4 The markets

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Introduction

4.1. This chapter looks at commercial radio in terms of its listeners, its advertising role and the prices it charges, and at the BBC's radio stations in terms of their audience. The chapter begins with a brief history of radio and then discusses DAB and regulation. It then looks at the audience for radio in terms of number of listeners, listening hours and the characteristics of radio. Following the discussion of the audience, the chapter examines various aspects of radio advertising: its relationship with other forms of display media, its characteristics and strategy and its value and the positions of the various stations. When looking at the audience and advertising we discuss separately London and the UK. The chapter ends with a discussion of prices.

Brief history of radio

4.2. The first ILR station in the UK, LBC, began broadcasting in October 1973. The launch of this service was followed closely by Capital Radio in London and Radio Clyde in Glasgow, each broadcasting a single service on both the FM and AM wavebands. Following the launch of the first wave of ILR services, development stopped in 1976 for about four years while the Government examined the future of BBC and ILR broadcasting which resulted in the 1978 White Paper.[1]

4.3. The period from 1980 to 1985 saw a further period of rapid growth in ILR development which ceased during the latter half of the decade while a new broadcasting regime was established. The old IBA, which had been responsible for both radio and television, was abolished following the 1990 Act, which paved the way for the establishment of two new sectoral regulators, the ITC and the RA, the latter assuming responsibility for independent radio in January 1991. At that time, a total of 129 local licences (but no national licences) had been issued.

4.4. Over the past six years there has been further growth in the number of commercial radio stations. By September 1997 about 185 local licences and three national licences (Classic FM, Talk AM and Virgin AM—these services are known as INR services) were in operation. A further 18 local licences were awarded by September 1997, but none was on air by that date. Atlantic 252, which broadcasts from the Republic of Ireland and is not licensed in the UK, can also be heard in most parts of the UK.

4.5. BBC radio stations have been broadcasting for many years. The stations changed their format about 30 years ago with the introduction of Radios 1, 2, 3 and 4. In 1990 BBC radio added another national station, Radio 5, now known as Radio 5 Live.

4.6. Figure 4.1 shows the changing share of listening hours accounted for by commercial radio in London and in the UK (see paragraph 4.25). Starting from a similar base in 1986 (27 per cent for London and 28 per cent for the UK) commercial radio in London has taken more share from the BBC than it has in the UK: commercial radio accounted for 59 per cent of listening hours in London in 1997, compared with 50 per cent in the UK. The largest change in the shares occurred between the late 1980s and the early 1990s.

Digital audio broadcasting

4.7. Radio stations broadcast on the analogue system—sound being transmitted by a series of waves—using the AM and/or the FM waveband. The sound quality of FM broadcasts is much higher than that of AM broadcasts. Of the larger London-based ILR services (see Table 4.3), nine broadcast on FM and seven on AM. The RAB told us that the technology to broadcast and receive FM transmissions was developed in the late 1940s, with the FM waveband becoming more popular than the AM waveband in the late 1980s. The new technology for radio stations is DAB.

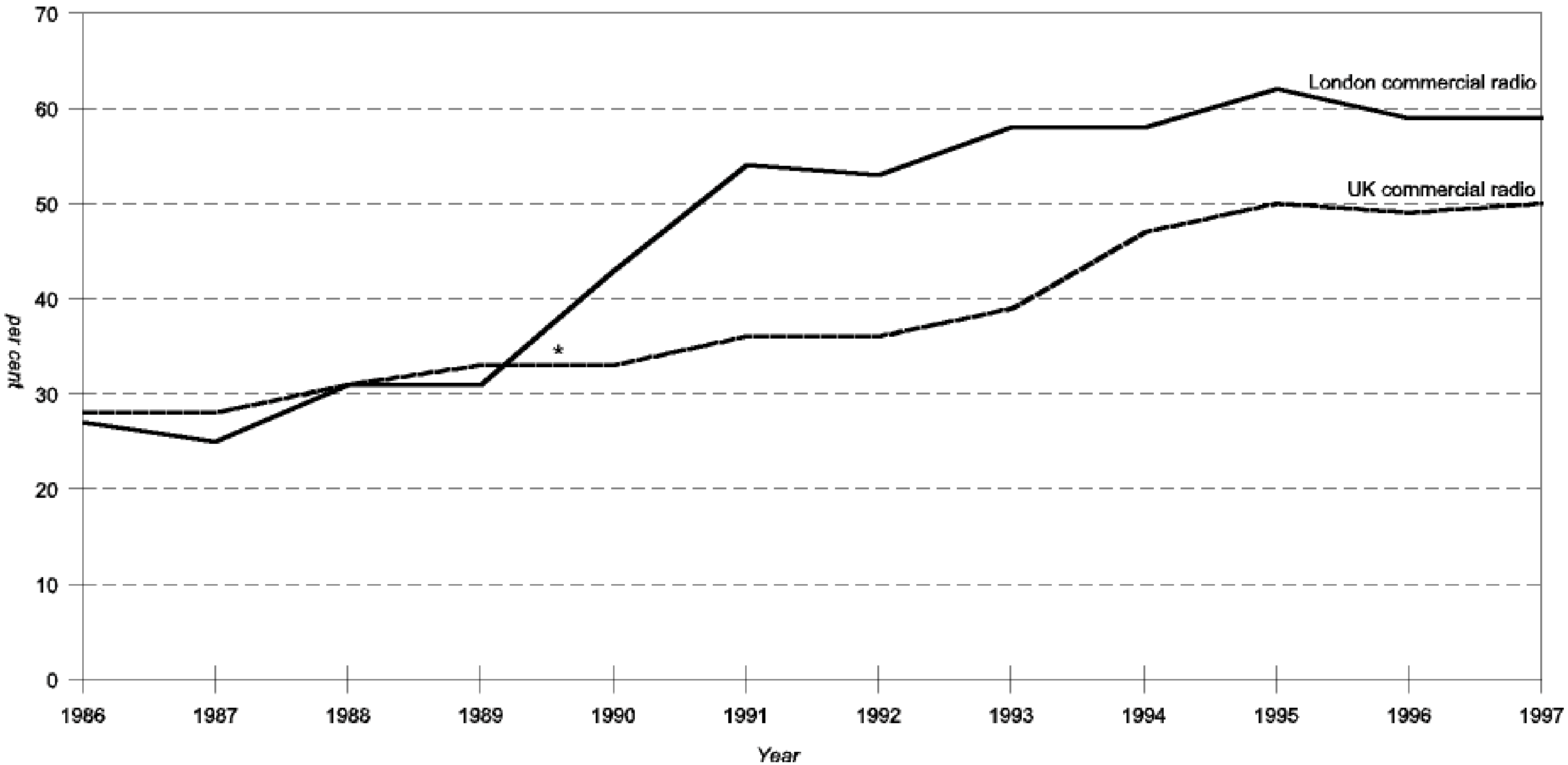
4.8. DAB is a new way of transmitting radio services. Instead of sound being transmitted by a series of waves, as with the current analogue system, sound is processed electronically and converted into a series of binary digits. This series is then transmitted on a carrier wave as a bit stream and is converted back to sound by an appropriate receiver. Through compression techniques, several streams of digital information can be carried on one frequency at the same time. This technique is known as multiplexing and the carrier frequency is termed the multiplex. Multiplexing improves the efficiency with which the radio spectrum is used. The sound quality is also better because DAB is not subject to the interference experienced by analogue methods of transmission, particularly the AM wavebands.

4.9. In the 1996 Act the Government made provision for the introduction of DAB. The RA will be responsible for awarding digital licences and for the subsequent administration of the system. There will, initially, be two national digital radio multiplexes. One has already been allocated to the BBC for its five national services which began broadcasting digitally in September 1995. The other will be allocated to national independent radio. There will be guaranteed places on this multiplex for the three existing national radio stations (Classic FM, Talk AM and Virgin AM) and there will also be capacity for three to five other radio programme services. The three national licence holders will be guaranteed an eight-year renewal of their existing analogue licences if they take up the places reserved for them on the national independent radio multiplex.

[1]*Broadcasting*, Cmnd 7294.

FIGURE 4.1

Commercial radio's share of listening hours, 1986 to 1997



Source: RAB (based on RAJAR data).

*MMC estimate.

4.10. Local multiplexes will also be available in most parts of the UK, each with capacity for six to eight local radio stations, with two multiplexes in major conurbations (capacity of 12 to 16 stations). In the London area the RA expects to make available two or possibly three multiplexes (capacity of 12 to 24 stations).

4.11. It is not yet clear exactly how DAB will develop in the UK. The RA is currently consulting interested parties. Broadly, it is envisaged that companies or consortia will bid for multiplex licences. The bidder for a multiplex will be offering a package of channels. In adjudicating on bids, the RA will look nationally at how effective the applicant's proposals will be in developing digital terrestrial radio overall. For local multiplexes greater emphasis will be placed on the content and variety of the services proposed. It is not clear, though, what the nature of the commercial relationship between the owner of the multiplex and the radio service providers will be. Nor is it clear whether multiplex owners will have to subsidize the uptake of digital receivers (which seem, initially, likely to be much more expensive than traditional receivers) or will look to subscription radio, along the lines of pay television.

4.12. Most of the parties which gave evidence to us thought that it would be between five and ten years before DAB became established in the UK. Even though the RA was expecting to advertise the national multiplex licence in spring 1998, many thought that unless the cost of DAB receivers came down dramatically there would be little take-up of the service because the improvements in quality compared with FM broadcasting would be slight. The chief initial market was likely to be DAB receivers for cars where radio interference can be a particular problem.

4.13. Virgin told us that the Government, recognizing the huge investment required for the development of DAB, had opened up the ownership rules to allow as many companies as possible to participate in DAB. This opening up of the ownership rules means that as regards DAB there are no restrictions on foreign ownership of UK broadcasting slots.

Regulation

4.14. Under the terms of the 1990 Act the RA's function is to regulate independent radio services. It has no role in the regulation of the BBC's analogue radio services. The RA awards national commercial radio licences on the basis of cash bids for an initial period of eight years. Local licences are also awarded for an initial period of eight years, but no cash bids are involved; applicants are judged against the criteria set out in section 105 of the 1990 Act. The 1990 Act stipulates that companies based outside the European Economic Area can hold only minority stakes in UK national and local analogue radio stations. Virgin told us that this restriction tended to discourage US players from becoming involved with UK radio stations.

4.15. The RA is required to ensure compliance with the rules governing the ownership of independent radio licences which are set out in the most recent broadcasting legislation, the 1996 Act. These rules are designed, *inter alia*, to ensure that unsuitable persons are not allowed to hold licences and to place limits on the accumulation of interests in radio or in radio and newspapers by any one party. There are currently no restrictions on the total number of local licences that any one person may hold across the UK. But no one may hold more than three licences in any locality that share a potential audience nor two such licences on the same waveband unless the RA determines that such an accumulation is not against the public interest. Nobody may hold more than one national licence.

4.16. A further condition is that no company may hold more than a 15 per cent share of the total number of points allocated to all the national and local radio services licensed in the UK. The RA allocates points to stations on the basis of the size of the potential audience within their transmission area. Subject to the AM discount (see below), this points system takes no account of a radio station's turnover, profit and the number of its listeners. For example, Capital FM and Heart (a London radio station owned by Chrysalis Radio Ltd (Chrysalis) a wholly-owned subsidiary of Chrysalis Group PLC (Chrysalis Group)) are each allocated 15 points, even though Capital FM has many more listeners in London than Heart (see Table 4.1). A radio station on the AM waveband is given a points discount of one-third, compared with a station in the same area but on the FM waveband, for example Capital Gold is allocated 10 points compared with Capital FM's 15 points. The RA told us that a discount was awarded to AM stations due to their lower quality and the likelihood that more people listen to an FM service.

4.17. As at 1 September 1997 there were 737.33 points allocated. This means that no one person may account for more than 110.60 points. At present Capital owns 11 licences and has 65.67 points (an 8.91 per cent share) and Virgin owns two licences and has 31.67 points (a 4.30 per cent share). If the merger goes ahead the enlarged Capital/Virgin group will hold 13 licences and have 97.34 points. This will represent a 13.21 per cent share of the total points allocated and will fall within the limits specified in the 1996 Act. The two largest radio groups, in terms of points, are GWR and EMAP Radio Limited (EMAP Radio). GWR owns 29 licences and has 107.16 points (a 14.53 per cent share) and EMAP Radio owns 19 licences and has 104.98 points (a 14.24 per cent share). With their current holdings of radio stations, both of these groups are unable to acquire Virgin as the acquisition would breach the 15 per cent limit.

4.18. The RA is required to ensure that licensees comply with the terms of their licences. National and local radio licences contain a promise of performance which describes the character of the service which must be provided by the licensee. The promise of performance is based on the programming proposals put forward by the licensee when he applied for the licence. The RA seeks to maintain diversity in the types of service available in the UK; diversity is an important criterion in the award of licences and the promises of performance are intended to prevent a licensee, without the RA’s approval, from substantially changing the character of the service offered.

4.19. Licensees must also comply with the RA's three codes of practice which it is required by statute to produce: the Programme Code; the News and Current Affairs Code; and the Advertising and Sponsorship Code. The Programme Code covers matters of taste and decency; the News and Current Affairs Code covers political matters and accuracy and impartiality; and the Advertising and Sponsorship Code covers the type of advertising which is permitted on radio and the manner in which it must be presented. The Advertising and Sponsorship Code requires that there should be no undue discrimination in favour of or against any particular advertiser, or class of advertiser. Licensees are free to advertise their services in the same way as they advertise other services, but in doing so they must behave fairly and, therefore, not afford to themselves advertising opportunities which would be denied to others. Although conditional selling of advertising is not specifically prohibited by the Advertising and Sponsorship Code, the RA told us that the practice would be likely to be judged unduly discriminatory and would thus probably be outlawed on that basis.

4.20. In ensuring compliance with its codes, the RA adopts a more reactive than proactive approach—it regulates by investigating the written complaints it receives, together with some spot monitoring. Complaints may originate from listeners concerned about, for example, an item of programming or a misleading advertisement. Complaints may also be received from rival stations in the area, or from disappointed rival licence applicants, claiming that the station is in breach of its promise of performance. In all cases, the RA requires that the licensee produce scripts or recordings, in order that it can examine fully the complaints lodged. If a station is found to have committed a code breach, it is reported in the RA’s quarterly complaints bulletin. If the breach is serious enough, the RA may fine the station, require the broadcast of an apology or a correction or, in more serious cases, shorten, suspend or revoke the licence.

The Radio Authority’s public interest test

4.21. The RA must have specific regard to the following matters when making a public interest determination under the 1996 Act with regard to an accumulation of local radio licences by any person in accordance with the statutory thresholds:

(a) any reduction in the plurality of ownership of local radio services within the area concerned that would result from a decision to allow the licences to be held together; and

(b) the likely effect of such a decision on:
  (i) the range of programmes available by way of independent radio services to persons living in the area concerned; and

(ii) diversity in the sources of information available to the public in the area concerned and in the opinions expressed on local radio services received in that area.

4.22. In considering the proposed merger between Capital and Virgin the RA examined the implications for the public interest in the London area. It also had regard to its coterminous duty under the terms of section 85(3)(b) of the 1990 Act to 'ensure fair and effective competition in the provision of such [independent radio] services and services connected with them'. In other words, the RA's duties under section 85(3)(b) cover the range and quality of broadcasting output to the listener and the supply of advertising. The 1990 Act envisages circumstances where not only the RA, but also other competition authorities such as the OFT and the MMC, may be involved in assessing the competitive effects of a proposed merger.

4.23. The RA considered the proposed acquisition on 3 July 1997. Its view was that it saw no reason in terms of plurality of ownership or diversity of output to disallow the acquisition.[1] This decision was taken in the light of a number of specific, binding undertakings which the RA had sought and obtained from Capital, and amendments to Virgin FM's promise of performance, namely:

(a) Capital undertook to ensure that the news broadcast on Virgin's services would be produced and presented separately from the news broadcast on Capital's services. Capital undertook to ensure that Capital's and Virgin's services would operate independent newsrooms for each station.

(b) Capital was informed that the RA would amend Virgin FM's promises of performance by specifying that the amount of 'alternative rock' and 'eclectic' music output on Virgin FM should not together exceed more than 20 per cent of the total music played (currently the figure is 32 per cent).

(c) Capital was informed that when the simulcast programming arrangements which currently exist between Virgin's services are ended (if the merger was approved), the RA would amend Virgin FM's promise of performance to prevent any simulcasting of programmes thereafter (other than at the off-peak times previously specified in Capital's public interest submission).

4.24. When the RA made public its findings on the proposed merger on 17 July 1997 it made clear that its assessment was not at that stage final. Whilst, in the light of the undertakings it had been given by Capital, the RA had no concerns about plurality of ownership or diversity of output, the RA reserved its position on the competition implications of the acquisition pending the Secretary of State for Trade and Industry's decision on our report.

Radio stations broadcasting in the London area

The London area

4.25. The London area in this chapter refers to the LSA which is the TSA that is used by all London-wide radio services. It covers a population of just under 10 million. The TSA is a research term which is used by radio stations as a shorthand means of describing the transmission area that they market to advertisers.

Commercial stations

4.26. There are 20 ILR services broadcasting to all or part of London. The area is served by many more ILR stations than any other part of the UK. When the last London-wide service, Xfm, came on air in September 1997, 15 London-wide ILR services were available in London.[2] In addition to these London-wide services, there are a further five small-scale ILR services located in London which

[1]RA press release, 17 July 1997.
[2]The RA includes Spectrum as a London-wide ILR service. RAJAR's data (provided to us by the RAB) show Spectrum's TSA as being less than that of the other ILR services which are classified as London-wide by the RA.

broadcast to a part of the London area. A further three small-scale licences are planned for east London, south-east London and north/north-west London. The RAB told us that there were a further 19 ILR services located outside London which some Londoners could also receive (see Appendix 4.1).[1] Three licensed national commercial radio stations and a fourth INR service, Atlantic 252, can be heard in London.

4.27. The RA said that entry to London (and other commercial radio markets) was restricted by regulation (see paragraphs 4.14 to 4.20). It told us that due to frequency constraints, it did not anticipate licensing any further London-wide local analogue radio services. There are few other barriers to entry. There are no substantial capital or technical hurdles that need to be overcome for the operation of a commercial radio station.

4.28. Entry is also restrained to some extent by the high proportion of stations which successfully reapply for their licence. The RA told us that nine licensees out of 125 had not been successful when reapplying for licences. In the Greater London area one company out of six had not been successful when reapplying for licences.

4.29. As regards exit, local licensees may, if they so choose, hand back their licence to the RA, before the end of their full licence term, without incurring regulatory penalties. The RA said that only one local licence (Airport Information Radio) had ever been handed back to the RA. The licence might then be readvertised by the RA. The RA told us that in its experience, despite financial difficulties that some licensees find themselves in, a willing buyer could invariably be found. Whilst not involving a licensee handing back a licence, the extent of interest in London radio licences can be illustrated by the number of companies which applied for the recent licence awarded to Xfm: the RA told us that it had received 25 applications for this licence.

4.30. In general, the RA is not required to give its approval to acquisitions of radio licensees (although licensee companies must notify the RA of any material change in their shareholders). This is, however, subject to two broad exceptions: first, where the acquisition involves an application of the public interest test (see paragraphs 4.21 to 4.24); and secondly, the transfer of a licence from one company to another (including transfers between companies falling with the same group) can only proceed if the RA has given its prior written consent to the transfer.

BBC stations

4.31. There is one local BBC station serving the whole London area, BBC GLR, and a number of local BBC services originating from the surrounding counties which can be heard in parts of London. BBC GLR began broadcasting in 1988.

Commercial stations' number of listeners

4.32. Table 4.1 shows the relative size, in terms of the number of listeners, of the main London-based ILR services and INR services broadcasting to all or part of London.[2] The table shows that Capital FM has the greatest number of listeners (2.9 million), with its sister station, Capital Gold, the second most popular station with 1.3 million listeners. Five other commercial stations each have about 1 million listeners in London: Heart, Melody, Kiss 100 FM, Virgin FM[3] and Classic FM.

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[1]Broadcast to less than 10 per cent of the LSA.

[2]The number of listeners is calculated as the number of adults (15 years of age and over) who listen to a radio station for a least five minutes in the course of an average week. This term is also known as weekly reach which is expressed in absolute terms or as a percentage of the UK or its relevant area.

[3]The music on Virgin FM is currently simulcast 15 hours a day with Virgin AM.

TABLE 4.1 **The number of London listeners to London-based ILR services and INR services in Q2 1997***

	Number of listeners† '000
National stations	
Classic FM	1,025
Talk AM	485
Atlantic 252	103
Virgin AM	307
London-wide stations	
Capital FM	2,941
Capital Gold	1,275
Heart	1,032
Melody	1,026
Kiss 100 FM	902
Virgin FM	856
LBC 1152	579
Jazz	447
News Direct 97.3 FM	333
Sunrise Radio (Greater London)	291
RTL Country 1035 AM	222
Premier Radio	111
963 Liberty	60
*Small-scale stations located in London**	
Spectrum International	83
Choice FM	212

Source: MMC calculations on data provided by the RAB (based on RAJAR data).‡

*LSA; excludes London Turkish Radio, London Greek Radio, Millennium and Thames FM which are not covered by RAJAR's data.

†Listen to more than one radio station.

‡RAJAR is jointly owned by the Commercial Radio Companies Association (CRCA) and the BBC and is the recognized source for measuring radio audiences in the UK. It surveys continuously, with smaller stations covered at least once a year and the larger ones four times a year. Research takes the form of sample diaries issued each week, recording the sample panel's listening habits by the quarter-hour. In 1997 (Quarter 2) RAJAR had a national audience sample of 60,311 and a London audience sample of 7,762. Not all radio stations broadcasting in the UK subscribe to RAJAR, but the stations which do participate account for virtually all of the radio advertising revenue.

4.33. The RAB told us that the INR services saw London as an important part of their business. These services are covered in the remainder of this chapter. There are a number of non-London-based ILR services which can be heard in London (see Appendix 4.1 for a list of these stations, the number of their listeners in London and their broadcasting areas). These stations, being located outside London, have different broadcasting areas and as such are not covered in the remainder of this chapter. Capital told us that excluding these services gave a misleading picture of the competitive nature of the London radio market. It said that contiguous ILR services did compete for listeners and revenue with stations broadcasting in London. Capital stated that the combined effect of these stations could have a significant impact on listening shares in London.

BBC stations' number of listeners

4.34. The numbers of listeners in London for each of the five national BBC stations and for its London-based station (GLR) are shown in Table 4.2.

TABLE 4.2 **The number of London listeners to the BBC's national and London-based radio stations in 1997 (Quarter 2)***

	Number of listeners† '000
Radio 1	1,336
Radio 2	1,317
Radio 3	587
Radio 4	1,990
Radio 5 Live	982
GLR	330

Source: RAB based on RAJAR data.

*LSA.
†Listen to more than one station.

4.35. Radio 4 has more listeners in London (2 million) than any other BBC radio station and is second only to Capital FM (2.9 million) (see Table 4.1). Radios 1 and 2, each with 1.3 million London listeners, have a similar number of listeners in London to Capital Gold, while Radio 5 Live (1 million) is of a similar size to Classic FM, Heart, Melody, Kiss 100 FM and Virgin FM.

Characteristics of radio stations

4.36. Table 4.3 shows the core target audiences, wavebands, broadcast output and the on-air dates for INR stations, London-based ILR stations and BBC stations. Appendix 4.2 shows a fuller description of the London-based ILR services' programming and target markets.

4.37. Table 4.3 shows that Capital had many years as the only commercial music station in London, giving it time to establish its position in the area. Capital told us that LBC, the news station, was extremely popular and competed with Capital. In the late 1980s and early 1990s there was an increase in the number of London-based ILR services. In 1989 three such services came on air (Sunrise, London Turkish Radio and London Greek Radio), followed by six in 1990 (Melody, Kiss 100 FM, Jazz, Spectrum, Millennium and Choice). Further growth occurred in 1994 and 1995 (six stations). Thames FM began broadcasting a music service for Kingston in March 1997. The latest new station is Xfm which began broadcasting alternative rock music for 15- to 34-year-olds in September 1997.

4.38. Table 4.3 also shows that with its two stations Capital has a wide core target market in London (15- to 40-year-olds (Capital FM) and 30- to 54-year-olds (Capital Gold)) and the most popular broadcast output (current hits (Capital FM) and older hits (Capital Gold)). Virgin FM targets broadly the same age range (25- to 44-year-olds) as Capital FM, but plays contemporary rock music as opposed to current hits.

TABLE 4.3 **Core target market, waveband type, main broadcast output and on-air date for INR and London-based ILR services**

Radio station	*Core target market*	*Waveband*	*Broadcast output*	*On-air date*
INR services				
Atlantic 252	15–34-year-olds	LW	Top 40 hits	September 1989
Classic FM	ABC1 35+ adults	FM	Classical	September 1992
Virgin AM	25–44 adults (male bias)	AM	Contemporary rock	April 1993
Talk AM	BC1C2 25–54-year-olds	AM	Speech	February 1995
ILR services				
LBC	ABC1C2 35–64 adults	AM	Speech	October 1973*
Capital FM	15–40-year-olds	FM	Top 40 hits	October 1973
Capital Gold	30–54 adults	AM	Older hits	November 1988
Sunrise Radio (Greater London)	Asian adults	AM	Asian	November 1989
Jazz	ABC1 25–54 adults	FM	Jazz	March 1990
Choice	African and Afro-Caribbean	FM	Soul and reggae/ragga	March 1990
Spectrum International	Multi-ethnic communities	AM	Ethnic speech/music	June 1990
Melody	ABC1 35+ adults	FM	Easy listening	July 1990
Kiss 100 FM	15–34-year-olds	FM	Dance	September 1990
RTL Country AM	BC1C2 25–54 (male bias)	AM	Country	September 1994
News Direct FM	ABC1 30+ adults	FM	Speech	October 1994*
Virgin FM	25–44 adults (male bias)	FM	Contemporary rock	April 1995
Premier Radio	35+ adults	AM	Christian	June 1995
963 Liberty	ABC1 30–44 adults (female bias)	AM	Speech/soft ballads	July 1995
Heart	25–44 adults (female bias)	FM	Contemporary music	September 1995
Xfm	15–34-year-olds	FM	Alternative rock	September 1997
BBC stations				
Radio 1	15–34-year-olds	FM	Contemporary pop music, live and specialist	September 1967
Radio 2	40+ adults	FM	Melodic, specialist and live music and speech	September 1967
Radio 3	Classical music fans	FM	Classical (50 per cent live)	September 1967
Radio 4	ABC1 45+ adults	FM/AM	In-depth news, current affairs and speech	September 1967
Radio 5 Live	25–44 adults	AM	Live news and sport	August 1990
GLR	25–44 adults	FM	Local speech and music	October 1988

Sources: RA, RAB and BBC.

*In October 1994 LBC changed hands and the new owners were awarded a licence for News Direct.

4.39. Table 4.4 sets out the proportion of listeners[1] by age group and by sex in each of six leading London-based ILR services (Capital FM, Capital Gold, Virgin FM, Heart, Kiss 100 FM and Melody) in 1997 (Quarter 2). Table 4.4 shows, for example, that 15- to 24-year-old women accounted for 13.9 per cent of the listeners of Capital FM in 1997 (Quarter 2).

[1]The number of listeners, excluding children, ie those aged under 15, as estimated by RAJAR.

TABLE 4.4 **The proportion of London listeners by age group and by sex in each of six leading London-based ILR services, 1997 (Quarter 2)***

per cent

Sex and age group	*Capital FM*	*Capital Gold*	*Virgin FM*	*Heart*	*Melody*	*Kiss 100 FM*
Women						
15-24	13.9	5.9	12.3	14.4	3.1	22.8
25-34	15.6	9.7	14.2	20.0	8.1	15.7
35-44	10.9	9.3	9.6	11.4	7.5	5.6
45-54	6.9	9.2	4.2	4.7	7.8	3.4
55	4.8	13.8	3.1	3.9	24.6	0.8
	52.1	47.9	43.4	54.4	51.1	48.3
Men						
15-24	10.5	6.4	11.6	8.6	2.0	24.5
25-34	14.7	11.2	19.1	17.5	6.7	15.5
35-44	10.8	10.6	17.1	10.2	8.0	6.6
45-54	7.5	13.1	5.9	5.7	9.6	3.4
55	4.4	10.8	2.9	3.6	22.6	1.7
	47.9	52.1	56.6	45.6	48.9	51.7
Total	100.0	100.0	100.0	100.0	100.0	100.0
Total ('000)	2,941	1,275	856	1,032	1,026	902

Source: MMC calculations based on data provided by RAB (based on RAJAR estimates).

*LSA.

4.40. Table 4.4 shows that for both female and male listeners and across the different age groups there is a high degree of overlap between the six stations. But it is also clear from Table 4.4 that the focus of the six stations is different:

(a) Kiss 100 FM focuses on the younger age range, particularly those between 15 and 24 years old;

(b) Melody focuses on the upper age range, particularly those aged 55 and over;

(c) Capital FM, Virgin FM and Heart have a broader focus which largely comprises those aged 44 and under; and

(d) Capital Gold also has a broader focus, but in its case it is those aged 25 and over.

4.41. Figure 4.2 analyses the same estimates, but in a different way. It shows the number of listeners within each of six leading London-based ILR services (Capital FM, Capital Gold, Virgin FM, Heart, Kiss 100 FM and Melody) in 1997 (Quarter 2) by age and sex. For example, Figure 4.2 shows that over 400,000 15- to 24-year-old women listened to Capital FM in 1997 (Quarter 2). Figure 4.2 shows a similar picture to that described in paragraph 4.40 (the high degree of overlap and the particular focus of the stations). In addition, Figure 4.2 shows:

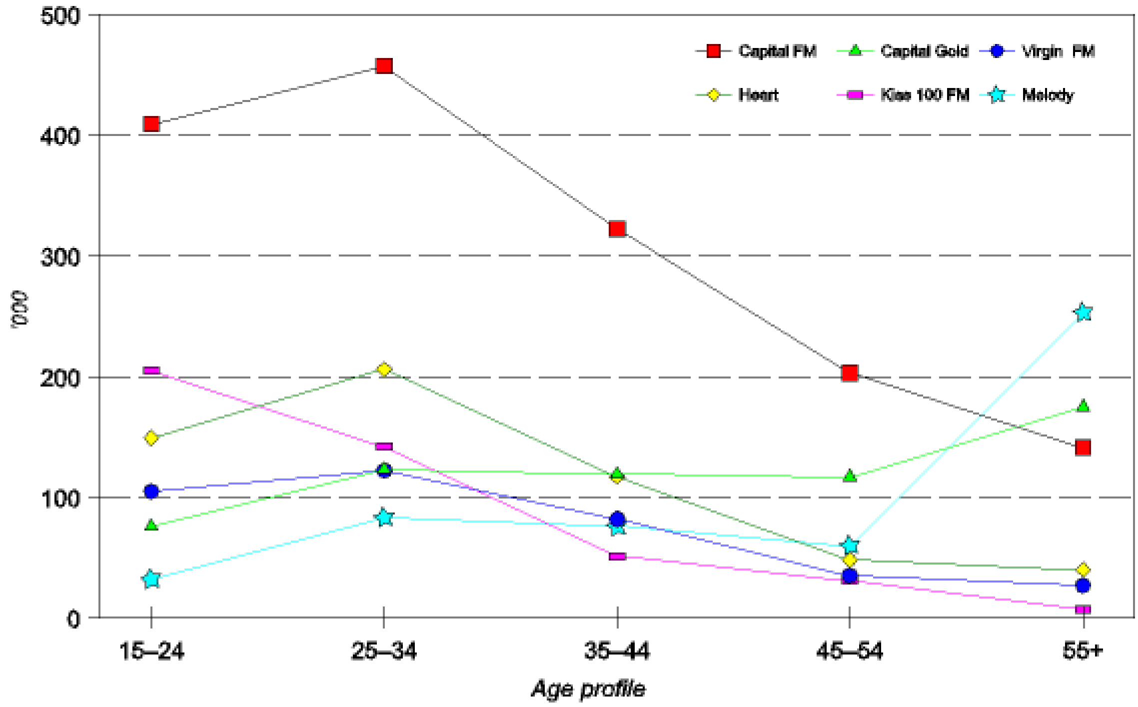
(a) the greater popularity of Capital FM, particularly for those between 15 and 44 years old; and

(b) that there is little difference between Capital Gold and Virgin FM in the age groups under 45; however, among listeners aged 45 and over Capital Gold is far more popular.

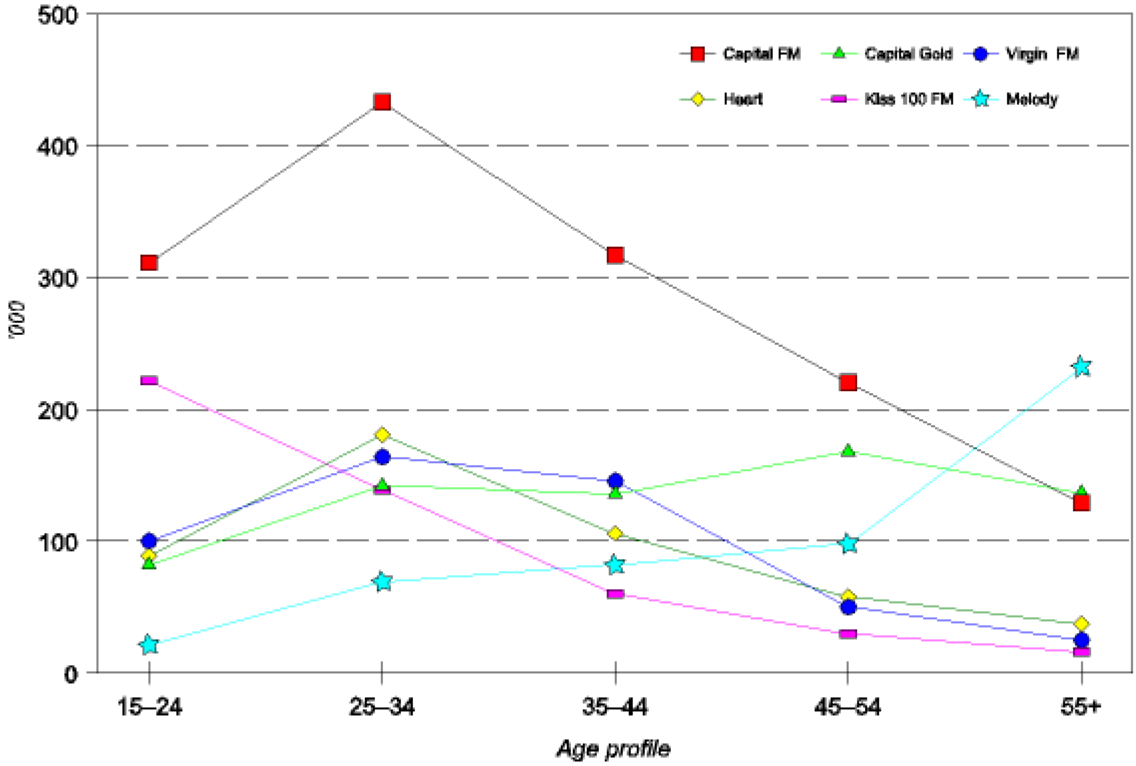
FIGURE 4.2

The number of London listeners within each age profile listening to different London-based ILR services, Quarter 2 1997

A. Women



B. Men



Source: MMC calculations based on data provided by the RAB (based on RAJAR data).

4.42. Table 4.4 and Figure 4.2 show the breakdown of the number of listeners for six leading stations for 1997 (Quarter 2). The listener breakdown may vary over time as a radio station is able to change the composition of its audience so long as its output remains within its promise of performance. The figures are also likely to be affected by the launch of Xfm across London in September 1997 which has a target of 500,000 listeners a week. Xfm's output is designed to appeal specifically to 15- to 34-year-olds.

4.43. Of the BBC's national stations, Radio 1 targets a young audience (15- to 34-year-olds) by playing current hits and other youth-based music, Radio 2 plays popular music for an audience older than that of Radio 1, Radio 3 plays classical music and Radios 4 and 5 Live are talk-based stations.

Number of listening hours

4.44. We have used listening hours in order to estimate radio stations' shares of listening in the London area, as this measure takes into account the number of people listening to particular stations and the amount of time they listen.[1]

Commercial stations

4.45. Table 4.5 shows the commercial radio stations' shares of listening hours in London for 1995 (Quarter 2) to 1997 (Quarter 2). During our investigation RAJAR data for 1997 (Quarter 3) became available. Capital told us that these data supported its audience forecasts (see Table 3.7) as they showed Capital FM's share continuing to fall, whilst the newer entrants such as Heart gained share.

4.46. Table 4.5 shows that in 1997 (Quarter 2) Capital accounted for 42.5 per cent of London's commercial listening hours including INR services and for 48.3 per cent excluding INR services. Capital said that its share of listening in the London area was lower than shares held by other radio station groups in other major metropolitan areas of the UK, some of these shares being very high (see Appendix 4.3). Table 4.5 shows that Capital's share (both Capital FM and Capital Gold) fell in 1996 with the entry of Heart and Virgin FM and to a lesser extent with the entry of Premier and 963 Liberty (formerly known as Viva).[2] Following their entry in 1995, Virgin FM and Heart accounted for 5.0 and 8.6 per cent respectively of listening hours in 1997 (including INR services) and 5.7 and 9.8 per cent respectively (excluding INR services). There was very little change in Capital's share in 1997. Whilst Capital's share will not be at risk from further new entrants in the next few years as the RA does not anticipate awarding any new analogue licences (see paragraph 4.27), it could be at risk from growth of existing stations. Assuming no change in listening habits, the merger will take Capital's share (including Virgin) back to the level that Capital had in 1995. Capital told us that it expected to develop Virgin's stations which if successful would increase Virgin's share (see Table 3.7). The last year's data in Table 4.5 (1997, Quarter 2) do not show the performance of Xfm which began broadcasting in September 1997. Xfm told us that its business plan assumed that it would have about 500,000 listeners. Table 3.7 shows Capital's estimates for certain radio stations' performance over the next five years.

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[1]Listening hours are measured by the total length of time listened to radio, or a station, by the population group being measured, calculated by summing every 15 minutes listened between 0600 and 2400 hours and every 30 minutes listened between 2400 and 0600 hours.

[2]Virgin FM came on air in April 1995 (but its first full quarter figures are for Quarter 3), Heart in September 1995, Premier in June 1995 and 963 Liberty in July 1995.

TABLE 4.5 **London-based ILR stations' and INR stations' shares of commercial listening hours in London, 1995 to 1997***

per cent

	1995 Q2	*1996 Q2*	*1997 Q2*
Including INR services			
INR services			
Classic FM	4.8	6.0	5.2
Talk AM	4.8	4.2	4.8
Atlantic 252	0.7	0.5	0.3
Virgin AM	2.5	1.9	1.7
ILR services			
Capital FM	37.6	31.7	32.2
Capital Gold	11.9	10.0	10.3
Capital	49.5	41.7	42.5
Heart	0.0	5.6	8.6
Melody	10.0	8.9	8.7
Kiss 100 FM	6.9	6.4	5.8
Virgin FM	0.0	5.4	5.0
LBC 1152	5.9	5.5	6.2
Jazz	2.6	1.9	1.6
News Direct 97.3 FM	2.5	2.7	1.0
Sunrise Radio (Greater London)	.1	4.5	3.5
RTL Country 1035 AM	2.6	1.9	2.3
Premier Radio	0.0	1.1	0.9
963 Liberty	0.0	0.2	0.4
Spectrum International	0.6	0.3	0.3
Choice FM	1.3	1.4	1.3
Total	100.0	100.0	100.0
Capital and Virgin	52.0	48.9	49.3
Total listening hours (m)	94.9	90.2	95.9
Excluding INR services			
Capital FM	43.2	36.3	36.6
Capital Gold	13.7	11.4	11.7
Capital	56.9	47.7	48.3
Heart	0.0	6.4	9.8
Melody	11.5	10.2	9.8
Kiss 100 FM	7.9	7.3	6.6
Virgin FM	0.0	6.1	5.7
LBC 1152	6.8	6.3	7.0
Jazz	3.0	2.1	1.8
News Direct 97.3 FM	2.9	3.1	1.1
Sunrise Radio (Greater London)	5.9	5.1	3.9
RTL Country 1035 AM	3.0	2.2	2.7
Premier Radio	0.0	1.2	1.0
963 Liberty	0.0	0.3	0.4
Spectrum International	.7	0.4	0.3
Choice FM	1.5	1.6	1.4
Total	100.0	100.0	100.0
Capital and Virgin FM	56.9	53.8	54.1
Total listening hours (m)	82.7	78.8	84.4

Source: MMC calculations based on data provided by RAB (based on RAJAR data).

*LSA excluding stations which broadcast to less than 10 per cent of the LSA.

Note: Totals may not sum due to rounding.

BBC stations

4.47. Table 4.6 shows the BBC radio stations' shares of the BBC's total listening hours in London for 1995 to 1997.

TABLE 4.6 **BBC radio stations' share of BBC listening hours in London, 1995 to 1997***

per cent

	1995 Q2	*1996 Q2*	*1997 Q2*
Radio 1	18.4	17.4	15.4
Radio 2	28.2	29.0	29.8
Radio 3	3.9	3.6	4.5
Radio 4	36.4	37.7	37.4
Radio 5 Live	10.2	9.5	10.2
GLR	2.9	2.8	2.8
Total	100.0	100.0	100.0
Total listening hours (m)	63.5	57.6	59.6

Source: MMC calculations based on data provided by RAB (based on RAJAR data).

*LSA.
Note: Totals may not sum due to rounding.

4.48. Table 4.6 shows that Radio 4 was the most popular BBC radio station in London, followed by Radio 2. Both stations have increased their shares of the BBC's London listening hours, as has Radio 3. Radio 1 has seen its share fall by three percentage points over the last three years. Appendix 4.4 shows total listening hours for commercial and BBC stations in London.

Listener overlap between London-based ILR services[1]

4.49. Radio stations focus on particular listeners, some more so than others. Their choice of music is determined by their target audience. In the case of commercial radio stations, target audiences, types of music to be played and other factors are set out in a station's promise of performance. In accordance with the statutory requirements in respect of diversity (see paragraph 4.18), the RA's awards of local licences are governed partly by the need to serve a particular group of listeners which are not catered for by existing stations. The promise of performance tends to be more specific in the case of ILR services than it is for INR services.

4.50. We were told by a number of ILR services that Capital's wider promise of performance would allow Capital to target the ILR services' listeners and that the ILR services' narrower promises of performance would restrict their ability to respond.

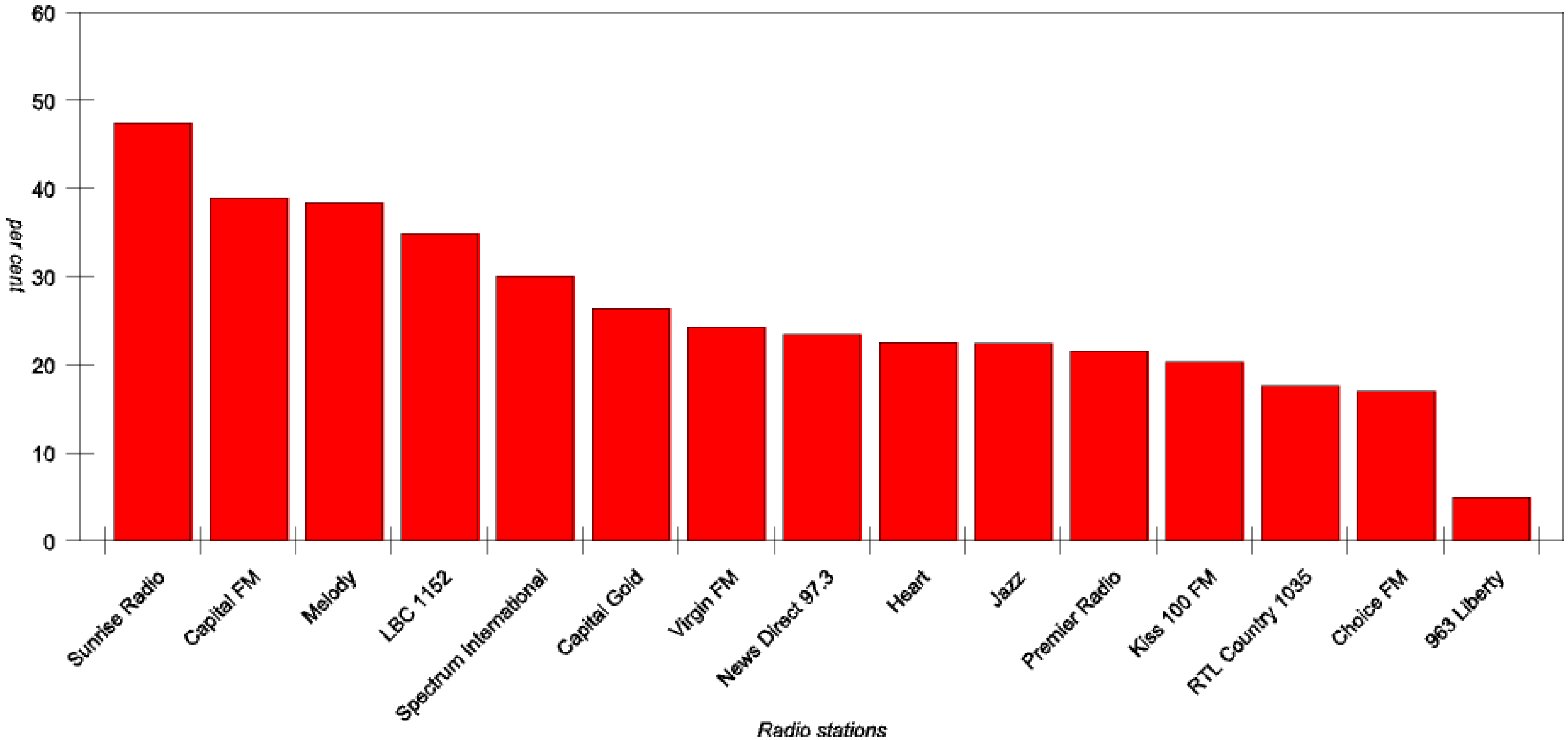
4.51. It is difficult to estimate precisely the amount of overlap between an existing station's output and that of a new station because of the general nature of the promise of performance. However, it is possible to estimate the extent of overlap in terms of solus listeners (listeners who only listen to one particular station) and listener overlap itself from RAJAR data.

4.52. Using 1997 (Quarter 2) data, Figure 4.3 shows the extent of solus listeners for each London-based ILR service. Sunrise Radio has the highest proportion of solus listeners (47 per cent). In one sense this finding is not surprising as the station's target audience is Asian adults which is not catered for in a dedicated way by any other station. Capital FM has the second highest proportion of solus listeners (38.9 per cent), closely followed by Melody (38.4 per cent). Capital Gold and Virgin FM have a proportion of solus listeners of 26 and 24 per cent respectively.

[1]The data in this section are based on weekly reach (see paragraph 4.32).

FIGURE 4.3

Proportions of solus listeners,* Quarter 2 1997



Source: MMC calculations on data provided by the RAB (based on RAJAR data).

*Proportion of station's listeners who listen to none of the other above London-based ILR stations.

4.53. Figure 4.4 shows Capital FM's listener overlap with each other London-based ILR station and their overlap with Capital FM. The figure shows that Capital FM's overlap with the other ILR services' listeners is greater (in percentage terms) than other ILR services' overlap with Capital FM's listeners. For example, 50 per cent of Heart's listeners listen to Capital FM, whereas 18 per cent of Capital FM's listeners listen to Heart.[1] Capital told us that this analysis showed that all stations in London competed for listeners with Capital FM, as all, to a greater or lesser extent, had listeners who listened to both Capital FM and other ILR services. It said that the analysis over time showed that new stations had taken audience away from Capital FM.

National stations

4.54. There are three licensed INR services (Classic FM, Talk AM and Virgin AM) and one unlicensed station (Atlantic 252). Table 4.7 shows the listening hours of each of these stations and those of each of the BBC national stations in 1997 (Quarter 2).

TABLE 4.7 **National radio stations' listening hours in the UK in 1997 (Quarter 2)**

	m
BBC	
Radio 1	79.7
Radio 2	107.6
Radio 3	8.9
Radio 4	86.6
Radio 5 Live	27.2
Commercial	
Atlantic 252	19.6
Classic FM	26.8
Talk AM	14.5
Virgin AM	21.4

Source: RAB based on RAJAR data.

4.55. In November 1996 the RA was informed of the decision of the Secretary of State for National Heritage to reassign a frequency previously used by the BBC (225 kHz) for use as a fourth INR service. The RA recently concluded its consultation exercise on this matter, but told us that it had not yet decided whether it would advertise a new service.

4.56. Table 4.8 shows a summary of the listening hours for commercial and BBC radio stations in 1997 (Quarter 2). It shows the importance to the BBC of its national stations and the importance to commercial radio of its local stations.

TABLE 4.8 **Commercial radio's and BBC radio's listening hours in the UK broken down by area and type of station 1997 (Quarter 2)**

	Commercial radio	*BBC radio* *million*
National stations		
London	11.5	57.9
Non-London	70.8	252.1
Total	82.4	310.0
Local stations		
London	84.4	1.6
Non-London	244.2	76.2
Total	328.6	77.8

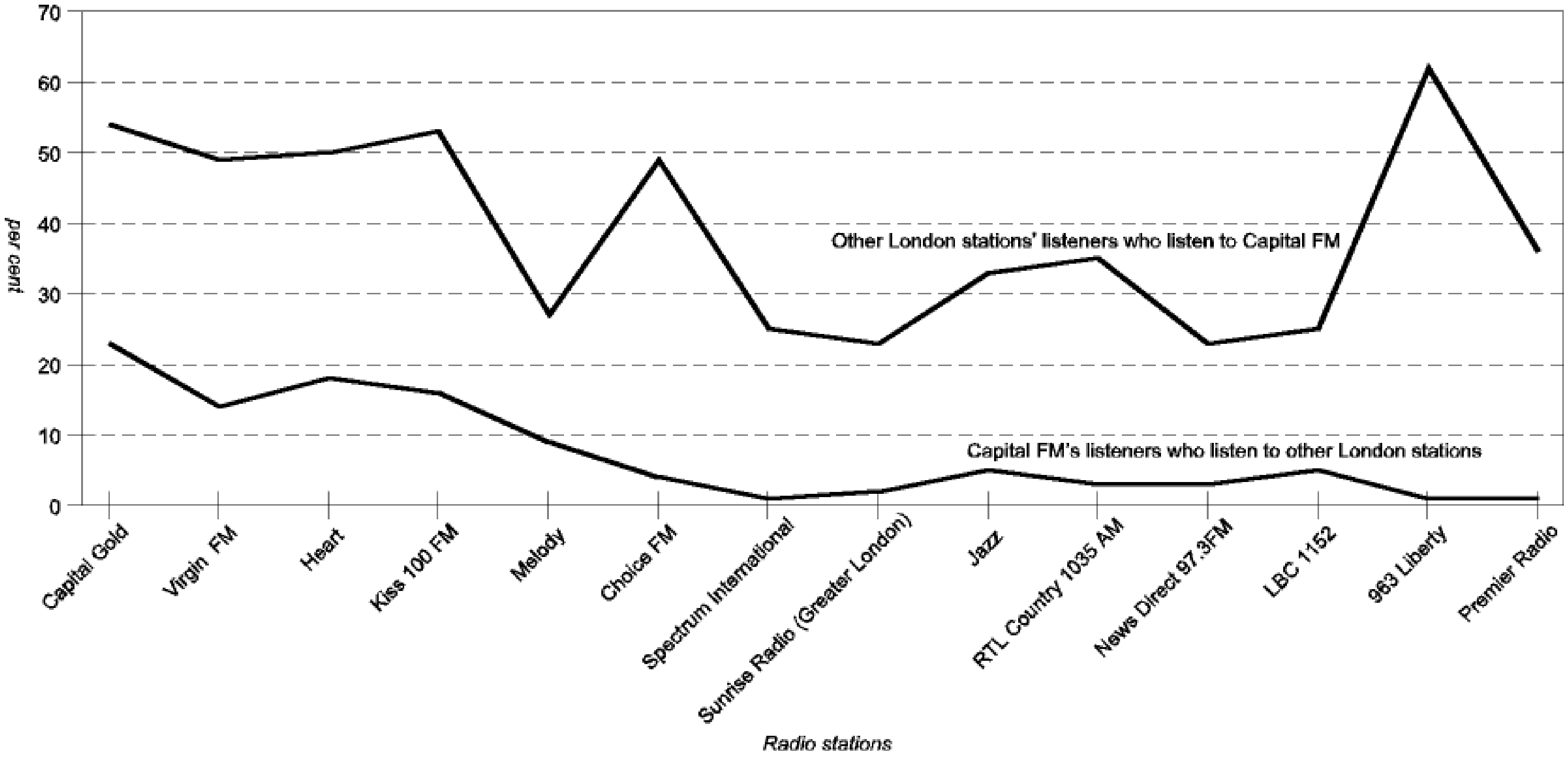
Source: RAB based on RAJAR data.

Note: Totals may not sum due to rounding.

[1]There is no difference in the number of common listeners between Capital FM and Heart, about 500,000 people listen to both Capital FM and Heart.

FIGURE 4.4

Extent of common listening between stations, Quarter 2 1997



Source: MMC calculations on data provided by the RAB (based on RAJAR data).

4.57. Having looked at radio stations (both commercial and BBC) in terms of listeners, we now examine the role of commercial radio stations as an advertising medium. The remainder of this chapter does not refer to the BBC radio stations as they do not undertake paid-for advertising.

Advertising

Display media advertising

4.58. In the year ending March 1997 £6.8 billion was spent on display advertising (in 1996 prices). Table 4.9 shows each medium's share of display advertising for the six years 1992 to 1997 (year ending March).

TABLE 4.9 **The shares of display advertising expenditure held by different media, 1992 to 1997**

Year ending March	Total press	Television	Outdoor/ transport	Radio	Cinema†	Total display %	Total display £m*
					per cent		
1992	50.7	41.2	4.6	2.7	0.7	100.0	5,576.4
1993	49.4	42.1	4.9	2.8	0.8	100.0	5,625.2
1994	48.5	42.2	5.0	3.5	0.8	100.0	5,831.5
1995	47.6	42.4	5.3	3.9	0.8	100.0	6,277.4
1996	46.9	42.6	5.2	4.4	0.9	100.0	6,486.9
1997	46.2	42.5	5.6	4.7	1.0	100.0	6,773.8

Source: MMC calculations based on data provided by the RAB.

*1996 prices, deflated by the RPI.
†MMC estimate.
Note: Totals may not sum due to rounding.

4.59. Advertising in the press and on television accounts for by far the largest proportion of display media (89 per cent in 1997). However, over the last few years television and press have had contrasting advertising fortunes: the share of press falling and the share of television being broadly stable after a slight rise in 1993. Radio's share has increased markedly since 1992, but as it accounted for a small proportion of display media at that time, this increase represents a rise of two percentage points. Radio's share presently stands at 4.7 per cent. Over the period, the share of display media accounted for by outdoor and transport and by cinema has slightly increased. Capital estimated that, in London, radio advertising accounted for £75 million from a total London display market of £1.6 billion, giving radio the same share in London (4.7 per cent) as it had in the UK.

4.60. Capital and others told us that the growth in radio advertising over the last few years was due to the following factors:

(a) the launch of radio industry-wide figures (RAJAR) to provide advertisers with reliable and comprehensive data on radio listening. Prior to these figures, commercial radio and the BBC had produced separate figures;

(b) the launch of the RAB as a centrally-resourced, customer-focused organization to promote the effectiveness of radio advertising services and to help customers use radio advertising;

(c) a significant increase in the audience share and reach achieved by commercial radio (mainly at the expense of the BBC—see Figure 4.1). Contributing factors were:

(i) the launch of Classic FM, the first national commercial radio station. For the first time advertisers could buy radio time across the country in one go. However, Classic FM's launch had a subtler impact as a confidence builder, as it was arguably the first commercial radio station whose format appealed to senior executives of national advertisers and their agencies; and

(ii) in London, in particular, the increased coverage of local radio resulting from the launch of new local commercial radio stations with broad audience appeal meant that commercial radio became better able to deliver access to wider audiences in a way required by advertisers; and

(d) increased efficiency, skill and flexibility of radio stations in selling advertising.

4.61. Figure 4.5 shows the change in advertising expenditure, in real terms, on different media between 1992 and 1997 (year ending March). The figure shows the extent to which radio advertising has increased more than other forms of display advertising.

Characteristics of different media for advertising purposes

4.62. We were told by various parties (Capital, other radio stations, advertisers and advertising agencies) about the various characteristics of radio as a medium of advertising. These include:

(a) it can be used at the last minute in response to a particular promotion;

(b) it has low production costs;

(c) the natural segmentation of its audience allows targeting of particular demographic and attitudinal groups;

(d) the flexibility to talk to an audience when an advertiser wants to;

(e) it is very cost-effective against television advertising, especially in London, where the price of television advertising is higher than that of radio, making radio particularly useful for smaller budgets;

(f) it can communicate with people busy doing something else;

(g) it is the most youthful high coverage medium;

(h) it can target audiences which do not watch much television or read newspapers regularly;

(i) it has a strong local feel as a medium;

(j) it has a high intimacy in the relationship it can build up with its listeners;

(k) it can provide a strong supporting role to other media promotions;

(l) it can convey urgency in a message; and

(m) it can give a personal message.

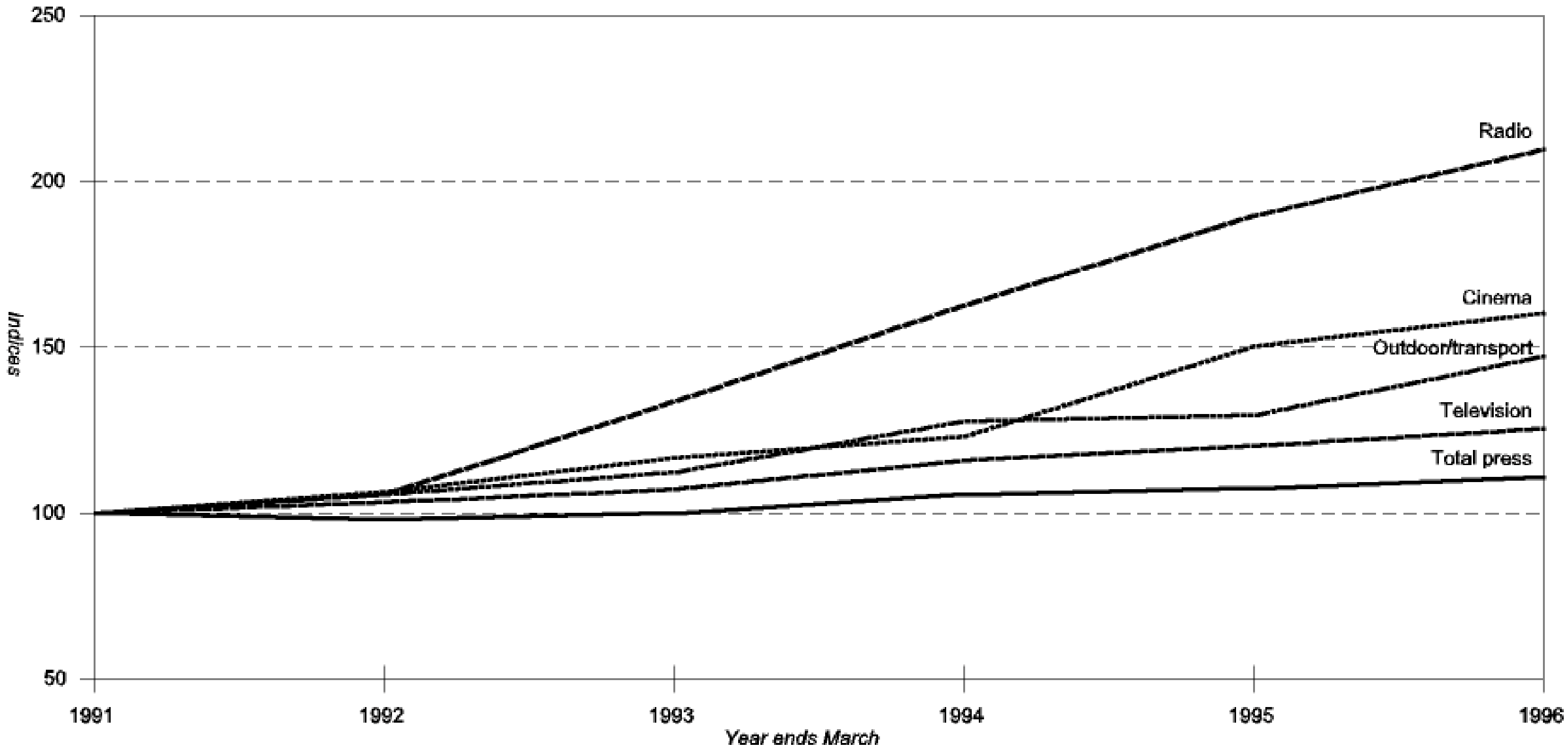
4.63. One difference between television and radio is the size of their audiences and their peak viewing/listening times of the day. Figure 4.6 shows that commercial television's audience is much larger than that of radio and that the profile of the peak is different: radio peaks at 8.00 am with 14 million listeners, while television peaks at about 7.30 pm with about 30 million viewers.

Radio's advertising strategies

4.64. Advertising agencies told us that when advising a client on the appropriate advertising strategy, the first step was to find the most suitable medium or mix of media for the product or service. At this initial planning stage, radio was considered alongside other options and its characteristics were compared and contrasted with media such as press, television, outdoor and cinema. The agency would assess the medium's ability to, among other things: communicate the message in an efficient and

FIGURE 4.5

Real growth in display advertising expenditure,* 1992 to 1997

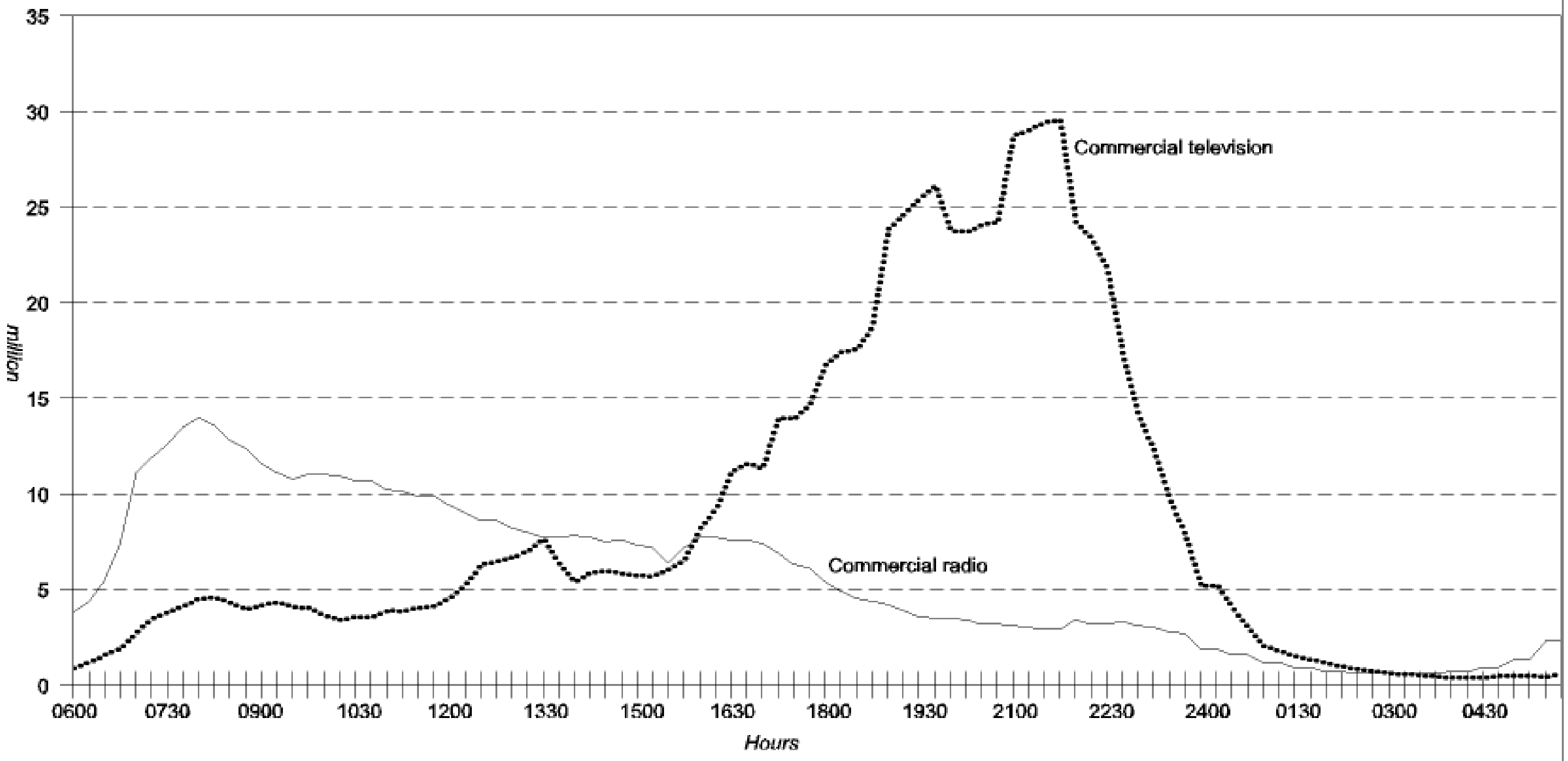


Source: MMC calculations on data provided by the RAB.

*1996 RPI deflator.

FIGURE 4.6

Comparative television and radio audiences by time of day, Quarter 2 1997 (April to June)



Source: RAB.

effective way; target the appropriate audience within the right geographical area; and meet the creative strategy. At this part of the planning process the client's budget, and therefore the overall price of the media, could be an important factor in deciding what medium or mix of media was chosen for a campaign. However, once it was concluded that radio, for example, was the appropriate choice, agencies were unlikely to be deterred by price. Capital told us that price certainly had a significant influence over the share that radio would enjoy in a mixed media campaign; and that even if a high price did not deter the agencies from using radio for a particular campaign, price certainly influenced whether, and the extent to which, radio would be included in subsequent campaigns.

4.65. We were told that where radio became one of the chosen media it was at that stage that radio stations were assessed against each other. The decision to advertise on a particular station would be determined by consideration of factors such as: the demographics of the station's listeners; the geographical coverage of the station; the price per thousand people reached; and the profile of the station. At that point, price became an important determining factor for an agency in choosing a radio station. We were told that Capital's high coverage rate in London often made it the ideal choice for a campaign. However, at the current time, if Capital's prices were too high then a mix of other stations could be used to target the same demographics while achieving a high coverage.

Radio advertising in London

4.66. Radio stations that are licensed by the RA are obliged to report their advertising revenue to the RA on a quarterly basis. This is an obligation under the terms of their licence. The RAB is responsible for publicizing the revenue data. It publishes only overall industry figures and not that of particular stations. The RAB collects revenue data to which the RA does not have access; for example, Atlantic 252 and IRN's Newslink package are not obliged to divulge their revenue to the RA, and these data are included in the overall figures released by the RAB. We have used data from both the RA and the RAB.

4.67. In this chapter advertising revenue is airtime advertising revenue (also known as net revenue) which is revenue received by radio stations in exchange for broadcasting commercials. It excludes revenue from programme sponsorship or product promotions. As a result, the revenue data in this chapter differ from the industry data as published by the RAB which are gross of agency commission costs. National revenue (see paragraph 4.68) is subject to agency commission, while only some local revenue (see paragraph 4.68) will attract commission. We have used airtime advertising revenue in order to take account of both—national and local—on a like-for-like basis.

4.68. The commercial radio market place divides its income into two sources: national clients (known as national revenue) and local clients (known as local revenue). There is no widely agreed definition of these terms within the industry. We have used the RAB's definitions. These are as follows:

(a) national revenue is that which is derived from the sales department which deals with advertising agencies and advertisers which are interested in promoting their products across the whole of the UK; and

(b) local revenue is that which is derived from the sales department which deals with advertising agencies and advertisers which are interested in promoting their products only within the TSA of the station.

4.69. There are, however, examples where these definitions break down: some London stations will treat radio advertising by the *Evening Standard* and London Underground, for example, as local revenue and some will treat them as national revenue.

4.70. Table 4.10 shows the proportion of each London-based ILR station's advertising revenue which is from national and local clients. Capital's stations (taken together) have by far the largest proportion of expenditure from national customers of any London-based ILR services.

TABLE 4.10 **The proportion of London-based ILR stations' total airtime advertising revenue accounted for by national and local clients in 1996**

	National %	*Local %*	*Total £m*
Capital Radio (FM/Gold)	80.8	19.2	41.6
Heart	[	*Figures omitted. See note on page iv.*	
Melody			
Kiss 100 FM			]
Virgin FM	56.4	43.6	4.2
London News (FM/AM)	[		
Jazz			
Sunrise Radio (Greater London)			
RTL Country 1035 AM		*Figures omitted. See note on page iv.*	
Premier Radio			
963 Liberty			
Spectrum International			
Choice FM			]

Source: MMC calculations on data provided by RA and RAB.

[¤]

4.71. Table 4.11 shows radio stations' shares (including the INR services) of total radio advertising expenditure in London.

TABLE 4.11 **London-based ILR stations' and INR stations' shares of total airtime advertising revenue in London, 1994 to 1996 and the first half of 1997***

per cent

	1994	*1995*	*1996*	*Jan–June 1997*
London-based ILR services				
Capital FM†	55.7	54.5	53.1	50.7
Capital Gold†	10.1	8.9	7.8	7.4
Capital (FM/Gold)	65.8	63.4	60.9	58.1
Virgin FM	0.0	3.8	6.1	6.0
Kiss 100 FM	[			
Heart				
London News (FM/AM)‡				
Melody				
Sunrise Radio (Greater London)				
Jazz				
Choice FM				
Spectrum International		*Figures omitted. See note on page iv.*		
RTL Country 1035 AM				
Premier Radio				
963 Liberty				
National stations¶				
Classic FM				
Talk AM				
Atlantic 252				]
Virgin AM	1.8	1.8	1.8	1.8
Total	100.0	100.0	100.0	100.0
Capital and Virgin	67.6	69.0	68.8	65.9
Total (£m)	47.6	57.2	68.4	36.9

Source: MMC calculations on data provided by RA, RAB and Capital.

*LSA, excluding stations which broadcast to less than 10 per cent of the LSA.
†MMC estimates based on data provided by Capital.
‡Includes News Direct and LBC.
[¤]
¶MMC estimates based on data provided by Capital. Capital told us that it broadly agreed with these estimates, but it pointed out that they were subject to a margin of error as they were based on Media Monitoring Services Ltd (MMS) data which did not include all radio stations.
Note: Totals may not sum due to rounding.

¤Details omitted. See note on page iv.

4.72. Table 4.11 shows that Capital's share has fallen from 65.8 per cent in 1994 to 60.9 per cent in 1996. The reason for the fall is the entry of new stations in London (Virgin FM, Heart, Premier and Liberty). Following their entry in 1995, Virgin FM and Heart accounted for 6.1 and [*] per cent respectively in 1996. Only one other radio station (Kiss 100 FM) accounted for more than [*] per cent of radio advertising revenue in 1996. The merger with Virgin (including Virgin AM's London revenue) would take Capital's share from 60.9 to 68.8 per cent, slightly above the level that Capital had in 1994 (without Virgin).

4.73. Radio stations' shares of advertising revenue can be compared with their shares of listening hours (see Table 4.5). On the whole, the radio stations' advertising revenue share is broadly similar to, or lower than, their share of listening hours. The main exception to this relationship is Capital FM which accounted for about 53 per cent of advertising revenue in 1996, compared with 32 per cent of listening hours in 1996 (Quarter 2). Virgin FM also has a larger share of advertising revenue than of listening hours—6 per cent compared with 5 per cent. The reverse is true for Capital Gold—it had 8 per cent of advertising revenue, but 10 per cent of listening hours. Capital told us that new stations took a couple of years to establish themselves, during which time their revenue share tended to lag behind their audience share. It said that advertisers needed time to be convinced of a new station, but once established, new stations increased their share of revenue. Capital stated that Heart began to establish itself in 1997 and therefore its share of revenue began to rise.

4.74. Towards the end of our investigation we received data from the RA and the RAB for the first six months of 1997 (see Table 4.11). Capital told us that it had experienced no growth during the first three months of 1997, but that it had grown for the rest of the year for which it had data. It said that it expected growth (in nominal terms) of about [*] per cent in 1997. Capital told us that it expected the shares of its FM and AM stations to fall over the next five years. Capital's view of the future is given in paragraphs 5.31 and 5.65. As we have data only for the first half of 1997, it may be misleading to compare the data for this period with those for the preceding three years. In the first six months of 1997 Capital's share was 58.1 per cent and Virgin's was 7.8 per cent (Virgin FM was 6 per cent and Virgin AM was 1.8 per cent).

4.75. Table 4.12 shows radio stations' shares (excluding the INR services) of total radio advertising expenditure in London. Excluding the revenue of the INR services shows Capital's share falling from 70.4 per cent in 1994 to 65.4 per cent in 1996. The merger with Virgin would take Capital's share from 65.4 to 72 per cent (Virgin FM's share being 6.6 per cent), slightly above the level that Capital had in 1994 (without Virgin). Three other stations (Kiss 100 FM, Heart and London News) each accounted for shares of over [*] per cent in 1996.

4.76. Table 4.12 also shows data for the first six months of 1997. For the reasons set out in paragraph 4.74, it may be misleading to compare the data for the first six months of 1997 with those for the preceding three years. In the first six months of 1997 Capital's share was 62.5 per cent and Virgin FM's was 6.5 per cent.

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*Figures omitted. See note on page iv.

TABLE 4.12 **London-based ILR stations' shares of total airtime advertising revenue in London, 1994 to 1996 and the first half of 1997***

per cent

	1994	*1995*	*1996*	*Jan–June 1997*
Capital FM†	59.6	58.5	57.1	54.6
Capital Gold†	10.8	9.6	8.4	7.9
Capital (FM/Gold)	70.4	68.1	65.4	62.5
Virgin FM	0.0	4.1	6.6	6.5
Kiss 100 FM	[			
Heart				
London News (FM/AM)‡				
Melody				
Sunrise Radio (Greater London)		*Figures omitted. See note on page iv.*		
Jazz				
Choice FM				
Spectrum International				
RTL Country 1035 AM				
Premier Radio				
963 Liberty				]
Total	100.0	100.0	100.0	100.0
Capital and Virgin FM	70.4	72.2	72.0	69.0
Total (£m)	44.5	53.2	63.6	34.3

Source: MMC calculations on data provided by RA, RAB and Capital.

*LSA, excluding stations which broadcast to less than 10 per cent of the LSA and national stations.
†MMC estimates based on data provided by Capital.
‡Includes News Direct and LBC.
Note: Totals may not sum due to rounding.

Radio advertising in the UK

4.77. National advertising can be sold by individual commercial radio stations or groups or by what are known as national sales houses. National sales houses sell national radio airtime on behalf of a number of radio stations. There are currently three principal national sales houses: MSM, owned by Capital (although MSM is being wound down), Katz (formerly IRS, ultimately owned by Chancellor Media Corporation, a major US radio group) and Scottish Radio (sometimes known as SIRS, owned by SRH). MSM currently sells airtime on behalf of a number of radio stations, including Capital's non-London stations.

4.78. In March 1996, following the decision of EMAP Radio to sell all of its national airtime through MSM, the RA investigated the share of national advertising sales handled by MSM. Previously, about one-third of EMAP Radio's national sales revenue had been generated by what had been a significant sales house, IRS (now Katz). The RA told us that the number of other significant new clients gained by MSM and the losses sustained by IRS had placed MSM in a new, more powerful position and its nearest rival in a role of little significance.

4.79. With the addition of EMAP Radio's services to MSM, the RA considered that assurances were required from Capital. The assurances sought from, and agreed by, Capital were as follows:

(a) Conditional selling would not be allowed by Capital or MSM. Advertisers must be afforded the opportunity to buy advertising on any service of their choice, and any decision to buy on one should not be contingent on the purchase of airtime on another.

(b) There would be a clear and demonstrable distinction between the activities of MSM and Capital.

(c) Whilst the choice of national sales representation continued to be narrowed, the particular interests of smaller stations would not be disadvantaged by MSM's growth and the importance to it of its principal client groups.

(d) Whilst the choice of national sales representation continued to be narrowed, no station would be denied the opportunity to be represented, given satisfactory commercial terms.

4.80. The RA also indicated that it would be willing to investigate complaints about instances where fair and effective competition did not appear to exist. No such complaints were received.

4.81. Capital is in the process of winding down MSM. Capital will in the future sell only its own radio stations' airtime nationally through Capital Advertising. This group will sell airtime on behalf of all the radio stations in the Capital group. The other radio stations which previously had their airtime sold nationally by MSM have either established, or are in the process of establishing, their own sales house or have joined another existing national sales house. The two larger radio groups which were part of MSM, GWR and EMAP Radio, have each set up, or are in the process of setting up, their own arrangements[1] and many of the other local stations have joined Katz.

4.82. Table 4.13 shows the national radio stations' and national sales houses' shares of radio advertising expenditure in the UK by national clients. The table is in two parts. Part A shows the position with MSM and Part B shows the situation without MSM on the basis of 1996 data (and on the basis of data for the first six months of 1997).

4.83. Table 4.13 shows that Capital's share of national clients' revenue in the UK in 1996 was 36.8 per cent (23.3 per cent was accounted for by its London stations and 13.5 per cent by its non-London stations). In the same year Virgin accounted for 9.2 per cent of national clients' revenue in the UK. Virgin's share consisted of 1.6 per cent from Virgin FM and 7.6 per cent from Virgin AM (a small proportion of Virgin AM's revenue was generated in London). As a result of the merger Capital's share of national clients' revenue (including Virgin) based on 1996 revenues would be 46 per cent. Table 4.13 also shows that after the winding down of MSM, the other main changes are the increases in EMAP Radio's, GWR's and Katz Radio's shares.

4.84. Table 4.13 also shows data for the first six months of 1997. For the reasons set out in paragraph 4.74, it may be misleading to compare the data for the first six months of 1997 with that for the preceding three years. In the first six months of 1997 Capital's share of national clients' revenue was 36.2 per cent (21.5 per cent was accounted for by its London stations and 14.7 per cent by its non-London stations). In the same period Virgin accounted for 8.0 per cent of national clients' revenue in the UK. Virgin's share consisted of 1.5 per cent from Virgin FM and 6.5 per cent from Virgin AM. As a result of the merger Capital's share of national clients' revenue (including Virgin) based on data for the first six months of 1997 would be 44.2 per cent.

[1]EMAP Radio's arrangement (EMAP OnAir) is due to begin operations in November 1997 and GWR's arrangement (GWR Radio Sales) is due to begin operations in January 1998.

TABLE 4.13 **National radio stations' and national sales houses' shares of airtime advertising expenditure in the UK by national clients, 1994 to 1996 and the first half of 1997**

per cent

	1994		*1995*		*1996*		*Jan–June 1997*	
A. Sales points before the disbanding of MSM								
Non-Capital stations	26.2		26.3		25.8		26.7	
Capital's non-London stations*	12.6		13.5		13.5		14.7	
MSM		38.8		39.8		39.3		41.4
Capital's London stations		27.1		23.4		23.3		21.5
Virgin AM	5.5		7.2		7.6		6.5	
Virgin FM	0.0		0.8		1.6		1.5	
Virgin		5.5		8.0		9.2		8.0
Classic FM		[						
Katz								
Scottish Radio								
Chrysalis				*Figures omitted. See note on page iv.*				
CLT UK Radio Sales								
Golden Rose								
Other								]
Total		100.0		100.0		100.0		100.0
All Capital's stations*		39.7		36.9		36.8		36.2
Capital Sales and MSM*		65.9		63.2		62.6		62.9
Capital Sales and MSM (including Virgin)*		71.4		71.2		71.8		70.9
Total (£m)		99.0		126.5		144.5		79.3
B. Sales points after the disbanding of MSM on the basis of data for 1996 and Jan–June 1997								
Capital Advertising*						36.8		36.2
Virgin						9.2		8.0
EMAP OnAir						[		
GWR								
Katz								
Scottish Radio							*Figures omitted.*	
Chrysalis†							*See note on*	
CLT UK Radio Sales							*page iv.*	
Golden Rose								
Other								]
Total						100.0		100.0
Capital Advertising including Virgin*						46.0		44.2
Total (£m)						144.5		79.3

Source: MMC calculations on data provided by RA, RAB and Capital.

*Includes Newslink, Essex Radio and First Oxfordshire Radio which are not wholly owned by Capital (see paragraphs 3.9 and 3.10 for Capital's shareholdings). Capital's share in 1994 includes Southern Sound which acquired in May 1994.

†Includes Galaxy 102 and Galaxy 105 which Chrysalis acquired in September 1997.

Note: Totals may not sum due to rounding.

Prices

Price units

4.85. Radio stations use ratecards to inform clients of their prices for advertising. The ratecard price as well as the final price is expressed as a CPT, which is calculated by dividing the total cost of an advertising campaign by the number of impacts achieved. An impact is an occasion on which an advertisement is heard, read or seen. Ratecards only set the starting point for negotiations leading to final prices.[1] Final prices for advertising are not publicly available. CPTs are used by other media such as television.

Prices for different display media

[1]In 1993 Capital gave the OFT an assurance that it would not favour companies (in terms of discounts, other terms and conditions) which advertised exclusively on its London radio stations.

4.86. Whilst final prices are not publicly available, it is recognized that prices for advertising on commercial radio (in terms of CPTs) are much lower than for advertising on other media. Table 4.14 shows advertising rates for different media as provided by Capital.

TABLE 4.14 **London adult CPTs for advertising on different media, January to June 1997**

Capital FM	2.20
Capital Gold	1.19
Carlton TV	10.89
LWT	11.10
Channel 4 London	9.46
London cinema*	42.20
Evening Standard	22.05
Time Out	30.84
Local press†	25–200

Source: Capital based on data from Zenith.

*Based on number of admissions.
†Based on a black and white page.
Notes
1. The prices for radio and press are based on 15-year-olds, whilst prices for television are based on 16-year-olds and over.
2. Radio, television and cinema based on a 30-second advertisement.

4.87. Capital stressed that the data from Zenith which was based on ratecards merely provided an indication of comparative costs and could not be taken as an absolute comparison as the price paid would depend on the individual client's requirements.

4.88. Table 4.14 shows that the rates for advertising on Carlton TV, for example, are nearly five times higher than the rates for advertising on Capital FM. Capital told us that the CPTs charged by different media were dependent upon the demand for that media and its effectiveness in delivering the advertising message.

4.89. Capital told us that there were no hard and fast rules or facts by which to measure the effectiveness of an advertising campaign, or any one medium's contribution to it. It said that issues such as impact and advertising effectiveness tended to remain subjective. In its published literature, the RAB states that consumers do not consciously distinguish between media, and one result is that awareness of advertising from radio is very often misattributed to television, especially if the brand in question has a history of being advertised on television.[1]

4.90. Capital provided us with work it had commissioned on prices from Case, an economic consultancy. This was the second piece of work Case carried out for Capital. Case's first piece of work (referred to as Case's first study) looked at the extent to which advertisers used different media and at the extent to which advertisers changed between media. Case's first study is discussed in paragraph 5.37.

4.91. In its second piece of work (referred to as its second study) Case carried out econometric analysis of advertising price data for Capital and other advertising media, using correlation analysis. Case suggested that certain newspapers and cinema advertising, as well as some other commercial radio stations, were close substitutes for advertising on Capital FM. Case reported that it had obtained data on average CPTs for a selection of different media handled by an independent advertising agency over the period January 1995 to September 1997. It said that its use of standardized data ensured that the prices of advertising in different media were brought on to a comparable basis (CPTs) and hence the problem of comparing absolute prices across different products, for example radio and newspapers, was resolved for the purpose of its analysis.

4.92. Case stated that price correlation analysis was often used to assess the degree of competition between products and services; results of the analysis could be interpreted in the light of the theoretical

[1]*The Radio Advertising Handbook*, RAB, 1997, page 18.

maxima (+1 in the case of perfect correlation in price movements, and –1 in the case of a perfect inverse relationship) and the minimum (0 correlation coefficient indicating no systematic relationship between price movements).

4.93. Case suggested that the degrees of correlation in its analysis between CPTs for Capital FM and CPTs for other London radio stations were consistent with a finding that Capital FM had close substitutes with other radio stations. Apart from Capital Gold with a correlation figure of 0.7 with Capital FM, Case found correlations for five other radio stations between 0.8 and 0.6. It also found degrees of correlation between Capital FM CPTs and those for some other media in the range 0.9 to 0.7, which it said were consistent with a finding that advertising in these other media were close substitutes for advertising on Capital FM. Case found some lower correlations for other media.

4.94. There are a number of points which should be made on Case's analysis:

(a) A very limited sample was used. Neither Case nor the MMC has other information against which to judge the reliability in terms of representativeness of the sample of advertising prices from the single advertising agency used by Case in its study.

(b) Trend movements in the individual series will lie behind the large correlations found by Case. Use of such time series for this type of correlation analysis carries a risk of producing potentially misleading results (technically known as spurious degrees of correlation reflecting trend effects such as inflation within non-stationary time series). A better means of testing for evidence of correlation in relative pricing between products over time is to base the analysis on price changes—Case's own work appeared to endorse this—with a supplementary check on possible time lags as between price changes in one medium, and price changes in another.

(c) When we carried out the analysis we found that the degrees of correlation between changes in Capital FM's average CPTs and those for other non-radio media were lower (ranging from 0.4 to 0.1, and for one medium we found a negative relationship) than the correlations based on price levels.

(d) With regard to other radio stations, we found the degrees of correlation between changes in Capital FM's CPTs and those of some other stations were also lower, to the extent that there was little correlation in changes in price as compared with Capital FM: eight out of nine radio stations' correlation coefficients were in the range +0.2 to –0.1 and in six of these we found a negative relationship.

(e) Inspection of the data suggests interpretations markedly at variance with that derived by Case from its correlation analysis. Looking at the comparison of monthly changes in Capital FM CPTs with those for one particular medium for which Case found a high correlation we found a correlation degree of 0.70; this result which might be regarded as a relatively high correlation was to a substantial degree due to the changes of 21.0 and 22.8 per cent recorded in their respective CPTs in December 1995 as compared with the previous month's CPTs; when the data set was limited to January 1996 to September 1997 the correlation was found to be only 0.3. Moreover, over the 33-month period as a whole, we found that for this particular medium the ratio for its CPT compared with that for Capital FM moved from 1.08 in January 1995 to 1.32 in September 1997 (or when expressed in absolute terms the average CPT for Capital FM in Case's data was only 14p lower (at 179p) than the other medium's average CPT in January 1995, but the difference had risen to 76p (at 236p) in September 1997). This divergence appears to be inconsistent with the argument that there is close competition between the two media.

4.95. We asked Capital to check with Case on the soundness of the data which it had used on CPTs, and suggested to it that its analysis might be better carried out on price changes.

4.96. Case said that some of the data for average CPTs which it had used in its correlation analysis were imputed in the absence of data for actual transactions. CPTs had been imputed for particular media in those months where the advertising agency had had no new transactions. Case believed the inclusion of such imputed CPTs did not necessarily undermine the interpretation of its price correlation analyses and the advertising agency supplying the data had made the imputation in the belief that average CPTs would have been close to the CPT in the previous month. Case said that the

CPTs for Capital FM, and the other media where it had found high correlations, were based on actual transactions.

4.97. After carrying out correlation analyses based on changes in CPTs, Case agreed that correlations of Capital FM price changes compared with other media were very small, apart from one example. Case said that if low correlations in price changes were interpreted as evidence of the absence of substitutability, one might conclude that Capital FM and Virgin FM did not compete with each other, and that therefore the proposed transaction could not lead to a reduction in competition. However, Case said that it would not go along with that line of reasoning. Instead Case argued that the two sets of correlation results (ie on levels of prices and on changes in prices) were reconcilable, if one took into account the fact that the market in which the various advertising outlets competed was not transparent as regards transaction prices. It said that even though two outlets were reasonably close substitutes for each other, their relative price changes did not necessarily occur at the same time or with equal frequency, and in consequence short-run changes in their respective prices might not be correlated to any extent.

Prices for radio

4.98. We were told by many respondents that Capital FM charged a premium. This was not supported by the MMS data provided by Capital, but it was supported by the data provided by Chrysalis and data provided to Capital's economic consultants, Case (see Table 4.15).

TABLE 4.15 **CPTs for London-based ILR stations**

	Estimated by:		
	*Capital**	*Chrysalis†*	*Case‡*
Capital FM	2.02	2.50–3.50	2.36
Capital Gold	1.73	1.40–1.84	1.42
Heart	[		
Country			
Jazz			
Kiss 100 FM		*Figures omitted.*	
963 Liberty Radio		*See note on page iv.*	
LBC 152 AM			
97.3 News Direct			
Melody			]
Virgin FM	1.45	1.80–2.20	1.79

Sources: The companies.

*Based on data provided to Capital by MMS for the period from April to June 1997. The different time period and source explains why the data for Capital are different to those shown in Table 4.14.

†Gross figures (inclusive of agency commission) for June 1997 based on its own data and its understanding of industry sources.

‡Provided to Case by an agency. The data are based on actual transactions for September 1997.

4.99. Whilst providing some support for the view that Capital charged a premium, Table 4.15 demonstrates the lack of a clear view on the prices of different radio stations. As in the case of the different prices for different media, Capital told us that radio advertising CPTs varied due to the demand for advertising and the effectiveness of the radio station in reaching the clients' target audience.

4.100. Commercial radio stations charge different rates at different times: a practice also adopted by television companies. The RAB told us that such a price structure reflected demand by advertisers: there is a greater demand for radio slots at certain times of the day (breakfast period and evening drivetime) and certain times of the week (Thursday to Saturday).