

# GLOBAL/GMG MERGER INQUIRY

## Third party response to the provisional findings

13 March 2013

The CC said that it had provisionally found that the merger could lead to higher prices for airtime bought on a campaign-by-campaign basis in seven areas of the UK. These areas are: the East Midlands; Cardiff; North Wales; Greater Manchester; the North-East; South and West Yorkshire; and central Scotland.

Media Agency U said: We agree with this summary both from the direct inflationary capacity Global would have to increase rates but also from the less obvious means of out competing the marketing attempts of other competitors to grow both audience and revenues in the respective areas. Local advertisers in particular as well as agency clients (and all too often their agencies unfortunately!) are swayed and influenced by 'who shouts loudest' in marketing terms and this does influence advertisers alongside rate and best value. An example is the way in which clients will often approach us regarding radio stations who are currently advertising their programming offering or making a push on client relationship marketing to influence advertising expenditure.

The CC's said that the Provisional Findings were based on an assessment of evidence that indicates and that advertisers use multiple types of media to meet their advertising needs and other media may be bought as a complement to radio or as a substitute for it.

Media Agency U said: Whilst inherently true that all advertisers should and will consider a variety of media once a sufficient critical mass is achieved where broadcast media is a viable option they can become very reliant on radio as their business continues to grow. Radio is a particularly effective media used correctly and several clients use radio as the backbone of their marketing. Substitutions become more difficult then and with the only other alternative in Broadcast media being TV which may be out of reach any alteration in rates or choice within radio can be detrimental. The current status of the market means we do have some (but not enough) viable options to switch radio stations or distribute share of budget to achieve best value for the client. I cannot see any scenario where this would be credibly possible if the merger went ahead in its entirety.

The CC also said that there are advertising campaigns for which radio advertisers cannot easily substitute other media.

Media Agency U said: Many client use radio as their core branding and 'call to action' media; expenditure on radio can sometimes be as high as 70–80% of the total marketing spend and substitution even in the present market is difficult within the East Midlands and other areas. The use of an audio identity for example (often built up over many years) requires the audio medium to 'continue to be heard' and this further compounds the limited choice available in these areas. Radio stations are often aware of the clients attachment to radio and already use this as an argument for rate increases and this would only increase on merger.

The CC said that the main factors advertisers take into account when choosing between radio stations include geographic coverage; relative strength in terms of audience and; the strength of the advertisers bargaining position.

Media Agency U said: The combination of the three is generally considered certainly by all agencies we hope but many local clients are influenced by 'who shouts the loudest' and volume of marketing 'information' plus the lack of credible alternatives.

The CC said that with Geographic coverage: radio stations are weaker substitutes where their geographic coverage is very different;

Media Agency U said: Yes; this is true but with the onset of on-line marketing the apparent wastage can be partly off-set albeit notionally where radio station coverage falls outside the immediate target area. But we would always aim to include the more local relevant stations before moving outwards geographically. In the East Midlands for example where a client operates from just Leicester geographically there is really only 1 viable radio option in Capital Leicester. We have to use the 'imaginary' threat of using a Regional station to try to assist our clients in achieving more competitive rates. Without other factors such as demographics/total reach this would be almost impossible.

The CC said that relative strength in terms of audience: stations with a large share of listeners are better placed to attract advertisers than those with a low share of listeners;

Media Agency U said: Radio stations tend to use share as one reason to consider themselves suitable. They will often try to achieve a premium rate as a result.

The CC said that with demographics, the greater the divergence between stations' audience, the weaker they are likely to be as substitutes for each other.

Media Agency U said: Where a key demographic is concerned it can be amplified; most know their own audiences and the audiences of their competitors and will try to leverage higher yields as a result but through a combination of media substitution (sometimes merely to influence rate rather than a realistic alternative) and the geographic factors above rates can be modified slightly. Again on a local level the clients interpretation of demographic is less important than ultimate rate/results.

The CC said that the strength of an advertiser's bargaining position, and the price he or she is likely to receive will be affected by the relative strength of the alternative options.

Media Agency U said: Fundamental really... any reduction in relevant choice/options has a major factor impact on rate.

The CC said that for some advertisers a Global station is the closest alternative to a GMG station (and vice versa).

Media Agency U said: Yes; in many cases...in the East Mids although Smooth and Capital appear different demographically for a typical client targeting 25–55 year olds they would have the option of Capital/GEM 106 or Smooth EM in either a combination or solus campaign. It is just about possible currently to use the 2 alternative options to Capital as a credible alternative to them which suppresses rates; if the choice was Capital and Smooth v GEM 106 it would be very different.

### Summary

Media Agency U said that in summary in the East Midlands it is almost impossible to see any positive result for clients in the merger progressing and it would instantly create an almost 'must buy' option for a Capital brand. The limited realistic threat of using GEM 106 to them is largely negated by the fact we would have to use their services at whatever rate they set. The option they have of splitting transmitters also plays into their hands in any negotiation. In the other overlap areas I can see equal issues even where more station options are concerned for the relevant clients.

It is worth pointing out that we know of many agencies who welcome less choice and fewer buying points regardless of any disadvantages to their clients in increased rates. This might

be put down to ease of purchase or other factors but we feel from a local client perspective and for those clients of agencies working to maximise their buying power the market consolidation has already gone too far with very little if any benefit to either the listener or the advertiser.

The CC also published a Notice of Possible Remedies

Media Agency U said that in terms of commenting on the possible remedies for the East Midlands and the other overlap areas we feel the sale of the relevant stations to a single or to multiple candidates who are genuinely independent and offer a competitive stance to Global (assuming they hold no existing stations in the areas concerned) is the only viable option.