 2.

Table 12
Summary of lost customer benefits associated with each divestment

Estimated SLC in North Wales	£[✂]
Cost of divesting Heart North West and Wales	
Lost discounts for advertisers	
Current network discounts lost	£[✂]
Lost opportunity for additional discount [✂]	£[✂]
Lost opportunity for non-contracted multi-brand discounts	£[✂]
Total lost discounts	£[✂]
Lost benefits to listeners	
Loss of innovative and unique dedicated Welsh evening news programme, Welsh political editor and reporting staff	Significant lost benefit to listeners
[✂]	[✂]
Lost other benefits to contracted advertisers	
Reduced geographic scope for the Heart network	[✂]% loss in network coverage
Inability to purchase a national S&P campaign covering Heart North West and Wales	[✂]% loss in network coverage

Estimated SLC in North Wales	£[✂]
Cost of divesting Real Radio Wales (North)	
Lost discounts for advertisers	
Current network discounts lost	£[✂]
Lost opportunity for additional discount [✂]	£[✂]
Lost opportunity for non-contracted multi-brand discounts	£[✂]
Total lost discounts	£[✂]
Lost benefits to listeners	
Loss of innovative and unique dedicated Welsh evening news programme, Welsh political editor and reporting staff	Significant lost benefit to listeners
[✂]	[✂]
Lost other benefits to contracted advertisers	
Reduced geographic scope for the [✂] network post-merger	[✂]% loss in network coverage
Inability to purchase a national S&P campaign covering Real Radio Wales (North)	[✂]% loss in network coverage

4. GREATER MANCHESTER

Executive Summary

4.1 The scale of the SLC in Greater Manchester is trivial. Based on the CC's Provisional Findings, the revenues affected by the merger in Greater Manchester are £[✂]. This is a significant overestimate of the revenues affected since they encompass all revenues in the North West region and not just revenues limited to Greater Manchester.

4.2 While not accepting that any SLC found by the CC would lead to an increase in price, Global considers that any such increase would be small (not greater than 5%) given that the parties are not close competitors in Greater Manchester and that Bauer is a much closer competitor to Capital than Global. A 5% price increase on the affected revenues in Greater Manchester would imply the harm from the SLC is £[✂].

4.3 Any harm from the SLC is substantially outweighed by the advertiser discounts that will be lost as a result of the divestment of Capital Manchester (£[✂]). In particular:

(i) Lost network discounts of £[✂] for contracted advertisers; and

(ii) Lost single-region multi-brand discounts of £[✂] for non-contracted advertisers.

4.4 In addition, these estimates do not reflect additional costs for contracted customers that would result from the divestment of Capital in Greater Manchester. In particular the reduced geographic scope of the Capital network which would lower the quality of the network and make it less attractive to contracted advertisers for airtime and S&P giving rise to substantial customer detriment.

4.5 In addition, these estimates do not reflect the following additional costs that would result from the divestment of Capital Manchester. The reduced geographic scope of the Capital network would lower the quality of the network and make it less attractive to contracted advertisers for airtime and S&P giving rise to substantial customer detriment.

4.6 Divestment of Capital is not an appropriate remedy because the lost customer benefits associated with a divestment of Capital (£[✂]) outweigh the harm from any SLC (£[✂]).

4.7 However, if a remedy were nevertheless regarded as necessary by the CC, a divestment of Real XS Manchester would be a proportionate and effective remedy because:

(i) It will recreate the ex ante competitive position with three alternative radio groups for non-contracted advertisers wishing to advertise in Greater Manchester.

(ii) It reduces the parties' share of listening hours by 10% to 41%.[53]

(iii) Bauer remains a strong existing competitor for non-contracted advertisers with a 39%[54] share of listening.

(iv) It removes the CC's concerns regarding a demographic overlap between Xfm and Real XS.

(v) Of the parties' stations in Greater Manchester, Real XS has the greatest share of its advertising revenue from non-contracted customers ([✂]%).

(vi) The loss of customer benefits associated with a divestment of Real XS is limited.

The Scale of the SLC in Greater Manchester is Trivial

4.8 According to the CC's own Provisional Findings, the scale of the SLC in Greater Manchester is limited to a small proportion of non-contracted customers and revenues generated by the parties' stations in this area.[55] In particular:

(i) No SLC for the North West: "*the geographic overlap is limited to Greater Manchester and therefore [the CC does] not consider the loss of rivalry between the parties' stations in the North-West, in itself, to be significant.*"[56]

(ii) No SLC for contracted advertisers who account for the majority of the revenues on the parties' stations.

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[53] Provisional Findings, para 7.65.

[54] Provisional Findings, Appendix L52, para 136.

[55] Provisional Findings, para 6.77.

[56] Provisional Findings, para 7.68.

Table 13
Share of contracted revenues in Greater Manchester

	Total revenues (£'000)	Total contracted revenues (£'000)	% share of revenues attributable to contracted advertisers
Capital Manchester	[✂]	[✂]	[✂]
Gold	[✂]	[✂]	[✂]
Xfm	[✂]	[✂]	[✂]
Real XS Manchester	[✂]	[✂]	[✂]
Total	[✂]	[✂]	[✂]

Source: Global and RSL transaction-level data, Oct 2011-Sep 2012.

(iii) The non-contracted customers in Greater Manchester who consider the parties' stations to be their next best alternatives are likely to be a small minority on average - as stated by the CC:[57]

> "*Based on the parties' existing customers survey, we estimate the proportion of respondents' non-contracted revenue, accounted for by customers with one of the other party's stations as their closest alternative, to be between 9 and 11 per cent.*"

Based on the CC's findings, the SLC is likely to affect only around 11% of the parties' non-contracted customers by revenue (absent any exacerbating regional factors). The revenues likely to be affected by an SLC in Greater Manchester are small. Given that Bauer's Key 103FM is more likely to be the next best alternative for an advertiser on Capital Manchester, than Real XS, the likely price effect of the merger in Greater Manchester is very limited. Global has based its quantification of the SLC found by the CC in its Provisional Findings on a 5% price increase which it considers to be an upper bound of any possible SLC in this area.

[57] Provisional Findings, para 6.77.

Table 14
Non-contracted revenues related to SLC concerns in Greater Manchester

	Revenues attributable to non-contracted advertisers (£'000)	Revenues affected by the SLC (11% of the revenues attributable to non-contracted advertisers) (£'000)	The value of a hypothetical 5% price increase on affected revenues (£'000)
Capital Manchester	[✂]	[✂]	[✂]
Gold	[✂]	[✂]	[✂]
Xfm	[✂]	[✂]	[✂]
Real XS Manchester	[✂]	[✂]	[✂]
Total	[✂]	[✂]	[✂]

Source: Global and RSL transaction data, Oct 2011-Sep 2012.

(iv) There is no reason to consider that the non-contracted revenues affected by the transaction are materially greater in Greater Manchester than the 9-11% average quoted by the CC. In particular:

(a) The parties' stations are differentiated by their target audience. Both Capital Manchester and Bauer's Key 103 FM play chart, pop and dance music targeted at a young mainstream audience. Key is more likely to be the next best alternative for Capital's non-contracted customers than Global's stations are for RSL's stations.

(b) Despite the similar average age of their listeners, Xfm and Real XS target different audiences: Xfm plays indie music while Real XS is a rock music station. There are only a small number of listeners who tune into both Xfm and Real XS. In Q42012 only 7% of Xfm listeners also listened to Real XS.[58]

An Appropriate Remedy

4.9 Given the limited scale of the SLC in Greater Manchester and the costs of a divestment, there is no appropriate remedy in Greater Manchester.

4.10 However, if the CC considers that a divestment is still required, the only proportionate divestment remedy that the CC should contemplate for Greater Manchester is Real XS. Real XS is an appropriate remedy because:

[58] Rajar, Q42012.

(i) It will recreate the ex ante competitive position with three alternative radio groups for non-contracted advertisers wishing to advertise in Greater Manchester.

(ii) It reduces the parties' share of listening hours by 10% to 41%.[59]

(iii) Bauer remains a strong existing competitor for non-contracted advertisers. Bauer has 39% of listener hours and a similar proportion of non-contracted advertising revenues to the parties. The CC has acknowledged 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.*"[60]

(iv) It removes the CC's concerns regarding a demographic overlap between Xfm and Real XS:

> "*[Real XS and Xfm are] similar 'indie' stations reaching a predominantly male audience with a similar average age (34 and 37 respectively).*"[61]
>
> "*The merger will also bring under the same ownership two stations with almost exactly the same geographic and demographic coverage: Real XS and Xfm.*"[62]
>
> "*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.*"[63]
>
> "*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.*"[64]

(v) Of the parties' stations in Greater Manchester, Real XS has the greatest share of its advertising revenue from non-contracted customers ([✂]%).

(vi) The loss of customer benefits associated with a divestment of Real XS is limited.

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[59] Provisional Findings, para. 7.65.

[60] Provisional Findings, para 7.69.

[61] Provisional Findings, para 7.67.

[62] Provisional Findings, para 7.69.

[63] Provisional Findings, para 7.70.

[64] Provisional Findings Appendix, L50, para 132.

4.11 Divestment of Capital Manchester would be a disproportionate remedy because the large majority of its revenues are from contracted customers, the parties' stations are not likely to be a non-contracted customers' next best alternative and the divestment would incur significant costs for customers outweighing any SLC.

4.12 Further, divestment of Real North West or Smooth North West would not be appropriate given that the CC has identified no SLC in the wider region.

Divestment of Capital would be highly costly for advertisers

4.13 Even without taking into account listener benefits and the value to advertisers of increased quality networks, Table 15 demonstrates that the divestment of Capital Manchester would cost more in lost advertiser discounts (£[✂]) than any potential detriment from an SLC estimated at £[✂]. A full analysis of these lost benefits is provided in the Advertiser Benefits Annex.

Table 15
Customer benefits lost due to station divestments: Greater Manchester

Station	Current network discounts lost (CY 2012)	Lost additional Heart/ Real discount	Lost Heart/Real/ Smooth discount	Lost Gold/ Smooth discount	Lost non contracted multi-brand discounts	Total lost benefit
Capital FM Manchester	[✂]				[✂]	[✂]
Gold Manchester	[✂]			[✂]	[✂]	[✂]
Real Radio XS (Manchester)	[✂]				[✂]	[✂]
XFM Manchester					[✂]	[✂]

Source: Global & RSL transaction data (Oct 2011 - Sep 2012) and NMR data (Jan 2012 - Dec 2012). For detailed methodology, see the Advertiser Benefit Annex.

Divestment of Capital would be highly costly for contracted advertisers

4.14 The reduced geographic scope of the Capital network would lower the quality of the network and make it less attractive to contracted advertisers for airtime giving rise to substantial customer detriment. The divestment of Capital Manchester would reduce the post-merger Capital network's coverage by [✂]%.[65]

4.15 Such a divestment would result in a significant loss of single-network discounts for contracted customers on the Capital networks due to a reduced network size. The loss of Capital Manchester would result in the likelihood that contracted customers who use

[65] RAJAR W3 2012 (12 months). Reach includes out-of-analogue area listening via DAB, online and digital TV.

Capital network, losing £[✂] in network discounts through the absence of this station alone.[66]

Divestment of Capital would be costly for purchasers of national S&P

4.16 The reduced geographic scope of the Capital network would lower the quality of the network and make it less attractive to purchasers of national S&P.[67] Customers could no longer purchase a national S&P campaign covering Capital Manchester. This would result in a significant loss in benefits to advertisers in addition to those set out in Table 15 above.

Divestment of Capital would be costly for non-contracted advertisers

4.17 The divestment of Capital Manchester would also give rise to significant costs for non-contracted advertisers. They would lose the opportunity of receiving lower advertising prices through multi-brand single region discounts resulting from Cournot pricing efficiencies (in line with the OFT's 2008 *Global/GCap* decision).

4.18 Global has estimated these costs at £[✂] being the loss of a [✂]% discount for Capital advertisers also purchasing another Global or RSL station.[68]

Table 16
Summary of lost customer benefits associated with each divestment

Estimated SLC in Greater Manchester (overestimated as calculated on the entire North West)	£[✂]
Cost of divesting Capital FM Manchester	
Lost discounts for advertisers	
Current network discounts lost	£[✂]
Lost opportunity for non-contracted multi-brand discounts	£[✂]
Total lost discounts	£[✂]
Lost other benefits to contracted advertisers	
Reduced geographic scope for the Capital network	[✂]% loss in network coverage
Inability to purchase a national S&P campaign covering Capital Manchester	[✂]% loss in network coverage

[66] The value of lost discounts from current network bookings has been calculated by Global using its transaction data. Global has calculated the total value of network bookings for each agency during 2012 and then applied the relevant level of network discount in each agency's contract to calculate the total value of network discounts during this period.

[67] A full explanation of any divestment's impact on purchaser of national S&P is explained further in the Advertiser Benefits Annex at Section 5.

[68] A full explanation of Global's methodology is in the Advertiser Benefits Annex at Section 2.

5. THE NORTH-EAST

Executive Summary

5.1 The scale of the SLC in the North East is limited. Based on the CC's Provisional Findings, the revenues affected by the merger in the North East are £[✂].

5.2 While not accepting that any SLC found by the CC would lead to an increase in price, Global considers that any such increase would be small (not greater than 5%) given that the parties are not likely to be non-contracted advertisers' best alternatives and that Bauer is a much closer alternative to Real and Smooth than Capital. A 5% price increase on the affected revenues in the North East would imply the harm from the SLC is £[✂].

5.3 Any harm from the SLC is substantially outweighed by the advertiser discounts that will be lost as a result of the divestment of Capital North East (£[✂]) which comprise:

(i) Lost network discounts of £[✂]for contracted advertisers; and

(ii) Lost single-region multi-brand discounts of £[✂] for non-contracted advertisers.

5.4 Any harm from the SLC is likely to be more or less matched by the advertiser discounts that will be lost as a result of the divestment of Real North East (£[✂]) which comprise:

(i) Lost network discounts of £[✂] for contracted advertisers; and

(ii) Lost single-region multi-brand discounts of £[✂] for non-contracted advertisers.

5.5 Once the additional benefits in paragraph 5.7 below are taken into account, the total relevant customer benefits that will be lost as a result of a divestment of Real North East substantially outweigh any harm from the SLC.

5.6 Any harm from the SLC is also substantially outweighed by the discounts that will be lost as a result of the divestment of Smooth North East (£[✂]). In particular:

(i) Lost network discounts of £[✂] for contracted advertisers; and

(ii) Lost single-region multi-brand discounts of £[✂] for non-contracted advertisers.

5.7 In addition, these estimates do not reflect the following additional costs that would result from the divestment of Capital, Real or Smooth in the North East:

(i) The reduced geographic scope of the [✂] networks would lower the quality of the networks and make them less attractive to contracted advertisers for airtime and S&P giving rise to substantial customer detriment.

(ii) Listeners would lose the benefit of a higher quality, relaunched Smooth station after Global's post-merger investment.

5.8 Divestment of Capital, Real or Smooth are not appropriate remedies because the lost discounts alone associated with a divestment of Capital (£[✂]), Real (£[✂]) or Smooth (£[✂]) significantly outweigh (or match) the harm from any SLC estimated at £[✂].

The Scale of the SLC in the North East is Trivial

5.9 According to the CC's own Provisional Findings, the scale of the SLC in the North East is limited to a small proportion of non-contracted customers and revenues generated by the parties' stations in this area. In particular:

(i) No SLC for contracted advertisers who account for the majority of the revenues on the parties' stations in the North East:

Table 17
Share of contracted revenues in the North East

	Total revenues (£'000)	Total contracted revenues (£'000)	% share of revenues attributable to contracted advertisers
Capital North East	[✂]	[✂]	[✂]
Real North East	[✂]	[✂]	[✂]
Smooth North East	[✂]	[✂]	[✂]
Total	[✂]	[✂]	[✂]

Source: Global and RSL transaction-level data, Oct 2011-Sep 2012.

(ii) The non-contracted customers who consider the parties to be next best alternatives are likely to be a small minority - as stated by the CC:[69]

> "*Based on the parties' existing customers survey, we estimate the proportion of respondents' non-contracted revenue, accounted for by customers with one of the other party's stations as their closest alternative, to be between 9 and 11 per cent.*"

Based on the CC's findings, the SLC is likely to affect only around 11% of the parties' non-contracted customers by revenue (absent any exacerbating regional factors). The revenues likely to be affected by an SLC in the North East is small. Given that Bauer and the Local Radio Company's stations are better alternatives to Smooth or Real than Capital, the likely price effect of the merger in the North East is very limited. Global has based its quantification of the SLC found by the CC in its Provisional Findings on a 5% price increase which it considers to be an upper bound of any possible SLC in this area.

[69] Provisional Findings, para 6.77.

Table 18
Non-contracted revenues related to SLC concerns in the North East

	Revenues attributable to non-contracted advertisers (£'000)	Revenues affected by the SLC (11% of the revenues attributable to non-contracted advertisers) (£'000)	The value of a hypothetical 5% price increase on affected revenues (£'000)
Capital North East	[✂]	[✂]	[✂]
Real North East	[✂]	[✂]	[✂]
Smooth North East	[✂]	[✂]	[✂]
Total	[✂]	[✂]	[✂]

Source: Global and RSL transaction-level data, Oct 2011-Sep 2012.

(iii) There is no reason to consider that the number of non-contracted revenues affected by the transaction is materially greater in the North East than the 11% quoted by the CC. In particular:

(a) The CC acknowledges that demographics and geography will determine the likely percentage of affected non-contracted customers in each region:[70]

"*These results are also aggregates across each area: we would expect the proportions to be higher in areas where the parties' stations are closer substitutes and lower in other areas where the parties' stations are more differentiated by demographics and geography.*"

(b) The parties' stations are highly differentiated by demographics and geography in the North East:

(I) Capital targets a different audience from Real and Smooth. The CC acknowledges that:

"*Global's Capital reaches a younger audience than either RSL's Smooth or Bauer's Magic stations.*"[71]

"*At 31 years, Capital's average listener is significantly younger than that of RSL's or Bauer's stations. In terms of average age,*

[70] Provisional Findings, para 6.77.

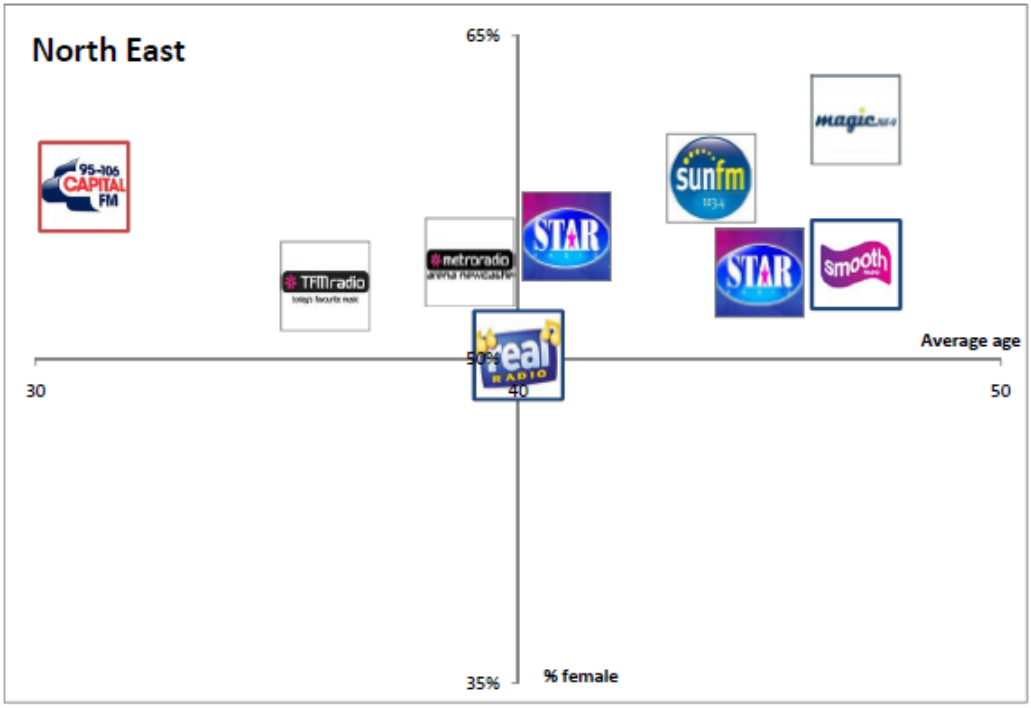
[71] Provisional Findings, para 7.76.

the demographic of Bauer's FM stations lies between that of Global and RSL, being closest to Real."[72]

(II) As noted above, the CC accepts in its analysis of pre-merger competition that "*Smooth […] would be a relatively weaker substitute for Capital*" given their markedly different demographic targets.

(III) Therefore, the next best alternative for Capital, Real and Smooth advertisers is TFM/Metro or a combination of the Sun/Star stations given the demographics of their audiences.

Figure 3
Brand Map of Main Commercial Radio Stations - North East



Source: *RAJAR (Q3 2012).*

(iv) The CC has mischaracterised the merger as a 3 to 2 when in fact non-contracted advertisers have four viable radio alternatives:

(a) <u>Bauer (TFM, Magic Teeside, Magic Newcastle and Metro FM):</u> Bauer has a [30-39%] share of non-contracted revenues and covers the same TSA as Real North East and Smooth North East and a slightly larger area than Capital North East.[73] In the Capital North East TSA, the

[72] Provisional Findings Appendix, L58, para 153.

[73] Provisional Findings Appendix, L57, Table 15.

Bauer stations have a combined reach of 725,000 adults (32%) and a listening share of 17%;[74]

(b) RSL (Real Radio North East and Smooth North East): RSL has a [30-39%] share of non-contracted revenues;

(c) Global (Capital North East): Global has a [20-29%] share of non-contracted revenues; and

(d) The Local Radio Company (Star Durham, Star Darlington and Sun FM): the Local Radio Company has a [10-19%]% share of non-contracted revenues in the North East.[75] These stations provide combined coverage of 29% of the Capital North East TSA, with a reach of 121,000 (5%) and a listening share of 2.5%;[76]

Therefore, this merger would not reduce the number of players from 3 to 2 (as concluded by the CC) and there are several closer alternatives to the parties' stations than the parties' stations themselves.[77]

No Appropriate Remedy

5.10 Given the limited scale of the SLC in the North East and the costs of a divestment, there is no appropriate remedy for the North East.

Divestment of Capital, Real or Smooth would be highly costly for advertisers

5.11 Even without taking into account listener benefits and the value to advertisers of increased quality networks, Table 19 demonstrates that the divestment of Capital, Real or Smooth would cost significantly more or approximately the same in lost advertiser discounts (approximately £[✂], [✂] respectively) than any potential detriment from an SLC estimated at £[✂]. A full analysis of these lost benefits is provided in the Advertiser Benefits Annex.

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[74] RAJAR 12 months W3, 2012.

[75] At Table 15 at L57 of the Provisional Findings Appendix.

[76] RAJAR 12 months W3, 2012.

[77] At Provisional Findings, para 7.79.

Table 19
Customer benefits lost due to station divestments: North East

Station	Current network discounts lost (CY 2012)	Lost additional Heart/ Real discount	Lost Heart/Real/ Smooth discount	Lost Gold/ Smooth discount	Lost non contracted multi-brand discounts	Total lost benefit
Capital FM North East	[✂]				[✂]	[✂]
Real Radio North East	[✂]	[✂]			[✂]	[✂]
Smooth Radio North East	[✂]		[✂]	[✂]	[✂]	[✂]

Source: Global & RSL transaction data (Oct 2011-Sep 2012) and NMR data (Jan 2012-Dec 2012). For detailed methodology, see the Advertiser Benefit Annex.

Divestment of Capital, Real or Smooth would be highly costly for contracted advertisers

5.12 The reduced geographic scope of the Capital, Heart or Smooth networks would lower the quality of the networks and make them less attractive to contracted advertisers for airtime giving rise to substantial customer detriment:

(i) The divestment of Capital North East would reduce the post-merger Capital network's coverage by [✂]%.[78]

(ii) The divestment of Real North East would reduce the post-merger [✂] network's coverage by [✂]%.[79]

(iii) The divestment of Smooth North East would reduce the [✂] network's post-merger coverage by [✂]%.[80]

5.13 Such a divestment would result in a significant loss of single-network discounts for contracted customers [✂] due to a reduced network size.

(i) The loss of Capital North East would result in the following costs to customers. Contracted customers using the Capital network would be likely to lose £[✂] in network discounts from the absence of this station alone.[81]

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[78] RAJAR W3 2012 (12 months). Reach includes out-of-analogue area listening via DAB, online and digital TV.

[79] RAJAR W3 2012 (12 months). Reach includes out-of-analogue area listening via DAB, online and digital TV.

[80] RAJAR W3 2012 (12 months). Reach includes out-of-analogue area listening via DAB, online and digital TV. [✂]

[81] The value of lost discounts from current network bookings has been calculated by Global using its transaction data. Global has calculated the total value of network bookings for each agency during 2012 and then applied the relevant level of network discount in each agency's contract to calculate the total value of network discounts during this period.

(ii) The loss of Real North East would result in the following costs to customers:

(a) Contracted customers using the Real network would be likely to lose £[✂] in network discounts from the absence of this station alone.[82]

(b) Contracted customers would lose the opportunity to receive additional lower advertising prices (the additional [✂]% network discount) through the new combined Heart and Real network discount of £[✂].[83]

(iii) The loss of Smooth North East would result in the following costs to customers:

(a) Contracted customers using the Smooth network would be likely to lose £[✂] in network discounts from the absence of this station alone.[84]

(b) Contracted customers would lose the opportunity to receive additional lower advertising prices through combined network discounts of £[✂].[85]

Divestment of Capital, Real or Smooth would be costly for purchasers of national S&P

5.14 The reduced geographic scope of the Capital, Real or Smooth networks would lower the quality of the networks and make them less attractive to purchasers of national S&P. Customers could no longer purchase a national S&P campaign covering Capital, Real or Smooth in the North East. This would result in a significant loss in benefits to advertisers in addition to those set out in Table 19 above.

Divestment of Capital, Real or Smooth would be costly for non-contracted advertisers

5.15 The divestment of these core stations would also give rise to significant costs for non-contracted advertisers. They would lose the opportunity of receiving lower advertising prices through multi-brand single region discounts resulting from Cournot pricing efficiencies (in line with the logic of the OFT's 2008 *Global/GCap* decision). Global estimates that were it to have to divest Capital, Real or Smooth in the North East, non-contracted customers would suffer substantially from the loss of additional discounts

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[82] The value of lost discounts from current network bookings has been calculated by Global using its transaction data. Global has calculated the total value of network bookings for each agency during 2012 and then applied the relevant level of network discount in each agency's contract to calculate the total value of network discounts during this period.

[83] The total value of each category of "additional" network discounts has been calculated using the methodologies described in the Advertiser Benefits Annex. Those additional discounts have been apportioned to individual stations on the basis of their share of contracted airtime revenue amongst the relevant stations for each type of discount.

[84] The value of lost discounts from current network bookings has been calculated by Global using its transaction data. Global has calculated the total value of network bookings for each agency during 2012 and then applied the relevant level of network discount in each agency's contract to calculate the total value of network discounts during this period.

[85] The total value of each category of "additional" network discounts has been calculated using the methodologies described in the Advertiser Benefits Annex. Those additional discounts have been apportioned to individual stations on the basis of their share of contracted airtime revenue amongst the relevant stations for each type of discount.

that would have been obtained from offering a bundle of Capital, Real or Smooth slots to non-contracted customers.

5.16 Global has estimated these costs at [✂] being the loss of a 5% discount for Capital, Real or Smooth advertisers when purchasing two or more Global and RSL stations in the North East.[86]

Table 20
Summary of lost customer benefits associated with each divestment

Estimated SLC in the North East	£[✂]
Cost of divesting Capital North East	
Lost discounts for advertisers	
Current network discounts lost	£[✂]
Lost opportunity for non-contracted multi-brand discounts	£[✂]
Total lost discounts	£[✂]
Lost other benefits to contracted advertisers	
Reduced geographic scope for the Capital network	[✂]% loss in network coverage
Inability to purchase a national S&P campaign covering Capital North East	[✂]% loss in network coverage

Estimated SLC in the North East	£[✂]
Cost of divesting Real North East	
Lost discounts for advertisers	
Current network discounts lost	£[✂]
Lost opportunity for additional discount [✂]	£[✂]
Lost opportunity for non-contracted multi-brand discounts	£[✂]
Total lost discounts	£[✂]
Lost other benefits to contracted advertisers	
Reduced geographic scope [✂]	[✂]% loss in network coverage
Inability to purchase a national S&P campaign covering Real Radio North East	[✂]% loss in network coverage
Lost benefits to listeners	
[✂]	[✂]

[86] A full explanation of Global's methodology is in the Advertiser Benefits Annex at Section 2.

Estimated SLC in the North East	£[✂]
Cost of divesting Smooth North East	
Lost discounts for advertisers	
Current network discounts lost	£[✂]
Lost opportunity for additional multi-network discounts [✂]	£[✂]
Lost opportunity for additional discount [✂]	£[✂]
Lost opportunity for non-contracted multi-brand discounts	£[✂]
Total lost discounts	£[✂]
Lost other benefits to contracted advertisers	
Reduced geographic scope for the Smooth network	[✂]% loss in network coverage
Inability to purchase a national S&P campaign covering Smooth North East	[✂]% loss in network coverage
Lost benefits to listeners	
Loss of a relaunched higher quality Smooth network for listeners	Significant lost investment

6. SOUTH AND WEST YORKSHIRE

Executive Summary

6.1 The scale of the SLC in South and West Yorkshire is trivial. Based on the CC's Provisional Findings, the revenues affected by the merger in South and West Yorkshire are £[✂]. This is a significant overestimate of the revenues affected since they encompass all revenues in the whole of Yorkshire and not just those in South and West Yorkshire.

6.2 While not accepting that any SLC found by the CC would lead to an increase in price, Global considers that any such increase would be small (not greater than 5%) given that the parties are not likely to be a non-contracted advertisers' closest alternatives in South and West Yorkshire and that Bauer is a much closer competitor to Real than Global and RSL's stations are to each other. A 5% price increase on the affected revenues in South and West Yorkshire would imply the harm from the SLC is £[✂].

6.3 Any harm from the SLC is substantially outweighed by the advertiser discounts that will be lost as a result of the divestment of Real Yorkshire (£[✂]). In particular:

(i) Lost network discounts of £[✂] for contracted advertisers; and

(ii) Lost single-region multi-brand discounts of £[✂] for non-contracted advertisers.

6.4 Any harm from the SLC is also substantially outweighed by the advertiser discounts that will be lost as a result of the divestment of Capital Yorkshire (£[✂]). In particular:

(i) Lost network discounts of £[✂] for contracted advertisers; and

(ii) Lost single-region multi-brand discounts of £[✂] for non-contracted advertisers.

6.5 In addition, these estimates do not reflect the following additional costs that would result from the divestment of Real or Capital in South and West Yorkshire.

(i) The reduced geographic scope of the Real or Capital networks would lower the quality of the networks and make them less attractive to contracted advertisers for airtime and S&P giving rise to substantial customer detriment.

(ii) Listeners would lose the benefit of a higher quality Real station [✂] that will receive significant post-merger investment from Global including better content, better presentation and better production.

The Scale of the SLC in South and West Yorkshire is Limited

6.6 According to the CC's own Provisional Findings, the scale of the SLC in South and West Yorkshire is limited to a small proportion of non-contracted customers and revenues generated by the parties' stations in this area. In particular:

(i) No SLC for contracted advertisers who account for the majority of the revenues on the parties' stations in South and West Yorkshire:

Table 21
Share of contracted revenues in South and West Yorkshire

	Total revenues (£'000)	**Total contracted revenues (£'000)**	**% share of revenues attributable to contracted advertisers**
Capital Yorkshire	[✂]	[✂]	[✂]
Real Yorkshire	[✂]	[✂]	[✂]
Total	[✂]	[✂]	[✂]

Source: Global and RSL transaction-level data, Oct 2011-Sep 2012.

(ii) The non-contracted customers in South and West Yorkshire who consider the parties' stations to be their next best alternatives are a small minority - as stated by the CC:[87]

> "*Based on the parties' existing customers survey, we estimate the proportion of respondents' non-contracted revenue, accounted for by customers with one of the other party's stations as their closest alternative, to be between 9 and 11 per cent.*"

Based on the CC's own findings, the SLC is likely to affect only around 11% of the parties' non-contracted customers by revenue (absent any exacerbating regional factors). The revenues likely to be affected by an SLC in South and West Yorkshire is small. Given that Bauer's Hallam and Aire stations are more likely to be the next best alternative to Real, than Real is for Capital and *vice versa*, the likely price effect of the merger in South and West Yorkshire is very limited. Global has based its quantification of the SLC found by the CC in its Provisional Findings on a 5% price increase which it considers to be an upper bound of any possible SLC in this area.

[87] Provisional Findings, para 6.77.

Table 22
Non-contracted revenues related to SLC concerns in South and West Yorkshire

	Revenues attributable to non-contracted advertisers (£'000)	Revenues affected by the SLC (11% of the revenues attributable to non-contracted advertisers) (£'000)	The value of a hypothetical 5% price increase on affected revenues (£'000)
Capital Yorkshire	[✂]	[✂]	[✂]
Real Yorkshire	[✂]	[✂]	[✂]
Total	[✂]	[✂]	[✂]

Source: Global and RSL transaction-level data, Oct 2011-Sep 2012.

(iii) There is no reason to consider that the number of non-contracted revenues affected by the transaction is materially greater in South and West Yorkshire than the 9-11% average quoted by the CC. In particular:

(a) The CC acknowledges that demographics and geography will determine the likely percentage of affected non-contracted customers in each region:[88]

"*These results are also aggregates across each area: we would expect the proportions to be higher in areas where the parties' stations are closer substitutes and lower in other areas where the parties' stations are more differentiated by demographics and geography.*"

(b) The parties' stations are highly differentiated by demographics and geography in South and West Yorkshire:

(I) <u>The majority of Capital's non-contracted revenues ([✂]**%) arise from advertising targeting areas outside South and West Yorkshire**</u>.[89] 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 and only a minority (only [✂]%) advertise just in South and West Yorkshire. Therefore, the majority of Capital's non-contracted customers are outside South and West Yorkshire and they would not consider Real to be a realistic alternative to Capital. The CC's estimate of customers affected by the SLC is

[88] As noted at Provisional Findings, para 6.77.

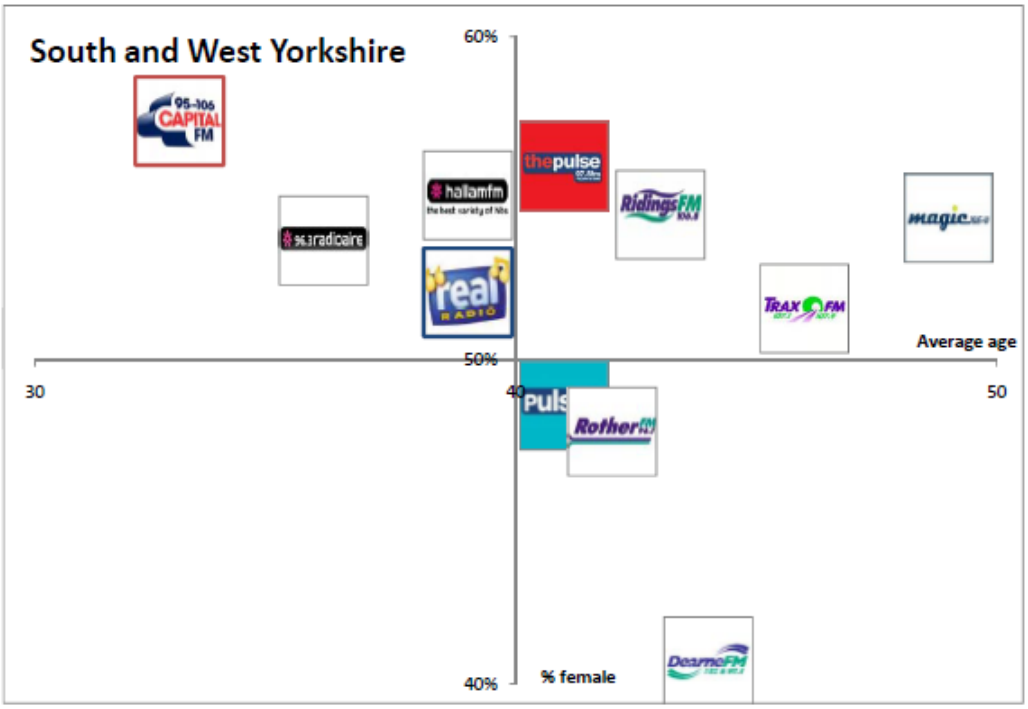
[89] Provisional Findings Appendix, L41, para 108.

therefore likely to substantially overestimate the number of Capital customers who regard RSL's Real as a competitor. The CC has accepted that geography is the most important factor in advertiser choice.

(II) Capital and Real target <u>different audiences</u>. As the CC acknowledges:

"*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).*"[90]

Figure 4
Brand map for main commercial radio stations - South and West Yorkshire



Source: *RAJAR (Q3 2012).*

(iv) As the CC has accepted, Bauer and UTV are closer alternatives than Capital for non-contracted advertisers on Real

[90] Provisional Findings, para 7.55.

"*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*".[91]

(v) The CC has mischaracterised the merger as a 3 to 2 when in fact non-contracted advertisers have at least four viable radio alternatives from combinations of the stations below:

(a) Bauer (Hallam, Magic, and Aire): The CC estimates that the Bauer stations account for [20 to 29%] of non-contracted revenue and a 33% share of listening hours in South and West Yorkshire. Based on the CC's calculations, Bauer has the largest pre-merger share of non-contracted revenues in South and West Yorkshire.

(b) RSL (Real Radio Yorkshire) and Global (Capital Yorkshire) who the CC estimates would have a [30 to 39%] share of non-contracted revenue in South and West Yorkshire.

(c) UTV (The Pulse, Pulse 2 either separately or combined with Bauer): The CC calculates UTV's combined share of non-contracted revenue in the region of [10-19%] – a significant alternative to the parties' stations on its own and when combined with Bauer's stations, Bauer and UTV provide coverage of 92% of the Real Yorkshire TSA.[92]

(d) Lincs FM Group (Ridings, Rother, Dearne and Trax): The Lincs FM group's stations provide coverage of 33% of the Real Yorkshire TSA, reach 203,000 people and have a share of 2.9%. Although the CC has not calculated non-contracted revenue figures for the Lincs FM group's stations in South and West Yorkshire, the Ridings, Rother, Dearne and Trax stations which broadcast in South and West Yorkshire have approximately half the non-contracted advertising revenues of Capital Yorkshire, as estimated by the CC.[93]

Therefore, this merger would not reduce the number of players from 3 to 2 (as concluded by the CC) because non-contracted advertisers will have at least four alternatives for advertising in South and West Yorkshire.[94]

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[91] Provisional Findings Appendix, L40, para 107.

[92] RAJAR, 12 months, W3 2012.

[93] Provisional Findings Appendix, L39, Table 11.

[94] Provisional Findings, para 7.79.

No Appropriate Remedy

6.7 Given the limited scale of the SLC in South and West Yorkshire and the costs of a divestment, there is no appropriate divestment remedy in South and West Yorkshire.

Divestment of Real or Capital would be highly costly for advertisers

6.8 Even without taking into account listener benefits and the value to advertisers of increased quality networks, Table 1 demonstrates that the divestment of Real or Capital Yorkshire would cost significantly more in lost advertiser discounts (approximately £[✂] and £[✂] respectively) than any potential detriment from an SLC estimated at £[✂]. A full analysis of these lost benefits is provided in the Advertiser Benefits Annex.

Table 23
Customer benefits lost due to station divestments: South and West Yorkshire

Station	Current network discounts lost (CY 2012)	Lost additional Heart/ Real discount	Lost Heart/Real/ Smooth discount	Lost Gold/ Smooth discount	Lost non contracted multi-brand discounts	Total lost benefit
Capital FM Yorkshire	[✂]				[✂]	[✂]
Real Radio Yorkshire	[✂]	[✂]			[✂]	[✂]

Source: Global & RSL transaction data (Oct 2011 - Sep 2012) and NMR data (Jan 2012 - Dec 2012). For detailed methodology, see the Advertiser Benefit Annex.

Divestment of Real or Capital would be highly costly for contracted advertisers:

6.9 The reduced geographic scope of the [✂] network would lower the quality of the networks and make them less attractive to contracted advertisers for airtime giving rise to substantial customer detriment:

(i) The divestment of Real Yorkshire would reduce the post-merger [✂] network's coverage by [✂]%.[95]

(ii) The divestment of Capital Yorkshire would reduce the post-merger Capital network's coverage by [✂]%.[96]

[95] RAJAR W3 2012 (12 months). Reach includes out-of-analogue area listening via DAB, online and digital TV.

[96] RAJAR W3 2012 (12 months). Reach includes out-of-analogue area listening via DAB, online and digital TV.

6.10 Such a divestment would result in a significant loss of single-network discounts for contracted customers either on the Real or Capital networks due to a reduced network size:

(i) The loss of Real Yorkshire would result in the following costs to customers:

(a) Contracted customers using the Real network would be likely to lose £[✂] in network discounts through the absence of this station alone.[97]

(b) Contracted customers would lose the opportunity to receive additional lower advertising prices (an additional [✂]% network discount) through the new Heart and Real combined network discount equating to £[✂].[98]

(ii) The loss of Capital Yorkshire would result in the following costs to customers. Contracted customers using the Capital network would be likely to lose £[✂] in network discounts through the absence of this station alone.[99]

Divestment of Real or Capital would be costly for purchasers of national S&P

6.11 The reduced geographic scope of the [✂] networks would lower the quality of the networks and make them less attractive to purchasers of national S&P.[100] Customers could no longer purchase a national S&P campaign covering Real Yorkshire or Capital Yorkshire. This would result in a significant loss in benefits to advertisers in addition to those set out in Table 23 above.

Divestment of Real or Capital would be costly for non-contracted advertisers

6.12 The divestment of either of these core stations would also give rise to significant costs for non-contracted advertisers. They would lose the opportunity of receiving lower advertising prices through *multi-brand* single region discounts resulting from Cournot pricing efficiencies (in line with the OFT's 2008 *Global/GCap* decision).

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[97] The value of lost discounts from current network bookings has been calculated by Global using its transaction data. Global has calculated the total value of network bookings for each agency during 2012 and then applied the relevant level of network discount in each agency's contract to calculate the total value of network discounts during this period.

[98] The total value of each category of "additional" network discounts has been calculated using the methodologies described in the Advertiser Benefits Annex. Those additional discounts have been apportioned to individual stations on the basis of their share of contracted airtime revenue amongst the relevant stations for each type of discount.

[99] The value of lost discounts from current network bookings has been calculated by Global using its transaction data. Global has calculated the total value of network bookings for each agency during 2012 and then applied the relevant level of network discount in each agency's contract to calculate the total value of network discounts during this period.

[100] A full explanation of any divestment's impact on purchaser of national S&P is explained further in the Advertiser Benefits Annex at Section 4.

6.13 Global has estimated these costs at £[✂] and £[✂] being the loss of a [✂]% discount for Real and Capital advertisers purchasing both stations in South and West Yorkshire.[101]

Table 24
Summary of lost customer benefits associated with each divestment

Estimated SLC in SW Yorkshire (overestimated as calculated on Yorkshire revenues rather than SW Yorkshire)	£[✂]
Cost of divesting Capital Yorkshire	
Lost discounts for advertisers	
Current network discounts lost	£[✂]
Lost opportunity for non-contracted multi-brand discounts	£[✂]
Total lost discounts	£[✂]
Lost other benefits to contracted advertisers	
Reduced geographic scope for the Capital network	[✂]% loss in network coverage
Inability to purchase a national S&P campaign covering Capital Yorkshire	[✂]% loss in network coverage

Estimated SLC in SW Yorkshire (overestimated as calculated on Yorkshire revenues rather than SW Yorkshire)	£[✂]
Cost of divesting Real Radio Yorkshire	
Lost discounts for advertisers	
Current network discounts lost	£[✂]
Lost opportunity for additional discount on the new Heart network (combining the existing Heart and Real stations)	£[✂]
Lost opportunity for non-contracted multi-brand discounts	£[✂]
Total lost discounts	£[✂]
Lost other benefits to contracted advertisers	
Reduced geographic scope for [✂]	[✂]% loss in network coverage
Inability to purchase a national S&P campaign covering Real Radio Yorkshire	[✂]% loss in network coverage
Lost benefits to listeners	
[✂]	[✂]

[101] A full explanation of Global's methodology is in the Advertiser Benefit Annex at Section 2.

7. CENTRAL SCOTLAND

Executive Summary

7.1 The scale of the SLC in Central Scotland is trivial. Based on the CC's Provisional Findings, the revenues affected by the merger in Central Scotland are £[✂].

7.2 While not accepting that any SLC found by the CC would lead to an increase in price, Global considers that any such increase would be small (not greater than 5%) given that the parties are not non-contracted advertisers' best alternatives and that Bauer is a much closer alternative to Capital, Real and Smooth than they are to each other. A 5% price increase on the affected revenues in Central Scotland would imply the harm from the SLC is £[✂].

7.3 Any harm from the SLC is substantially outweighed by the advertiser discounts that will be lost as a result of the divestment of Capital Scotland (£[✂]) which comprise:

(i) Lost network discounts of £[✂] for contracted advertisers; and

(ii) Lost single-region multi-brand discounts of £[✂] for non-contracted advertisers.

7.4 Any harm from the SLC is substantially outweighed by the advertiser discounts that will be lost as a result of the divestment of Real Scotland (£[✂]) which comprise:

(i) Lost network discounts of £[✂] for contracted advertisers;

(ii) Lost opportunity to receive additional lower advertising prices (the additional [✂]%) through new [✂] network discounts of £[✂]; and

(iii) Lost single-region multi-brand discounts of £[✂] for non-contracted advertisers.

7.5 Any harm from the SLC is likely to be equal to the advertiser discounts that will be lost as a result of the divestment of Smooth Glasgow (£[✂]). In particular:

(i) Lost network discounts of £[✂] for contracted advertisers;

(ii) Lost opportunity to receive additional lower advertising prices (the additional [✂]%) through the new multi-network discounts (Heart and Smooth, Smooth and Gold) of £[✂]; and

(iii) Lost single-region multi-brand discounts of £[✂] for non-contracted advertisers.

7.6 Once the additional benefits in paragraph 7.7 below are taken into account, the total relevant customer benefits that will be lost as a result of the divestment of Smooth Glasgow substantially outweigh any harm from the SLC.

7.7 In addition, these estimates do not reflect the following additional costs that would result from the divestment of Capital, Real or Smooth in Scotland:

(i) Listeners would lose the benefit of:

(a) The dedicated Scottish evening news programme as well as the dedicated Scottish political editor and reporting staff;

(b) a higher quality Real station [✂] that will receive significant post-merger investment from Global including better content, better presentation and better production;

(c) a higher quality Smooth station that will receive significant post-merger investment from Global including better content, better presentation and better production; and

(ii) The reduced geographic scope of the [✂] networks would lower the quality of the networks and make them less attractive to contracted advertisers for airtime and S&P giving rise to substantial customer detriment.

7.8 Divestment of Capital, Real or Smooth are not appropriate remedies because the lost advertiser discounts associated with a divestment of Capital (£[✂]), Real (£[✂]) or Smooth (£[✂]) and other customer benefits significantly outweigh the harm from any SLC estimated at £[✂].

7.9 However, if a remedy were regarded as necessary by the CC, a divestment of Real XS Glasgow would be a proportionate and effective remedy because:

(i) Real XS's share of listening hours in Central Scotland at 10% is proportionate to the size of the SLC;[102]

(ii) Of the parties' stations in Central Scotland, Real XS has the second greatest share of its advertising revenue from non-contracted customers ([✂]%);[103] and

(iii) The loss of customer benefits associated with a divestment of Real XS is limited.

The Scale of the SLC in Central Scotland is Trivial

7.10 According to the CC's own Provisional Findings, the scale of the SLC in Central Scotland is limited to a small proportion of non-contracted customers and revenues generated by the parties' stations in this area. In particular:

(i) No SLC for contracted advertisers who account for the majority of the revenues on the parties' stations in Central Scotland:

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[102] See Table 27 below.

[103] See Table 25 below.

Table 25
Share of contracted revenues in Central Scotland

	Total revenues (£'000)	Total contracted revenue (£'000)	% share of revenues attributable to contracted advertisers
Capital Scotland	[✂]	[✂]	[✂]
Real Scotland	[✂]	[✂]	[✂]
Smooth Glasgow	[✂]	[✂]	[✂]
Real XS Glasgow	[✂]	[✂]	[✂]
Total	[✂]	[✂]	[✂]

Source: Global and RSL transaction-level data, Oct 2011-Sep 2012.

(ii) The non-contracted customers in Central Scotland who consider the parties stations' to be their next best alternatives are likely to be a small minority on average – as stated by the CC:[104]

> "*Based on the parties' existing customers survey, we estimate the proportion of respondents' non-contracted revenue, accounted for by customers with one of the other party's stations as their closest alternative, to be between 9 and 11 per cent.*"

Based on the CC's own findings, the SLC is likely to affect only around 11% of the parties' non-contracted customers by revenue (absent any exacerbating regional factors). The revenues likely to be affected by an SLC in Central Scotland are small. Given that Bauer is a better alternative to Real Scotland than Capital Scotland (and *vice versa*), the likely price effect of the merger in Central Scotland is very limited. Global has based its quantification of the SLC found by the CC in its Provisional Findings on a 5% price increase which it considers to be an upper bound of any possible SLC in this area.

[104] Provisional Findings, para 6.77.

Table 26
Non-contracted revenues related to SLC concerns in Central Scotland

	Revenues attributable to non-contracted advertisers (£'000)	Revenues affected by the SLC (11% of the revenues attributable to non-contracted advertisers) (£'000)	The value of a hypothetical 5% price increase on affected revenues (£'000)
Capital Scotland	[✂]	[✂]	[✂]
Real Scotland	[✂]	[✂]	[✂]
Smooth Glasgow	[✂]	[✂]	[✂]
Real XS Glasgow	[✂]	[✂]	[✂]
Total	[✂]	[✂]	[✂]

Source: Global and RSL transaction-level data, Oct 2011-Sep 2012.

(iii) There is no reason to consider that the non-contracted revenues affected by the transaction are materially greater in Central Scotland than the 9-11% average quoted by the CC. In particular:

(a) The CC acknowledges that demographics and geography will determine the likely percentage of affected non-contracted customers in each region:[105]

"*These results are also aggregates across each area: we would expect the proportions to be higher in areas where the parties' stations are closer substitutes and lower in other areas where the parties' stations are more differentiated by demographics and geography.*"

(b) The parties' stations are highly differentiated by demographics and geography in Central Scotland:

(I) <u>The majority of Capital Scotland's non-contracted customers are local:</u> [✂]% of Capital Scotland's non-contracted revenues are attributed to Glasgow and [✂]% to Edinburgh, rather than the Central Scotland region (accounting for [✂]%).[106] Real Scotland on the other hand is a regional station with 100% of its revenues attributable to advertising across the Central Scotland region. Therefore, in geographic terms Bauer's stations are a much better radio alternative to Capital than Real (due to the

[105] Provisional Findings, para 6.77.

[106] Global non-contracted airtime revenue, FY 2012.

significant wastage for non-contracted advertisers on Real). The CC's estimate is therefore likely to substantially overestimate the number of Capital customers who regard RSL's Real Scotland as an alternative because the majority of Real Scotland's customers are regional advertisers looking to target listeners across the whole region. The CC has stated that geography is the most important factor in advertiser choice.

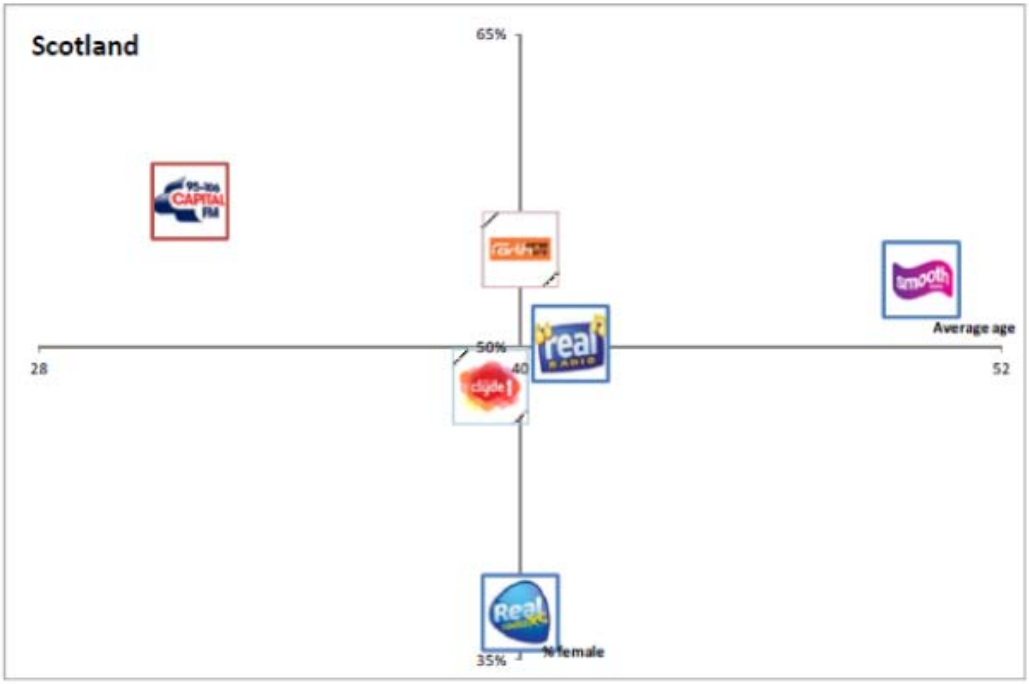
(II) Capital and Real target different audiences - As the CC acknowledges "*Real and the Bauer FM stations have a similar average age of listeners (around 40 years old) whereas Capital reaches a younger age group on average with an average listener age of 33 years*)."[107] As noted above, the CC accepts in its analysis of pre-merger competition that "*Smooth […] would be a relatively weaker substitute for Capital*" given their markedly different demographic targets.

(III) As shown by the brand map below, a non-contracted advertiser's next best alternative to Real Scotland is Forth and Clyde, not Capital Scotland: Bauer's stations are better radio alternatives to Real than Capital in demographic terms. Indeed, Bauer describes "*Real Radio [as] its closest commercial competitor*".[108]

[107] Provisional Findings Appendix, L64, para 170.

[108] Central Scotland - Bauer media pack - Forth 1 and 2, page 2: available at http://bauermedia.co.uk/uploads/2012_Q4_Forth_Agency_Pack.pptx

Figure 5
Brand Map of Parties' and Bauer's Stations - Central Scotland



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

(iv) Bauer is the strongest competitor in Central Scotland. Contrary to the CC's conclusion in the Provisional Findings that "*Bauer, is not as strong a competitor to the parties across the region as it is in Glasgow*",[109] Bauer's share of listening hours in Central Scotland is larger than the parties' stations combined, with 49% compared to 47%. In fact, as also acknowledged by the CC "*The main competitor in the region is Bauer*".[110]

[109] Provisional Findings, para 7.87.

[110] Provisional Findings, para 7.82.

Table 27
Comparison of Central Scotland commercial radio stations

	Glasgow*		Edinburgh and surrounding area**		All Central Scotland***	
	Hours (000's)	**Share (%)**	**Hours (000's)**	**Share (%)**	**Hours (000's)**	**Share (%)**
RSL	**2185**	**33%**	**1,513**	**21%**	**7,206**	**33%**
Real	*829*	**13%**	**1,513**	**21%**	**4,794**	**22%**
Smooth	*1,009*	**15%**			2,065	**10%**
Real XS	*347*	**5%**			347	**2%**
Global (Capital)	**1,007**	**15%**	**1,136**	**16%**	**2,819**	**13%**
Global + RSL	**3,192**	**49%**	**2,649**	**37%**	**10,025**	**47%**
Bauer Total	**3381**	**51%**	**3695**	**51%**	**10,500**	**49%**
Clyde 1	*2,499*	**38%**			5,162	**24%**
Clyde 2	*882*	**13%**			1,643	**8%**
Forth 1			2,911	**40%**	2,911	**14%**
Forth 2			784	**11%**	784	**4%**
Other (Central FM and Kingdom FM)			**853**	**12%**	**908**	**7%**
Total	**6,573**	**100%**	**7,197**	**100%**	**21,433**	**100%**

*Source: RAJAR Q4 2012, 6 month data. * Real XS Glasgow TSA, **Forth TSA, *** Clyde and Forth TSAs.*

Listener Benefits in Scotland

7.11 Global has also committed to Ofcom that, conditional on the RSL and Global brands becoming fully merged in Scotland (with the exception of Real XS), it will introduce, for the first time, a dedicated daily 20 minute Scottish news programme on commercial radio, a dedicated Scottish political editor and a fully-fledged commercial radio Scotland news desk. There is no other commercial radio station in Scotland offering such in-depth dedicated Scottish news coverage.

7.12 In particular, Global has committed to Ofcom in relation to Real Radio Scotland that it will:

(i) Introduce a new dedicated 20 minute evening news programme entitled 'The Way It Is In Scotland' (working title) every weeknight at 18:40, "*focusing on*

news from around Scotland, including coverage of the Scottish Parliament and matters in relation to which the Scottish Parliament has powers".[111]

(ii) Appoint a dedicated Scottish political editor who "*must be principally based at the Scottish Parliament*".

(iii) Ensure that "*[n]ews from across Scotland (including coverage of the Scottish Parliament and matters in relation to which the Scottish Assembly has devolved powers) shall be an important ingredient*" of Real Radio Scotland's service.[112]

Greater choice of dedicated, in-depth local news coverage in Scotland

7.13 Global's commitment to Ofcom will provide a significant alternative for radio listeners to BBC Radio One and increase the diversity of Scottish news coverage more generally.

Higher quality and innovative Scottish news coverage

7.14 Global's proposals to Ofcom would lead to the appointment of a dedicated news editor for Scotland, a dedicated Scottish political editor and a new 20 minute peak time in-depth local news programme, leading to a significant increase in the quality of Real Scotland's local news programming.

Higher quality Real station

7.15 Global will significantly invest in Real Scotland [✂]. Listeners will benefit from better content, better presentation and better production.[113]

An Appropriate Remedy

7.16 Given the limited scale of the SLC in Central Scotland and the costs of a divestment, Global considers there is no appropriate divestment remedy for Central Scotland.

7.17 However, if the CC still considers a divestment remedy is required, the only proportionate divestment remedy that the CC should contemplate for Central Scotland is Real XS. Real XS is an effective and appropriate remedy because:

(i) Real XS's share of listening hours in Central Scotland at 10% is proportionate to the size of the SLC;[114]

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[111] The commitment refers to this news programme being broadcast "*each week day during daytime after 7am*". Global intends to broadcast the programme at 18:40.

[112] See http://stakeholders.ofcom.org.uk/broadcasting/radio/formats-content/changes/format-changes-2013.

[113] As discussed further in the Listener Benefits Annex at Section 3.

[114] See Table 27 above.

(ii) Of the parties' stations in Central Scotland, Real XS has the second greatest share of its advertising revenue from non-contracted customers ([✂]%);[115] and

(iii) The loss of customer benefits associated with a divestment of Real XS is limited relative to Real, Smooth or Capital.

Divestment of Real, Smooth or Capital would be highly costly for listeners

7.18 Divestment of Real, Smooth or Capital would be highly costly for listeners because:

(i) they would lose the dedicated Scottish peak time news programme as well as the dedicated Scottish political editor and reporting staff.

(ii) Were Real to be divested, listeners would lose the benefits [✂], including better content, better presentation and better production.

Divestment of Real, Smooth or Capital would be highly costly for advertisers

7.19 Even without taking into account listener benefits and the value to advertisers of increased quality networks, Table 28 demonstrates that the divestment of Capital, Real or Smooth would cost significantly more in lost advertiser discounts (approximately £[✂], [✂] respectively) or equal any potential detriment from an SLC estimated at £[✂]. A full analysis of these lost benefits is provided in the Advertiser Benefits Annex.

Table 28
Customer benefits lost due to station divestments: Central Scotland

Station	Current network discounts lost (CY 2012)	Lost additional Heart/ Real discount	Lost Heart/Real/ Smooth discount	Lost Gold/ Smooth discount	Lost non contracted multi-brand discounts	Total lost benefit
Capital FM Scotland	[✂]				[✂]	[✂]
Real Radio Scotland	[✂]	[✂]			[✂]	[✂]
Real Radio XS (Glasgow)	[✂]				[✂]	[✂]
Smooth Radio Glasgow 105.2	[✂]		[✂]	[✂]	[✂]	[✂]

Source: Global & RSL transaction data (Oct 2011 - Sep 2012) and NMR data (Jan 2012 - Dec 2012). For detailed methodology, see the Advertiser Benefit Annex.

[115] See Table 25 above.

Divestment of Capital, Real or Smooth would be highly costly for contracted advertisers

7.20 The reduced geographic scope of the [✂] networks would lower the quality of the networks and make them less attractive to contracted advertisers for airtime giving rise to substantial customer detriment:

(i) The divestment of Capital Scotland would reduce the post-merger Capital network's coverage by [✂]%.[116]

(ii) The divestment of Real Scotland would reduce the post-merger [✂] network's coverage by [✂]%.[117]

(iii) The divestment of Smooth Glasgow would reduce the new Smooth network's post-merger coverage by [✂]%.[118]

7.21 Such a divestment would result in a significant loss of single-network discounts for contracted customers on the Capital, Real or Smooth networks due to a reduced network size.

(i) The loss of Capital Scotland would result in the following costs to customers:

(a) Contracted customers using the Capital network would be likely to lose £[✂] in network discounts from the absence of this station alone.[119]

(ii) The loss of Real Scotland would result in the following costs to customers:

(a) Contracted customers using the Real network would be likely to lose £[✂] in network discounts from the absence of this station alone.[120]

(b) Contracted customers would lose the opportunity to receive additional lower advertising prices (an additional network discount of [✂]%) through Heart and Real combined network discount of £[✂].[121]

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[116] RAJAR W3 2012 (12 months). Reach includes out-of-analogue area listening via DAB, online and digital TV.

[117] RAJAR W3 2012 (12 months). Reach includes out-of-analogue area listening via DAB, online and digital TV.

[118] RAJAR W3 2012 (12 months). Reach includes out-of-analogue area listening via DAB, online and digital TV. [✂]

[119] The value of lost discounts from current network bookings has been calculated by Global using its transaction data. Global has calculated the total value of network bookings for each agency during 2012 and then applied the relevant level of network discount in each agency's contract to calculate the total value of network discounts during this period.

[120] The value of lost discounts from current network bookings has been calculated by Global using its transaction data. Global has calculated the total value of network bookings for each agency during 2012 and then applied the relevant level of network discount in each agency's contract to calculate the total value of network discounts during this period.

(iii) The loss of Smooth Glasgow would result in the following costs to customers:

(a) Contracted customers using the Smooth network would be likely to lose £[✂] in network discounts from the absence of this station alone.[122]

(b) Contracted customers would lose the opportunity to receive additional lower advertising prices through combined network discounts of £[✂].[123]

Divestment of Real, Smooth or Capital would be costly for purchasers of national S&P

7.22 The reduced geographic scope of the Capital, Real or Smooth networks would lower the quality of the networks and make them less attractive to purchasers of national S&P.[124] Customers could no longer purchase a national S&P campaign covering Capital, Real or Smooth in Central Scotland. This would result in a significant loss in benefits to advertisers in addition to those set out in Table 28 above.

Divestment of Real, Smooth or Capital would be costly for non-contracted advertisers

7.23 The divestment of these core stations would also give rise to significant costs for non-contracted advertisers. They would lose the opportunity of receiving lower advertising prices through single region multi-brand discounts resulting from Cournot pricing efficiencies (in line with the logic of the OFT's 2008 *Global/GCap* decision). Global estimates that were it to have to divest Capital, Real or Smooth in the Scotland, non-contracted customers would suffer substantially from the loss of additional discounts that would have been obtained from offering a bundle of Capital, Real or Smooth slots to non-contracted customers.

7.24 Global has estimated these costs at £[✂], [✂] being the loss of a 5% discount for Capital, Real or Smooth advertisers purchasing both Global and RSL stations in Central Scotland.[125]

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[121] The total value of each category of "additional" network discounts has been calculated using the methodologies described in the Advertiser Benefits Annex. Those additional discounts have been apportioned to individual stations on the basis of their share of contracted airtime revenue amongst the relevant stations for each type of discount.

[122] The value of lost discounts from current network bookings has been calculated by Global using its transaction data. Global has calculated the total value of network bookings for each agency during 2012 and then applied the relevant level of network discount in each agency's contract to calculate the total value of network discounts during this period.

[123] The total value of each category of "additional" network discounts has been calculated using the methodologies described in the Advertiser Benefits Annex. Those additional discounts have been apportioned to individual stations on the basis of their share of contracted airtime revenue amongst the relevant stations for each type of discount.

[124] A full explanation of any divestment's impact on purchaser of national S&P is explained further in the Advertiser Benefits Annex at Section 4.

[125] A full explanation of Global's methodology is in the Advertiser Benefit Annex at Section 2.

Table 29
Summary of lost customer benefits associated with each divestment

Estimated SLC in Central Scotland	£[✂]
Cost of divesting Capital FM Scotland	
Lost discounts for advertisers	
Current network discounts lost	£[✂]
Lost opportunity for non-contracted multi-brand discounts	£[✂]
Total lost discounts	£[✂]
Lost benefits to listeners	
Loss of dedicated Scottish peak time news programme as well as the dedicated Scottish political editor and reporting staff	Significant lost benefit to listeners
[✂]	[✂]
Lost other benefits to contracted advertisers	
Reduced geographic scope for the Capital network	[✂]% loss in network coverage
Inability to purchase a national S&P campaign covering Capital Scotland	[✂]% loss in network coverage

Estimated SLC in Central Scotland	£[✂]
Cost of divesting Real Scotland	
Lost discounts for advertisers	
Current network discounts lost	£[✂]
Lost opportunity for additional discount [✂]	£[✂]
Lost opportunity for non-contracted multi-brand discounts	£[✂]
Total lost discounts	£[✂]
Lost benefits to listeners	
Loss of dedicated Scottish peak time news programme as well as the dedicated Scottish political editor and reporting staff	Significant lost benefit to listeners
[✂]	[✂]
Lost other benefits to contracted advertisers	
Reduced geographic scope [✂]	[✂]% loss in network coverage
Inability to purchase a national S&P campaign covering Real Radio Scotland	[✂]% loss in network coverage

Estimated SLC in Central Scotland	£[✂]
Cost of divesting Smooth Glasgow	
Lost discounts for advertisers	
Current network discounts lost	£[✂]
Lost opportunity for additional multi-network discounts [✂]	£[✂]
Lost opportunity for additional discount [✂]	£[✂]
Lost opportunity for non-contracted multi-brand discounts	£[✂]
Total lost discounts	£[✂]
Lost benefits to listeners	
Loss of dedicated Scottish peak time news programme as well as the dedicated Scottish political editor and reporting staff	Significant lost benefit to listeners
Loss of a relaunched higher quality Smooth network for listeners	Significant lost benefit to listeners
Lost other benefits to contracted advertisers	
Reduced geographic scope for the Smooth network	[✂]% loss in network coverage
Inability to purchase a national S&P campaign covering Smooth Glasgow	[✂]% loss in network coverage