

**Capital Radio plc
and
Virgin Radio Holdings Limited**

A report on the proposed acquisition



MONOPOLIES AND MERGERS COMMISSION

Capital Radio plc and Virgin Radio Holdings Limited

A report on the proposed acquisition

**Presented to Parliament by the Secretary of State for
Trade and Industry by Command of Her Majesty
January 1998**

Members of the Monopolies and Mergers Commission as at 2 December 1997

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¹These members formed the Group which was responsible for this report under the chairmanship of Sir Graeme Odgers.

Note by the Department of Trade and Industry

In accordance with section 83(3) and (3A) of the Fair Trading Act 1973, the Secretary of State has excluded from the copies of the report, as laid before Parliament and as published, certain matters, publication of which appears to the Secretary of State to be against the public interest, or which she considers would not be in the public interest to disclose and which, in her opinion, would seriously and prejudicially affect certain interests. The omissions are indicated by a note in the text.

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Part I

Summary and Conclusions

1 Summary

1.1. This inquiry, the terms of reference for which are set out in Appendix 1.1, concerns the proposed merger between Capital Radio plc (Capital) and Virgin Radio Holdings Limited (Virgin Holdings).

1.2. Both companies are engaged in commercial radio broadcasting. Capital operates two local commercial radio stations in London, Capital FM and Capital Gold, and a number of local commercial radio stations in Birmingham and Oxford and on the south coast. Virgin Holdings, through its wholly-owned subsidiary Virgin Radio Limited (Virgin), operates one national commercial radio station broadcasting across most of the UK, Virgin AM, and one local commercial radio station, Virgin FM, which broadcasts in the London area.

1.3. Commercial radio stations earn revenue through the sale of advertising. For the year ending March 1997, radio accounted for 4.7 per cent of the total spend of almost £6.8 billion (in 1996 prices) on display advertising, which comprises: television, press (excluding classified advertisements), radio, cinema, transport and outdoor.

1.4. For the purposes of competition analysis, we believe radio advertising should be regarded as a separate economic market. This is because:

- (a) it has particular characteristics as an advertising medium;
- (b) the qualitative differences between radio advertising and other display media are reflected in very different pricing arrangements which make price comparisons difficult; and
- (c) most large advertisers are likely to be relatively insensitive to movements in radio advertising prices because radio advertising expenditure comprises a small part of most major advertising campaigns.

In the light of the above view of the market, we believe the constraint and hence the discipline afforded by the prices offered by other competing radio stations is likely to affect the price of radio advertising more importantly than the prices of other display media.

1.5. We also find that there are two separate geographical radio advertising markets affected by the proposed merger: that for local and national advertisers targeting a London audience and that for national advertisers targeting the UK as a whole. Based on 1996 data, the merger will result in Capital's share of the London market increasing from 60.9 to 68.8 per cent and Capital's share of the UK market increasing from 36.8 to 46.0 per cent. Based on data for the first six months of 1997, the respective increases are 58.1 to 65.9 per cent for London and 36.2 to 44.2 per cent for the UK.

1.6. We analysed the competition effects in these two geographical markets for radio advertising. Within the London market, we find that the increased market share that Capital will gain from the merger may be expected to increase Capital's already strong position in

that market and to diminish competition. We expect this to be characterized by a reduction in the ability of advertisers to assemble effective packages of radio advertising which do not include the Capital and Virgin stations; a weakening of the ability of other stations to compete for revenue; and increased opportunities for Capital to adopt sales practices which may be expected to have detrimental effects on its competitors. As a result, prices may be expected to rise higher than they would in the absence of the merger.

1.7. We also think Capital's resulting dominance in the London market would enable it to offer wide-ranging packages of advertising which would strengthen its position in the UK radio advertising market, thereby reducing the ability of advertisers to buy around Capital. As a result, prices may be expected to rise higher than they would in the absence of the merger.

1.8. There are three benefits of the merger: first, the development of Virgin AM as a UK-wide station and of Virgin FM as a London-focused station; secondly, increased professionalism and financial strength in the management of Virgin; and thirdly, a greater commitment by Capital to the development of digital audio broadcasting (DAB). The first two of these benefits could largely be achieved in the absence of the merger. However, we believe the development of DAB in the UK would be more assured as a result of the merger. Overall, we consider that the benefits are not sufficient to outweigh the detriments we have specified.

1.9. We conclude therefore that the proposed merger between Capital and Virgin Holdings may be expected to operate against the public interest with the particular adverse effects set out in paragraphs 1.6 and 1.7.

1.10. We recommend that the proposed merger of Capital and Virgin Holdings should only be allowed to proceed if either:

(a) Capital is required to divest that part of its undertaking relating to Capital Gold in such a way that the divested business can continue to operate effectively in its present form. The divestment should take place prior to completion of the merger to a buyer unconnected with Capital and approved by the Office of Fair Trading (OFT) and the Radio Authority (RA); or

(b) Capital is prohibited from acquiring Virgin FM.

If Capital is not prepared to accept these conditions then we recommend that the proposed merger be prohibited.