

GLOBAL RADIO: CONSOLIDATION AND COMPETITION ISSUES

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Executive Summary

In March 2008, privately owned Global Radio announced that it had reached agreement to acquire GCap Media plc, the UK's largest commercial radio owner. The competition issues regarding this acquisition have been considered by the Office of Fair Trading [OFT] between May and August 2008, when a decision was published. By offering the OFT to divest a number of radio stations in lieu of a reference to the Competition Commission, Global Radio has cleared a path for the creation of a consolidated company that owns 25% of UK analogue commercial radio licenses and generates around 40% of sector revenues.

The OFT examined the consequences of the acquisition in the London radio market and concluded that advertisers were likely to be better off, rather than worse off, as a result. It found that commercial stations existed that would still compete with Global/GCap stations in the market for specific listener demographics. The OFT also reasoned that commercial radio as a whole had a declining significance as a medium in the London market, and that GCap's *Capital FM* station could no longer be regarded as a 'must have' for advertisers. As a result, the acquisition was approved for the London market.

In the Midlands, the OFT found that the combination of Global Radio's and GCap's local radio stations would dominate national and local/regional radio advertising within the market. Global Radio offered a solution to the OFT to divest *Heart 106* in the East Midlands and seven local stations in the West Midlands market in order to restore the pre-merger situation. This solution was accepted by the OFT, which has reserved the right to pre-approve the buyers, and has insisted that the seven West Midlands be sold to a single buyer.

The OFT has retained the principle established by the Competition Commission (in its previous deliberations on the commercial radio sector) that radio advertising is a distinct medium in itself, and not merely part of a wider advertising landscape in which radio, press and television advertising are close substitutes. As a consequence, the OFT has implicitly rejected Ofcom's argument that radio mergers should no longer be constrained by the resultant higher market concentrations because, Ofcom argued, substitutions exist for radio advertising at local and national levels.

The sale prices of the radio assets to be divested by Global Radio are likely to be deflated by a number of factors: the limited number of possible trade buyers as a result of sector consolidation; the OFT stipulation to dispose of the seven West Midlands as a set; and the financial pressures facing the sector as a result of declining listening, falling revenues and the 'credit crunch'. Press reports have suggested Guardian Media Group as a possible buyer of *Heart 106* and Bauer Radio as a potential buyer of the seven local stations.

The Transaction

On 31 March 2008, privately owned Global Radio announced that it had reached an agreement to acquire GCap Media for 225p per share in cash, equivalent to £374.6 million. The parties submitted an informal merger notification to the OFT on 23 May 2008, and the transaction was completed on 6 June 2008. The OFT published its decision on a possible referral to the Competition Commission on 8 August 2008, and published the full text of its decision on 27 August 2008.

The OFT found that “most of GCap’s 71 local stations across the UK do not compete with Global for the same audiences or advertisers” and, therefore, its analysis focused on two local markets – London and the Midlands – in which there were competition issues to examine.¹ The OFT cleared the London aspects of the acquisition, having concluded that “there is no realistic prospect of harm to London advertisers or listeners”.² It felt that “Global will have to continue to compete hard against its closest competitor, Bauer – owner of *Magic* and *Kiss* – as well as others such as *Virgin*, *Smooth* and, for audience, the BBC”.³

In the Midlands, the OFT identified competition issues that would arise from the acquisition, as a result of which “Global offered to divest a package of radio stations to purchasers approved up-front by the OFT”.⁴ In principle, the OFT said, it accepted that these divestments would resolve its concerns “by restoring competition to pre-merger levels in the Midlands”.⁵ The OFT is required to consult publicly before accepting the undertakings offered by Global.

Reasons For The Transaction

Global Radio said it believes that its combination with GCap Media “will bring significant benefits to radio listeners and advertisers” and will put it “in a stronger position to compete across the diverse advertising market with press, television, online and outdoor advertising, amongst others”.⁶ Global has also argued that “the enlarged group will be able to compete more effectively with the BBC, which today dominates the UK radio landscape” because it “will have an increased ability to hire and retain the industry’s best talent”.⁷

Global also believed that “the enlarged group will enjoy benefits of scale which will allow it to extract significant operational benefits, pursue growth opportunities and focus on increasing the quality of its offering for its employees, advertisers and listeners”.⁸

The OFT acknowledged that “GCap is in particular need of re-structuring” because its “total revenues have fallen by more than 20-30% in real terms” between 2005 and 2008, and its listening fell by 18% during the same period.⁹ The OFT identified GCap’s “relative disadvantage” as its “lack of a unified and recognisable brand proposition” and its need of “a common programming format to attract a particular audience demographic, and a unified brand proposition to advertisers targeting that audience in national campaign”.¹⁰

¹ Office of Fair Trading. ‘Global/GCap radio merger: OFT seeks remedies and relies on efficiencies for the first time’, press release 95-08, London, 8 August 2008.

² Office of Fair Trading. ‘Global/GCap radio merger: OFT seeks remedies and relies on efficiencies for the first time’, press release 95-08, London, 8 August 2008.

³ Office of Fair Trading. ‘Global/GCap radio merger: OFT seeks remedies and relies on efficiencies for the first time’, press release 95-08, London, 8 August 2008.

⁴ Office of Fair Trading. ‘Global/GCap radio merger: OFT seeks remedies and relies on efficiencies for the first time’, press release 95-08, London, 8 August 2008.

⁵ Office of Fair Trading. ‘Global/GCap radio merger: OFT seeks remedies and relies on efficiencies for the first time’, press release 95-08, London, 8 August 2008.

⁶ Global Radio. ‘Offer For GCap Media plc’, document, London, 31 March 2008, p.5.

⁷ Global Radio. ‘Offer For GCap Media plc’, document, London, 31 March 2008, p.5.

⁸ Global Radio. ‘Offer For GCap Media plc’, document, London, 31 March 2008, p.5.

⁹ Office of Fair Trading. ‘Completed acquisition by Global Radio UK Limited of GCap Media plc’, report ME/3638/08, London, 27 August 2008, p.20, para.48 & p.62, para.172.

¹⁰ Office of Fair Trading. ‘Completed acquisition by Global Radio UK Limited of GCap Media plc’, report ME/3638/08, London, 27 August 2008, p.7, para.7.

The OFT concluded that “the net effect of the merger is that it will enhance – or in any event not substantially reduce – overall rivalry, notwithstanding the loss of rivalry between the parties themselves”.¹¹ However, the OFT did admit that “adverse effects are possible on listeners to the extent that reduced competition may mean that listeners may be faced with lower quality programming or innovation levels, for example, less investment in paying for top DJs, presenters, research into playlists and listeners’ tastes, and so forth”.¹²

The Global Radio Strategy

Global Radio argued to the OFT that “the re-structuring plans for GCap ... are even more urgent” and that “the way to deal with the issues [...] is by brand re-positioning”.¹³ The OFT reported that “Global will re-position its now commonly-owned stations to attract listeners, in a way designed to increase total audience size for all stations combined, and increase the demographic focus of the respective station audiences”.¹⁴ It concluded that “both types of efficiencies, **if realised**, will improve the Global/GCap station offer to listeners and advertisers” [emphasis added].¹⁵

Global Radio’s strategy for the combined group comprises:¹⁶

- a) the marriage of Global’s brands with GCap’s geographic coverage
 - to develop near-national coverage for the *Heart* brand
 - to achieve greater coverage for the *Galaxy* brand
 - to re-brand “the majority” of GCap’s local heritage stations and re-focus towards the *Heart/Galaxy* demographics
- b) the refreshment of GCap’s core stations
 - to re-focus towards more targeted demographics
 - except that GCap’s largest city stations will not be re-branded
- c) to extend nationally networked programming with “quality presenters”, whilst retaining “the local character”
 - Global “intends to broadcast the same programme across its entire network of [*Heart*] stations”
 - Global “will ensure that the local character of the re-branded stations is retained, in order to preserve the loyalty of the local audience”
 - “Local features such as news, weather and traffic will be retained, as well as some local programming”
- d) in London, Global will retain *Heart FM*’s present format, but will re-position *Capital FM* and *Choice FM* with new (unspecified) brand names.¹⁷

One third party told the OFT that “the merger will enable a number of changes to be made in the positioning of Global’s overall portfolio of brands” and will “reduce music overlap between services and enable its portfolio to be more distinctive”.¹⁸ The same party added that the

¹¹ Office of Fair Trading. ‘Completed acquisition by Global Radio UK Limited of GCap Media plc’, report ME/3638/08, London, 27 August 2008, p.11, para.19.

¹² Office of Fair Trading. ‘Completed acquisition by Global Radio UK Limited of GCap Media plc’, report ME/3638/08, London, 27 August 2008, pp.12-13, para.29.

¹³ Office of Fair Trading. ‘Completed acquisition by Global Radio UK Limited of GCap Media plc’, report ME/3638/08, London, 27 August 2008, p.20, para.48 & p.62, para.172.

¹⁴ Office of Fair Trading. ‘Completed acquisition by Global Radio UK Limited of GCap Media plc’, report ME/3638/08, London, 27 August 2008, p.10, para.18.

¹⁵ Office of Fair Trading. ‘Completed acquisition by Global Radio UK Limited of GCap Media plc’, report ME/3638/08, London, 27 August 2008, p.10, para.18.

¹⁶ Office of Fair Trading. ‘Completed acquisition by Global Radio UK Limited of GCap Media plc’, report ME/3638/08, London, 27 August 2008, p.21, para.49.

¹⁷ Office of Fair Trading. ‘Completed acquisition by Global Radio UK Limited of GCap Media plc’, report ME/3638/08, London, 27 August 2008, p.60, para.170.

¹⁸ Office of Fair Trading. ‘Completed acquisition by Global Radio UK Limited of GCap Media plc’, report ME/3638/08, London, 27 August 2008, p.61, para.171.

merger “will be beneficial to commercial radio, helping to reverse its declining share of audience against the high budget of the BBC”.¹⁹

However, the OFT did acknowledge that “efficiency claims based on post-merger product re-positioning are, like any claim, susceptible to the objection that there is no guarantee that such plans will be carried out, and that, even if attempted in good faith, such plans will fail”.²⁰

Similar arguments about potential efficiencies were voiced during previous mergers and acquisitions within the sector, most notably Capital Radio Group and GWR Group in May 2005, EMAP Radio and Scottish Radio Holdings in August 2005, and Global Radio and Chrysalis Radio in July 2007. However, to date, there is sparse evidence that such efficiencies have benefited listeners, as total listening to commercial radio continues to decline faster than ever. Evidence of benefits to advertisers is more difficult to determine, as radio advertising rates are far from transparent (see below).

Local Commercial Radio Markets

The impact of the combination of Global Radio and GCap Media on the UK commercial radio market is substantial, and precipitates significant increases in the levels of market concentration. Nationally, Global and GCap’s combined share of commercial radio listening was 36% in Q2 2008 (after consideration of GCap’s sale of its *Planet Rock* station in May 2008, and impending station divestments required by the OFT). However, in some local markets, this market share is considerably higher (see Figure 1).

Figure 1: Market shares of leading commercial radio owners by local market (% of commercial radio listening)

market	market size (15+ adults)	Global Radio + GCap Media	Bauer Radio	GMC Radio	UTV Radio	TIML Golden Square	The Local Radio Company	Lincs FM Group	Sunrise Radio Group	Planet Rock	UKRD	Cumberland News Group	Tindle Radio	Town & Country Broadcasting	Kent Messenger Group	Northern Media Group	Laser Broadcasting
	(’000)	%	%	%	%	%	%	%	%	%	%	%	%	%	%	%	%
UK*	50,735	36.2	25.3	11.4	7.2	3.7	1.8	1.5	1.0	0.9	0.9	0.7	0.6	0.4	0.3	0.2	0.2
London	10,785	43.4	25.6	3.4	4.8	6.7	0.0	0.0	2.9	0.7	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Manchester	2,376	31.5	25.9	22.7	10.0	2.2	1.1	0.0	0.2	0.7	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Birmingham*	2,043	41.0	12.3	19.4	5.2	1.2	0.0	0.0	0.5	0.3	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Glasgow	1,832	8.7	40.8	38.2	3.3	1.8	0.0	0.0	0.0	0.6	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Liverpool	1,795	14.2	37.2	23.0	12.4	1.5	0.3	0.0	0.0	1.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Newcastle	1,453	21.8	39.5	24.1	2.7	2.9	6.1	0.0	0.0	0.5	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Northern Ireland	1,383	5.1	61.6	0.3	9.7	0.9	0.0	0.0	0.0	0.2	0.0	9.9	0.0	0.0	0.0	9.2	0.0
Bristol	1,323	63.3	15.1	0.5	5.0	3.7	0.0	0.0	0.0	0.9	1.4	0.0	0.0	0.0	0.0	0.0	0.8
Sheffield	1,319	23.9	41.1	9.3	7.9	1.4	0.0	2.0	0.0	1.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Wolverhampton*	1,296	37.5	12.5	19.3	6.9	0.9	0.0	0.0	0.6	0.6	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Southend/Chelmsford	1,208	57.4	18.0	3.2	5.8	6.7	0.0	0.0	0.1	1.2	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Maidstone/Medway	1,155	55.4	13.0	1.0	4.6	2.2	0.0	0.0	0.2	1.5	0.0	0.0	0.0	0.0	14.3	0.0	0.0
Humberside	1,133	26.8	33.7	2.4	4.3	2.0	9.6	2.0	0.1	0.9	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Nottingham*	1,133	41.2	6.4	23.6	2.2	2.7	0.0	1.0	0.0	0.8	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Southampton/Portsmouth	1,117	48.3	32.4	0.3	3.8	1.6	9.7	0.0	0.0	0.5	0.0	0.0	0.0	1.3	0.0	0.0	0.0
Edinburgh	1,079	12.6	38.0	31.4	5.4	2.4	3.4	0.0	0.0	0.7	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Brighton/Eastbourne	1,002	64.7	9.4	0.2	5.7	5.4	3.6	0.0	0.1	2.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Cardiff/Newport	972	39.6	15.9	29.3	7.3	2.8	0.0	0.0	0.0	1.2	0.0	0.0	0.0	2.9	0.0	0.0	0.0
Leeds	969	29.8	34.3	13.3	7.1	5.6	0.0	1.0	1.6	0.7	0.0	0.0	0.0	0.0	0.0	0.0	0.0

[source: RAJAR Q2 2008. * denotes markets for which data excludes specific GCap stations to be sold to as yet undetermined buyers as part of Global Radio’s undertakings to the OFT]

The numbers of analogue (‘AM’ and ‘FM’) commercial radio stations in many of these markets (except London) have increased in recent years, as the regulator has added new FM licences offering niche formats in many areas. As a result, the number of licensed local commercial stations in the UK grew from 261 in 2002 to 315 in 2007.²¹

¹⁹ Office of Fair Trading. ‘Completed acquisition by Global Radio UK Limited of GCap Media plc’, report ME/3638/08, London, 27 August 2008, p.61, para.171.

²⁰ Office of Fair Trading. ‘Completed acquisition by Global Radio UK Limited of GCap Media plc’, report ME/3638/08, London, 27 August 2008, p.60, para.167.

²¹ Ofcom. ‘Communications Market Report’, report, London, 14 August 2008, p.244, figure 4.11.

Whilst the number of commercial radio stations available in local markets has grown, the number of commercial radio station owners has remained remarkably static, as a result of considerable sector consolidation.²² The exception is London, where there has been a significant decline from 17 to 12 owners since 2002, whilst the number of commercial radio stations has remained static. However, it should be noted that some owners in these local markets operate small stations which may not be audible across the whole area and which attract relatively low volumes of listening.²³

Figure 2: Number of analogue commercial radio stations, number of analogue commercial radio station owners, and HHI by local market

market	no. of commercial analogue radio stations		no. of commercial analogue radio station owners		Herfindahl-Hirschman Index (HHI)	
	Q3 2002	Q2 2008	Q3 2002	Q2 2008	Q3 2002	Q2 2008
London	24	24	17	12	1454	2628
Manchester	10	15	8	7	1572	2285
Birmingham *	11	12	7		2461	
Glasgow	8	10	7	6	2957	3218
Liverpool	9	13	7	8	2027	2272
Newcastle	8	10	7	6	2565	2673
N. Ireland	10	11	6	6	3793	4101
Bristol	9	9	6	7	5045	4284
Sheffield	8	10	7	6	1730	2586
Wolverhampton *	11	14	7		1987	
Southend/Chelmsford	17	18	10	9	2530	3708
Maidstone/Medway	8	15	5	7	2453	3472
Humber-side	8	13	6	8	-	2063
Nottingham *	7	10	6		3162	
Southampton/Portsmouth	10	13	7	8	3332	3498
Edinburgh	7	10	6	7	1573	2663
Brighton/Eastbourne	7	9	6	6	3613	4360
Cardiff/Newport	8	10	7	6	2700	2752

[source: Grant Goddard. * denotes markets for which data in 2008 is not calculated, due to specific GCap stations to be sold to as yet undetermined buyers as part of Global Radio's undertakings to the OFT. Ownership data: September 2008. Increases in the number of commercial analogue radio stations in some markets (Maidstone/Medway, Humber-side) reflect changes in available market data, as well as station launches.]

A more complex metric is necessary to determine the market concentrations within each of these local areas, one that takes account of the relative size of station audiences, not merely the absolute number of stations. The Herfindahl-Hirschman Index [HHI] is used by the US Department of Justice to measure pre- and post-acquisition market concentrations within specific markets for goods or services. It is calculated mathematically by summing the squares of the individual market shares of all firms participating in the market. A market with an index score between 1000 and 1800 is deemed moderately concentrated, and a market with an HHI above 1800 is deemed highly concentrated. In the US, if a proposed acquisition would result in an increase of more than 100 points in the HHI, then that acquisition is presumed likely to create or enhance market power.²⁴

When the HHI is applied to the listening shares of the commercial radio sector in the largest local markets (thus excluding listening to BBC radio), the market concentrations show increases since 2002 in all available markets except Bristol (where a single, dominant station, *GWR FM*, suffered a significant fall in market share). As a result, all of the largest UK commercial radio markets are now deemed 'highly concentrated' by the HHI criterion whereas, in 2002, four markets – London, Manchester, Sheffield and Edinburgh – were still deemed

²² 2002 data source: Grant Goddard. 'Radio Industry Consolidation: How Relevant Is The US Experience?', unpublished paper, London, December 2002, pp.3 & 7.

²³ Digital-only commercial radio stations have not been included here because their aggregate listening presently accounts for only 4.7% of total commercial radio listening (see **UK Commercial Radio, Q2 2008** [2008-84]).

²⁴ US Department of Justice & Federal Trade Commission. '1992 Horizontal Merger Guidelines', document, updated 8 April 1997.

'moderately concentrated' (the remainder were 'highly concentrated', except Humberside, for which there was insufficient audience data to calculate the HHI).²⁵

Efficiencies resulting from multiple station ownership

With the commercial radio sector facing declining audiences and falling revenues, it is easy to presume that consolidation will help ensure its continued existence. Ofcom has argued that "allowing further consolidation might be one way to address concerns about the financial pressures on local commercial radio".²⁶ The OFT entertained the possibility that, in the London market, the common ownership of a greater number of radio stations might provide listeners and advertisers with a wider choice of listening and advertising opportunities. In its words:

*The basic proposition is that, by changing radio stations' format and/or programming post-merger in a way that benefits listeners (that is, by greater demographic specialisation by individual radio stations), combined radio stations can achieve a larger and more focused total audience. The resulting airtime is therefore more valuable to advertisers seeking to reach a large, focused demographic.*²⁷

The OFT concluded that "economic theory supports this argument" and that "this theory has been validated by empirical evidence specifically in relation to the radio broadcasting sector, albeit in a different jurisdiction".²⁸ The jurisdiction referred to is the US, but that country's commercial radio industry is sufficiently distinct from the UK for us to question whether the US experience is directly relevant to the circumstances of this merger:

- The US commercial radio industry is considerably more developed than that of the UK, having started in 1920, whereas UK commercial radio launched in 1973
- The US has 11,000 commercial radio stations, whereas the UK has 318 commercial radio stations²⁹
- The largest US radio market, New York City, has 49 commercial radio stations (all local) owned by 21 companies, whereas the largest UK market, London, has 24 analogue commercial radio stations (21 local and 3 national) owned by 12 companies³⁰
- The largest US radio group, Clear Channel Radio, owns 10% of US commercial radio stations and accounts for 25% of sector revenues.³¹ The UK's largest radio group, Global/GCap, owns 25% of UK analogue commercial radio stations and accounts for around 40% of sector revenues³²
- In the US, station formats are unregulated, so that a station can adopt any format it chooses and change format at will whereas, in the UK, station formats and demographic targets are regulated by Ofcom and can only be amended with prior approval

The theory espoused by the OFT may sound familiar, as it was also referred to extensively in debate prior to the Communications Act 2003. Advocating a change in ownership rules to allow more sector consolidation, Baron Smith of Finsbury, then an MP, argued that "the more stations a company has in one area, the more likely it is to invest in local output, events and support".³³ Ralph Bernard, then Chairman of GWR Group, agreed that "listeners will be the real winners, with [radio] companies like GWR being able to build local centres of excellence

²⁵ 2002 data source: Grant Goddard. 'Radio Industry Consolidation: How Relevant Is The US Experience?', unpublished paper, London, December 2002, p.7.

²⁶ Ofcom. 'Review Of Media Ownership Rules', report, London, 14 November 2006, p.26, para.4.2.

²⁷ Office of Fair Trading. 'Completed acquisition by Global Radio UK Limited of GCap Media plc', report ME/3638/08, London, 27 August 2008, p.59, para.165.

²⁸ Office of Fair Trading. 'Completed acquisition by Global Radio UK Limited of GCap Media plc', report ME/3638/08, London, 27 August 2008, p.59, para.165.

²⁹ George Williams. 'Review Of The Radio Industry 2007', Federal Communications Commission, report, Washington DC, [undated], p.5.

Ofcom. 'Communications Market Report', report, London, 14 August 2008, p.244, figure 4.11.

³⁰ George Williams. 'Review Of The Radio Industry 2007', Federal Communications Commission, report, Washington DC, [undated], p.6 & Appendix F.

³¹ George Williams. 'Review Of The Radio Industry 2007', Federal Communications Commission, report, Washington DC, [undated], Appendices B and C.

³² GMG national advertising sales included in Global/GCap sector revenue estimate.

³³ Chris Smith. 'A Bill That's Out Of Tune With Local Radio', *Financial Times*, London, 23 October 2002.

offering local output of greater range and quality”.³⁴ Lord Eatwell, then Chairman of the commercial radio trade association ‘CRCA’, said: “Small stations seek to maximise their audiences by going for the middle ground ... A larger company can offer services to different parts of the community”.³⁵

At the time, even the government’s consultation document on proposed changes to media ownership rules offered the same theory:

*Without any consolidation of ownership, the risk is that a number of small companies will all tend to aim their content at the same middle ground, all seeking the largest possible share of the mass audience..... Research suggests that the liberalisation of ownership rules in the US radio market has, to some extent, alleviated [this] effect.*³⁶

The roots of the theory derive from the work of US economist Peter Steiner, who wrote in the 1950s that “a series of [radio] stations, each striving to maximize the number of listeners it will get, may well engage in duplication of program types”.³⁷ He concluded that “a series of competing firms, each striving to maximize its number of listeners, will fail to achieve either the industry or the social good”, a problem he acknowledged had been tackled in the UK by allowing “the monopolization of radio under [...] a public corporation [the BBC]”.³⁸ Steiner suggested that “such a remedy is politically not feasible in America”.³⁹

The subsequent introduction of commercial radio in the UK has not diluted the market distortion noted by Steiner, as successive regulators have continued to mandate the ‘format’ of each commercial radio station they licence, ensuring (in theory) that no two stations in a local market vie for precisely the same audience demographic by offering the same content. Unlike the US, content broadcast in UK local radio markets continues to be closely regulated by the BBC Trust for non-commercial broadcasters and by Ofcom for commercial broadcasters. As a result, the OFT’s reference to Steiner’s free market theories is largely irrelevant to the UK situation, where a free market in radio content has never existed.

Furthermore, even in the US, where considerable consolidation has occurred within the commercial radio sector following changes to media ownership rules in 1996, the evidence is by no means conclusive that sector consolidation has produced benefits for either listeners or advertisers. On the one hand, a study commissioned by the Federal Communications Commission found that consolidation had not driven increases in radio advertising prices, and other studies found that the number of formats available in local markets increased after consolidation.⁴⁰ On the other hand, several studies, most notably those published by the

³⁴ BBC. ‘Radio Reform Unveiled’, BBC online, London, 14 November 2003.

³⁵ Saeed Shah. ‘Jowell Poised To Allow Major Radio Consolidation’, *The Independent*, London, 14 November 2002.

³⁶ DCMS. ‘Consultation On Media Ownership Rules’, DTI, report, London, November 2001, p.6, para.1.5.

³⁷ Peter O. Steiner. ‘Program Patterns And Preferences, And The Workability Of Competition In Radio Broadcasting’, *Quarterly Journal of Economics*, #66, 1952, p.200.

³⁸ Peter O. Steiner. ‘Program Patterns And Preferences, And The Workability Of Competition In Radio Broadcasting’, *Quarterly Journal of Economics*, #66, 1952, pp.206-7.

³⁹ Peter O. Steiner. ‘Program Patterns And Preferences, And The Workability Of Competition In Radio Broadcasting’, *Quarterly Journal of Economics*, #66, 1952, p.207.

⁴⁰ Steven T. Berry & Joel Waldfogel. ‘Mergers, Station Entry, and Programming Variety In Radio Broadcasting’, National Bureau of Economic Research, Working Paper 7080, Cambridge MA, April 1999.

Keith Brown & George Williams. ‘Consolidation and Advertising Prices In Local Radio Markets’, Federal Communications Commission, Media Bureau Staff Research Paper, Media Ownership Working Group, report 2002-4, Washington DC, September 2002.

George Williams, Keith Brown & Peter Alexander. ‘Radio Market Structure and Music Diversity’, Federal Communications Commission, Media Bureau Staff Research Paper, Media Ownership Working Group, report 2002-9, Washington DC, September 2002.

BIA Financial Network. ‘Has Format Diversity Continued To Increase?’, report, 5 June 2002.

Bear Stearns, ‘Format Diversity: More from Less?’, paper, New York City, 4 November 2002.

Andrew Sweeting. ‘Music Variety, Station Listenership and Station Ownership in the Radio Industry’, paper, Massachusetts Institute of Technology, 26 March 2004.

Andrew Sweeting. ‘Too Much Rock and Roll? Station Ownership, Programming and Listenership in the Music Radio Industry’, paper, Northwestern University IL, 15 January 2006.

Future of Music Coalition, have concluded that consolidation has led to less diverse content on commercial radio.⁴¹

Global Radio expects its merger with GCap to produce cost savings of £30-40 million, most of which are in the London market.⁴² Global argues that “the fixed cost savings in London ... will be used to help fund the re-positioning of their stations post-merger”.⁴³ One party argued to the OFT that “cost savings resulting from the merger can be used to grow the brand and improve content”.⁴⁴ However, because most of the anticipated savings are in the form of fixed costs, the OFT concluded that “marginal or variable cost savings do not appear more likely to be passed on [to advertisers] as a result of the merger”.⁴⁵

It should also be noted that economies of scale are not a law of nature, and that ‘diseconomies of scale’ are just as likely an outcome of consolidation.⁴⁶ The creation of larger companies in order to cut unit costs only benefits customers if the good or service produced retains the same inherent quality. Otherwise, the benefit from a lower unit cost has to be weighed against the impact of an inferior product. In the case of commercial radio, the theoretical benefits derived from economies of scale will not be realised if the quality of the programming declines as companies within the sector grow larger.

In the UK commercial radio sector, the merger of Capital Radio and GWR Group in 2005 seemed to produce almost no positive benefits for either listeners or advertisers. The merged company’s market capitalisation fell from £711 million at inception to £200 million by the end of 2007, and the resultant cuts in operational costs merely exacerbated the decline in levels of listening and advertising revenues.

The Radio Advertising Market

Global Radio’s acquisition of GCap Media presented Ofcom with its first opportunity to publicly test with the OFT the argument it had developed that further consolidation within the commercial radio sector should not be prevented in order to avoid increased market concentrations in radio advertising. Ofcom felt that the conclusions of its 2006 research project into the radio advertising market “could potentially smooth the way for more consolidation under competition rules, in particular insofar as it relates to large metropolitan markets, which will provide much of the rationale for any merger between large radio players”.⁴⁷

As a result of this research, Ofcom argued that radio advertising should no longer be considered a distinct market in isolation because:

- local radio advertising is “constrained by press advertising”, meaning that radio owners “would not find it profitable to raise prices by 5-10% for a sustained period of time”.⁴⁸
- national radio advertising is competing with television, online and press advertising so that “an increase in the price of [national] radio advertising would result in media buying agencies moving budgets away from radio to a range of alternative media”.⁴⁹

⁴¹ Peter DiCola & Kristin Thomson. ‘Radio Deregulation: Has It Served Citizens and Musicians?’, Future of Music Coalition, report, Washington DC, 18 November 2002.

Peter DiCola. ‘False Premises, False Promises: A Quantitative History of Ownership Consolidation in the Radio Industry’, Future of Music Coalition, report, Washington DC, December 2006.

Bertram O’Neal Montgomery. ‘The Song Remains The Same: Ownership Concentration and Format Homogeneity In The Radio Industry’, Master of Arts thesis, University of North Carolina at Greensboro, 2007.

⁴² Office of Fair Trading. ‘Completed acquisition by Global Radio UK Limited of GCap Media plc’, report ME/3638/08, London, 27 August 2008, p.64, para.181.

⁴³ Office of Fair Trading. ‘Completed acquisition by Global Radio UK Limited of GCap Media plc’, report ME/3638/08, London, 27 August 2008, p.65, para.184.

⁴⁴ Office of Fair Trading. ‘Completed acquisition by Global Radio UK Limited of GCap Media plc’, report ME/3638/08, London, 27 August 2008, p.61, para.171.

⁴⁵ Office of Fair Trading. ‘Completed acquisition by Global Radio UK Limited of GCap Media plc’, report ME/3638/08, London, 27 August 2008, p.65, para.183.

⁴⁶ this argument borrowed from: Peter DiCola. ‘False Premises, False Promises: A Quantitative History of Ownership Consolidation in the Radio Industry’, Future of Music Coalition, report, Washington DC, December 2006, p.22.

⁴⁷ Ofcom. ‘Review Of Media Ownership Rules’, report, London, 14 November 2006, p.64-65, para.A4.5.

⁴⁸ Ofcom. ‘Radio Advertising Market Research’, report, London, 19 October 2006, pp.4-5, para.1.5.

⁴⁹ Ofcom. ‘Radio Advertising Market Research’, report, London, 19 October 2006, p.5, para.1.6

However, in its consideration of Global Radio's acquisition of GCap Media, the OFT rejected Ofcom's argument and declared that "the relevant product market in the East Midlands appears no wider than only radio advertising".⁵⁰ In the West Midlands, the OFT concluded that "the evidence was limited in relation to the potential constraint of other media on regional advertising campaigns" which suggested "a market no wider than only radio advertising".⁵¹ In London, the OFT noted evidence which "suggests that non-radio alternatives are not effective substitutes for customers running London radio advertising campaigns".⁵² As a result, Ofcom's key assertion that the radio advertising market is part of a wider media advertising landscape seems to have been thwarted, at least on this occasion.

Another argument developed by Ofcom to allow further sector consolidation was that "the radio and advertising industry has developed in a number of ways which may have affected the competitive landscape" since the Competition Commission's last examination of the commercial radio sector in May 2003.⁵³ Ofcom cited:

- the decline in commercial radio advertising revenues
- the BBC's increased share of radio listening
- the growth of the 'DAB' platform
- the growth in online and outdoor advertising
- the decline in press circulation.⁵⁴

The OFT embraced the first two of these phenomena, noting that:

- "radio is used by only 4% of businesses in the UK"
- "radio is one of the least important media in the UK and has seen its importance diminish over the last five years", exemplified by a 17% fall in sector revenues in real terms between 2000 and 2007
- "the BBC has been increasing listening shares at the expense of commercial radio in recent years, causing the commercial sector to lose revenues".⁵⁵

In its analysis of the radio advertising market, Ofcom had noted the difficulty of establishing on an evidential basis the 'cost per thousand' (CPT) metric for radio advertising. Ofcom explained that "there is not a unique and transparent relationship between the price and volume data associated with direct and indirect radio advertising transactions, and this data is not available in a consistent, standardised or comparable way", leading to "the lack of a transparent pricing structure".⁵⁶ The OFT concurred with Ofcom's findings and noted that "although CPT rates are published, they are not transparent" because "the published CPT rates are used as a starting point in negotiations", so that "the actual price being paid by each customer will be different and will be unknown to other customers and competitors".⁵⁷

For its competition analysis, the OFT divided radio advertising into three types:

- 'direct advertising' where inventory is purchased directly from a specific radio station either by local businesses booking a purely local campaign, or by national advertisers booking their campaigns on a station-by-station negotiated basis
- 'contracted indirect advertising' where inventory is purchased across a national portfolio of radio stations as a package from a saleshouse, though the advertiser commits a certain percentage of its radio expenditure to particular group owners

⁵⁰ Office of Fair Trading. 'Completed acquisition by Global Radio UK Limited of GCap Media plc', report ME/3638/08, London, 27 August 2008, p.32, para.81.

⁵¹ Office of Fair Trading. 'Completed acquisition by Global Radio UK Limited of GCap Media plc', report ME/3638/08, London, 27 August 2008, p.40, para.108-109.

⁵² Office of Fair Trading. 'Completed acquisition by Global Radio UK Limited of GCap Media plc', report ME/3638/08, London, 27 August 2008, p.46, para.124.

⁵³ Ofcom. 'Radio Advertising Market Research', report, London, 19 October 2006, p.4, para.1.2.

⁵⁴ Ofcom. 'Radio Advertising Market Research', report, London, 19 October 2006, p.4, para.1.2.

⁵⁵ Office of Fair Trading. 'Completed acquisition by Global Radio UK Limited of GCap Media plc', report ME/3638/08, London, 27 August 2008, p.19, para.47.

⁵⁶ Ofcom. 'Radio Advertising Market Research', report, London, 19 October 2006, p.23, para.6.18.

⁵⁷ Office of Fair Trading. 'Completed acquisition by Global Radio UK Limited of GCap Media plc', report ME/3638/08, London, 27 August 2008, pp.46-47, para.126.

- 'non-contracted indirect advertising' where inventory is purchased via a saleshouse on a station-by-station basis to reflect the needs of a regional campaign or a series of local campaigns.⁵⁸

The London radio market

In April 2008, I had highlighted the potential competition issues in the London and Midlands markets that would result from Global's acquisition of GCap Media (see **GCap Media: one previous owner, needs serious attention** [Enders Analysis 2008-32]). In both these local markets, the market concentrations would be considerably higher than the national average of the combined Global/GCap operation.

In the London market, the OFT found that the combined Global/GCap portfolio of radio stations controls 50-60% of contracted agency advertising, 40-50% of non-contracted agency advertising and 30-40% of direct advertising expenditure.⁵⁹ In addition to its own stations, Global sells national advertising for stations owned by Guardian Media Group (GMG), whose London station is *Smooth Radio*.⁶⁰ One (unnamed) advertising client argued that "the concentration of revenue share between the Global, GCap and GMG groups represents an unacceptably large concentration of selling power".⁶¹ Another advertiser argued that "the merger may reduce [its] negotiating power and [its] ability to switch stations".⁶²

However, in the London market, the OFT "found that advertising in radio stations is heterogeneous" because "the content of the radio stations is different, which reflects the differing audience compositions and sizes".⁶³ It concluded that, in London, "this merger will not increase the incentive or the ability of radio stations and/or radio groups to tacitly (or explicitly) collude to increase prices".⁶⁴

Figure 3: Leading local commercial radio stations in the London market

station	platform	owner	share of listening (%)	format	demographic target
Magic	FM	Bauer	7.4	easy listening soft music	over-35
Heart	FM	Global/GCap	5.7	adult contemporary music	25-44
Capital FM	FM	Global/GCap	4.6	chart music	under-40
Kiss	FM	Bauer	4.5	dance music	under-30
Virgin Radio	FM/AM	TIML	3.2	rock music	25-44
LBC 97.3	FM	Global/GCap	2.7	speech	-
Choice	FM	Global/GCap	1.9	urban contemporary black music	Afro-caribbean
Smooth	FM	GMG	1.7	easy listening	over-50
Sunrise	AM	Sunrise	1.1	Asian	Asian
Xfm	FM	Global/GCap	1.1	alternative rock	15-34
Gold London	AM	Global/GCap	0.8	classic pop	35-54
LBC News	AM	Global/GCap	0.8	news	-
Club Asia	AM	Club Asia	0.6	Asian	15-34 Asian
Premier Christian	AM	Premier	0.4	Christian	-

[sources: RAJAR Q2 2008, Ofcom 'Commercial Radio Station Formats' September 2008]

For each local commercial radio station, Ofcom prescribes a 'format' and, where appropriate, a target demographic, both of which are incorporated into the station's licence.

⁵⁸ Office of Fair Trading. 'Completed acquisition by Global Radio UK Limited of GCap Media plc', report ME/3638/08, London, 27 August 2008, pp.15-16, para.38-39.

⁵⁹ Office of Fair Trading. 'Completed acquisition by Global Radio UK Limited of GCap Media plc', report ME/3638/08, London, 27 August 2008, p.42, para.116.

⁶⁰ Maisie McCabe. 'Global Radio retains national airtime sales contract for GMG', *Media Week*, London, 12 September 2008.

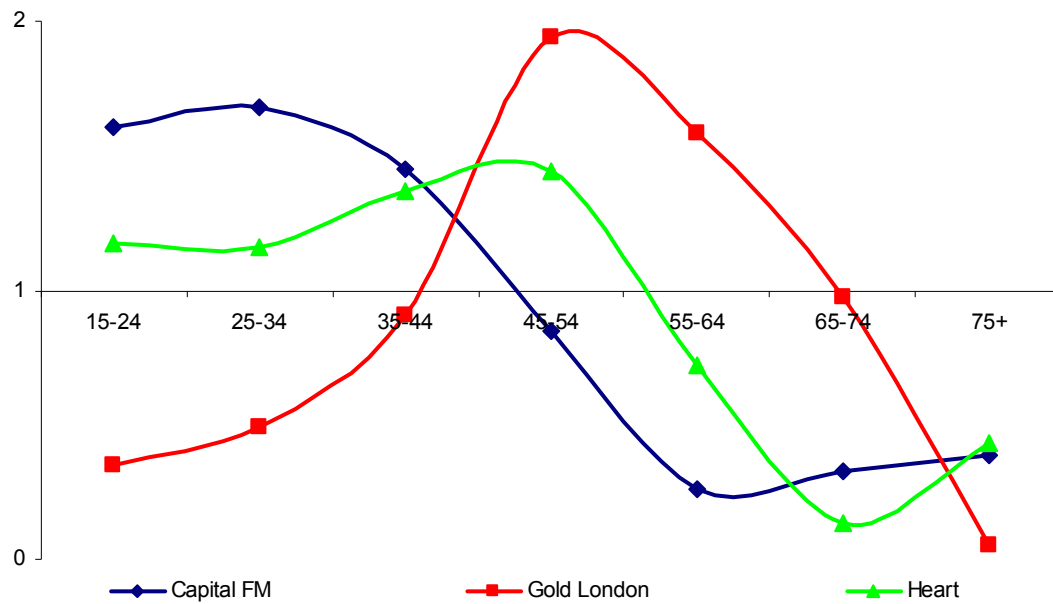
⁶¹ Office of Fair Trading. 'Completed acquisition by Global Radio UK Limited of GCap Media plc', report ME/3638/08, London, 27 August 2008, p.43, para.116.

⁶² Office of Fair Trading. 'Completed acquisition by Global Radio UK Limited of GCap Media plc', report ME/3638/08, London, 27 August 2008, p.43, para.116.

⁶³ Office of Fair Trading. 'Completed acquisition by Global Radio UK Limited of GCap Media plc', report ME/3638/08, London, 27 August 2008, p.47, para.127.

⁶⁴ Office of Fair Trading. 'Completed acquisition by Global Radio UK Limited of GCap Media plc', report ME/3638/08, London, 27 August 2008, p.47, para.128.

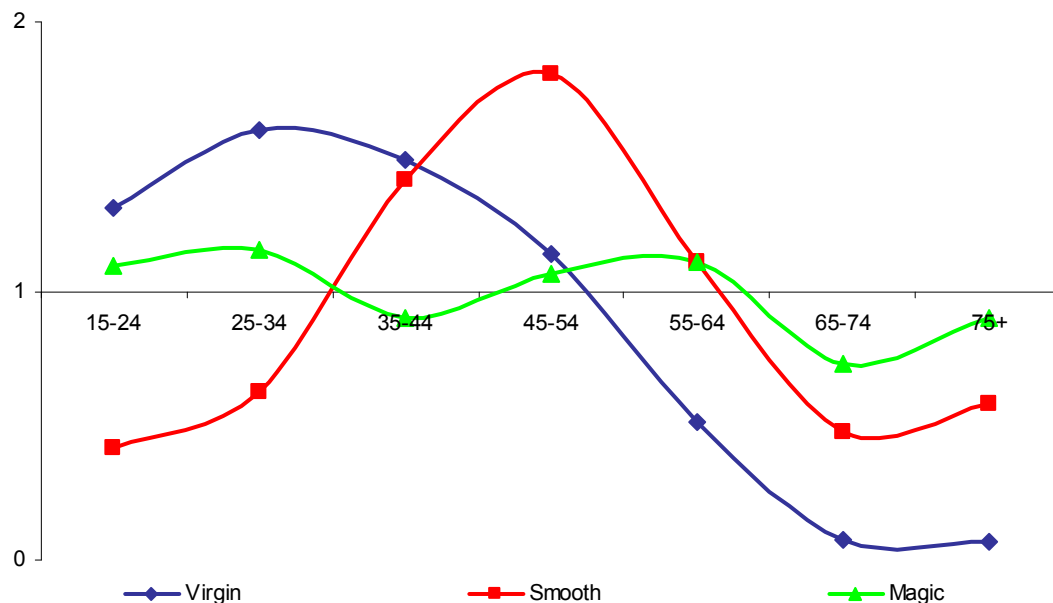
Figure 4: Distribution of hours listened to Global/GCap local stations by age group in the London market



[source: RAJAR Q2 2008] (index of 1 = normal distribution of all radio listening in London market by age group)

As the OFT noted, the audience characteristics of GCap/Global's main radio stations in London demonstrate significant differences. Listening to *Capital FM* is dominated by under-40s, whilst *Heart* demonstrates considerable appeal up to the age of 50, and *Gold London* is dominated by 40-60 year olds.

Figure 5: Distribution of hours listened to local commercial stations competing with Global/GCap by age in the London market



[source: RAJAR Q2 2008 (except Smooth: Q1 2008 because of inconsistencies in Q2 data)] (index of 1 = normal distribution of all radio listening in London market by age group)

The demographics of the main local commercial stations that compete with Global/GCap in the London market are displayed in Figure 5. The age skew of GMG station *Smooth Radio* is very similar to that of Global/GCap's *Gold London*. The age skew of *Virgin Radio* is very similar to that of Global/GCap's *Capital FM*. There is less of a similarity between Bauer's *Magic* and Global/GCap's *Heart* audience skews in London. (*Magic* is noteworthy for its remarkably flat

appeal across all age groups, even though its licence requires it specifically to target the over-35 demographic.)

In the light of this evidence, the OFT concluded that GCap and Global's London stations "are not close competitors" and that "the greater competitive constraint on each party pre-merger is derived from Bauer".⁶⁵ It asserted that "the listener demographics of the [GCap and Global] stations do not overlap with each other, but do with the listener demographics of their competitors' stations".⁶⁶ As a result, the OFT decided that "the merger does not raise concern in London".⁶⁷

Figure 6: Commercial radio market shares in the London market

		share of commercial radio listening	share of commercial radio revenues
group	station	%	%
	Heart FM	11	10-20
	LBC (AM + FM)	7	10-20
Global Radio	total	18	20-30
	Capital FM	9	10-20
	Choice FM	4	0-10
	Xfm	2	0-10
	Gold London	2	0-10
GCap Media	total	25	20-30
Global Radio + GCap Media	total	43	40-50
	Magic FM	15	20-30
	Kiss London	9	10-20
Bauer Radio	total	26	30-40
TIML	Virgin Radio	6	0-10
GMG Radio	Smooth Radio	3	0-10
	others	21	10-20

[source: RAJAR Q2 2008 + OFT⁶⁸] NB: "revenue" shares refer only to direct revenues and non-contracted indirect revenues, thus excluding contracted indirect revenues (ie: national campaigns).

In reaching its decision, part of the OFT's reasoning was that commercial radio as a whole in the London market appeared to have declining significance as a medium. Commercial radio's share of radio listening (compared to the BBC) in London fell from 60% to 51% between 1999 and 2008, and its listening fell from 130 to 101 million hours per week over the same period.⁶⁹ The OFT noted that GCap's *Capital FM* "may historically have been a 'must have' station" but that it has "lost 80-90% of its advertising revenue in real terms since 2000" and that "no other Global or GCap radio station in London is considered to be 'must have'".⁷⁰ One party (not Global or GCap) told the OFT that "the medium of radio is vulnerable because of its size and lack of importance" in the London market, so that "any opportunity for monopolistic behaviour is rather unrealistic".⁷¹ As a result, the OFT said it did "not believe that anti-competitive conglomerate effects are an issue in London".⁷² On the contrary, the OFT concluded that

⁶⁵ Office of Fair Trading. 'Completed acquisition by Global Radio UK Limited of GCap Media plc', report ME/3638/08, London, 27 August 2008, p.44, para.118.

⁶⁶ Office of Fair Trading. 'Completed acquisition by Global Radio UK Limited of GCap Media plc', report ME/3638/08, London, 27 August 2008, p.44, para.119.

⁶⁷ Office of Fair Trading. 'Completed acquisition by Global Radio UK Limited of GCap Media plc', report ME/3638/08, London, 27 August 2008, p.73, para.208.

⁶⁸ Office of Fair Trading. 'Completed acquisition by Global Radio UK Limited of GCap Media plc', report ME/3638/08, London, 27 August 2008, p.48, Table 4.

⁶⁹ RAJAR. Q2 1999 vs Q2 2008.

⁷⁰ Office of Fair Trading. 'Completed acquisition by Global Radio UK Limited of GCap Media plc', report ME/3638/08, London, 27 August 2008, p.49, para.136.

⁷¹ Office of Fair Trading. 'Completed acquisition by Global Radio UK Limited of GCap Media plc', report ME/3638/08, London, 27 August 2008, p.50, para.136.

⁷² Office of Fair Trading. 'Completed acquisition by Global Radio UK Limited of GCap Media plc', report ME/3638/08, London, 27 August 2008, p.50, para.137.

"[advertising] customers in London are likely to be overall better off, rather than worse off," as a result of the merger.⁷³

The Midlands radio market

GCap's Midlands stations (*Beacon, BRMB, Leicester Sound, Mercia, Ram and Trent*) have lost between 20 and 30% of advertising revenues in real terms since 2000.⁷⁴ The OFT chose to divide the Midlands market into two halves for consideration, reflecting our published findings that the combined Global/GCap commercial radio listening shares were 56% and 57% in the East Midlands and West Midlands markets respectively at the time of the acquisition.⁷⁵

In the East Midlands region (covering Nottingham, Derby and Leicester), the OFT found that the combined Global/GCap portfolio of stations would control 60-70% of national radio advertising and 70-80% of local/regional radio advertising expenditure.⁷⁶ The next largest radio group in the market is GMG with a 20-30% share of national advertising, but only a 0-10% share of local advertising expenditure.⁷⁷ The OFT argued that "because there is only a relatively small number of radio stations in the East Midlands region, such that all the stations lean towards competing for the middle ground in terms of demographics", it is necessary for Global to dispose of its *Heart 106* Midlands station.⁷⁸

In the West Midlands region (covering Birmingham, Wolverhampton, Coventry and Worcester), the OFT found that the combined Global/GCap portfolio of stations would control 60-70% of national advertising and 70-80% of local/regional advertising expenditure.⁷⁹ Once again, the next largest radio group is GMG with a 10-20% share of national radio advertising and a 10-20% share of local advertising expenditure.⁸⁰ As in the East Midlands, the OFT considered that Global's and GCap's stations in the West Midlands "appear to be sufficiently close in terms of targeted profiles ... so as to be considered close competitors from a demographic perspective ..."⁸¹

The OFT accepted a proposal from Global that "the divestment of all four GCap West Midlands stations – *BRMB, Beacon, Mercia* and *Wyvern* – with the accompanying *Gold* licences" would "act in a clear-cut fashion to restore competition to pre-merger levels" in the market.⁸² As a result, the OFT agreed to suspend its duty to refer Global Radio's acquisition of GCap Media to the Competition Commission because of these issues in the West Midlands market.⁸³ Global Radio noted that "this group of [West Midlands] stations represents a very valuable set of radio assets" but the OFT insisted that they all be purchased by a single buyer because, it argued, "multiple purchasers of individual stations would not be able to compete on a package basis with Global/GCap".⁸⁴

⁷³ Office of Fair Trading. 'Completed acquisition by Global Radio UK Limited of GCap Media plc', report ME/3638/08, London, 27 August 2008, p.55, para.155.

⁷⁴ Office of Fair Trading. 'Completed acquisition by Global Radio UK Limited of GCap Media plc', report ME/3638/08, London, 27 August 2008, p.62, para.172.

⁷⁵ RAJAR. Q4 2007.

⁷⁶ Office of Fair Trading. 'Completed acquisition by Global Radio UK Limited of GCap Media plc', report ME/3638/08, London, 27 August 2008, p.23, para.56.

⁷⁷ Office of Fair Trading. 'Completed acquisition by Global Radio UK Limited of GCap Media plc', report ME/3638/08, London, 27 August 2008, p.23, para.56.

⁷⁸ Office of Fair Trading. 'Completed acquisition by Global Radio UK Limited of GCap Media plc', report ME/3638/08, London, 27 August 2008, p.24, para.59.

⁷⁹ Office of Fair Trading. 'Completed acquisition by Global Radio UK Limited of GCap Media plc', report ME/3638/08, London, 27 August 2008, p.35, para.94.

⁸⁰ Office of Fair Trading. 'Completed acquisition by Global Radio UK Limited of GCap Media plc', report ME/3638/08, London, 27 August 2008, p.35, para.94.

⁸¹ Office of Fair Trading. 'Completed acquisition by Global Radio UK Limited of GCap Media plc', report ME/3638/08, London, 27 August 2008, p.36, para.97.

⁸² Office of Fair Trading. 'Completed acquisition by Global Radio UK Limited of GCap Media plc', report ME/3638/08, London, 27 August 2008, p.88, para.274.

⁸³ Office of Fair Trading. 'Completed acquisition by Global Radio UK Limited of GCap Media plc', report ME/3638/08, London, 27 August 2008, p.88, para.274.

⁸⁴ Global Radio. 'OFT Press Release', online press release, London, 8 August 2008.

Office of Fair Trading. 'Completed acquisition by Global Radio UK Limited of GCap Media plc', report ME/3638/08, London, 27 August 2008, p.92, para.290.

Radio station divestments

In the East Midlands market, the OFT is requiring Global Radio to dispose of its *Heart 106* station, which had been re-branded in 2005 from *Century 106*, after its acquisition by Chrysalis Radio from GCap Media for £29.5 million in cash.⁸⁵

Figure 7: Data for *Heart 106* in the East Midlands market

	Q2 2000	Q2 2002	Q2 2004	Q2 2006	Q2 2008	estimated revenues per annum (£m)	estimated market price (£m)
Heart 106 East Midlands (2,121,000 adults)							
market rank	5	7	5	5	6	3.2	8.2
reach (% of adults 15+)	14	13	17	16	17		
average hours per week	9.2	8.1	8.7	8.2	6.7		
share of listening (%)	5.5	4.6	6.2	6.1	5.2		
commercial radio share (%)	40.5	40.0	41.5	38.5	36.3		

[source: RAJAR, Grant Goddard]

The performance of *Heart 106* has remained creditable and consistent since the station's launch in 1997, and its status as a regional FM licence serving 2.1 million adults offers continuing potential to produce considerable returns for a new owner (the station generated £3.6 million revenues and £1.4 million operating profit in the year ended 30 September 2004).⁸⁶ Our estimated £8.2 million acquisition price reflects the station's long-term potential, although it is significantly below the 8x revenue multiple achieved by GCap from the station's sale in 2005.

GMG would be an obvious candidate to add *Heart 106* to its existing portfolio of regional radio stations. A press report in August 2008 quoted "a source close to GMG Radio" as saying: "Clearly it makes sense for GMG to be looking at buying *Heart 106* and re-branding it to *Century*, which is what it used to be. The transformation would be relatively easy".⁸⁷ The situation is complicated by the fact that Global Radio is already under contract to handle national advertising sales for the GMG station group.⁸⁸

The OFT accepted Global Radio's proposal of two distinct options for its divestment of *Heart 106*. Firstly, a 'franchise' arrangement under which a buyer would operate the station under the *Heart* brand licensed from Global Radio who would retain the right to sell national advertising, whilst the buyer would handle regional/local advertising sales.⁸⁹ Under this arrangement, the station would be required to use the *Heart* brand, jingles and music playlist, use *Heart* networked programming, and Global would retain the right of veto over the local programming content and staff.⁹⁰ The second option is to sell the licence without the accompanying *Heart* brand.⁹¹

In the West Midlands radio market, the OFT accepted Global Radio's proposal to divest four of GCap Media's FM stations, in addition to three accompanying AM stations in these markets (the fourth, the AM station of *Wyvern FM*, had been sold by previous owner GWR Group in

⁸⁵ Office of Fair Trading. 'Completed acquisition by Global Radio UK Limited of GCap Media plc', report ME/3638/08, London, 27 August 2008, p.95, Annexe para.4.

Chrysalis Group plc. 'Acquisition of 106 Century FM adds key regional market', press release, London, 9 May 2005.

⁸⁶ Chrysalis Group plc. 'Acquisition of 106 Century FM adds key regional market', press release, London, 9 May 2005.

⁸⁷ Emma Barnett. 'Bauer Media, GMG in talks to acquire two Midlands stations', *Media Week*, London, 12 August 2008.

⁸⁸ Office of Fair Trading. 'Completed acquisition by Global Radio UK Limited of GCap Media plc', report ME/3638/08, London, 27 August 2008, p.42, para.116.

⁸⁹ Maisie McCabe. 'Global Radio retains national airtime sales contract for GMG', *Media Week*, London, 12 September 2008.

⁹⁰ Office of Fair Trading. 'Completed acquisition by Global Radio UK Limited of GCap Media plc', report ME/3638/08, London, 27 August 2008, p.84, para.261.

⁹¹ Office of Fair Trading. 'Completed acquisition by Global Radio UK Limited of GCap Media plc', report ME/3638/08, London, 27 August 2008, p.85, para.262.

⁹¹ Office of Fair Trading. 'Completed acquisition by Global Radio UK Limited of GCap Media plc', report ME/3638/08, London, 27 August 2008, p.86, para.267.

1999). All of these stations have suffered significant losses in listening during the last decade, reducing their trade value considerably.

Figure 8: Data for stations to be divested by Global Radio in the West Midlands market

	Q2 2000	Q2 2002	Q2 2004	Q2 2006	Q2 2008	estimated revenues per annum (£m)	estimated market price (£m)
BRMB Birmingham (2,043,000 adults)							
market rank	1	3	4	5	7	3.8	7.4
reach (% of adults 15+)	34	33	28	26	21		
average hours per week	9.7	8.6	7.9	7.8	6.7		
share of listening (%)	14.6	12.4	9.3	8.0	6.4		
commercial radio share (%)	49.6	52.8	54.4	51.5	52.1		
Beacon FM Wolverhampton (1,296,000 adults)							
market rank	2	4	3	6	6	2.6	5.0
reach (% of adults 15+)	27	22	24	20	19		
average hours per week	10.6	9.7	9.0	8.0	7.7		
share of listening (%)	12.3	10.6	9.9	7.8	6.3		
commercial radio share (%)	50.5	48.9	46.1	48.4	46.0		
Mercia FM Coventry (646,000 adults)							
market rank	3	3	2	4	4	1.6	3.0
reach (% of adults 15+)	33	30	32	23	20		
average hours per week	8.5	8.2	8.1	8.1	8.8		
share of listening (%)	13.5	11.9	11.5	9.2	8.7		
commercial radio share (%)	39.7	41.1	45.5	39.9	34.1		
Wyvern FM Worcester (491,000 adults)							
market rank	3	4	4	5	5	0.8	1.5
reach (% of adults 15+)	27	27	23	21	17		
average hours per week	10.1	12.0	11.0	7.0	6.9		
share of listening (%)	12.3	13.4	12.7	6.6	5.9		
commercial radio share (%)	36.4	36.1	33.5	28.9	29.1		
Gold Birmingham (2,043,000 adults)							
market rank	11	14	15	16	16	0.6	1.3
reach (% of adults 15+)	7	5	4	3	3		
average hours per week	8.9	7.4	7.8	8.1	7.7		
share of listening (%)	2.6	1.6	1.3	0.8	1.1		
commercial radio share (%)	49.6	52.8	54.4	51.5	52.1		
Gold Wolverhampton (1,296,000 adults)							
market rank	8	12	15	15	20	0.2	0.4
reach (% of adults 15+)	7	5	4	3	2		
average hours per week	13.4	8.4	9.5	8.5	5.4		
share of listening (%)	4.1	2.0	1.6	1.3	0.5		
commercial radio share (%)	50.5	48.9	46.1	48.4	46.0		
Gold Coventry (646,000 adults)							
market rank	8	9	11	11	12	0.2	0.3
reach (% of adults 15+)	10	8	5	4	2		
average hours per week	11.4	10.4	10.6	8.8	9.4		
share of listening (%)	5.3	4.0	2.2	1.6	1.0		
commercial radio share (%)	39.7	41.1	45.5	39.9	34.1		
TOTAL						9.7	18.9

[source: RAJAR, Grant Goddard]

I estimate that these local stations are worth £18.9 million in aggregate at recent acquisition multiples, though this valuation is likely to be reduced in practice because:

- The OFT is insisting that these seven stations be purchased together and held together for a (publicly unspecified) period
- The recent poor performances of these stations will require considerable expenditure by a new owner to re-stimulate the interest of listeners and local advertisers
- Whilst the larger FM stations (*BRMB* and *Beacon*) might be considered desirable because they serve considerable markets (Birmingham and Wolverhampton) and are still ranked

within those markets' top ten stations, the AM stations are of little interest because the cost of any turnaround strategy is unlikely to be recouped

- There are very few trade buyers in the market for station acquisitions, as a result of sector consolidation and downward pressures on revenues and profits

A press report in August 2008 suggested that Bauer Radio was interested in acquiring *BRMB* Birmingham from Global Radio and quoted an 'insider' who said: "I understand it's a near done deal. Bauer has wanted *BRMB* for a long time to complete the [North of England-focused] 'Big City Network' set".⁹² Acquisition of these seven stations by Bauer would significantly increase its market power in local areas where it is presently a marginal player. In the Birmingham market, Bauer's share of commercial radio listening would rise from 12% to 30%, and in the Wolverhampton market from 13% to 32%. As a result, Bauer's market power would remain below par in only one of the UK's ten largest local radio markets (Bristol).

⁹² Emma Barnett. 'Bauer Media, GMG in talks to acquire two Midlands stations', *Media Week*, London, 12 August 2008.