

**Scottish Radio Holdings plc
and GWR Group plc
and Galaxy Radio Wales and the West Limited**

A report on the merger situation



COMPETITION COMMISSION

Scottish Radio Holdings plc and GWR Group plc and Galaxy Radio Wales and the West Limited

A report on the merger situation

**Presented to Parliament by the Secretary of State for Trade
and Industry by Command of Her Majesty
May 2003**

Members of the Competition Commission as at 14 April 2003

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¹These members formed the Group which was responsible for this report under the chairmanship of Professor P A Geroski.

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 or, where space does not permit, by the symbol .

Contents

	<i>Page</i>
Part I—Summary and Conclusions	
<i>Chapter</i> 1	Summary3
2	Conclusions.....5
 Part II—Background and evidence	
3	The regulation of commercial radio 41
4	Background and financial information..... 55
5	The markets..... 69
6	Views of GWR Group plc, Scottish Radio Holdings plc and Vibe Radio Services Limited 109
7	Views of third parties 143
	List of signatories 163
 <i>Appendices</i> (The numbering of the appendices indicates the chapters to which they relate.)	
1.1	The reference and background 165
2.1	Issues statement 168
2.2	RAB composite TSA map..... 172
3.1	Statutory framework for licensing..... 173
3.2	Types of licence awarded by the Radio Authority..... 176
3.3	The Radio Authority’s codes of practice and technical standards 180
3.4	The existing commercial radio ownership points system 181
3.5	The local ownership points system proposed in the Communications Bill 182
3.6	Digital audio broadcasting 183
4.1	GWR’s ownership links in the Severn Estuary area..... 187
4.2	Opus Agreement with Classic Gold Digital Limited 188
4.3	GWR: detailed profit and loss account 189
4.4	GWR: detailed balance sheet 190
4.5	UK radio groups: comparisons of operating margins 191
4.6	SRH: detailed profit and loss account..... 192
4.7	SRH: detailed balance sheet..... 193
4.8	Opus Agreement with VRSL 194
5.1	NOP report..... 195
5.2	Analysis of ownership of local newspapers serving (a) GWR FM/Vibe 101 overlap area; (b) Orchard FM/Vibe 101 overlap area..... 238
6.1	GWR’s comments on the CC’s survey of advertisers..... 240
6.2	GWR’s comments on further aspects of analysis 244
	Glossary 255

Part I

Summary and Conclusions

1 Summary

1.1. On 13 January 2003, we were asked (see Appendix 1.1) to investigate and report on the acquisition by Scottish Radio Holdings plc (SRH) and GWR Group plc (GWR), through the joint venture company Vibe Radio Services Ltd (VRSL), of Galaxy Radio Wales and the West Limited (Galaxy).

1.2. GWR is one of the four leading commercial radio broadcasters in the UK, its operations including GWR FM (Bristol and Bath) (referred to in this report as GWR Bristol and Bath) in the Bristol and Bath area, and Orchard FM (Orchard) in the Taunton and Yeovil area. It also sells the advertising airtime on another station broadcasting in the Bristol and Bath area. SRH is the largest commercial radio operator in Scotland and Northern Ireland, with several stations also in north-west England, but none in the area affected by the merger. Galaxy was a subsidiary of Chrysalis Group plc, and the holding company for a Galaxy station, called Galaxy 101, holding the FM licence serving the Severn Estuary licence area, which includes the Bristol and Bath, and Taunton and Yeovil areas. VRSL was incorporated as a holding company for both Galaxy and Eastern Counties Radio Ltd (which broadcasts in East Anglia as Vibe FM). GWR has 49 per cent of the shareholding in VRSL and SRH 51 per cent.

1.3. Since the acquisition Galaxy has been renamed as Vibe Radio Wales and the West Limited, and Galaxy 101 as Vibe 101. Vibe 101's operations are located in GWR's offices, and GWR's sales house, Opus, sells the advertising airtime for Vibe 101. We found that a merger situation qualifying for investigation exists in that, before the merger, GWR accounted for more than 25 per cent of local radio advertising services in the Severn Estuary licence area, a substantial part of the UK, and as a result of the merger, that share is increased.

1.4. Although the parties argued that local radio advertising should be seen as part of a wider advertising market, in our view local radio advertising is a market distinct from other media. It has distinct characteristics; it has a significant amount of complementarity with other forms of advertising; and it is not easy for advertisers to compare the prices and assess the effectiveness of advertising using different media. There may be price sensitivity caused by the availability of other media, but this is far from complete and there are a significant number of advertisers who value radio's distinctive characteristics. We also found there was sufficient overlap of listeners and advertisers between stations that they could not be regarded as operating in separate markets in this case.

1.5. Following the merger, GWR accounts for some three-quarters of advertising revenue from local advertisers and almost all advertising revenue from national advertisers in the Bristol and Bath area; and for over 90 per cent of advertising revenue from local advertisers and all advertising revenue from national advertisers in the Taunton and Yeovil area. Before the merger, Galaxy 101's share, particularly of advertising by local advertisers, had declined, from 9 per cent share of such revenues in Bristol and Bath in 2000 and 2001 to 4 per cent in 2002; and from 8 per cent in Taunton and Yeovil to 2 per cent. But if GWR had not acquired Galaxy 101, it is in our view likely to have reversed the previous decline in market share under its existing ownership or if it had been acquired by another radio group. The merger forecloses such potential competition. Hence, the merger has significantly increased the already high market shares of local radio advertising held by the GWR stations in the Bristol and Bath, and

Taunton and Yeovil areas. There was extensive overlap of listeners between Galaxy 101 and both the GWR stations and some overlap of advertisers. The merger reduces the options open to companies advertising locally and reduces competition for local radio advertisers.

1.6. We found no prospect of entry sufficient to offset the effects of the reduction in competition resulting from the merger, given the need to obtain a licence from the Radio Authority and our judgment that the take-up of digital radio will not affect this situation significantly in the next three to five years. Some other small stations provide competition to the GWR stations but only in specific localities and thus are already at a competitive disadvantage against GWR. Competition from other radio stations is further reduced by other aspects of the market: for example, the emphasis on discounts off list prices, and the importance of negotiation of prices. We expect that the increase in GWR's market share will further weaken the position of other local radio stations. First, GWR's sales house, Opus, is now in a position to sell advertising airtime on four stations in the affected areas—GWR Bristol and Bath, Orchard, Classic Gold Digital Limited (Classic Gold) and Vibe 101. To advertise on competitor stations and get almost the same coverage, an advertiser would require a series of arrangements. This exacerbates the competitive disadvantages faced by these stations. Second, other radio stations may be expected to be disadvantaged by GWR's greater ability to offer differential prices, including its ability to bundle advertising packages and cross-sell between its different stations (although it said that it did not currently do this).

1.7. In our view the use of advertising agencies safeguards the position of national advertisers; they are also able to switch advertising between regions if it is a more cost-effective way to reach a particular number of listeners. But given, among other things, the extent to which prices are negotiated, many local advertisers who do not use agencies are vulnerable to price increases and we expect advertising rates to such 'vulnerable advertisers' on the GWR stations and/or Vibe 101 to increase as a result of the merger.

1.8. In our view, therefore, the merger may be expected to operate against the public interest in that it may be expected to reduce actual and potential competition in local radio advertising services in the Bristol and Bath, and Taunton and Yeovil areas; result in higher prices to vulnerable advertisers in these areas; and adversely affect other radio stations and their listeners in these areas. The benefits which the parties argued would result from the merger—such as increasing diversity offered to listeners (which would also create benefits to advertisers)—would in our view arise irrespective of the merger and any such benefits would not be sufficient to offset such adverse effects.

1.9. We considered a number of alternative remedies to divestment that were put forward by the parties, but in our view the only remedies which are proportionate, practicable and requisite to address the adverse effects are as follows:

- (a) GWR should be required to reduce its interest in Vibe 101 to a third party approved by the Office of Fair Trading (OFT), either through GWR reducing its interest in VRSL to no more than 24.9 per cent, and with its rights in the VRSL shareholder agreement restricted; or through VRSL reducing its interest in Vibe 101 with an equivalent restriction of GWR's rights as a shareholder;
- (b) if GWR wishes to retain any interest in Vibe 101 at or below that level it should also satisfy the OFT that it retains no material influence over Vibe 101; and
- (c) GWR should be required to discontinue the arrangement whereby Opus sells the advertising airtime for Vibe 101.

If GWR is unwilling to give such undertakings, the Secretary of State should consider requiring it to divest its shareholding in VRSL.