7 Views of third parties

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Introduction

7.1. In this chapter we summarize the evidence that was put to us by third parties in written and oral submissions.

Radio companies

Bath FM

7.2. Bath FM said that it entered the market in November 1999. GWR Bristol and Bath and Galaxy 101 were already operating in the Bath area. Bath FM targeted an older audience than GWR Bristol and Bath; broadly 25 to 54 but within that age range the important sector was 35 to 45. Bath FM said that its localness was its greatest asset. It had been offered the opportunity to broadcast on the digital multiplex, but the costs of doing so were too large, and there were likely to be very few listeners to any digital channel.

7.3. Bath FM said that it was exceptionally pleased with its first set of RAJAR figures which, after it had been running for just under three years, indicated that it had a strong position in the market. Revenues, however, had proved poorer than projected, Bath being a difficult marketplace with little advertising revenue: retailers in Bath, for example, were mainly owner-managers and Bath had some unique shops to which people would travel some distance and which accounted for some 50 to 60 per cent of its advertisers. Radio advertising was often used in combination with press—and Bath FM recommended to many of its clients that they use press as well as radio, but many could not afford to use both. It had also been difficult to find sales people.

7.4. Bath FM said that the Communications Bill was likely to lead to consolidation and that Bath FM was unlikely to remain as an independent radio station.

7.5. Bath FM said that radio stations were not permitted to alter or bend the format of a licence as the RA kept a close watch on such matters. Bath FM said that its audience was remarkably loyal to it and 60 per cent did not listen to another commercial radio station.

7.6. Bath FM said that it found GWR exceptionally aggressive in the marketplace. GWR had said on occasion to clients, possibly in Bristol and West Wiltshire, that it would 'chuck in Bath for nothing'. On a number of occasions Bath FM had seen documents that contained euphemistic figures about what GWR could deliver in terms of listeners in the Bath area. GWR had arranged recent presentations in the Bath area where it had been suggested that it had the most listeners. Bath FM had reported the problems about listener figures to RAJAR and the RA and was waiting for its decision. Clients of Bath FM's had also spoken of working with GWR on events where they felt GWR had 'hijacked' their event. Bath FM was also at a disadvantage in that Opus could offer advertisers, through one call, advertising on a number of stations: an advertiser was unlikely to make another call to use a smaller operator as well.

7.7. Bath FM said that following the merger, GWR would be in such a dominant position that it could afford to drive prices up. This would not, however, be to Bath FM's benefit: Bath FM could not increase prices without losing advertisers; but if it did not put its prices up it would not be in a position to gain sales from GWR, GWR advertisers wanting to advertise over a larger geographical area than Bath FM could offer. A combination of GWR and Vibe 101 would also enable GWR to sell more national airtime, leaving less inventory to be sold at a local level, and which could therefore be sold at a higher price.

7.8. Bath FM said that if GWR were required to divest itself of Vibe 101 it was sure that it could operate autonomously from GWR. Bath FM felt that the Welsh side of the licence had probably been neglected by Galaxy 101.

Capital Radio plc

7.9. Capital Radio plc (Capital Radio) said that it had 45 digital licences, 20 analogue stations and some 8 million actual listeners. Its main brands were Capital Gold, Capital FM, Century Network and Xfm. The stations in the GWR/Galaxy area were Red Dragon and Capital Gold (1305 and 1359).

7.10. Capital Radio told us that it expected that digital radio would take a larger share of the media market within five years. Capital Radio said that radio stations were in competition with other media, such as television, local and national press, billboards and outdoor advertising, for advertising spend. The radio advertising industry in 2002 generated some £500 million as compared with the television market of £3.5 billion. Capital Radio said that the radio industry needed the flexibility and freedom to consolidate further.

7.11. Capital Radio told us that programming costs represented a large proportion of the overall cost. It was difficult to speculate why Chrysalis Radio decided to sell Galaxy 101 but it assumed that the difficult nature of the licence, which spanned both England and Wales, was a factor. If Capital Radio were considering buying a radio station its starting point would not be the revenue multiple but the audience. Capital Radio would examine the licence and the audience potential.

7.12. Capital Radio said that the main local advertisers on Red Dragon were motors, the Government, the Central Office of Information, recruitment, furniture and fittings, insurance and finance. Capital Radio told us that it thought that a 5 per cent price increase would cause some advertisers to consider other alternative advertising media. Some products were built almost solely on radio (like Carphone Warehouse) but most were multimedia. Capital Radio said that it did not use a rate card; rather, it considered itself to be both market and client sensitive. Much depended on the time of day that a client wished to buy. The primary way to increase revenue was to grow the audience.

7.13. Capital Radio said that even though local radio might be able to reach a larger number of clients than a local newspaper price alone was often a leading factor for local advertisers. There was a considerable amount of churn on a week-by-week and quarter-by-quarter basis. Capital Radio said that it had a London sales house called Capital Radio Advertising which was based in its head office in London.

Chrysalis Radio

7.14. Chrysalis Radio said that it had been in existence as a company for over 30 years as an independent music and radio company. It had moved out of the mainstream record business about ten years ago. Chrysalis Radio had started with a single radio licence in the West Midlands in 1994 and now had eight licences, all of them quite significant in terms of the size of the licence or market they covered. Chrysalis Radio said that it had become one of the major UK radio players.

7.15. Chrysalis Radio said that it did not sell more than 16 units of airtime an hour irrespective of how long those units were. After winning its West Midlands licence with its Heart brand it applied for and won its London station also as Heart. Chrysalis Radio then acquired Galaxy 101 which carried the Galaxy brand. Later it acquired stations in Manchester and Yorkshire that carried the Kiss brand and rebranded them as Galaxy. Chrysalis Radio said that it was part of last year's deal that GWR would give up the Galaxy name.

7.16. Chrysalis Radio said that the major radio groups were profitable though to some degree physically constrained by the current ownership rules which prevented companies holding more than a certain percentage of the total number of radio licences in the national market. In anticipating future industry consolidation Chrysalis Radio said that a thin strategy was where a company built a national network of local stations. A thick strategy was where a company had strength and depth in individual regional markets. As a company added additional radio stations to its portfolio economies of scale applied, but more so in 'thick' than 'thin' strategies.

7.17. Chrysalis Radio said over the past ten years radio had grown in importance as an advertising medium. It had increased from taking about a 2 per cent share of all advertising to 6.6 per cent in calendar year 2002; a substantial growth over a relatively short period. The number of radio stations had also grown as had listening to commercial radio. 65 per cent of all advertising revenue in commercial radio was now from national advertisers rather than local.

7.18. Chrysalis Radio said that it acquired Galaxy 101 in 1995. Chrysalis Radio said that it had expected Galaxy 101 to break even during the third year following purchase but in reality it never moved significantly ahead of breakeven during the seven years Chrysalis Radio owned it. The reasons for this were a fragmented market, a single transmitter and Chrysalis Radio having difficulty in attracting the right staff. A significant factor was the difference between Bristol and south Wales as marketing areas. This meant that 101 was effectively serving a 1.3 million market versus others in the Galaxy network of 2 million, 2.5 million or 4 million.

7.19. Chrysalis Radio said that programme formats had become more flexible over the last three years with the RA changing its system of regulating programmes' formats. The top clients over the last year on Galaxy 101 were entertainment, nightclubs, bars, educational institutions and local councils. Chrysalis Radio said that its pricing policy was dynamic and based on availability of airtime and demand.

7.20. The rough rule of thumb for a company was that the sales multiple for valuation tended to be around four. Stable cash flow positive radio companies with growing profits tended not to come on to the market. Generally, the top advertising category in the local advertising market was cars. The average spot load in the UK for commercial stations was between 12 and 14 minutes an hour representing unit loads of 20+ with sponsor credits being added to that inventory. Thursday, Friday and Saturday tended to command the highest prices of the week.

7.21. Chrysalis Radio said that if Galaxy 101 were disposed of by GWR within six months due specifically to regulatory intervention Chrysalis Radio would be entitled to any profits above a certain level.

Classic Gold Digital Limited

7.22. Classic Gold said that it acquired the Classic Gold network from GWR. Classic Gold took ownership with an 80 per cent stake, initially of 12 of the stations that had previously been managed by GWR. It later acquired a further six stations.

7.23. Classic Gold 1260 AM provided a classic hits service. In the last quarter of 2002, RAJAR reported that 87 per cent of those listening to Classic Gold 1260 AM were people over 35. Classic Gold said that it played about 9 or 10 minutes of advertisements each hour. It expected that digital radio would make a considerable impact over the next three to five years.

7.24. Classic Gold interacted with GWR, which was a 20 per cent shareholder, at two levels. GWR had a representative on the Classic Gold board but also provided local news and information via its journalists and newsrooms. Classic Gold said that it would not have been interested in purchasing Galaxy 101.

7.25. Classic Gold said that the RA became concerned if a radio station began to significantly exceed its prescribed performance limits. It did not greatly worry about minor deviations. Classic Gold said that the only commercial station in the Bristol and Bath area that would give it concern would be a speech-based station. It thought it was unlikely that Vibe 101 would be greatly different from Galaxy 101. It was unlikely that the change would lead to increased advertising prices because of the current expectations regarding advertising costs.

7.26. Classic Gold said that it assumed GWR was retaining its 20 per cent share in Classic Gold because it wished to retain an interest in Classic Gold's future potential digital business.

7.27. Classic Gold told us that it had sold its inventory for advertising airtime to GWR and that Classic Gold was paid according to the number of total listening hours provided to Opus. Classic Gold said that it gained two main benefits from the arrangement: it did not have the expense of running neither a sales force nor of scheduling commercials. As a result, Classic Gold was able to focus entirely on programme output and increasing listener numbers so that it could provide more total listening hours to Opus. Classic Gold thought that the arrangement had worked well over the three periods that it had been running.

7.28. Classic Gold told us that to set up its own sales house it would need to employ significant expertise particularly as it broadcast on the AM frequency which was in decline. Classic Gold said that Opus had experience and a long-running relationship with the Classic Gold stations. Classic Gold considered that Opus brought an economy of scale to national sales as media buyers bought media sales from all forms of media and could only afford to devote a limited amount of time to any single form of media. If Classic Gold set up local sales teams, Classic Gold believed that it would prove costly as competition from other forms of media was even stronger than that at the national level. Classic Gold said that, for example, to set up local sales teams it would need to have a sales director covering only one region rather than the current situation in which one sales director covered five or six of the 18 licences.

7.29. Classic Gold said that were the Opus link severed solely from Classic Gold 1260 AM, it would reduce the amount of national advertising on the station and local sales would need to be increased to compensate for the decrease in national revenue. Classic Gold noted that UBC’s sales team could sell the advertising airtime for Classic Gold 1260 AM but that it would have to recruit a new team to do so. Moreover, Classic Gold pointed out that it would be a commercial challenge for it to sell Classic Gold 1260 AM’s airtime due to the high fixed cost base and that it preferred to continue the current arrangement with Opus.

7.30. Classic Gold told us that it would be difficult to sell Classic Gold 1260 AM’s airtime to a national advertising agency if it was not part of a network of stations. Classic Gold also considered that it would be difficult to sell a patchwork of stations for example if a sales house sold a network of different types of stations in various areas of the UK. UBC’s sales house sold advertising opportunities across a diverse group of radio stations where a common theme was the editorial and Classic Gold 1260 AM’s airtime would not fit naturally within this. Classic Gold also said that it might be difficult for other radio groups to sell Classic Gold 1260 AM’s airtime as stations such as Chrysalis Radio and Emap as they dealt with stations that were in large population areas and that the Bristol Severn Estuary region was seen as a secondary market. Classic Gold also considered that because Classic Gold 1260 AM was a small station broadcasting on an AM frequency, it was important that a sales house sold other stations that had similar formats to that of Classic Gold if it were to be effective.

7.31. Furthermore, Classic Gold said that at the local level, Opus had built a very strong revenue base for Classic Gold 1260 AM. If Classic Gold were required to set up an independent sales team it would effectively be in competition to that of Opus’s and Classic Gold’s business would suffer accordingly, that is, Classic Gold would have to rebuild relationships. Classic Gold acknowledged that Star 107.3 could sell Classic Gold 1260 AM’s airtime to local advertisers but Star 107.3 was a Bristol-focussed station and the arrangement would not solve the problem at the national level. At the national level, Classic Gold did not think that it was inconceivable that Capital Gold could sell Classic Gold 1260 AM’s airtime but it did not fit with their current network as Capital Gold’s format was different.

7.32. Classic Gold said that it was not absolutely sure whether severing Opus from Classic Gold 1260 AM would lead to a squeeze occurring whereby GWR could still tell its national advertisers that it covered Bristol through GWR Bristol and Bath and Vibe 101. In terms of the cost to Classic Gold were the link with Opus to be severed, Classic Gold said that the cost would involve the cost of the sales force including a sales director, three sales executives, and a scheduler for the advertisements. A second option was to employ an outside organization like Star 107.3 to sell it to local advertisers on a fee basis. The cost would be in terms of the revenue loss in terms of the revenue hours on the model that Classic Gold provided as Opus effectively bought their inventory. On a national level, Classic Gold said that severing the Opus link would involve either employing people at UBC to sell Classic Gold 1260 AM’s airtime or contracting an outside organization. Classic Gold said that severing Opus from Classic Gold 1260 AM would have more effect on Classic Gold than it would have on Opus.

Radio Investments Limited

7.33. RIL said that it had looked at the likely effect on the local advertising market, in the event the acquisition was allowed to stand. RIL said that given the ability of local advertisers to substitute radio advertising with other media, there were no risks to the local advertising market.

Star 107.3

7.34. Star 107.3 said that the acquisition of Galaxy 101 in Bristol by Vibe Radio brought into question a number of competition issues in the radio market within the Bristol area.

7.35. The Severn Estuary region was served by a number of independent commercial radio stations of which UKRD were the owners: Star 107.3, which broadcasts to the City of Bristol; Star 107.7 serving

Weston-super-Mare, Clevedon and Burnham on Sea; Star 107.2/9 serving Stroud; and Star 107.5 serving Cheltenham and Tewkesbury. In the Bristol area, Star 107.3 was the fourth largest local commercial radio station by audience in the city. The three largest independent commercial radio stations were GWR, Vibe 101 and Classic Gold 1260 AM.

7.36. Star 107.3's submission to the CC sought to answer the questions raised in the CC's Statement of Issues dated 5 March 2003. Star 107.3 said it believed that radio advertising formed a discrete relevant market for the following reasons:

(a) There were benefits of radio advertising that were not shared with newspaper advertising, for example radio advertising was far more creative.

(b) Advertisers/agencies would consider their objectives of a specific campaign, identify the best multimedia mix and adopt a campaign based on the benefits of individual media whilst taking into account their budget constraints.

(c) Rarely was radio used independently. It was more commonly used as part of a multimedia campaign, which Star encouraged advertisers to do.

(d) Targeting particular age groups was a particular strength of radio advertising and it was apparent that pre-merger GWR Bristol and Bath and Galaxy 101 audiences did compete with each other.

(e) Radio advertising undoubtedly complemented other advertising media. Hearing a product or service was backed up by visual presentation.

(f) The pricing structure of a commercial radio station was dependent upon the coverage that it could give to potential advertisers, ie weekly reach/cost per thousand. Rates of the larger radio stations were more expensive than those of Star 107.3 in that they could offer greater population coverage. The addition of Galaxy 101 to their portfolio was likely to lead to consolidation of the sales effort. Radio advertising was extremely accountable and there were both planning and delivery systems that showed the effectiveness of radio advertising campaigns.

(g) The effect of churn by advertisers between media was generally as a result of other factors and could range from such things as increases in audience figures to changes in sales personnel.

(h) Radio advertising represented just over 6 per cent of the total national advertising market and had been the fastest growing medium in recent years. Star 107.3's experience would suggest that advertisers were sensitive to any price increases. The advertiser had a choice if radio price increased and could use other radio stations or media.

(i) National advertisers purchased radio on a CPT basis whereas local advertisers purchase on a weekly rate or indeed price per commercial. Local advertisers were therefore much more sensitive to price changes.

(j) The format of radio stations was agreed and monitored rigidly by the RA and any deviations were quickly pursued. It was therefore difficult to change the demographics of the target audience thereby restricting the extent to which Star 107.3 could increase competition against GWR/Galaxy 101, ie there were regulatory constraints reducing potential and actual competition. Newer licences, such as that of Star 107.3, also had more restrictive formats than older licences, making it more difficult to respond to market conditions.

7.37. With regard to the effect on competition within the relevant product and geographic markets, Star 107.3 said that:

(a) It was possible to define the market narrowly as simply the independent local commercial radio advertising market. With regards to the local radio marketplace and the local newspaper marketplace, there was a small element of overlap. However, there were also here cross-ownership issues in that DMGT was the largest shareholder of GWR with 30 per cent of the equity. It also owned the only broadsheet daily and evening newspapers in Bristol with the *Western Daily Press* and the *Evening Post*. GWR also owned 12.45 per cent of the equity of Star 107.3 in Bristol, although it had no influence on the operation of the station. Galaxy 101's

regional coverage meant that it represented the cities of Cardiff and Bristol. There was virtually no overlap between GWR and Galaxy 101 with advertisers in Cardiff, but significant overlap between the parties with Bristol businesses.

(b) Advertisers undoubtedly used the existence of other radio stations to drive down prices. Post merger, Star 107.3 would be the only local competitor to GWR Bristol and Bath and Galaxy 101 for local and national advertisers.

(c) National campaigns were generally not as price sensitive as local campaigns.

(d) Prior to the merger, competition in Bristol was strong between GWR, Classic Gold and Star 107.3.

(e) Having one national sales house (Opus) selling Vibe 101 as well as the GWR regional cluster, ie GWR Bristol and Bath, Orchard, Gemini FM (Devon), Lantern FM (Barnstaple) and Plymouth Sound (not to mention the GWR-owned Classic FM), would undoubtedly lead to an increase in national advertisers and revenues for Vibe 101. In addition, by offering three out of four commercial radio stations in the Bristol area (the three largest) this would almost certainly result in a reduction of national revenues for Star 107.3 potentially impacting upon the performance of its radio station.

(f) Competition between radio stations was affected by other linkages between other radio operators, for example the use of tactical marketing initiatives, bulk purchasing of bus advertising etc.

(g) Star 107.3 did not feel sufficiently informed to comment upon SRH's interest in VRSL.

(h) There was certainly competition between local radio and local press, but Star 107.3 could not comment upon whether this was restricted by virtue of DMGT's shareholding in GWR. With the ownership issues Star 107.3 had already touched on, it would perhaps not be in DMGT's ultimate interests for the two (radio and press) to compete vigorously with the other on advertising rates.

(i) Star 107.3 did not feel there was lack of price transparency leading to advertisers playing off each other.

(j) Star 107.3 only had one transmitter and was therefore unable to vary its programming on different transmitters, unlike GWR Bristol and Bath, and Galaxy 101.

(k) The market share of the new grouping would exceed 30 per cent of the Bristol area (based on the latest independent audicence figures) where prior to the merger it was just over 24 per cent. The new group would also have the three largest radio stations within the Bristol area plus the national radio station Classic FM, a situation which might be regarded as unhealthy.

(l) Star 107.3's belief was that the merger would reduce Star 107.3's ability to compete in Bristol as the three GWR stations would be better able to market more complete packages potentially leading to less discounting.

(m) London was a unique marketplace and it was difficult to compare it to Bristol/Bath.

7.38. Star 107.3 said it believed that the merger would strengthen the range of programming by GWR (one programming team), marketing (tactical marketing initiatives) and sales resources (one sales team/one rate card). As a specific example, with one management team, plans could be made for one radio station to run a major promotion/competition in May and then the other radio station to run one in June etc and so as not to clash or compete with each other.

7.39. Star 107.3 said that local advertisers previously did have the power to drive down prices with effectively three sales teams operating in the Bristol area. This would obviously be less the case with a reduction in the number of sales teams as choice was drastically reduced.

7.40. Star 107.3 said that the RA had total jurisdiction over the awarding of new radio licences. It had recently stated that it intended to award a further licence in the Bristol area but, on the basis of previous performance, Star believed this could take between two and a half and five years. The effect on competition would also depend on how distinctive the format was. Digital radio was in its infancy and the GWR Group had a significant involvement in this project in the Bristol area.

7.41. Star 107.3 said that it thought that it was likely that Galaxy 101 was making a loss. However, under Chrysalis Radio ownership it was unlikely that this would have resulted in a disposal unless other factors came into play. The deal was part of a much larger reorganization between the groups and it was difficult for UKRD to identify precisely what the benefits were from the involvement of the other stations.

7.42. Over the last few years in the UK commercial marketplace, the average value of acquisitions/ disposals had been equated on a formula based on 9 x Total Revenue figures. Clearly this formula was utilized at the height of the stock market and during a boom period in both the economy and indeed the radio industry, and this formula over the last 12 months would realistically be considerably lower.

7.43. Star 107.3 said, with regard to the effects on level of prices and variety, quality and innovation in services, it believed that:

(a) The merger would lead to a hardening of rates and a reduction in the need for discounting.

(b) All advertisers were susceptible to any form of price increase.

(c) By hardening the rates and reducing discounts this would affect the ability of certain smaller local advertisers to use GWR Bristol and Bath.

(d) The viability of both Galaxy 101 and Star 107.3 had been difficult for a number of years. The transfer of ownership of Galaxy 101 to the new group would obviously impact upon the financial position of both stations. Being owned by a large group made it difficult to obtain detailed figures for the precise performance of Galaxy 101. It was assumed that it was similar to Star 107.3 in that it consistently made an operational loss. Galaxy 101 had demographics/targets audience that were complementary to Star 107.3 in that it provided programmes for a younger audience whilst Star 107.3 had predominantly older listeners. Due to the difference in target audience, there was a healthy commercial relationship between the two radio stations—for example, Galaxy 101 would sometimes suggest advertisers use Star 107.3 as well as Galaxy 101—something which had not existed with GWR Bristol and Bath who by nature were more aggressive. Star 107.3 said that GWR Bristol and Bath marketing vehicles had turned up outside Star 107.3 promotional events implying that it was in some way involved or to ‘rubbish’ the event. Star 107.3 said that it had originally used ‘The Fugitive’, an Australian promotion. Star 107.3 found that GWR Bristol and Bath used the promotion in Bristol and then subsequently trademarked it so that it could not be used by Star 107.3.

7.44. Star 107.3 submitted that Galaxy 101 and Star 107.3 were, pre-merger, seen as sensible competition for the major player. There were arguments that competition already favoured GWR Bristol and Bath in that their transmitter strength was significantly higher than that of Star 107.3 (4,000 watts against the 100 watts of Star, which resulted in pockets of crackle and distortion). This was an issue which had been raised with the RA and which it was currently investigating.

7.45. Star 107.3 noted that originally GWR owned the largest and the third largest players in the local market. The addition of the second largest (Galaxy 101) gave a significant enhancement in their market domination and an integrated sales approach gave the opportunity to disadvantage the smaller players. Opus, for example, could now sell to stations with 0.5 million listeners, compared to the 80,000 audience of Star FM, affecting Star FM’s ability to grow its sales in the national market. Added to the obvious benefits in the sales operation there were other areas of concern. These included tactical marketing initiatives between the three GWR-operated properties, sharing of a management team and adopting programming features that complement each other whilst at the same time disadvantaging Star 107.3, for example, in offering a package of stations with higher rates, for example for GWR Bristol and Bath, and lower rates on a station such as Classic Gold with audience profiles similar to that of Star 107.3. The three companies together offered significant economies of scale. Star 107.3 could not directly compete because it did not have a large enough audience to deliver.

7.46. If the merger were deemed to be against the public interest, Star 107.3 considered that there were probably only three possible actions:

(a) To make VRSL dispose of Galaxy 101. The regional coverage of the station would, in Star FM's view, give it the opportunity if owned independently of GWR to generate national revenue and to target the younger age group.

(b) To ask for undertakings which would ensure that all three GWR-owned radio stations acted independently of each other in sales and programming, although this would be difficult to enforce and police.

(c) Ask GWR to reduce its equity stake within Vibe Radio to less than 20 per cent and be satisfied that it did not therefore have an influence in the operation of that station.

Advertisers

Alms & Young

7.47. Alms & Young said that it was a firm of solicitors operating from two offices, its main office being in Taunton and a smaller branch office in Bridgwater. Over the past few years it had advertised regularly on the local commercial radio station Orchard. Alms & Young said that it was not strictly affected by the merger in the sense that Orchard was the only commercial station covering the area and therefore the option of advertising on radio had been limited to that one choice locally. Alms & Young said it understood that a further commercial radio station had recently started broadcasting in the Bridgwater area.

7.48. Alms & Young said that so far as competition in terms of its choice of a placement of advertising it currently had only one choice locally and therefore it was very much a question of it choosing between advertising through that type of media or other types of advertising. Alms & Young said that its concern was whether a larger organization in Bristol and Bath would affect the cost of advertising on its local radio station. It might be that this was not the case in the sense that the local radio station was competing with other types of media in terms of advertising in its area.

7.49. The only other potential concern Alms & Young had was if its local radio based in the Taunton area became dominated by advertising from Bristol or Bath for the services Alms & Young provided.

Bristol City Council

7.50. Bristol City Council said that it had used the services of both GWR Bristol and Bath and Galaxy 101 for the advertising of various parking issues since early 2000. Recently it had also added the services provided by Star 107.3 in the city.

7.51. As the market and area served by each radio station was different, Bristol City Council believed it was able to contact by radio advertisements the majority of motorists driving to and around the city while listening to local radio stations. Both GWR Bristol and Bath and Galaxy 101 also provided coverage outside of the city area giving a wider audience than Star Radio. The audience attracted to each station had similarities but the style of music and broadcasting manner had been sufficiently different for each station to have a differing audience profile.

7.52. Both GWR and Galaxy 101 had altered the line up of their morning shows. However, Bristol City Council had not yet had the opportunity to consider how this would affect the audience profile. With representatives from other local authorities in the area covered by Galaxy 101, the Council was considering the possibility of commencing a standard advertisement approach encompassing similar issues faced by all parking enforcement agencies. It was at an early stage and therefore the potential to widen this to more local stations to each authority had not yet been broached. Bristol City Council said that the merger of GWR and Galaxy 101 might bring an advantage in lowering the costs of using GWR Bristol and Bath only as compared with campaigns run on both companies.

7.53. Bristol City Council said that Galaxy 101 and GWR Bristol and Bath had run two separate accounts until fairly recently. However, in Bristol City Council's last campaign, the sales representative from Vibe 101 relayed the information to GWR and presented the pricing schedule for GWR Bristol and

Bath. A GWR Bristol and Bath sales representative had not contacted Bristol City Council. Bristol City Council said that it appeared that it had been passed on to the representative from Vibe 101 who seemed to be selling for both GWR Bristol and Bath and Vibe 101 as well as Classic Gold 1260 AM. Bristol City Council agreed that the apparent lack of two independent sales teams might allow GWR Bristol and Bath and Vibe 101 to organize themselves in such a way that they could achieve the best deal for themselves but noted that Bristol City Council did not have sufficient experience to date to determine whether this was actually occurring. Bristol City Council also said that there appeared to be only one creative team between GWR Bristol and Bath and Vibe 101 and that this initially appeared to have affected the quality of the advertisements.

7.54. Bristol City Council said that the pricing of advertisements on GWR Bristol and Bath and Vibe 101 had so far remained at the same level as that prior to the merger. Bristol City Council explained that it often needed to place advertisements within tight timeframes. Bristol City Council said that radio stations knew that it was working within tight schedules but that it had never been in a position where it needed to place advertisements under any extreme urgency. Bristol City Council thought that if Vibe 101 or GWR Bristol and Bath increased its price by around 5 per cent, it would be able to spot the price increase because most of its campaigns were very similar in budget spent and it would see that it was achieving fewer slots for the same amount of money. Bristol City Council said that if radio campaigns became too expensive it would consider the use of other types of advertising medium such as posters on the side of the road. These other options, however, would be a distinct second best.

Corsham Building Plastics

7.55. Corsham Building Plastics said that it advertised with the GWR but it had no strong views for or against the proposals as it could not see the merger as either being detrimental or beneficial to the running of its business.

H J Knee Ltd

7.56. H J Knee Ltd (H J Knee) said that it was not concerned about the takeover. The advertising rates might increase, but this would not affect H J Knee as it undertook little advertising with GWR and did not depend on radio advertising for its business. H J Knee assumed this position was similar for most other advertisers.

7.57. There were alternative advertising mediums, and other radio stations from which to choose in its area. If GWR put up the price of advertising H J Knee had the choice of paying the prices quoted or going elsewhere.

Safestyle UK

7.58. Safestyle UK (Safestyle) said that as a regular advertiser on both GWR Bristol and Bath and Galaxy 101, it had no concerns over reduced competition or price-fixing although as a company, Safestyle was the largest direct advertiser across the GWR. Safestyle believed that its annual spend with GWR would prevent any changes to the stations from affecting its advertising in the Bristol Avon area which was its primary concern. It could not comment as to how the merger might affect smaller advertisers.

Toyota (GB) PLC

7.59. Toyota (GB) PLC (Toyota) said that as a significant national, regional and local advertiser, it appreciated the opportunity to comment on the acquisition. Toyota said that it had concerns about the acquisition, as it appeared to put advertiser access to the radio medium in certain parts of the West of England into the hands of one owner—GWR. This being the case, the acquisition went further than the latest and more relaxed iteration of the Communications Bill, which stated that there should be at least two commercial broadcasters plus the BBC in any region.

Weatherbeeta Ltd

7.60. Weatherbeeta Ltd said that it could not foresee any problems to itself regarding the proposed merger.

Company A

7.61. Company A said that it utilized the services provided by its local radio station Orchard, which it believed was part of GWR. There was already a lack of competition within this sector and if Company A wished to advertise on the radio it had no alternative but to use Orchard. The only alternative was other advertising media such as newspapers etc. Because of the lack of competition the advertising rates available were usually non-negotiable and often seemed excessively high. Company A believed that Orchard was a highly profitable business. More competition within this sector would be beneficial to customers and, presumably, the merger would produce a larger group which would have an even stronger hold on the market.

Local authorities

Bath & North East Somerset Council

7.62. The Bath & North East Somerset Council said that it did not expect to raise any objection to the proposed acquisition.

Media agencies

Zenith Media Services Ltd, OMD UK Ltd and PHD Media Ltd

7.63. Zenith Media Services Ltd, OMD UK Ltd and PHD Media Ltd told us that radio advertising started with a strategy which was based on business objectives of the client and on increasing sales. The brief would indicate who it needed to reach, who it needed to affect and who needed to be persuaded to buy the product. Radio stations were identified in terms of their ability to reach a certain type of audience. Radio was quite often used to talk to a younger age spectrum.

7.64. Costs were measured on the basis of pounds per thousand impacts. Typically a media buying agency would agree an annual contract which would cover a portfolio of stations from a given sales point for the following 12 months. These contracts would be arranged with the national groups—GWR, Emap, Chrysalis Radio, Capital etc. An agency was not permitted to simply book airtime and then hand it to particular clients. There were volume discounts for individual clients and other incentives, for example for new advertisers.

7.65. The agencies told us that they would notice price increases immediately. They had a cost for each radio station. The media buying agencies did not agree to price increases easily. They considered it their job to push prices down in a depressed market. Bristol was merely part of the national advertising picture. Out of 260 stations, a national campaign would generally be limited to 30 or 40 and could be switched between regions to maintain the same number of listeners. This would not necessarily apply to national advertisers who needed coverage in a particular region, for example retailers advertising store openings, but this was a fairly small percentage of the market, and there were already regions with little choice of station. Other media were also an alternative, and clients had previously switched to other media if price could not be agreed.

7.66. The media agencies told the CC that national advertisers accounted for about 60 per cent of radio advertising, and they themselves accounted for about 30 per cent of the national radio advertising spend. Motors had been in the top three of the spend category for the last ten years. Some clients had regions they used to test advertising. However, many clients made decisions on the basis of awareness research.

7.67. The media agencies said that the radio market was still developing. The Communications Bill was likely to lead to consolidation.

7.68. The media agencies told us that from the listeners' point of view the merger should help to grow the audience and allow the radio stations to offer more choice. From an advertiser's perspective, different owners in a market went for the same audience. However, a monopoly was not, of course, desirable, but they hoped necessary investment in programming, marketing and divesting would result. It was unlikely that the merger would have an effect, in terms of cost, on national advertising. The merger was likely to affect smaller stations like Bath FM and Star 107.3 but, given the number of small local stations in the UK, it was uneconomic for national advertisers to deal with a large number of them. (National advertisers were not currently allowed to split transmission between Bristol, Bath and Swindon, although local advertisers were.) The success of Vibe 101 depended on how successful it was in taking audience from Radio 1.

Newspapers

Daily Mail and General Trust plc

7.69. DMGT said that it was a FTSE 100 listed company in the UK with a market capitalization of about £2 billion. It had a variety of media businesses both in the UK and around the world. Its national newspapers were the *Daily Mail* and *The Mail on Sunday*. It also operated the *Evening Standard* and the *Metro* in London.

7.70. DMGT said that Bristol was the largest city in which it operated regional newspapers outside London. In Bristol DMGT had the main evening newspaper, the *Bristol Evening Post*. It also had a free weekly newspaper in Bristol and, similarly, a daily evening and a free weekly in Bath. DMGT said that it was the largest newspaper owner in Bristol.

7.71. DMGT said that it had a 29.9 per cent stake in GWR. It remained a strongly supportive shareholder but had no active management role. DMGT did not have an equity relationship with any other radio companies in the UK. DMGT said that after the Communications Bill there might possibly be greater opportunities for a bigger involvement in radio in the future. However, it did not see significant synergies between newspapers and radio.

7.72. DMGT said that radio and newspaper advertising was in competition. Brand advertising in particular often favoured regional radio. The largest proportions of advertising in local newspapers related to jobs, property, cars and retailers. DMGT said that it was putting its advertising staff back into local areas where appropriate because its advertisers valued this level of representation. DMGT advertised its newspapers on local radio. With regard to the *Western Daily Press* which had a large circulation area, DMGT would buy space on all the appropriate local radio stations. On the *Bristol Evening Post* it would include Star FM.

7.73. DMGT said that historically it had had no policy to build the GWR group or to acquire a part of it because it mapped DMGT's local newspaper group. DMGT said that its 30 per cent shareholding in GWR had no effect on the competition between GWR and DMGT in terms of sales competition. Currently, the Bristol market, because of the decline in recruitment advertising, was difficult with a significant reduction in revenue.

7.74. DMGT said it felt that different radio stations addressed different parts of the market and that newspapers would continue to compete with radio. It did not think that Vibe 101 would be a particularly strong competitor in the Bristol area because of its wide transmission area.

Trade Associations

Incorporated Society of British Advertisers

7.75. The Incorporated Society of British Advertisers (ISBA) said that it was a non-profit membership organization representing the interests of Britain's 300 leading advertisers. The ISBA said that it had evaluated the proposed acquisition from the advertisers' perspective that there should be adequate competition in the market for advertising airtime and sales in all media and in all regions of the UK. The ISBA said its long-standing position had been that, in parallel with common competition thresholds, there should be no less than four companies controlling the sale of any one medium's advertising space or airtime, and no less than seven controlling the sale of all media space and airtime. This position should prevail both nationally and regionally, if not locally. This should be in addition to the BBC's main television and radio channels, which carried no advertising. That said, the ISBA acknowledged that the process of the Communications Bill had seen the Government relax its proposed radio ownership rules, first so that there could be three commercial broadcasters plus the BBC in any region, and latterly, two plus the BBC.

7.76. The ISBA said that the acquisition appeared to be legal under both the current and proposed governing radio ownership. It also appeared to go no further than the situation in East Anglia, where it had been judged by the Minister for Competition and Consumer Affairs that there was no basis for blocking an acquisition. However, it still appeared to raise competition concerns for advertisers, as the ISBA's understanding was that commercial radio in certain areas of the West of England, particularly the Bristol area, would be dominated by GWR Bristol and Bath and GWR-related stations, the only substitute being the much smaller Star 107.3.

7.77. The ISBA therefore considered that the acquisition could be anti-competitive, as any advertiser seeking to reach audiences in the relevant area and particularly local and regional advertisers (a large proportion of whose target customers were within these catchments), would have little real choice over their supplier of commercial radio airtime. However, the ISBA told us that it was much more concerned by any precedent this merger might set rather than the specific issues arising in the Bristol region itself. If an analogous consolidation were to occur in a more significant marketing region, for example London, the ISBA would have grave concerns. Should the acquisition be approved, the ISBA reserved the right to monitor the trading behaviour of Vibe 101 and GWR Bristol and Bath in order to ensure that no uncompetitive practices arose post acquisition and to return to the competition authorities should it feel that any abuse had taken place.

7.78. ISBA said that with regard to advertising most national, or major regional advertisers, tended to place their advertising media bookings through a specialist media agency and a national sales house, whereas a higher proportion of local advertising was placed direct between local or smaller regional advertisers and stations' local sales departments. Some national advertisers' messages needed modification for regional or local conditions, some did not. Local advertisers tended to create and place their local advertising activity with the local media direct, or perhaps through smaller, local agencies. The local media were therefore rather more involved in local advertisers' local campaigns, both taking the bookings direct and being involved in creating the commercials. By contrast, most national advertisers tended to use dedicated creative agencies and/or specialist radio production companies to produce their commercials—whether for national, regional or local use—and to place their airtime bookings through a specialist media agency, which would tend to deal with the broadcasters' national sales houses.

The Institute of Practitioners in Advertising

7.79. The IPA said that it was the trade association and professional institute for UK advertising, media and marketing communications agencies.

7.80. The IPA said that in formulating its views with regard to any takeover, it was keen to discover whether the proposed move would be likely to result in the new body holding a dominant position in the marketplace, which could operate to the disadvantage of IPA members. Under normal circumstances this concern would be most pronounced should it result in the creation of a local monopoly. However, within commercial radio, the IPA's outlook was less rigid as the whole basis of the early allocation of licences was that they were local monopolies, given limited spectrum availability; and both advertisers and media owners had been able to live with this situation since commercial radio, as a medium, did not enjoy the non-substitutable characteristics of, say, television or local press, and non-competitive activity could more easily be countered by shifting advertising monies from the offending broadcaster into other media, for example local press or posters.

7.81. In these circumstances the IPA said that it had no objection from an advertiser's point of view to the acquisition of Galaxy 101 by VRSL. The proposed acquisition appeared to the IPA to be legal under both the current rules affecting local ownership and those proposed under the Communications Bill.

7.82. Although GWR was a 49 per cent shareholder in the new company, it did not control the Vibe joint venture company. As such, it was not in breach of local ownership limits in the South-West.

7.83. Given the presence of both Star 107.3 and to a lesser degree Bath FM in the disputed Bristol area, the move would also be permitted under the proposed 'two plus the BBC' ownership test envisaged in the Communications Bill currently going through Parliament.

7.84. While the proposed acquisition would undoubtedly result in a significant concentration of local radio listening (and therefore revenues) within GWR linked stations, the IPA had no reason to believe this would lead to uncompetitive behaviour based on the past history of the medium and the companies involved. This domination was particularly pronounced in the Bristol area, where the only real competition was Star 107.3, owned by the UKRD Group (which owned 16 smaller stations around the country). Since this was sold by First Radio, a weaker operator as compared with the major group-owned sales companies, this would inevitably result in Star itself suffering a severe disadvantage. However, as a result of the responsible sales practices of the broadcasters and/or the ease with which radio could be substituted for other media, these concentrations had not to date led to artificially high prices. Thus, in East Anglia, where GWR owned the only real radio options of Broadland, SGR, SGR Colchester, Essex, Breeze, Vibe, Q103, KLFM and the Classic Golds, there had been no evidence of price hiking, despite the fact that the competition (Dream 100 and the Eagle) offered no real alternatives.

7.85. The IPA said that it could see little difference between the situation in Bristol and that of East Anglia, where it had been judged by the Minister for Competition and Consumer Affairs that there was no basis for blocking an acquisition. As the CC would be aware, GWR's acquisition of the radio interests of the DMGT was permitted by the Minister for Competition and Consumer Affairs, Kim Howells, on the grounds that 'The DFGT has advised me that he does not consider the possible loss of actual or prospective competition to be sufficiently material as to justify an investigation by the Competition Commission. For example, some advertisers may be able to consider switching to local newspaper advertising'.

7.86. The IPA said it did not see any difference from this situation and that prevailing in the South-West.

7.87. The IPA said that advertising going through national sales houses would be for larger, national advertisers—while that sold locally would be for smaller local advertisers, who would either purchase their airtime directly from the station or use a smaller local agency to negotiate for them. While national sales houses tended to sell their campaigns on a CPT basis, local advertisers would probably be sold campaigns on a cost per spot basis—with the laydown plan more likely to have been dictated by the station. National sales house sourced campaigns would usually be made centrally by one of the major advertising agencies. By contrast, local advertisers would be far more likely to use advertisements that were made, scripted, voiced and recorded locally—frequently by the commercials' production department of the station on which they were aired.

Radio Advertising Bureau

7.88. The RAB was established to change the attitudes of the national advertising marketplace towards commercial radio as an advertising medium. As such its expertise was working with advertisers and agencies whose economic market was, by and large, the whole of the UK.

7.89. The latest marketplace data showed that 60.8 per cent of the entire commercial radio industry's income emanated from this national advertising marketplace. In addition a further 12.5 per cent stemmed from sponsorships and promotions activity, the vast majority of which was paid for by national advertisers.

7.90. The entire network of commercial radio stations accounted for 6.6 per cent of the display advertising marketplace. This definition of display advertising encompassed other media which competed for the advertising income of national advertisers, such as television, national/regional newspapers, outdoor and magazines, but did not include classified advertising.

7.91. In this context of the market for national advertising the RAB did not see the acquisition of Galaxy Radio as presenting significant difficulties to advertisers. At the same time it noted that SRH and the GWR were companies that had played an important part in ensuring that the consolidation that took place in the sector across the early 1990s was translated into increased opportunities for advertisers operating in the national marketplace rather than being a catalyst for restricted competition and reduced opportunities.

Radio Authority

7.92. The RA said that in September 2000 it decided that GWR and DMGT controlled Eastern Counties Radio as the shareholder agreement in place provided no evidence that DMGT, despite its 50.01 per cent shareholding had an economic interest during the agreements duration. The agreement as originally constructed, allowed for GWR to effectively acquire DMGT's stake at a fixed price by the end of the agreement (the earlier of 30 June 2005 or when the legislation allowed GWR to acquire the company). In the meanwhile Eastern Counties Radio was prevented from distributing profits and significant decisions could not be made without GWR's approval.

7.93. In order for the RA to deem that GWR did not control the venture, the agreement was subsequently amended to allow profits to be distributed without GWR having a veto. The agreement stated that in terms of the management of Eastern Counties Radio, DMGT were to appoint two directors (including the Chairman who did not have a casting vote) and GWR one. The fourth director, the Managing Director, was to be appointed by the other directors, though they could not be an employee or officer of GWR. The Programme Controller was to be appointed by Eastern Counties Radio's management and could not be an employee or officer of GWR. The decision on how to sell airtime was left to the Eastern Counties Radio board.

7.94. In connection with the VRSL merger, the transaction was conducted in much the same manner as with Eastern Counties Radio, SRH appointing three directors (including Chairman with a casting vote) and GWR appointing two. While accepting that GWR did not control VRSL under the meaning of the Broadcasting Act, the RA said that it would keep this determination under review to ensure that GWR did not have de facto control over VRSL. In this regard VRSL was advised to ensure that its Managing Director and Station Programme Managers were not directors or employees of any GWR group companies; that the news provision for the two Vibe services remained distinct from other GWR local news output and subject always to the ultimate editorial control of the VRSL officers and staff; and that advertising, sponsorship and promotion also remained subject to ultimate editorial control by VRSL which would retain power to veto content or scheduling as it determined.

7.95. The RA said that it had had no specific complaints, upheld or otherwise, regarding Galaxy 101's programme output since 1997. It might have received letters containing non-specific allegations, which it would not have formally investigated. However, there had been two complaints about advertisements broadcast by the station, one of which was upheld and the other partially upheld.

7.96. The RA said that the proposal that Vibe 101 should solve the problem of its audience being split between English and Welsh sections by having a transmitter on each side of the Bristol Channel and then split the advertising was not acceptable. The RA's policy was not to grant such additional coverage once the licence had been awarded. The RA said that the main competitors to GWR Bristol and Bath, Star 107.3 and Bath FM, were confined to broadcasting and therefore advertising in more restricted local areas, using a considerably less powerful transmitter (although some increase from the present permitted strength might be allowed by the RA in one case).

7.97. The RA said that it was required to look at two public interest tests; one was where a single operator would control more than one radio service operating on the same waveband in the same area and the other was where a radio operator also controlled a newspaper. These public interest tests looked at plurality of ownership and diversity both in news and the provision of information and expression of opinion. The RA said it had accepted that it was perfectly reasonable for there to be a minimum threshold of three owners in one area.

7.98. The RA said for regional licences, like the West Midlands, it received 12 to 14 applications for a licence. The RA said that it thought the Communications Bill was likely to bring a considerable amount of consolidation.

7.99. The RA said that it did not know why Galaxy 101 had performed poorly but assumed that the licence, which straddled the Severn Estuary, was something of a problem and this produced a dilemma when targeting audiences. Historically, there had been difficulty in building radio audiences in the area.

7.100. The RA said that it considered there was clear substitutability of local advertising between local newspapers and radio. Where there was local television or regional television services there was direct competition but such services were not usual. The RA said it did not think that a 5 per cent price increase would cause migration from radio advertising to some other medium but a 15 to 20 per cent increase would. The RA did not consider that DAB would have much impact in under five years.

Other interested parties

Chris

7.101. Chris said that Vibe 101 was a better radio station than Galaxy 101. It played more types of music and was funny. Chris submitted that Vibe 101 played more music that 16- to 30-year-olds loved and that no other radio station compared. Chris thought that Galaxy 101 was good but that Vibe 101 was better for all the reasons mentioned above.

Mr Alan Ford

7.102. Mr Alan Ford said that Chrysalis Radio ran Galaxy 101 down a great deal in the last few years giving people in South Wales and the West no variety in radio listening. Mr Ford said at times Galaxy 101 and GWR seemed to play a similar music output and he tended to listen to GWR because it sounded local. With night time output and most of the weekend material being networked from Leeds it didn't sound the same as in the early days when Chiltern owned the station.

7.103. Mr Ford said that having experienced Vibe 101 on air for the last two months he wished to commend GWR/SRH. It was good to see two organizations using the Severn Estuary licence to its full potential. Mr Alan Ford said that whatever the outcome of this inquiry he hoped that GWR/SRH would continue with the fantastic work they had achieved with Vibe 101.

Mr Grant Goddard

7.104. Mr Grant Goddard said that Bristol was already the most concentrated of the 20 largest metropolitan radio markets in the UK, even before GWR's minority shareholding in the newly purchased Vibe radio station.

7.105. Mr Goddard said that recent debates concerning the effects of impending ownership consolidation in the UK on listener choice had often referred to the experience in the US market since greater consolidation was permitted in 1996. It was important to realize that the extent of consolidation being anticipated within the UK radio industry bore little or no comparison to the experience in the USA of recent years. What had been forgotten or ignored in the recent debate was that:

(a) The US radio industry was at a more advanced stage of maturity than the UK industry.

(b) The recent consolidation in the US radio industry still left it with a more diverse range of owners, a greater number of stations, and a greater variety of formats in each market than had ever existed in the UK.

7.106. In the UK the myth existed that, as a consequence of consolidation, there remained only a handful of radio owners in the USA. This was not correct. Consolidation between March 1996 and March 2002 reduced the number of station owners by 34 per cent, but there were still 3,408 owners of 10,807 radio stations. During that same period, the total number of radio outlets in the USA increased by 5 per cent. Each local radio market in the USA was served by many more commercial radio stations than an equivalent size market in the UK. In May 2002, the average radio market in the USA was served by 23 commercial stations. Of the 285 researched US radio markets, almost half were served by more than 20 radio stations, and 90 per cent were served by more than ten radio stations.

7.107. By comparison there were 259 commercial local AM/FM stations. Thirteen owners held 177 stations. The remainder were stand-alone or small local groupings.

7.108. The recent consolidation in the USA was a reaction to more than 50 years of continuous expansion, during which time the Federal Communications Commission (FCC) had implemented interventionist policies to diversify the ownership structure of the industry. The FCC now recognized that the commercial radio industry had reached full maturity. In the largest radio markets, there was no FM/AM spectrum availability to license additional stations. The industry had reached supply saturation level and was about to face its biggest ever challenge from competing services supplied to households by Internet and cable systems.

7.109. Thus the consolidation in the USA was a result of the radio industry having already achieved maximum levels of penetration, listening and revenue generation. The golden age of the radio industry in the USA was over. Convergence might be a buzz-word in the UK, but in the USA it was already a reality.

7.110. Between 1940 and 1964, the FCC examined applications for ownership change on a case-by-case basis, rejecting those where an applicant already owned a station in 'substantially the same service area'. In 1964, this case-by-case consideration was replaced by a rule which forbade common ownership where there was any overlap of two stations' transmission areas. The FCC wanted to:

(a) promote maximum diversification of program and service viewpoints; and

(b) prevent undue concentration of economic power contrary to public interest.

7.111. FCC local ownership rules were based upon two principles:

(a) it is more reasonable to assume that stations owned by different people would compete with each other, for the same audience and advertisers, than stations under the control of a single person or group; and

(b) the greater the diversity of ownership in a particular area, the less chance there was that a single person or group could have an inordinate effect, in a political, editorial, or similar programming sense, on public opinion at the regional level.

7.112. In 1970, the FCC further restricted local radio ownership by prohibiting common ownership of any different service broadcast stations in the same market, even if their signal areas did not overlap. These limits were specifically designed to maximize the number of independent owners of broadcast media in a market. The FCC categorically rejected arguments from radio groups that 'common ownership of local broadcast stations would enhance the ability of station owners to provide better quality, more responsive programming'.

7.113. In 1971, the FCC relaxed the rules for the first time to allow, in any circumstances, a single owner to hold one AM and one FM licence in the same market, a move aimed to encourage the development of commercial radio stations on the relatively new, unprofitable FM band. Greater relaxation of ownership rules only started in 1989 when the overlap between closely located stations' transmission areas was redefined more loosely. The FCC noted that its policy of ownership diversity was not an end in itself, but was only a means of 'promoting diversity of program sources and viewpoints'. Initially this appeared to be a reversal of its earlier 1964 policy, but the FCC believed that the rule change would no longer adversely affect programming and viewpoint diversity because:

(a) the number of media outlets in each market had increased dramatically since 1964;

(b) efficiencies that common ownership would generate could lead to programming benefits; and

(c) radio stations faced increased competition for advertising from television, cable systems and newspapers.

7.114. In 1992, the FCC relaxed the ownership rules further, which it attributed to:

(a) the increased number of media outlets;

(b) the increased number of formats available;

(c) the growth of cable, particularly cable radio networks; and

(d) the radio industry's share of the local advertising market which had remained flat.

These factors made the FCC believe that its objective of achieving diversity and competition within each market, which it had pursued for more than half a century, would no longer be harmed by allowing an element of common ownership.

7.115. From 1996 onwards, a single owner could hold:

(a) up to eight radio stations in a market with 45 or more commercial stations;

(b) up to seven radio stations in a market with between 30 and 44 commercial radio stations;

(c) up to six radio stations in a market with between 15 and 29 commercial radio stations; and

(d) up to five radio stations in a market with less than 15 commercial radio stations.

7.116. Starting in 1998, the FCC committed itself to a Biennial Regulatory Review, part of which examined the rules concerning multiple ownership of radio stations. The FCC's current aim was to:

(a) define more precisely its own policy goals;

(b) determine how to best promote these goals in today's media market consistent with its statutory mandate;

(c) establish the best measure for diversity, competition and localism; and

(d) establish a balancing test to prioritize the goals if tension exists between them.

7.117. The HHI (see paragraph 5.116) was used by the United States Department of Justice to measure pre- and post-acquisition market concentration within a specific locality. When the HHI was applied to the commercial radio audience shares of the 20 largest metropolitan radio markets in the UK, 15 came out as highly concentrated along with Bristol. These results were significant but unsurprising, given the relatively slow development of commercial radio in the UK compared with the USA. Only the largest UK markets, such as London, had become less concentrated in the last decade as the number of commercial radio licences issued there had steadily increased. Many UK radio markets were still highly concentrated because:

(a) heritage ILR stations that previously enjoyed a monopoly position in their local market continued to enjoy substantial audience share;

(b) national commercial radio stations had had relatively little impact on commercial radio audiences in most metropolitan markets; and

(c) recently licensed small-scale ILR stations and regional stations were still growing their audiences.

7.118. Mr Goddard said that the impending consolidation of the UK radio industry would serve only to increase further the high concentration levels already extant in these markets. If these markets were in the USA, there was no doubt that the Department of Justice would intervene to prevent further consolidation of radio ownership among all but the smallest existing owners. Consolidation at this mid-stage in the UK radio industry's development might simply turn the clock back to the situation in the 1970s/1980s where each metropolitan market was dominated (in audience market share and revenue share terms) by one media owner. The only difference now would be that such market domination would be achieved through the ownership of several stations, rather than an AM/FM two-station combo.

7.119. The existence of smaller stations within a market dominated by one or two major media groups did not necessarily reduce the level of concentration, either in terms of listening share or advertising share, if those small stations were restricted to minority-interest formats. Even if such format restrictions were to be lifted (as they were in the USA), it still might prove impossible for one small station to compete effectively in programming, marketing or promotion terms with the economies of scale enjoyed by the larger group(s).

Mr Jamie Randall

7.120. Mr Jamie Randall said that he had been a listener of Galaxy 101 for the past three years and wished to put forward his views regarding plurality of music covered by the station.

7.121. Mr Randall said that since Vibe had taken over Galaxy 101 the range and variety of music covered had increased hugely. There was now a much wider selection of dance-based music compared with the high rotation of a short playlist of current pop and dance hits experienced with Galaxy 101 during the week. Vibe 101 now provided the selection and quality of music all week that was only previously experienced on Galaxy 101 during its weekend evening and Friday night programming. He said he was unsure of the effect of GWR's ownership on other aspects of the station arrangements and thus was not able to comment on that area.

7.122. Mr Randall said that he was impressed by the way Vibe 101 was programmed and was concerned that any action taken regarding GWR's ownership might affect the station's programming in a negative way.

Ms Kathy Roberts

7.123. Ms Kathy Roberts said that she enjoyed listening to Galaxy 101, but since Vibe 101 had taken over she felt that the service had greatly improved. It had a better selection of dance and chart music and there seemed to be more of it. Whereas with Galaxy 101 Ms Kathy Roberts said she would switch over to other stations from time to time because it had strayed from the dance theme. However, she said that if she was ever in the mood for music other than dance tracks she knew of other local stations that she could switch to. Ms Kathy Roberts said that she felt that a balanced service was provided by all the local radio stations and did not feel that Vibe 101 had an unfair advantage.

Mr Sam Rossiter

7.124. Mr Sam Rossiter said that he wished to express his concern at the state of Bristol's media. Mr Rossiter said that Bristol used to have an abundance of pirate stations which had now all but disappeared leaving the public with the corporate blandness of GWR Bristol and Bath and Vibe 101—'oldie' stations which sounded much the same. Their main aim appeared to be the attraction of advertising revenues and the achievement of profit rather than serving the community. Galaxy 101 was launched legally in 1990 after winning a prized community radio licence but started as an urban pirate station serving St Pauls. These licences were given out to represent communities that were not being served by the mainstream stations. Mr Rossiter said he was concerned that 13 years later Vibe 101 was owned by DMGT. Mr Rossiter said that he wished to know what had happened to the minority and community interests it was originally supposed to represent.

7.125. Mr Rossiter said that the subject was briefly reported in Monday's *Evening Post* but as it was also owned by DMGT it was probably not in their interest to dwell on this matter.

Mr Tom Scharf

7.126. Mr Tom Scharf said that he wished to register his opposition to the acquisition of Galaxy 101. He said that his experience with Severn Sound 102.4, one of several owned by GWR, underlined the damage done by large corporations to allegedly local radio stations. Retuning from Severn Sound to Hereford, Wyvern FM or Fox FM he had heard the same track being played at the same time. Only the DJs, regional news and advertisements were local. Presumably, economies of scale in negotiating bulk royalty deals on the five or six (better music mix) singles led to them being played over and over again.

Mr Scharf said that this meant that musical choice had been removed from the whole of the West Midlands by GWR.

7.127. Mr Scharf said that he had returned to Vibe 101 because it played lots of music, had few advertisements, and felt local—this was in direct contrast to Severn Sound. Any company taking over and installing its management structure on top of the existing, would seek a return on their investment by reducing operating costs and enhancing revenue, ie less expensive music—piped from a central source, more cheap chat, and as many advertisements as possible.

7.128. Mr Scharf said that he presumed the CC was involved because of the removal of choice. In this case that was a real fear and the acquisition should not be allowed.

Another listener

7.129. Another listener said that he was a regular listener to Vibe 101, and so far liked what it was doing. As a dance music service it was a great improvement over the service provided previously by Galaxy 101. The listener particularly enjoyed some of the features during the day and the evening shows.

Mr Tim Suter

7.130. Mr Tim Suter, currently Head of Communications Policy at the Department for Culture, Media and Sport (DCMS), explained that existing regulation prevented one group from having more than 15 per cent of the total radio market, hence guaranteeing a large number of media players. In addition, controls on local concentration included, for example, not owning more than two licences to provide local radio stations sharing a potential audience unless one was AM and one was FM or a public interest test was met. In practice this didn't have a significant effect except in larger markets, but did result in a number of different owners.

7.131. Government policy was to liberalize this requirement. The DCMS had originally started with a 'three plus one' approach (the 'one' being the BBC) with no company allowed to control more than 45 per cent of points in a particular area, as jointly agreed between the industry and the regulator. This was seen as a significant degree of deregulation, but judged to give sufficient pluralism to guarantee diversity. However, DCMS then came under sustained pressure from the industry, that in the context of other deregulatory proposals, for example in respect to foreign ownership, the effect of that suggestion would be to toughen the competitive environment, hence policy on concentration should be more deregulatory than originally proposed.

7.132. The DCMS had been persuaded by the commercial companies that to allow regional consolidation, on the other hand, would mean greater diversification of content in the market, with fewer owners competing for the middle ground: ie, minimizing head-to-head competition would increase diversity of content. Hence, the proposed adoption of a two plus one rule with a 55 per cent limit on the number of points controlled by any one company.

7.133. As to whether the current ownership regulation was not itself supposed to deliver diversity, Mr Suter suggested that, on the contrary, it was intended to deliver plurality. It was content regulation rather than ownership regulation which delivered diversity, format control determining the types of programme, guaranteeing diversity of service. Plurality was important because of the influence of media on people's views: hence it was about news and talk content, the Government not wanting any stranglehold on such sources of information. Local radio stations were expected to play a somewhat campaigning role: but, to be less impartial, plurality was important. The two plus one rule would therefore give a minimum of three sources of such information, except in really small markets.

7.134. As to competition considerations, the industry had said that it did not want any ownership rules. The ex-ante ownership rules did not, however, conflict with competition law: and did not mean that there was any restriction on investigations under competition law on whether thresholds should be lower if it were thought there were structural problems. The ownership rules did not therefore override competition law, but just provided a framework of ownership in which competition law would operate.

7.135. Mr Suter confirmed that the objectives in the Communications Bill were format diversity, plurality of news and reportage and maintaining local focus. A fourth, however, was to promote a healthy and viable radio sector. Competition, in so far as it affected advertisers, had been less of a concern, although diversity of services could itself benefit advertisers by allowing them to target markets better. Of more interest was to ensure that companies had the capacity to ensure plurality of ownership.

7.136. On an argument that formats adequately promoted diversity, irrespective of ownership, Mr Suter suggested that diversity could not be imposed: the RA could only say that another frequency was available and adopt a service that was proposed, it could not a priori define the range of services it wanted. It could merely take up an offer, and reinforce it in the licence. The regulator also had to deal with licensees who were struggling to make a living, for which they pressurized for changes in format, in effect to merge formats.

Mr Richard Thompson

7.137. Mr Richard Thompson said that he lived on the eastern periphery of Galaxy 101 but could receive it and listened regularly. Following the takeover by Vibe 101 the transmission stopped and he was unable to receive it. He said that GWR also transmitted into his area and he wondered whether that was the reason why the transmission by Vibe 101 had been reduced.

Ms Sarah Williams

7.138. Ms Sarah Williams said that she considered that DMGT had a stranglehold on Bristol's media. She urged the CC to recommend that the takeover of Galaxy/Vibe 101 was not in the public's interest. Bristolians were fed up with the same point of view being forced upon them whether it be in print journalism or on the radio. Bristolians were not privileged to have any quality, investigative media in the city and a huge majority of people refused to buy the DMGT's products as they did not want to subscribe to the DMGT monopoly. There was a huge range of talent and activities going on in Bristol which was ignored because it did not fit the required bill of DMGT. This was a biased point of view and only served a certain social demographic which was unrepresentative of the city's population. Ms Sarah Williams said that she did not consider such a media monopoly to be in the public's interest.

P GEROSKI *(Chairman)*

R A RAWLINSON

J SEDDON

R TURGOOSE

S D WALZER

R FOSTER *(Secretary)*[1]

14 April 2003

[1]It is the normal practice that the Secretary of the CC signs reports. On this occasion the Secretary was absent and so was unable to sign.