

**Global Radio / Real and Smooth Limited**

**RESPONSE OF GLOBAL TO  
THE COMMISSION'S NOTICE OF POSSIBLE REMEDIES**

**ADVERTISER BENEFITS ANNEX**

**Summary**

This annex sets out the relevant customer benefits for contracted and non-contracted advertisers, explains how these benefits are merger-specific and, where practicable, estimates the value of these benefits. In particular:

**1. LOWER ADVERTISING PRICES FOR CONTRACTED ADVERTISERS**

- A. Likely increased network discounts on [§§].
- B. Likely increased network discounts on [§§].
- C. Likely increased multi-network discounts [§§].

**2. LOWER ADVERTISING PRICES FOR NON-CONTRACTED ADVERTISERS**

- A. Likely increased single-region, multi-brand discounts.
- 3. [§§]
- 4. [§§]

**5. BENEFITS FOR CONTRACTED ADVERTISERS FROM HIGHER QUALITY S&P OPTIONS [§§]**

These benefits will accrue as a result of the creation of the relevant merger situation and within a reasonable period.

These benefits will not accrue, or are unlikely to accrue, without this merger.

There are also costs for contracted advertisers if the CC were to require divestment of a main regional station. In particular:

- (i) Reduced geographic coverage scope of the [§§] networks would lower the quality of the networks and make them less attractive to contracted advertisers for both airtime and national S&P.
- (ii) Contracted advertisers would no longer generate network discounts from airtime on any divested station.
- (iii) Contracted advertisers would no longer be able to run national S&P campaigns on any divested station.

There are also costs for non-contracted advertisers if the CC were to require the divestments of a main regional station, in particular the loss of single region, multi-brand discounts.

This annex will address each of these benefits and costs in turn.

## LOWER ADVERTISING PRICES FOR CONTRACTED AND NON-CONTRACTED ADVERTISERS - GENERAL PRINCIPLES

1. Lower prices are a relevant customer benefit.<sup>1</sup>

*Global has an incentive post-merger to offer lower advertising prices due to Cournot effects*

2. As explained at the hearing and following the logic set out in the OFT's *Global/GCap* decision, Global will have an incentive post-merger to offer lower prices [☒]. Where pre-merger Global and RSL sell complements, post-merger Global will have increased incentives to reduce the price of those complements.
3. As noted in *Global/GCap*, mergers involving complementary radio stations allow the merged entity to price bundles of its complementary networks (or complementary radio stations in a single region) more efficiently, from the view-point of advertisers, than the parties independently. These demand-side efficiencies arise when products are complements such that lowering the price of one product increases demand for it and for other products that are used with, but not instead of, the first product (for example, airtime on geographically or demographically complementary radio stations).<sup>2</sup>
4. Following this logic, by having portfolios of radio stations under common ownership, Global will be incentivised to lower prices in the bundle because common ownership internalises the positive effect of a fall in the price of one station on sales of the others. Therefore, it will be profit-maximising for Global to sell complementary radio stations at a lower combined price than the customer would have paid to assemble the same bundle from Global and RSL. This effect occurs even without any additional savings from reduced transaction costs.<sup>3</sup>
5. The OFT in *Global/GCap* accepted the likelihood that a merger between radio station operators would give rise to demand side efficiencies in the form of Cournot effects. Due to the structure of that deal, the OFT's analysis was limited to multi-station discounts in London (essentially combining Heart, Capital and LBC). However, the same reasoning applies even more strongly to geographically complementary stations as those stations are more clearly complements and are regularly used by contracted advertisers together to form effective campaigns with national coverage.

<sup>1</sup> Enterprise Act 2002, s30(1)(a)(i).

<sup>2</sup> See *Global/GCap* OFT decision, paras 156-157.

<sup>3</sup> See *Global/GCap* OFT decision, paras 157 and 158.

The benefits will be passed on to advertisers

6. The OFT in the *Global/GCap* decision recognised that this pricing efficiency will be passed on regardless of whether, post-merger, there is the same extent of rivalry within the market “since the pass-on of Cournot effects is in some sense ‘automatic’”.<sup>4</sup> Further, the OFT concluded that the demand side efficiencies were “likely to be passed on to customers given the parties have the economic incentive to do so: it is profit maximising to lower the bundled price without regard to rivals’ reactions...”.<sup>5</sup>

Lower advertising prices would not occur without the merger

7. Without the merger, there is no such incentive to lower price because Global will not reap the full benefit of the increased sales of the other stations. In fact, as the OFT notes:<sup>6</sup>

*“the parties already offer multi-station campaign discounts for all of their own radio stations, so it is irrefutable logic that further, incremental discounts on a bundle can only come from adding radio stations owned by someone else (absent the merger).”*

The OFT's assessment that pricing efficiencies are likely to arise

8. In *Global/GCap*, the OFT applied a two-stage test to conclude that pricing efficiencies were likely to arise.
  - (i) Stage 1 - Identify advertisers using radio stations in a complementary fashion. The OFT calculated the number of advertisers using a number of radio stations as part of a bundle - i.e. together for the same campaign.
  - (ii) Stage 2 - Identify current multi-station discounts. The OFT calculated the scale of discounts currently given to advertisers buying bundles of stations. This evidence was then used by the OFT to infer that advertisers buying the parties' stations together would benefit from similar discounts in the future.
9. Therefore, the OFT considered that this evidence was “sufficiently compelling” to show that demand-side efficiencies were “demonstrable”, “would arise within a reasonable period of time” and were “merger-specific”.<sup>7</sup>

<sup>4</sup> See *Global/GCap* OFT decision, para 159 and footnote 39. Also see para 164: “...the Guidance’s general comment that rivalry is required to ensure pass-on to customers is inapplicable in this particular context”.

<sup>5</sup> See *Global/GCap* OFT decision, para 164.

<sup>6</sup> See *Global/GCap* OFT decision, para 163.

<sup>7</sup> See *Global/GCap* OFT decision, para 163.

10. Global applies this two stage test in each of the following sections in order to demonstrate that these demand side efficiencies are likely to arise in this case.

## 1. LOWER ADVERTISING PRICES FOR CONTRACTED ADVERTISERS

### A. Increased network discounts for contracted advertisers on the Heart and Real networks

#### Summary

- 1.1 Global is incentivised to offer increased network discounts for contracted advertisers on the Heart and Real networks post-merger.
- 1.2 Global considers that these discounts are most likely to take the form of an additional discount for advertisers [§]. This will be in addition to discounts already offered for advertisers purchasing the current Heart network or current Real network on their own.
- 1.3 This incentive arises because the merger will bring together the current Heart network and the current Real network under single ownership. This differs from the current contracted market structure in which Global acts as sales agent for RSL. As acknowledged by the OFT in *Global/GCap* this will give Global the incentive to offer additional discounts to customers in order to internalise the “Cournot pricing efficiencies” described in the previous section. Global’s incentives will differ from the pre-merger scenario as it will benefit from 100% of any uplift in sales on Real stations resulting from changes to its pricing [§].<sup>8</sup>
- 1.4 The OFT’s test in *Global/GCap* is met in this case because Heart and Real are complements and because Global’s practice is to give network discounts for network bookings.
- 1.5 Absent the merger, a Heart and Real network discount is not likely to be offered as Global would not be incentivised to introduce this discount.
- 1.6 Any divestment of a Real or Heart station will result in the loss of at least part of these benefits to advertisers.

#### Heart and Real are complements

- 1.7 Heart and Real stations are geographically complementary (with a limited exception for part of North Wales where they overlap). This means they are regularly used by contracted advertisers in conjunction with one another to form more effective “national campaigns” than would be achieved using either network individually.
- 1.8 In line with the OFT’s *Global/GCap* decision, RBB calculated the revenues of advertisers that purchase Heart and Real stations together currently.<sup>9</sup> RBB has also

<sup>8</sup> [§]

<sup>9</sup> RBB has calculated the total revenues attributable to campaigns that use Heart and Real together to form effective national campaigns using both parties’ campaign level transaction data.

calculated the revenues attributable to "network campaigns" that use both stations - i.e. campaigns that use the full Heart and Real networks together to form effective national campaigns.

**Table 1**  
**Contracted revenues attributable to campaigns**  
**using Heart and Real (airtime)**

Category	Contracted airtime revenues from campaigns using Heart and Real stations together	Contracted airtime revenues from campaigns using the full Heart and Real networks together
Total revenues	[£]	[£]
of which attributable to Heart	[£]	[£]
of which attributable to Real	[£]	[£]

Source: *Global & RSL transaction-level data, Oct 2011-Sep 2012. Campaigns utilising both Heart and Real are identified by common campaign numbers across both Global and RSL datasets. A 'network campaign' is defined as one that uses at least all but one stations in the given network (e.g. a Heart network campaign would use at least 16 out of the 17 Heart stations available in the transaction data held by the CC). Heart Anglesey & Gwynedd and Heart North West & Wales are treated as if they were as a single station.*

1.9 This demonstrates that:

- (i) There are significant numbers of advertisers using these stations together at present. Airtime revenues from campaigns using elements of the Heart and Real networks together are estimated to be £[£] - i.e. around half of all contracted airtime revenues.
- (ii) Airtime revenues from network campaigns using both the entire Heart and Real networks together are estimated to be £[£] - i.e. around a quarter of all contracted airtime revenues.
- (iii) The first element of the OFT's two stage test is therefore met in this case - there are significant numbers of advertisers using these stations in a complementary fashion (i.e. to form effective national campaigns).

*Contracted network discounts are a key feature of Global's business model*

1.10 Global actively employs network discounts to encourage advertisers to buy geographically complementary stations together. Network discounts for contracted customers are fundamental to Global's business model and strategy of attracting spend from contracted customers.

- 1.11 Since 2010, Global put in place a policy of incentivising spend through giving a discount for buying the whole network. Average network discounts have increased from [X]% to [X]% on Heart and from [X]% to [X]% on Capital.<sup>10</sup> In this same period, the number of full network campaigns (incentivised by these increased network discounts) have increased from [X] campaigns to [X] campaigns on Heart and [X] campaigns to [X] campaigns on Capital. Now, over [X]% of Global's contracted revenue is on a network basis (i.e. the entire Heart network or the entire Capital etc).<sup>11</sup>
- 1.12 The second stage of the OFT's test is therefore met in this case - Global currently offers additional discounts for network buys and would have the incentive to do so to a greater extent post-merger [X] in order to benefit from additional Cournot pricing efficiencies.

*These benefits will be passed on to advertisers through an additional discount*

- 1.13 Discounts are most likely to take the form of an additional [X]% discount for advertisers [X], which equates to £[X] - [X]. This will be in addition to the [X] discounts already offered for advertisers purchasing the current Heart network or current Real network on their own.
- 1.14 Global considers that [X]% is a minimum estimate of the likely additional discount [X] because the Heart network is currently popular with contracted advertisers [X]. While Global will be incentivised to offer a further discount [X], the size of the discount will be constrained by the Heart network's higher fill rates. Therefore, [X]% is a conservative and reasonable estimate of the additional discount Global would likely offer post-merger.

*These discounts would not occur without the merger*

- 1.15 Global and RSL do not currently offer discounts to contracted advertisers who purchase airtime on both the Heart and Real networks (for example, to create near-national coverage). Even though Global operates as a sales house for both Global and RSL, a Heart and Real network discount is not currently offered, and is not likely to be offered in the future, absent the merger, as Global is not incentivised to introduce this discount. This is because Global would have to fund the discount - via price reduction, on its Heart stations - whilst only receiving on average [X]% of the benefit (from sales commission) from any increase in sales by Real.

<sup>10</sup> Weighted average network discount from 2010 to 2012. Global have had network discounts for a long period of time. However, it was only in 2010 that Global focused on the network discount as a key strategy, increased discounts on some deals (generally aiming for [X]%) and saw a huge uplift in network bookings as a consequence.

<sup>11</sup> Global FY2012.

The value of discounts is likely to be significant

1.16 This additional discount will benefit a majority of contracted customers. Moreover the scale of discounts is likely to be significant. [☒] The following contracted advertisers will benefit from this discount:

- (i) Advertisers that already buy the entirety of both the Heart and Real networks to achieve their desired national coverage [☒]. These advertisers currently spend approximately £[☒] per annum on Heart and Real (see Table 1). The value of an additional [☒]% discount would be £[☒].
- (ii) Advertisers that use the Heart network and do not currently purchase any airtime on Real, [☒].

[☒]

1.17 [☒]

**B. Increased network discounts for contracted advertisers on the Smooth and Gold networks**

Summary

- 1.18 Global intends to offer increased network discounts for contracted advertisers on the Smooth and Gold networks.
- 1.19 Global considers that these discounts are most likely to take the form of an additional minimum [X]% discount for advertisers [X], which equates to £[X]. This will be in addition to discounts already offered for advertisers purchasing the current Smooth network (on average of circa [X]%) or current Gold network (on average [X]) on their own. [X] As set out below, the OFT's test in *Global/GCap* is met in this case because [X] are geographical complements and because Global's practice is to give network discounts for full network bookings.
- 1.20 The merger will bring together the current Gold network and the current Smooth network under single ownership. This differs from the current contracted market structure in which Global acts as sales agent for RSL. As explained in sections 1(A) and 1(B) above, and as acknowledged by the OFT's *Global/GCap* decision, Global has a greater incentive, post merger, to offer contracted customers a further discount for buying airtime [X].
- 1.21 Absent the merger, a Smooth and Gold network discount is not likely to be offered as Global would not be incentivised to introduce this discount.
- 1.22 Any divestment of a Smooth or Gold station will result in the loss of at least part of these benefits to advertisers.

Smooth and Gold are complements

- 1.23 The Smooth and Gold stations [X] are geographically complementary. They are regularly used by contracted advertisers in conjunction with one another to form more effective "multi-region campaigns" targeting an older audience than would be achieved using either station individually.
- 1.24 In line with the OFT's *Global/GCap* decision, RBB has calculated the campaign revenues of advertisers that purchase Smooth and Gold stations together. RBB has in particular calculated the total revenues attributable to campaigns that use Smooth and Gold stations together using both parties' campaign level transaction data. RBB has also calculated the revenues attributable to "network campaigns" that use both stations - i.e. campaigns that use the full Smooth and Gold networks together.

**Table 2**  
**Contracted revenues attributable to campaigns**  
**using Smooth and Gold (airtime)**

Category	Contracted airtime revenues from campaigns using Smooth and Gold	Contracted airtime revenues from campaigns using Smooth and Gold full networks together
Total airtime revenues	[£]	[£]
of which attributable to Gold	[£]	[£]
of which attributable to Smooth	[£]	[£]

Source: *Global & RSL transaction-level data, Oct 2011 - Sep 2012. Campaigns utilising both Smooth and Gold are identified by common campaign numbers across both Global and RSL datasets. A 'network campaign' is defined as one that uses at least all but one stations in the given network (e.g. a Gold network campaign would use at least 14 out of the 15 Gold stations available).*

1.25 This demonstrates that:

- (i) Contracted airtime revenues from campaigns using elements of the Smooth and Gold networks together are estimated to be £[£].
- (ii) Contracted airtime revenues from network campaigns using the entire Smooth and Gold networks together are estimated to be £[£].
- (iii) The first element of the OFT's two stage test is therefore met in this case - there are a significant number of advertisers using these stations in a complementary fashion.

*Contracted network discounts are a key feature of Global's business model*

- 1.26 As discussed in paragraphs 1.10 to 1.12, network discounts for contracted customers are fundamental to Global's business model and strategy of attracting spend from contracted customers.
- 1.27 The second stage of the OFT's test is therefore met in this case - Global currently offers additional discounts for network buys and would have the incentive to do so to a greater extent going forward [£] in order to benefit from additional Cournot pricing efficiencies.

*These benefits will be passed on to advertisers through an additional [£]% discount*

- 1.28 Discounts are most likely to take the form of an additional [£]% discount for advertisers [£]. This will be in addition to discounts already offered for advertisers purchasing the current Smooth network or current Gold network on their own.

- 1.29 Global considers that an additional [☒]% discount is an appropriate and reasonable discount because Global's experience from its previous discounting practice is that [☒].

*These discounts would not occur without the merger*

- 1.30 Global and RSL do not currently offer discounts to contracted advertisers who purchase airtime on both the Smooth and Gold networks (for example, to create quasi-national coverage). Even though Global operates as a sales house for both Global and RSL, a Gold and Smooth discount is not currently offered or likely to be offered in the future, absent the merger as Global is not incentivised to introduce this discount. This is because RSL would have to, in effect, fund a significant share of the discount - via price reduction on its Smooth stations - whilst not receiving any of the revenues from increased sales on Gold.

*The value of discounts is likely to be significant*

- 1.31 This additional discount will benefit a majority of contracted customers. Moreover the scale of discounts is in each case likely to be significant. [☒] The following contracted advertisers will benefit from this discount:

- (i) *Advertisers that currently buy the entirety of both the Smooth and Gold networks to achieve their desired coverage.* RBB has calculated that these advertisers currently spend approximately £[☒] (see Table 2). The value of an additional [☒]% discount would be £[☒].
- (ii) *Advertisers that do not use both networks together currently.* [☒].
- (iii) *Advertisers that use part of the Gold or Smooth networks currently and may be incentivised to buy all of both networks in the future.* [☒]

*Divestment will result in the loss of at least part of these discounts*

- 1.32 Any divestment of a Smooth or Gold station will result in the loss of at least part of these benefits to advertisers [☒].

**C. Increased multi-network discounts for contracted advertisers [☒]**

- Summary
- 1.33 In addition to the increased single network discounts, Global is incentivised to offer increased multi-network discounts for contracted advertisers [☒].
  - 1.34 [☒]
  - 1.35 The merger will bring together the current Heart network and the current Smooth and Gold networks under single ownership. This differs from the current contracted market structure in which Global acts as sales agent for RSL. As explained in sections 1(A) and 1(B) above, and as acknowledged by the OFT's *Global/GCap* decision, Global has a greater incentive, post merger, to offer contracted customers a discount for buying airtime on both networks combined as these stations have complementary demographics.
  - 1.36 As set out below, the OFT's test in *Global/GCap* is met in this case because Smooth and Heart are complements and because Global's practice is to give network discounts for full network bookings.
  - 1.37 [☒]
  - 1.38 Any divestment of a Heart or Smooth station will result in the loss of at least part of these benefits to advertisers and reducing the actual discount amount to advertisers.

Heart and Smooth are complements for some advertisers

- 1.39 The [☒] Heart and Smooth networks are demographically complementary. They can be used in conjunction with one another to form more effective "multi-station campaigns" targeting a large middle to older audience than would be achieved using either station individually.
- 1.40 In line with the OFT's *Global/GCap* decision, RBB has calculated the campaign revenues of advertisers that purchase the [☒] Heart and Real stations and Smooth stations together.<sup>12</sup> RBB has also calculated the revenues attributable to "network campaigns" that use these stations - i.e. campaigns that use the Heart, Real and Smooth networks together (see Table 3 below for results).

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<sup>12</sup> RBB has in particular calculated the total revenues attributable to campaigns that use Smooth, Heart and Real together using both parties' campaign level transaction data.

**Table 3**  
**Contracted revenues attributable to campaigns**  
**using Heart, Real and Smooth (airtime)**

Category	Contracted airtime revenues from campaigns using Heart, Real and Smooth	Contracted airtime revenues from campaigns using Real, Heart and Smooth full networks
Total revenues	[£]	[£]
of which attributable to Heart	[£]	[£]
of which attributable to Real	[£]	[£]
of which attributable to Smooth	[£]	[£]

Source: *Global & RSL transaction-level data, Oct 2011 - Sep 2012. Campaigns utilising all of both Heart, Real and Smooth are identified by common campaign numbers across both Global and RSL datasets. A 'network campaign' is defined as one that uses at least all but one stations in the given network (e.g. a Heart network campaign would use at least 16 out of the 17 Heart stations available in the transaction data set sent to the CC). Heart Anglesey & Gwynedd and Heart North West & Wales are considered as a single station.*

1.41 This demonstrates that:

- (i) Contracted airtime revenues from campaigns using elements of the Heart, Real and Smooth networks together are estimated to be £[£].
- (ii) Contracted airtime revenues from network campaigns using the full Heart, Real and Smooth networks are estimated to be £[£].
- (iii) The first element of the OFT's two stage test is therefore met in this case - there are significant numbers of advertisers using these stations in a complementary fashion.

*Contracted network discounts are a key feature of Global's business model*

1.42 As discussed in paragraphs 1.10 to 1.12, network discounts for contracted customers are fundamental to Global's business model and strategy of attracting spend from contracted customers.

1.43 Notably, Global also applies multi-network discounts for contracted customers. [£]

- (i) [£]% of Global's contracted customers purchase airtime on both the full Heart and Capital networks. [£]. Further, Global's incentive for further multi-network discounts is greater for Heart and Smooth because [£],

- (ii) [§]% of RSL's contracted customers purchase airtime on both the full Real and Smooth networks.<sup>13</sup>
- 1.44 The second stage of the OFT's evidentiary test is therefore met in this case - Global and RSL currently offer discounts for multi-network buys and would have the incentive to do so to a greater extent going forward on Heart and Smooth in order to benefit from additional Cournot pricing efficiencies.
- These benefits will be passed on to advertisers through an additional [§]% discount [§]*
- 1.45 Global considers that those discounts are most likely to take the form of an additional [§]% discount [§]. This will be in addition to discounts already offered for advertisers purchasing the [§] Smooth network or the Heart network on their own.
- 1.46 Global currently offers a [§]% discount on the Smooth network. Adding an additional [§]% discount (total [§]%) for purchasing the full Heart and Smooth networks would match the current discount Global offers contracted customers for buying the entire Heart and Capital networks.
- 1.47 This discount is only likely to apply to Smooth revenues rather than the full bundle due to [§].

*These discounts would not occur without the merger*

- 1.48 Global and RSL do not currently offer discounts to contracted advertisers who purchase airtime on both the Heart and the Smooth networks. Even though Global operates as a sales house for both Global and RSL, a Heart and Smooth discount is not currently offered, or likely to be offered in the future absent the merger, as RSL would not get the benefit of any uplift in Heart sales from such a combination. This means there is currently no additional discount for advertisers buying both Heart and Smooth.

*The value of discounts is likely to be significant*

- 1.49 This additional discount will benefit a significant number of contracted customers. The scale of discounts is in each case likely to be significant. [§] The following contracted advertisers will benefit from this discount.
- (i) *Advertisers that buy the entirety of the Heart, Real and Smooth networks to achieve their desired coverage.* RBB has calculated that the revenues attributable to campaigns using a bundle of Heart, Real and Smooth networks is £[§] (see Table 3). £[§] of this is attributable to revenues on Smooth stations. The value of a [§]% discount on those Smooth revenues is £[§].

<sup>13</sup> [§] out of [§] RSL contracted airtime customers have run (at least) one campaign on both the full Real and Smooth networks over the period October 2011 to September 2012.

- (ii) Advertisers that use the entirety of the Heart and Real networks but do not purchase any airtime on Smooth, but would be likely to use Smooth as a result of the discount [§]. Global considers that there is likely to be a significant uplift in advertisers purchasing the full Smooth network following the implementation of this discount. If, conservatively, an uplift of [§]% in Smooth network bookings is applied (in line with paragraph 1.16(ii)) this would equate to additional network revenues of £[§] and an additional benefit of £[§] to advertisers (in the form of additional discounts).

*Divestment will result in the loss of at least part of these discounts*

- 1.50 Any divestment [§] will result in Global no longer being incentivised to offer a multi-network discount across the relevant retained and divested stations and reducing the actual discount amounts to advertisers.

## 2. LOWER ADVERTISING PRICES FOR NON-CONTRACTED ADVERTISERS

### A. Expanded single region, multi-brand discounts for non-contracted customers

#### Summary

- 2.1 Global will be incentivised to offer multi-brand discounts to non-contracted advertisers buying more than 1 brand within a single region.
- 2.2 Global considers that these discounts are most likely to take the form of a minimum [§§]% discount for advertisers that purchase more than one station. Global has analysed the current discounts received by non-contracted advertisers buying single-region, multi-brand campaigns. This analysis has shown that, on average, these advertisers receive an additional [§§]% discount. This amount also accords with Global's existing pricing practice which would be to offer an additional [§§]% discount for adding a further brand or station to a campaign.
- 2.3 The merger will bring together a number of different radio stations at the regional level (e.g. Global's Heart and Capital brands with RSL's Smooth and Real brands). As explained in section 1(A) and 1(B) above, as acknowledged by the OFT's *Global/GCap* decision, Global has a greater incentive, post merger, to offer non-contracted customers a discount for buying airtime on both networks because most non-contracted advertisers will view these brands as complementary. Although most non-contracted advertisers attach importance to the demographic target of a radio station,<sup>14</sup> some do not and may use radio stations together to reach a wider audience. The merger will enable Global to offer non-contracted advertisers who wish to target a wide demographic within a region the opportunity of buying a bundle of slots [§§]. As set out below, the OFT's test in *Global/GCap* is met in this case because the parties' stations are regarded as complements for most non-contracted advertisers and because Global's practice is to give discounts for multi-station single region bookings.
- 2.4 Absent the merger, Global will not be able to offer such multi-brand discounts to non-contracted advertisers.
- 2.5 Any divestment will result in the loss of at least part of the benefits to non-contracted advertisers.

#### The parties' brands are complements for some advertisers

- 2.6 The parties' brands are demographically complementary for some advertisers. This means they are used by some non-contracted advertisers in conjunction with one another to form more effective "multi-brand campaigns" targeting a larger overall audience than would be achieved using either parties' brands individually.

<sup>14</sup> As recognised by the CC at paragraph 6.64 of the Provisional Findings.

- 2.7 In line with the OFT's *Global/GCap* decision, RBB has calculated the campaign revenues of advertisers that purchase the parties' brands together.<sup>15</sup> All advertisers that use the parties' brands in the same month are assumed to use them for the same campaign. This is reasonable for non-contracted advertisers as they will tend to undertake campaigns less frequently. Advertisers using two stations in the same month are therefore highly likely to be using them together for campaigns to improve the total reach of that campaign (i.e. in a complementary fashion). A total value of revenues associated with campaigns using both parties' stations is then calculated using the parties' transaction data. This is preferred to NMR data which does not accurately record the value of advertisers' spend on stations.

**Table 4**  
**Non-contracted revenues attributable to campaigns**  
**using both parties' stations by region**

Region	Global		RSL	
	Estimated total value of "overlap" revenues on Global stations (Global transaction data)	% of Global non-contracted revenues using both parties' stations in region (NMR data)	Estimated total value of "overlap" revenues on RSL stations (RSL transaction data)	% of RSL non-contracted revenues using both parties' stations in region (NMR data)
East Midlands	[£]	5%	[£]	6%
North Wales	[£]	4%	[£]	5%
South Wales	[£]	16%	[£]	14%
North East	[£]	14%	[£]	8%
North West	[£]	7%	[£]	5%
Yorkshire	[£]	5%	[£]	4%
Scotland	[£]	29%	[£]	14%
<b>Total</b>	[£]	-	[£]	-

Source: NMR data (Jan 2012 - Dec 2012), Global & RSL transaction-level data (Oct 2011 - Sep 2012). An advertiser is defined as using both parties' stations for the same campaigns if they have positive spend in NMR on those stations in the same month. Percentages are taken as the total NMR spend of campaigns using both parties' stations in the same month over the total non-contracted NMR spend in that region. Those

<sup>15</sup> As the parties' transaction data cannot be linked for non-contracted advertisers, NMR data has been used for this exercise.

*percentages are then applied to transaction data to calculate revenue estimates. Note that a significant share of RSL revenues are attributed to the RSL designated region "Wales Total Area", which is not included in this table.*

2.8 This demonstrates that:

- (i) Based on NMR data an estimated [§]% of Global revenues and [§]% of RSL revenues are attributable to advertisers using both parties' stations together (i.e. in the same month).
- (ii) Using transaction data the total value of revenues associated with these campaigns is estimated to be £[§] for Global stations and £[§] for RSL stations (£[§] together).
- (iii) The first element of the OFT's two stage test is therefore met in this case - there are significant numbers of advertisers using these stations in a complementary fashion.

*Global offers discounts on airtime involving multiple brands*

- 2.9 Where Global currently operates stations in the same region, Global uses multi-station discounts to attract spend from non-contracted customers.
- 2.10 Global currently operates Gold stations alongside its Heart stations in a number of regions. In these areas, Global operates a discounted airtime package including airtime on Heart and Gold at a significant discount (the Limited Edition package).
- 2.11 Limited Edition is offered to low spending regional advertisers (on average £[§] per year) who typically advertise in local press and is an annual advertising program, at the transmitter level, which bundles Heart or Capital with Gold.
- 2.12 Limited Edition customers receive a significant discount from rate card prices ([§]%) plus a share of available bonus airtime. The inclusion of bonus airtime currently results in an effective discount of more than [§]% for these customers from rate card prices. This compares to an average discount rate for non-contracted advertisers generally of [§]%.
- 2.13 Currently, [§]% of Global's non-contracted revenue is attributed to the Limited Edition programme.
- 2.14 In addition, in London, where Global operates a range of stations, Global offers airtime packages known as CGXL covering its smaller Choice, Gold, Xfm and LBC stations. [§]
- 2.15 The second stage of the OFT's test is met in this case - Global currently offers discounts for multi-station non-contracted buys and would have the incentive to do so to a greater extent going forward in order to benefit from additional Cournot pricing efficiencies.

*These benefits will be passed on to advertisers*

- 2.16 Global considers that those discounts are most likely to take the form of a discount of [§]% on multi-station bookings.

*These discounts would not occur without the merger*

- 2.17 Post-merger, Global will be incentivised to offer discounts to advertisers that purchase airtime on more than one station (e.g. Heart and Smooth). Global considers that in line with its current discounting practice a discount for a Heart and Smooth bundle of around [§]% would be appropriate to drive incremental sales across stations.
- 2.18 Global has analysed the current discounts received by non-contracted advertisers buying single-region, multi-brand campaigns. This analysis has shown that, on average, these advertisers receive an additional [§]% discount.

*The value of discounts is likely to be significant*

- 2.19 This additional discount will benefit the following sets of customers. The scale of discounts is in each case likely to be significant.

- (i) **Advertisers that currently purchase the parties' stations for the same campaign.** RBB has calculated the revenues attributable to campaigns currently using any of the parties' stations together using NMR data and transaction data. Across all regions, the revenues attributed to these campaigns is estimated to be £[§]. A discount of [§]% on these revenues is estimated to be worth £[§].
- (ii) **Advertisers that would purchase the parties' stations after discounts.** Global anticipates there to be a significant uplift in advertisers purchasing all stations following the implementation of this discount. If, conservatively, an uplift of [§]% in multi-station bookings is applied this would equate to an additional benefit of £[§] to advertisers (i.e. a [§]% discount on those additional revenues).

*Divestment will result in the loss of at least part of these discounts*

- 2.20 Any divestment of a Global or RSL station will result in the loss of at least part of these benefits to advertisers as Global will no longer be able to offer advertisers to buy complementary brands within a single region.

### 3. HIGHER QUALITY [✖] NETWORKS

#### A. [✖]

Summary

3.1 [✖]

3.2 [✖]

3.3 [✖]

3.4 [✖]

3.5 [✖]

3.6 [✖]

[✖]

3.7 [✖]

**Table 5**  
**Contracted customers buying Heart network**  
**campaigns but not using Real**

Clients with Heart network campaigns in 2012 that did not use Real in 2012	Campaign spend
[✖]	[✖]
[✖]	[✖]
[✖]	[✖]
[✖]	[✖]
[✖]	[✖]
[✖]	[✖]
[✖]	[✖]
[✖]	[✖]
[✖]	[✖]
[✖]	[✖]
[✖]	[✖]
[✖]	[✖]
[✖]	[✖]
[✖]	[✖]
[✖]	[✖]

Source: *Global transaction data.*

Absent the merger, the benefit will not arise

### 3.8 [X]

Divestment of Heart or Real stations will involve significant costs through this lost benefit

3.9 [✂]

**B. Higher quality Smooth network - [☒]**

Summary

3.10 [☒]<sup>16</sup>

3.11 [☒]

3.12 [☒]

3.13 [☒]

3.14 [☒]

Smooth's untapped potential and room for growth

3.15 [☒]

3.16 There is therefore currently low demand from contracted advertisers for Smooth. Smooth ranks 15<sup>th</sup> in London for reach and 13<sup>th</sup> in listening hours.<sup>17</sup>

The merger will create a higher quality Smooth network

3.17 [☒]

3.18 [☒]<sup>18</sup>

3.19 Developing the Smooth network will enable Global to offer national and regional advertisers a complementary advertising platform, targeting a different audience to that catered to by its key brands Capital, Heart and Classic FM.

3.20 While both Smooth and Classic FM tend to attract older listeners, the very different content of the stations (Classic FM plays classical music whilst Smooth plays soulful and easy listening music) means they attract different audiences with very little overlap: only 8% of Classic FM's audience also listen to Smooth.

3.21 [☒]

No investment in Smooth without the merger

<sup>16</sup> [☒]

<sup>17</sup> [☒]

<sup>18</sup> [☒]

3.22 [✖]

Divestment of Smooth stations will lose this benefit

3.23 [✖]

#### 4. INNOVATION AND A GREATER CHOICE [☒]

Summary

4.1 [☒]<sup>19</sup>

4.2 [☒]

4.3 [☒]

4.4 [☒]

4.5 [☒]

[☒]

4.6 [☒]

[☒]

4.7 [☒]

4.8 [☒]<sup>20</sup>

4.9 [☒]<sup>21</sup> As shown in Table 6, only 19% of Real's listeners and 20% of Heart's listeners are aged 15-24, compared to 34% for Capital.

**Table 6**  
**National Age Breakdown for Heart, Capital and Real Listeners**

Station	15-24	25-34	15-34	35-44	45-54	55-64	65+
Heart	20%	21%	41%	21%	21%	11%	7%
Real	19%	20%	39%	23%	22%	11%	5%
Capital	34%	24%	58%	19%	14%	5%	4%

Source: RAJAR data 2012 Q4.

4.10 [☒]<sup>22</sup>

<sup>19</sup> [☒]

<sup>20</sup> [☒]

<sup>21</sup> [☒]

<sup>22</sup> [☒]

- 4.11 The OFT has recognised in *Global/GCap* that station differentiation constitutes an advertiser benefit:

*"by changing radio stations' format and/or programming post-merger in a way that benefits listeners (that is by greater demographic specialisation by individual radio stations), combined radio stations can achieve a larger and more focussed total audience. The resulting airtime is therefore more valuable to advertisers seeking to reach a large, focussed demographic."*

- 4.12 [☒]

*Global's incentive to differentiate its stations is as a result of its common ownership [☒]*

- 4.13 [☒]

- 4.14 As recognised by the OFT in *Global/GCap*,<sup>23</sup> when radio stations are independently owned and competing, they commonly target the "median listener", i.e. they offer a general entertainment profile to appeal to as many listeners as possible. By contrast, as evidenced by Global's strategy subsequent to the acquisition of GCap, when a set of stations has one owner, this owner has the incentive to differentiate each of its stations to target more specific audiences so as to attract more listeners to its network as a whole.
- 4.15 Single ownership of several radio stations is therefore likely to increase the range of stations appealing to different tastes in a given area. These efficiencies were recognised in the context of the abolition of the local radio and cross-media ownership rules in 2011. As noted during related parliamentary debates:

*"If you are one owner with four stations it is in your own interest to make those stations different from each other as do the BBC with Radio 1, Radio 2, Radio 3, Radio 4 and Radio 5 and so on. At the moment, four separate owners all chase the same market and duplicate themselves. One owner would serve four markets, so already there is a gain to the public good."<sup>24</sup>*

- 4.16 The OFT recognised in *Global/GCap* that:

*"A further demand-side merger efficiency in a two-sided market such as radio can occur as a result of post-merger product or brand repositioning. The basic proposition is that by changing radio stations' format and/or programming post-merger in a way that benefits listeners (that is by greater demographic specialisation by individual radio stations), combined radio stations can achieve a larger and more focussed total audience. The resulting airtime is therefore*

<sup>23</sup> [☒]

<sup>24</sup> [☒]

*more valuable to advertisers seeking to reach a large, focussed demographic. This is also known as an indirect network effect or externality. Economic theory supports this argument, and this theory has been validated by empirical evidence specifically in relation to the radio broadcasting sector, albeit in a different jurisdiction. This suffices to rule out any concerns that such claims should in principle be dismissed as not being recognizable as efficiency claims.<sup>25</sup>*

- 4.17 The OFT further acknowledged that:

*"these demand-side brand re-positioning efficiencies would not be possible absent the merger because, absent the merger, there is an incentive on both parties (separately) to seek to capture as much demographic space as possible, effectively "chasing the middle ground". [...] As a result, it is only upon the bringing of the different stations under common ownership that it would be rational for the owner of those stations commercially to take the decision to differentiate the stations further in terms of demographic space. This claim gains weight, because it is consistent with the U.S. evidence on product repositioning of radio stations format that occurred after a wave of mergers following U.S. deregulation of ownership restrictions, but not before it."<sup>26</sup>*

- 4.18 [☒]

*Absent the merger, differentiation of radio stations would be unlikely to occur*

- 4.19 For the reasons set out above, absent the merger, Global and RSL would each have an incentive to target the median listener rather than differentiate their stations.

- 4.20 [☒]

*Divestment will result in the loss of this innovation and greater choice*

- 4.21 [☒]

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<sup>25</sup> [☒]

<sup>26</sup> [☒]

**5. BENEFITS FOR CONTRACTED ADVERTISERS FROM HIGHER QUALITY S&P OPTIONS [X]**

Summary

- 5.1 [X]
- 5.2 [X]
- 5.3 [X]
- 5.4 [X]

Innovative and higher quality S&P options for contracted advertisers

- 5.5 [X]
- 5.6 [X] networks with strong brands are more valuable to national contracted advertisers for S&P. As the CC accepts: "*radio groups with a national licence or wide geographic reach are more likely to attract national S&P.*"<sup>27</sup>
- 5.7 [X]
- 5.8 [X]
- 5.9 [X]
- 5.10 Moreover, as a result of RSL's weaker brand positioning, RSL only has a minor presence in S&P - its revenues from S&P bookings to large London agencies were only £[X] in the last financial year and its total number of S&P customers only [X] (by comparison, Global's London based sales team generated revenues of £[X] from the sale of S&P solutions to London agencies). By strengthening the former RSL brands [X] Global will improve the credibility of the [X] stations as [X] S&P platforms. The combined businesses will have a much stronger S&P offer post-merger than either are capable of offering independently and this will intensify rivalry within particular other non-radio media platforms which currently obtain the lion's share of total national S&P opportunities.
- 5.11 The parties' brands are sometimes used together by S&P clients. However, although the parties' brands are highly complementary from a geographic perspective, separate ownership, [X] has a number of disadvantages which limits their attractiveness to advertisers as a joint proposition for S&P. As well as the additional transaction costs of having to deal with two companies, [X].

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<sup>27</sup> See paragraph 6.15 of the Provisional Findings.

Higher quality S&P networks are a merger-specific benefit

5.12 [✂]

5.13 [✂]

**Table 7**  
**Contracted customers purchasing national Heart  
 network S&P campaigns**

- 5.14 Contracted customers purchasing national Smooth network S&P campaigns spend £[☒] (these are listed in Table 8 below). These customers will benefit from [☒]

**Table 8**  
**Contracted customers purchasing national Smooth**  
**network S&P campaigns**

[☒]	[☒]
[☒]	[☒]
[☒]	[☒]
[☒]	[☒]

Source: *RSL transaction data (Oct 2011-Sep 2012). 'Network S&P campaign' defined as campaigns with spending attributable to the revenue stream 'national SPD' on at least 5 of the 6 Smooth stations in Oct 2011 - Sep 2012.*

[☒]

5.15 [☒]

*Divestment will result in contracted customers losing the benefit of higher quality S&P options [☒]*

5.16 [☒]