A report under section 125(4) Fair Trading Act 1973 on the advice of the Director General of Fair Trading, given on 20 December 2002, to the Secretary of State for Trade and Industry under section 76 of the Act.

Completed acquisition by Vibe Radio Services Ltd of Eastern Counties Radio Ltd and Galaxy Radio Wales and the West Ltd

ASSESSMENT

Jurisdiction

The merger satisfies the share of supply test in respect of the supply of radio advertising in the Severn Estuary Licence Area.

The Parties

Vibe Radio Services Limited (VRSL) is a joint venture company set up to act as a holding company for the acquisitions of **Eastern Counties Radio Ltd** (Vibe FM) and **Galaxy Radio Wales and the West Ltd** (Galaxy).

Scottish Radio Holdings plc (SRH), which owns 51 per cent of VRSL, is a media group with interests in radio and local newspapers. It owns radio stations in Scotland and Northern Ireland as well as stations broadcasting in Cumbria and Southampton. The remaining 49 per cent of VRSL is owned by [**GWR Radio Group plc**][1] (GWR), a commercial radio broadcasting group. GWR operates one national analogue station (Classic FM), 32 local stations, three digital radio stations, and two internet services. GWR's sales house (Opus) sells advertising airtime for the group as well as for other independent radio stations.

Prior to the merger Galaxy was owned by [Chrysalis][2], while Vibe FM was owned by Daily Mail and General Trust plc (50.01 per cent) and GWR (49.99 per cent).

Relevant Market

The parties overlap in the supply of radio advertising airtime in parts of South West England. Within this region GWR owns three local stations: GWR FM (Bristol & Bath), GWR FM (Swindon & West Wiltshire) and Orchard FM (Taunton & Yeovil). Galaxy holds the [Severn Estuary licence][3]. SRH has no radio holdings that overlap with any of these stations.

No overlap occurs between the parties in respect of Vibe FM in East Anglia and this aspect of the transaction will not be considered further.

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[1] Please note the company name should read as GWR Group plc
[2] This refers to Chrysalis Group plc
[3] The parties wished to specify that this is an FM licence

Product market

Commercial radio stations generate revenue by selling their airtime to advertisers. Stations broadcasting within the same area will therefore compete to attract advertisers. When selecting stations on which to place their advertisements, advertisers will take account of the profile of listeners, the audience reach and the cost of placing an advertisement.

Radio advertising can be sold either directly by radio stations or by sales houses (such as GWR's Opus). Radio sales houses are affiliated to the main radio groups but also sell airtime for the smaller groups and independent stations. Sales houses sell packages of airtime on local and national stations to advertisers in order to achieve the desired coverage. Local radio advertising is normally sold directly by local radio stations, but can also be sold by the local sales team of a sales house.

Radio advertising usually forms part of a wider advertising campaign alongside television and press, and is rarely used on its own. While television, press and other visual display advertising are useful for developing brand images, advertising on radio is useful for building frequency and reinforcing the message of other forms of advertising. This suggests that radio advertising is often a complement to, rather than a substitute for, television and press advertising.

The pricing of radio advertising differs somewhat from pricing for other forms of advertising. Price is calculated on the basis of the cost per thousand listeners (CPT) delivered by the station. This means that a station with a greater audience reach will have a lower CPT than a station with a smaller audience reach. In addition, discounts are common in radio advertising. These features make it very difficult to compare prices for radio advertising against those of other media and, indeed, among radio stations.

Radio advertising is considered, therefore, to be distinct from other forms of advertising. This view is consistent with the 1998 MMC report, *Capital Radio plc and Virgin Radio Holdings Limited.*[4]

In that case, the then MMC also concluded that it was not appropriate to segment radio advertising by category of listener, as there was a significant overlap between listeners over many radio stations. However, as the OFT noted in the Vibe FM case,[5] competition between radio stations to win advertising revenue can be affected by the age profile of their listeners and therefore the type of advertising they attract.

Advertising airtime on local radio stations can be bought by national or local advertisers. National advertisers aim to advertise across all regions of the UK. They can do this either by advertising on a national radio station, or by using a collection of local radio stations to reach the required areas. In particular, national advertisers who wish to target a specific

[4] Cm 3817, 13 January 1998

[5] Acquisition by GWR Group plc of the radio interests of the Daily Mail and General Trust plc, Advice to the Secretary of State 18 October 2000, published on the OFT website (www.oft.gov.uk).

audience in a particular region of the UK may also use local radio stations to convey their message, in which case stations with a broader regional coverage may also be appropriate.

Other advertisers, by contrast, may seek to reach a more local audience. Such advertisers may be local businesses whose customer base is drawn from their immediate locale. Their most likely choice of station will be one whose coverage is limited to the locale of their customer base as it would be inefficient to buy airtime that covers an area larger than their requirements. Businesses in more densely populated centres such as Bristol are likely to draw their custom from a broader area including surrounding towns and villages, and thus may find it useful to advertise on a radio station with a broader, regional, coverage.

For these reasons, national and local advertising are affected by different competitive dynamics and should be considered separately.

Geographic market

Radio stations are limited by their licences to specific geographic broadcast areas. The geographic reach of a station will affect its ability to attract different advertisers as well as its ability to constrain competing stations. Within the Severn Estuary area, the geographic reach of Galaxy includes Bristol, Bath, Cardiff, Newport, Glastonbury and the surrounding areas. The coverage area of Galaxy overlaps with 12 other local stations, including GWR FM (Bristol & Bath) and Orchard FM (Taunton & Yeovil). The geographic frame of reference is therefore the Severn Estuary area, with particular focus on Bristol and Bath, and Taunton and Yeovil, where Galaxy overlaps with GWR's local radio stations.

The impact of the merger is therefore considered in relation to the sale of local and national radio advertising in the Severn Estuary area.

Horizontal issues

Following the acquisitions of Vibe FM and Galaxy, the parties to the joint venture have a combined share of [20 – 25 per cent][6] of total net radio advertising revenue in the UK (increment [less than 1 per cent][7]). This places them just behind the [Capital Radio Group, but ahead of EMAP and the Chrysalis Group][8].

National advertising

The national advertising revenues earned by all stations within the Severn Estuary Licence Area comprised just 3.46 per cent of the net national radio advertising revenues earned in the UK in the year to end June 2002. The parties will contribute [1 – 5 per cent (£5 – 10 million)][9] to net national radio advertising revenue from this region. The two national commercial stations not owned by GWR (Virgin 1215 and talkSPORT) contributed [5 per

[6] Actual market shares have been excised and replaced with a range, at the request of the parties.
[7] This information has been excised and replaced with a range, at the request of the parties.
[8] Actual market shares have been excised as they are commercially sensitive.
[9] This information has been excised and replaced with a range, at the request of the parties.

cent –10 per cent][10] to total net national advertising revenue, and have an audience reach of about 6 per cent in the Severn Estuary area, greater than any individual local radio station in the region, except [GWR FM][11]. It appears, therefore, that the merger will not have any significant effects on competition in national advertising.

Local advertising

Looking at the parties' combined market share of net local advertising revenue generated within the Severn Estuary area, irrespective of type of advertiser, the acquisition of Galaxy gives them a combined market share of [50 – 55 per cent (increment 5 – 10 per cent)][12]. The next largest are the two Welsh stations, Red Dragon FM with [20 – 25 per cent][13] and Real Radio (South Wales) with [10 – 15 per cent][14]. However, since the differences in geographic coverage of the various stations within the Severn Estuary area will affect their ability to attract advertisers and/or to constrain competing stations, it is necessary to consider the likely effects of eliminating any constraint on GWR's pricing currently represented by Galaxy. Since the merger does not change the number of competing stations in the Cardiff and Newport areas, competition for local radio advertising within those areas is not considered further. The following discussion therefore focuses on the situation in the Taunton and Yeovil, and Bristol and Bath areas where Galaxy's coverage overlaps with GWR's Orchard FM and GWR FM, respectively.

Taunton and Yeovil

The target broadcast area of Orchard FM is Taunton and Yeovil. Galaxy overlaps with 61.5 per cent of Orchard FM's coverage area. BCRfm is the only other competing station in this area. BCRfm is, however, a small local station with an audience share of less than 3 per cent and net local advertising revenues of [less than £100,000][15] in the year to end June 2002. Orchard FM earned [less than £2 million][16] in the same year. Galaxy's net local advertising revenues drawn from its entire region were approximately half of Orchard FM's earnings at [less than £1 million][17], although only a very small proportion of that could be attributed to Taunton and Yeovil.

Within the market for local advertising, the parties argue that advertisers will not buy airtime on a station that does not have a format suiting the age profile of the audience they are seeking to reach (see Vibe FM advice). Data provided by the parties suggest that, in the Taunton and Yeovil area, Orchard FM's audience profile is weighted to an older category of listeners, while Galaxy's profile is more weighted to a younger audience.

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[10] This information has been excised and replaced with a range.
[11] This refers specifically to GWR FM (Bristol & Bath).
[12] This information has been excised and replaced with a range, at the request of the parties.
[13] As above.
[14] As above.
[15] Actual revenue information has been excised as it is commercially sensitive.
[16] This information has been excised and replaced with a range, at the request of the parties.
[17] As above.

Orchard FM features a more diverse range of advertisements than Galaxy, but includes several advertisers targeted at home owners. Many of these products are generally aimed at adults falling within the main age groups captured by both Galaxy and Orchard FM, and so may appeal to a broad audience irrespective of the type of radio station they listen to. Equally, while several of Galaxy's top 10 advertisers produced products generally targeted at the 15-24 age group (e.g. nightclubs, further education), many had broader appeal. This suggests that advertisers may be able to advertise their products on various stations in the Severn Estuary area in order to reach their target audience.

However, data provided by the parties on advertisers on Galaxy and Orchard over the last three years show that, in that time, there have been only […][18] common advertisers in the top 30 lists of advertisers for each of Orchard FM and Galaxy.

But it appears that the geographic coverages of Orchard and Galaxy are materially different. Thus, Orchard FM and Galaxy may not be competing for the same advertisers. […][19] of the top 30 advertisers on Orchard FM were based in Taunton or Yeovil, and a further […][20] elsewhere in Somerset. Only […][21] were based in Bristol. On the other hand, […][22] of Galaxy's top 30 advertisers was based in Orchard FM's coverage area.

For these reasons, it seems unlikely that Galaxy currently represents a significant competitive constraint on Orchard FM's pricing for local advertising airtime. In this respect, the merger is therefore unlikely to lead to a substantial lessening of competition.

Bristol and Bath

GWR has FM licences concentrated around Bristol and Bath and Swindon and West Wiltshire. Galaxy's coverage area overlaps with 90 per cent of GWR's Bristol & Bath area. Galaxy also overlaps with 26 per cent of GWR's Swindon & West Wiltshire area. The parties have indicated, however, that Galaxy cannot be heard in Swindon as the Classic FM signal interferes with its reception. Swindon is not therefore considered further.

Three other local radio stations broadcast to Bristol and Bath: Bath FM, which is independently owned; Star 107.3 (in which GWR has a 19 per cent share); and Classic Gold AM. GWR owns 20 per cent of Classic Gold's parent, having sold the remainder to Classic Gold Digital in October 2001, and its advertising airtime is sold by GWR's sales house, Opus.

GWR and Galaxy are by far the largest revenue earners of the stations broadcasting within the Bristol and Bath environs. According to the Radio Authority, GWR (Bristol & Bath) earned [less than £2 million][23], and Galaxy is likely to draw a substantial part of its [less

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[18] Commercially sensitive information has been excised, at the request of the parties.
[19] As above.
[20] As above.
[21] As above.
[22] As above.
[23] This information has been excised and replaced with a range, at the request of the parties.

than £1 million][24] net local advertising revenue from the area covered by GWR. Radio Authority revenue data are not available for Classic Gold in Bristol separately from the 15 other Classic Gold stations, whose aggregate local advertising revenue totalled less than £3 million. The parties claim local advertising revenue for the Bristol station of [less than £1 million][25]. In addition, 6.7 per cent of radio listeners in the Severn Estuary Licence Area listen to GWR, while Galaxy has a share of 4.8 per cent and Classic Gold 2.2 per cent. The remaining stations in the Bristol and Bath area each have a small audience share of approximately 1 per cent. GWR FM and Galaxy have by far the largest advertising revenues of any local radio station in the area, though this may simply be a reflection of their broader geographic coverage and larger audience share compared to the competing radio stations in the Bristol and Bath environs. Nonetheless, post-merger, the combined entity would have an estimated share of local advertising revenue in Bristol and Bath [of 75 - 85 per cent][26].

As indicated above, it is important to consider whether Galaxy currently represents an important constraint on GWR FM's competitive behaviour. Available data suggest that GWR FM's and Galaxy's listener profiles are reasonably similar. Broadly speaking, Galaxy is aimed at 15-29 year olds and GWR FM at the under-40s. Both independent Radio Joint Audience Research (RAJAR) listener profile data and separate data provided by the parties indicate that there is a significant degree of overlap in GWR FM's and Galaxy's listener profiles.

This may suggest that GWR FM and Galaxy are reasonably good substitutes for each other when advertisers are deciding with which station to place advertising spend. Indeed, some third parties claimed to play one station off against the other.

[…][27] of GWR FM's top 30 local advertisers over the last three years also advertised on Galaxy. On the other hand, […][28] of Galaxy's top 30 local advertisers over the same period also advertised on GWR FM. Comparison of the locations of GWR FM's and Galaxy's advertisers demonstrates that both stations draw many of their advertisers from Bristol: […][29] of Galaxy's and […][30] of GWR FM's top 30 advertisers in 2002 were based in Bristol. Classic Gold AM has a similar group of advertisers to GWR FM. It is not clear to what extent this is a consequence of the two stations having the same sales house as the evidence is consistent with them being complements as well as substitutes.

Moreover, the degree of overlap in advertisers on Galaxy and GWR FM is consistent with the fair degree of overlap between Galaxy and GWR FM in terms of the types of products being advertised. This differs from the finding in the Vibe FM case in 2000, where the differences in the listening demographics, and hence potentially the advertisers, of Vibe FM were materially different from the local GWR stations.

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[24] As above.
[25] As above.
[26] As above.
[27] Commercially sensitive information has been excised, at the request of the parties.
[28] As above.
[29] As above.
[30] As above.

On the basis of their comparable audience share, geographic overlap in an area of concentrated population, and similarity in advertisers, it is likely that GWR and Galaxy represent close substitutes for each other, and together account for a very substantial proportion of local advertising revenues. As a result, bringing GWR FM and Galaxy under the same ownership may result in a substantial lessening of competition for radio advertising within this area.

Barriers to entry

Licences issued by the Radio Authority are often reallocated to the existing operator. In addition, the Radio Authority has confirmed that there are no plans to issue any new analogue licences in the Severn Estuary area. The Communications Bill proposes to relax some ownership rules and may allow for new entry by small 'community' radio stations. Overall, new entry is limited.

Buyer power

National advertisers rely on media buyers to negotiate their purchases through the radio sales houses. The merger has little effect on competition in the national advertising market, and the large budgets of such campaigns suggest that national advertisers will have some degree of countervailing buyer power in any event.

Local advertisers may contact stations directly or buy airtime through a sales house. Third party comments suggest that a number of buyers are able to negotiate prices, since discounts for volume bookings and prepayment are common. On the other hand, some third parties have indicated that the merger will restrict their ability to play [GWR FM][31] and Galaxy off against each other.

Vertical issues

The merger does not appear to raise any competition concerns under this heading.

Third party views

The OFT received a number of representations from customers and competitors of the parties. The representations from third parties have been taken into account in the above assessment.

Views of the parties

In response to the OFT's concerns about the potential impact of the merger on local advertising, the parties have emphasised their belief that GWR FM and Galaxy are poor substitutes for each other, on the basis that the listener profile of Galaxy differs greatly from that of GWR FM and Orchard FM, and that Galaxy advertisers would see age profile

[31] This refers specifically to GWR FM (Bristol & Bath).

as significant enough not to advertise on other stations. In the view of the parties, local advertisers using GWR would also regard buying regional coverage on Galaxy as wasteful. The parties argue that the differences in listener profile and geographic reach mean that Galaxy and GWR FM are complementary.

Furthermore, the parties argue that there is no substantial overlap in advertisers using combinations of stations in the same year. They believe this is evidence of the impact of different station formats/target audiences on advertisers' choice of station and of the different geographic coverage of the stations. They also argue that there is no switching over time between the stations by advertisers attempting to play one station off against another. As a result, there is, at most, only a small element of competition between Galaxy and Orchard FM in the Taunton and Yeovil area, and between Galaxy and GWR FM in Bristol and Bath.

In the Bristol and Bath area in particular, the parties claim they face direct competition from Star FM and Bath FM, who focus specifically on these two areas and whose audience share is growing. They believe that Galaxy cannot provide such a specific focus and that few of GWR's local advertisers would find Galaxy a suitable alternative. In addition, they believe that a significant part of Galaxy's competition comes from Red Dragon and Real Radio (South Wales).

The parties estimate that for local radio advertising, Bristol and Bath is worth [less than £5 million][32] (based on revenues to end August 2002) of which GWR FM has a [50 – 55 per cent][33] share, Classic Gold a [20 – 25 per cent][34] share and Bath FM and Star FM each have a share of [5 – 10 per cent][35]. Galaxy also has a share of [5 – 10 per cent][36] but its advertising is highly differentiated from the offerings of other stations covering the Bristol and Bath area. As a result, the acquisition of Galaxy should be weighed against the existence of two more effective competitors in the form of Bath FM and Star FM.

CONCLUSION

The merger qualifies for investigation under the share of supply test of the FTA. The parties overlap in the supply of radio advertising in the Severn Estuary Licence Area.

The parent companies – GWR and SRH – are groups with radio interests across the UK, but the effects of this merger on competition are likely to be confined to the local radio advertising market. Any anti-competitive effects would be felt particularly in the areas where Galaxy overlaps with a GWR station: Taunton and Yeovil where it overlaps with Orchard FM, and the Bristol and Bath environs where it overlaps with GWR FM.

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[32] This information has been excised and replaced with a range, at the request of the parties.
[33] As above.
[34] As above.
[35] As above.
[36] As above.

In Taunton and Yeovil, there is a very limited overlap in advertisers between the two stations and a substantial lessening of competition appears unlikely.

In the Bristol and Bath area, GWR and Galaxy appear to be close substitutes on the basis of their comparable audience share, similarities in listener profiles, geographic overlap in an area of concentrated population, and similarity in advertisers. The two stations also represent a substantial proportion of local advertising revenues in this area. The prospect of new entry is limited since the Radio Authority has no plans to issue any additional analogue licences in the Severn Estuary Licence Area. As a result, bringing GWR FM and Galaxy under the same ownership may result in a substantial lessening of competition for radio advertising within this particular area.

The parties have said that, in the event of a recommendation that the merger be referred to the Competition Commission, it would be prepared to give undertakings in lieu of reference. I have carefully considered the undertakings proposed, but do not believe it is possible to devise undertakings which would address the competition concerns that have been identified in such a way as to remove the need for further investigation of this proposed merger.

I therefore **conclude** and **recommend** that you should **refer** this merger to the Competition Commission.

John Vickers
Director General of Fair Trading