

07/03

5 March 2003

## **VIBE/GALAXY INQUIRY: ISSUES UNDER INVESTIGATION**

1. The Competition Commission has been asked to inquire into the acquisition by Scottish Radio Holdings plc and GWR Group plc (though the joint venture company Vibe Radio Services Ltd) of Galaxy Radio Wales and the West Ltd. It has today sent Issues letters to Vibe, Scottish Radio Holdings and GWR Radio Group as part of this inquiry. An issues letter is always sent to main parties to highlight those matters which have been identified by the investigating group for further consideration and to ensure nothing has been missed. This letter should not therefore be seen as implying that there are problems with this merger; the CC has not yet reached any conclusions on this inquiry. This Statement of Issues is being made public to inform all interested parties should there be any further points they wish to raise with the Competition Commission about whether any matters operate or may be expected to operate against the public interest.

2. The Competition Commission is required to report on whether there is a merger situation qualifying for investigation, and if so whether it may be expected to operate against the public interest. The full statement outlining the relevant issues which the group will wish to consider is attached. These relate to:

- Jurisdiction;
- The relevant market;
- Effect on competition within the relevant product and geographic markets;
- Other considerations including buyer power; barriers to entry; and the prospects for Galaxy had the merger not gone ahead;
- Effects on level of prices and variety, quality and innovation in services.

3. Anyone wishing to comment on any of the above points is requested to do so by 11 March 2003, by writing to:

The Inquiry Secretary (Radio)  
Competition Commission  
New Court  
48 Carey Street  
London WC2A 2JT  
radio@competition-commission.gsi.gov.uk

### *Notes to editors*

1. The reference concerning the acquisition by Scottish Radio Holdings plc and GWR Group plc (through the joint venture company Vibe Radio Services Ltd) of Galaxy Radio Wales and

the West Ltd was made under the Fair Trading Act 1973 (sections 64, 68(4) and 69(2)) on 13 January 2003 (see DTI press Notice P/2003/18).

2. Further information can be found on the Commission's website <http://www.competition-commission.org.uk/inquiries/vibe.htm>.

3. Inquiries should be directed to: Francis Royle, Press Officer, tel: 0207 271 0242.

## **Statement of Issues**

### **Jurisdiction**

1. We are required to consider whether:

(a) enterprises carried on by or under the control of Scottish Radio Holdings plc (SRH) and GWR Group plc through Vibe Radio Services Limited (VRSL) have within the four months preceding the date of this reference ceased to be distinct from enterprises carried on by or under the control of Galaxy Radio Wales and the West Ltd (Galaxy) (one at least of which is carried on in the United Kingdom); and

(b) as a result, the condition specified in section 64(3) of the Act prevails, or does so to a greater extent, i.e. whether as a result at least one-quarter of services of any description are supplied by any person in the United Kingdom, or in a substantial part of the United Kingdom, or, if that was already the case, the share of such services supplied by that person is enhanced. For this purpose, the reference refers to the supply of local radio advertising in the Severn Estuary licence area, being a substantial part of the United Kingdom.

2. Our current view is that a merger situation qualifying for investigation exists between GWR and Galaxy on that basis; but that no merger situation qualifying for investigation exists between SRH and Galaxy.

### **The relevant market**

3. We will wish to consider whether radio or parts of it are a distinct market or are part of a wider market that includes other forms of advertising for local and national advertising revenues. There are at least 3 alternative views on the product market that could be taken: firstly, a view that the market consists of local radio advertising, local newspaper display advertising and local TV advertising. Secondly, that radio advertising forms a discrete relevant market. Thirdly, which could be based on an argument that GWR FM and Galaxy 101 essentially have different target listeners, is that radio advertising for particular groups of listeners are separate markets; such groups could be distinguished by age, e.g. those above and below 40 years of age, although we may also need to consider whether there may be other differentiating factors such as preference for a particular station format.

4. With regard to the geographical market, there appear to be two options. First advertising in the Severn Estuary area. Secondly, advertising in local areas such as Bristol/Bath and Taunton/Yeovil (we will be looking separately at the Bristol/Bath and Taunton/Yeovil areas, and the issues apply to both).

5. The relevant considerations that we will use to address these questions include:

- Do different types of media have different characteristics – do advertisers use different types of media to achieve different results, are certain products/services best suited to particular types of media?
- How do advertisers/agencies decide which media to use for their advertisements?
- Is radio used as a core element in a package of measures or is it an optional addition to a campaign?
- Whether other media can target customers with the particular profiles, e.g. age groups, targeted by radio stations in particular locations.
- Whether radio advertising is a substitute or complement to other advertising media and, if so, to which.
- How advertisers assess the effectiveness of radio advertising compared with that of other media and whether they can do so with enough precision to make comparisons of value for money meaningful.
- The extent of churn by advertisers between local radio stations and between radio and other media and whether this reflects substitution between different media or arises from other factors.
- Whether radio advertising in relation to total advertising expenditure is comparatively insignificant and, if so, whether this means that advertisers would be insensitive to price increases.
- Whether national or local advertisers (and, if so, which particular categories of advertisers or advertisement) are more or less sensitive to changes in advertising prices.
- The extent to which station formats restrict existing radio stations' ability to alter the way in which they appeal to different groups.

6. In its approach to market definition the Competition Commission is minded to follow the approach set out in the guidelines for merger references published by the Commission on 28 February 2003, including reference to the SSNIP (small but significant non-transitory increase in price) test: see paragraphs 2.4 to 2.29 of the guidelines. The guidelines can be found at <http://www.competition-commission.org.uk/inquiries/enterpriseact.htm>.

**Effect on competition within the relevant product and geographic markets**

7. We will wish to consider:

- (a) The extent and nature of competition for advertising between radio stations involved in this merger whose broadcast areas overlap, notably between Galaxy (Vibe 101) and GWR FM and Classic Gold 1260 AM in the area of Bristol and Bath and between Galaxy (Vibe 101) and Orchard in the area of Taunton and Yeovil for local and national advertisers. We note that this may depend on:

- The number, location and profile of the listeners these stations attract, for example those in particular age groups.
  - The extent of solus and common listening between stations.
  - The extent of overlap and potential overlap of advertisers/advertising.
  - Whether Galaxy 101's regional coverage or listener profile means it attracts different advertisers and does not compete against GWR FM.
- (b) Whether advertisers use the existence of competing radio stations to drive down prices.
  - (c) The extent to which (a) or (b) varies between advertisers running local campaigns and those for whom advertising on these stations would be part of a national campaign.
  - (d) The extent to which and means by which Star 107.3 and 107.7 and Classic Gold compete against GWR given their ownership links with GWR.
  - (e) The implication of Classic Gold's use of the same sales house, a division of GWR, as GWR FM, Orchard and now Vibe 101.
  - (f) Whether competition between radio stations is affected by other linkages between radio operators – e.g. collaboration in marketing or developing digital radio, or other cross shareholdings.
  - (g) The implications of SRH's interest in VRSL on the relationship between Vibe 101 and GWR.
  - (h) To the extent that there is the potential for competition between local radio and local/regional press, is this restricted by virtue of DMGT's shareholding in GWR?
  - (i) Whether there is a lack of price transparency, and if so, to what extent, if at all, does it hinder competition by making it hard for advertisers to compare prices, or play radio stations off against each other.
  - (j) The extent to which radio stations can vary the areas they broadcast advertisements to by varying programming on different transmitters.
  - (k) The increase in GWR's share of the supply of radio advertising services in the Severn Estuary licence area and in areas within that area – in particular Bristol and Bath, and Taunton and Yeovil - as a result of the proposed merger.
  - (l) Whether the merger could give rise to a reduction in the ability of other radio stations to compete (e.g. by GWR 'bundling' advertising on the two stations, such that advertisers might obtain better prices for using GWR, Classic Gold Digital, Orchard and Vibe 101 or otherwise unfairly undercutting the advertising rates of other radio stations).
  - (m) Whether competition between local radio and local/regional press can be regarded as stronger in Bristol and Bath or Taunton and Yeovil due to any greater penetration of regional press in those areas than is the case in areas such as London.
8. We would also wish to consider whether the merger would strengthen the range of programming, marketing and/or sales resources likely to be deployed by GWR and whether this could be pro- or anti-competitive.

## **Other considerations**

9. We will wish to consider

- (a) Whether any – national or local – buyers have power to drive down prices. It has been put to us that local advertisers, in particular, lack countervailing buyer power. Equally, it has been put to us that radio advertising is such a small part of national advertisers' budget that they have no incentive to drive down prices.
- (b) Whether there are barriers to entry to such markets, and the prospect for entry by new radio broadcasters in the areas affected by the merger including the prospects of additional licences.
  - Also whether the merger would have the effect of increasing any barriers to entry to the Severn Estuary area by, for example, reducing the commercial attractiveness of entry to that market as perceived by potential entrants.
  - What effect developments such as digital radio and/or internet radio and the regulatory changes planned in the Communications Bill will have in 3-5 years on the level of competition.
- (c) What would have happened without the merger, including whether Galaxy would be a viable concern if the acquisition had not gone ahead; and, if so, whether the degree of competition offered to GWR would have been increased, maintained or diminished.
- (d) Whether the price paid by VRSL for Galaxy reflects the acquiring company's expectation of its ability as a result of the merger to increase its profits to levels associated with the exercise of substantial market power in a manner potentially detrimental to the public interest.

## **Effects on level of prices and variety, quality and innovation in services**

10. In the light of the above, we will need to consider:

- (a) Whether the merger might lead to advertising rates being higher than they otherwise would be in the absence of the merger (e.g. through the gradual and progressive withdrawal of discounts to particular advertisers).
- (b) Whether there are any specific categories of advertiser which have less choice if prices rise and would therefore be more susceptible to any price increase, whether it be a rate card rise or a withdrawal of discounts or other terms of purchase.
- (c) Whether an enlarged GWR group might discriminate against local/smaller advertisers and in favour of national/larger advertisers, with any increases in advertising rates concentrated on the former category.
- (d) Whether the merger is likely to affect quality of service, choice (diversity and plurality) and innovation in services to either listeners or advertisers.
  - Whether, however, any short-term increase in quality of service or choice may be followed by a reduction due to any reduction of effective competition between stations.

(e) Whether there would be any other benefits to the public interest from the merger.