VALUE PARTNERS
MANAGEMENT CONSULTING

BBC RADIO – A REVIEW

London, May 2010

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1 Foreword

The BBC is a world class media organisation. As viewers, listeners and licence fee payers we are all proud of the role the BBC plays as part of the fabric of British daily life. Arguably, its remit to educate, inform and entertain with programming of the highest quality has an even greater resonance in an age of almost infinite choice.

From time to time, the BBC needs to take stock to ensure that it is achieving maximum value for licence fee payers, delivering on its public purposes and contributing to a healthy and diverse balance of services. The BBC Trust's consultation on the Strategy Review is both timely and welcome. The consultation process provides an opportunity for the Trust, with inputs from others, to review the focus and scope of the BBC's activities and identify how the Corporation can most effectively maximise its public value.

This independent report seeks to address these issues in relation to one particular sector – radio – where the BBC dominates to a greater extent than in any other media. The scale of its position in UK radio presents a profound challenge to the BBC, of how best to harness its leadership role in a way which maximises benefits to the listening public.

To meet this goal, it is vital that BBC Radio is focused on creating high quality, distinctive content which delivers significant public value for listeners. This emphasis on quality, rather than the pursuit of audiences, is already evident in the best of BBC Radio – for example, Radio 4, arguably the most brilliant talk radio in the world, offers a highly distinctive service which would never be replicated by the commercial sector.

In other areas of the radio market, competition for audiences between the BBC and commercial radio produces significant benefits for listeners. This is especially true when the services are distinctive and complementary. For example, Radio 3 and Classic FM offer highly complementary services – with the latter developing a significant new audience for classical music. Similarly, local radio is at its healthiest when the BBC and commercial sector each have a different focus, rather than trying to sound too similar.

In some ways the greater challenge for BBC Radio is to ensure that its popular music services achieve the same standards of quality and distinctiveness as other parts of its portfolio – for example, by ensuring that Radio 1 is breaking new UK artists, Radio 2 is playing the broadest range of music, and both offer content of high cultural and social value. This is also why it is so important that the distinctive and hugely valued programming of 6 Music should be retained, whether or not it remains a standalone service.

Inevitably, the balance in the radio industry gets out of kilter when public and commercial services sound too similar, or when BBC stations are seen to prioritise popularity over quality and the delivery of their public purposes. This danger is most acute with Radio 1 and Radio 2, as is highlighted clearly in this report.

In addition to refining its programming strategy, the BBC also needs to offer more active support to radio's transition to a digital future. The BBC must take a strong leadership role in the promotion and financial support of digital radio – in order to achieve the step-change in digital listening that has so far been lacking.

The thorough and detailed exploration of these issues within this report is the result of several months' worth of interviews and analysis by the independent consultants at Value Partners. Their subsequent recommendations cover all aspects of BBC Radio and are, I believe, measured and proportionate. They provide a framework with the potential to recast the shape of the UK radio industry for the better, and help the BBC Trust to meet its requirement to put radio listeners at the heart of its decisions.

Rt Hon Lord Smith of Finsbury

2 Introduction

The BBC Trust and BBC Executive are undertaking a strategic review of the BBC's television, radio and online services - and the activities of BBC Worldwide. The aim of the review is to establish the BBC's priorities, focus and boundaries for the remainder of the current Charter period (to 2016). The challenge for the BBC is to find the most effective means of delivering its public service mission, meeting audience needs and delivering value for money, whilst ensuring it does not have a disproportionate impact on the broader media market.

As a response to the BBC Strategy Review, Value Partners has been commissioned by RadioCentre to produce an independent report into the most appropriate scope of and focus for BBC Radio. We have based our recommendations on a mixture of research (e.g. of audience figures and other published information) and interviews with industry experts.

Exhibit 1: Interview panel

Ex-BBC / independent	Commercial Radio
• Lord Smith (Environment Agency, *Secretary of State for Culture, Media and Sport, 1997-2001*) • Peter Bazalgette (TV producer and digital media investor) • Paul Gambaccini (Broadcaster) • Paul Robinson (KidsCoTV; *Head of Strategy & Development, BBC Network Radio, 1994-6*) • Lesley Douglas (Universal Music; *Controller of Radio 2 & 6 Music, 2004-08*) • Sue Farr (Chime Communications; *Director of Marketing & Communications, BBC Broadcast, 1993-2000*) • James Cridland (Radio Futurologist; *Head of FM&T, Audio & Music, 2007-09*) • Mark Oliver (O&O; *Head of Strategy, BBC, 1989-95*) • Andria Vidler (EMI Music; *Marketing & Business Development Director, BBC Sport, 1994-2000*)	• Richard Park (Group Executive Director & Director of Broadcasting, Global Radio) • Dee Ford (Group MD, Bauer Media) • Stuart Taylor (Chief Executive, GMG Radio) • Adam Bowie (Head of Strategy and Planning, Absolute Radio) • Moz Dee (Programme Director, talkSPORT) • Jimmy Buckland (Business Development Manager, UTV Media) • Michael Betton (Chief Executive, Lincs FM Group) • Phil Riley (Chief Executive, Orion Media) • Travis Baxter (Content and External Affairs Director, Bauer Media) • Ashley Tabor (Chief Executive, Global Media) • Andrew Harrison (CEO, RadioCentre) • Kip Meek (Non-Executive Director, RadioCentre)

Although this report has been commissioned by RadioCentre, the findings are Value Partners' own and as such do not represent RadioCentre's formal response to the BBC Trust's consultation process. Similarly, the contribution of interviewees should not be seen as an endorsement by them of the report.

This report is organised into five parts:

- Introduction and Executive Summary (chapters 2 and 3)
- Market context (chapter 4)
- Overview of BBC Radio performance and market impact, including a summary of BBC Strategy Review recommendations (with cross-divisional implications) and Value Partners' response (chapter 5)

- Review of individual services, including Strategy Review recommendations and Value Partners' response (chapters 6-11)
- Summary of all Strategy Review recommendations and Value Partners responses (Appendix)

3 Executive summary

3.1 Context

The BBC's Strategy Review takes place at a time when the radio industry as a whole faces two key long-term challenges: a structural decline in the profitability of commercial radio (as advertising migrates online); and the transition from an analogue to a predominantly digital future. In addition, commercial radio revenues are significantly affected by the current economic recession.

BBC Radio therefore finds itself in a situation where its funding (relatively flat in real terms) now exceeds commercial radio advertising revenues by about 40% (up from 8% in 2003)[1]. At the same time, its lead in audience share over commercial radio has grown from 2% in 1999 to 13% last year[2].

Against this background, three key priorities emerge for BBC Radio:

1. BBC Radio must ensure that its £643m funding secures **efficient delivery of public value**
2. BBC Radio must ensure that its services and conduct do not have a disproportionate **market impact** on the commercial sector (so that listeners receive the benefits of a competitive marketplace)
3. BBC Radio must safeguard the future of **digital radio** – whether through digital-only content, cross-promotion and / or investment in infrastructure

3.2 Efficient delivery of public value

Whilst seeking to maximise its public value, a key challenge for the BBC is to achieve an appropriate balance between reach, quality & distinctiveness, and promotion of the public purposes. The Strategy Review proposes an increased focus on quality ("putting quality first") - even if this leads to a fall in listener numbers[3]. For BBC Radio, the Review's key recommendations are to:

- **maintain** those services which promote the public purposes most effectively (e.g. Radio 4 and Radio 3)[4]
- **refocus** those which could / should deliver more (e.g. Radio 1, Radio 2 and BBC Local Radio) – for example, through more distinctive / higher quality speech programming in peak-time [5]
- **close** those (Asian Network and 6 Music) which lack the necessary potential[6].

Value Partners broadly endorses the intent behind these proposals. However, we are not confident that the proposed "refocusing" of services will deliver the degree of change that is anticipated – for two reasons: first, BBC Radio services have a record of failing to respect their remits - for example, the combined audience share of Radio 1 and Radio 2 is greatest amongst an age group (30-34s) which is outside the remit of either service[7]; and, second, significant elements of these proposals are qualitative in nature (and are therefore more difficult to assess objectively). **Value Partners recommends that specific targets are designed so as**

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1 In 2003, licence fee funding for BBC Radio was £585m and commercial radio advertising revenues were £543m; in 2009, BBC Radio funding was £643m (assuming no change on 2008 figures) and commercial radio advertising revenues were £460m - source Ofcom Communications Market Report (August 2009), RAB, Value Partners analysis. Ofcom estimates for BBC Radio funding are based on BBC Annual Reports and include an attribution of "other costs" such as licence fee collection.

2 In 1999, BBC Radio had 50% share and commercial radio 48%; in 2009, the respective shares were 55% and 42% - source RAJAR (throughout this report, audience figures are for calendar years, unless otherwise stated).

3 "Some loss of audience may be a consequence of a more varied and challenging selection of programmes." (Source BBC Trust Review of Radio 2)

4 "The strategy review "strongly endorses the current creative direction and editorial performance of Radio 4, Radio 3, Radio 1 and 5 Live". It is unclear that Radio 1 or 5 Live are performing as strongly as this statement (on page 40) implies.

5 e.g. social action campaigns on Radio 1, improved scheduling of documentaries on Radio 2, and better quality journalism on Local Radio

6 In the case of 6 Music, it was considered that delivery of greater public value would result in disproportionate market impact

7 See page 35 of this report

to capture both the spirit and the letter of these proposals. The Trust also needs to provide greater clarity about the penalties associated with non-delivery[8].

In terms of efficiency, the overwhelming opinion of interviewees for this report (especially those with direct experience of working in commercial radio) is that BBC Radio is, in many areas[9], significantly over-manned and has a tendency to over-engineer production.

In 2009, the National Audit Office called for BBC Radio production to be benchmarked against the commercial sector. A year later, this has still not happened (on the grounds that talent confidentiality clauses make the exercise impractical). This is not acceptable. **Value Partners recommends that the Trust requires the BBC Executive to resolve this situation and implement an effective benchmarking study urgently.**

3.3 Market Impact

The core audience for commercial radio is 25-44s (the audience most sought by advertisers)[10]. Over the last ten years, BBC Radio's popular music services have grown their share of this audience from 22% to 32% (an increase of 45%). This growth has been driven by:

- first, Radio 2 moving its audience profile younger (more contemporary daytime music policy, introduction of presenters such as Jonathan Ross and Chris Evans)
- subsequently, Radio 1 allowing its audience profile to grow older (15-29s, the core target audience, now form a minority of listeners to Radio 1).

As the audiences of the two services have converged, older listeners (65+) have been less well served by Radio 2 and younger audiences have been leaving Radio 1. Of particular concern, from a public value perspective, is the impact on 15-19s - amongst whom Radio 1's reach has fallen from 51% in 1999 to 40% in 2009.

The Strategy Review acknowledges the commercial sector's leadership role in providing popular music to 30-50s[11] and its effective delivery of mainstream popular music to younger adults. It goes on to recommend that the average age of Radio 2's audience falls no lower than it is today (50) and Radio 1 should focus on its 15-29 year old target audience. The Review proposes that both services introduce more programming, especially in daytime, which is distinctive and promotes the public purposes[12]. It also proposes the closure of 6 Music, in part because of its potential market impact.

Value Partners believes that these recommendations fail to address the negative market impact of the BBC's popular music services adequately. The closure of 6 Music, with only **400,000** listeners aged 25-44, will have limited effect[13]. It is the boundaries of Radio 1 (**5.6m** listeners aged 25-44) and Radio 2 (**4.0m** listeners aged 25-44) which need to be revised.

Value Partners therefore recommends that:

[8] Perhaps similar to those imposed by Ofcom on the commercial stations when they are judged to be in breach of their remits, e.g. "yellow cards" and fines

[9] Specifically, areas such as popular music shows, which commercial radio also produces; this criticism is not generally levelled at activities which are the preserve of BBC Radio, e.g. dramas and documentaries.

[10] The majority of commercial services target listeners within the 15-44 age range – but the highest revenues are earned from advertisers seeking to reach 25-44s

[11] It is not clear why the Strategy Review has highlighted this specific age group – rather than commercial radio's actual target market.

[12] The Review's recommendations echo the conclusions of the BBC Trust's reviews of the two services

[13] Notwithstanding the 60% increase in listeners achieved by 6 Music in Q1 2010 (compared to the average for 2009)

- **The remit of Radio 1 should be refocused on 15-24s** (with a particular focus on younger listeners, given the BBC's proposal to close BBC Switch and Blast[14])
- **Radio 2 should be focused on listeners aged 40+ with immediate effect, rising to 45+ within three years**

Value Partners is neutral on the BBC's proposals to close 6 Music. The proposals can be viewed as a "fig leaf" to divert attention from the much greater need for change required of Radio 1 and Radio 2. From a public value perspective, we believe that it is important that the content on 6 Music which most strongly promotes the BBC's public purposes (e.g. helping to break new music) should be protected. We have no strong view as to whether this should be on 6 Music or one of the other BBC services. In any case, any judgement by the Trust about 6 Music should take into account any new services planned for the released spectrum - to ensure that they do not have a significant market impact[15].

As with funding and efficiency, we believe the Trust needs to be more explicit about how it means to ensure that BBC Radio sticks to its revised remits.

3.4 Digital

The BBC's sixth public purpose is to "deliver to the public the benefits of emerging communications technologies and services". The Strategy Review makes reference to this BBC's role in driving Freeview and Freesat uptake but says little about its support for DAB as the primary vehicle for digital radio. This is in stark contrast to the Government's target to obtain Digital Upgrade by the end of 2015. Meeting this target is contingent on 50% of radio listening being digital, national infrastructure coverage being equivalent to FM and local multiplexes covering 90% of the population and all major roads.

With the BBC representing more than 50% of UK radio (in terms of both funding and audience share), Value Partners believes it is essential that the BBC Trust directs the BBC Executive to take lead responsibility in ensuring these conditions are met. There are three key areas, where we believe the Trust should require specific commitments from the BBC**:**

- **first, increased provision of exclusive content on digital radio[16]**
- **second, heavy-weight and sustained promotion of DAB on both television and radio**
- **third, and most crucially, further investment in DAB infrastructure and coverage (before the next licence fee settlement) - with specific targets to be defined.**

3.5 Additional issues

Local radio – Value Partners welcomes the Review's proposal to raise the target audience of BBC Local Radio from 50+ to 55+[17], with a renewed focus on high quality and distinctive speech-based content in peak times (and greater programme sharing at other times of day). We acknowledge the absence / removal of music from breakfast and drivetime (as proposed by the Strategy Review), but recommend the introduction of clear guidelines about the amount of popular music that may be played in daytime.

[14] Both services are aimed at teenagers
[15] Recent reports suggest elements of 6 Music might be part of a new service, 2 Extra: http://www.guardian.co.uk/media/2010/mar/21/analogue-digital-radio-miranda-sawyer
[16] The BBC should consider making a commitment to move one or more of the BBC's national FM or AM services exclusively onto digital - only when the roll-out of national DAB infrastructure has been completed – perhaps in partnership with one or more commercial services.
[17] Page 43 of the Strategy Review

Talent costs and sports rights – Value Partners broadly welcomes the Review's recommendations (i.e. downward pressure on the former, and not pursuing exclusivity in the latter). We recommend that explicit targets be set for the reduction of talent costs[18]. One additional recommendation is that 5 Live should explicitly reduce its expenditure on football rights (for which there is significant demand from the commercial sector – the implication being that even if matches are not broadcast by BBC Radio, they would still be available to licence fee payers free to air).

Cross-promotion – our strong recommendation is that cross-promotion be focused on BBC activities which most effectively promote the public purposes, for example truly distinctive programming such as *A History of the World in 100 Objects* – rather than the Radio 1 Chart Show or presenter-led promotional campaigns for Radio 2 (which already accounts for 20% of all daytime listening).

Privatisation – as an alternative to the closure of 6 Music, Value Partners believes that a transfer to private ownership should be considered (either now or some time before Digital Upgrade). We do not consider the privatisation of Radio 1 and / or Radio 2 to be appropriate at this time. Either option would flood the radio advertising with excess inventory – with potentially severe consequences for many of the 66% of local commercial stations currently loss-making or generating profits of less than £100k p.a.[19].

[18] The review talks of a progressive reduction over the next few years (page 52)
[19] Source: RadioCentre Survey of Profitability and Localness of Local Commercial Radio (March 2009)

4 Market context

This chapter is structured in three sections:

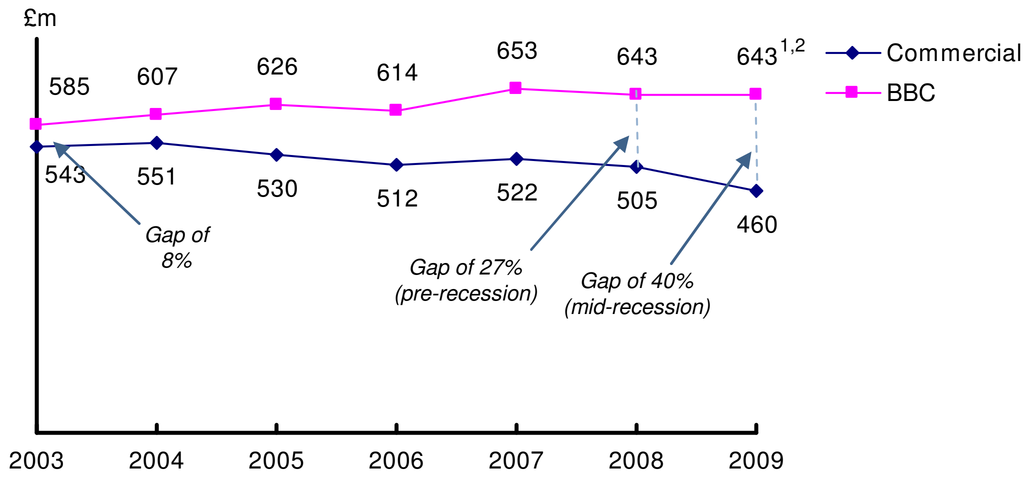
- Overview of UK radio
- The commercial sector
- The drive to digital

4.1 BBC Radio accounts for over half of UK radio funding

The UK radio market in 2008 was estimated to be worth £1.1bn[20] divided between BBC Radio with licence fee funding of £643m[21] (56% of the total) and commercial radio with advertising revenues of £505m[22] (44%).

Over the last six years, the gap between the funding of BBC Radio and commercial radio revenues has grown significantly. Between 2003 and 2008 (pre-recession), the gap between BBC Radio licence fee funding and commercial radio advertising revenues grew **from 8% to 27%**. In 2009 (during the recession), assuming no change in BBC funding, this gap widened to **40%.**

Exhibit 2: BBC Radio licence fee funding and commercial radio advertising revenues



Note: (1) Assumes no change in radio funding in 2009 (i.e. any efficiency savings are re-invested into radio)
(2) Total budget for BBC Radio includes allocation by Ofcom of "other" costs, e.g. licence fee collection
Source: Ofcom Communications Market Report (August 2009), RAB, Value Partners analysis

4.2 The commercial sector is under severe financial pressure

The growing disparity between BBC Radio funding and commercial radio revenues has been driven by a combination of structural and cyclical factors, which have contributed to a sharp fall in commercial radio profitability – whilst, in real terms, licence fee funding of BBC Radio has remained relatively flat.

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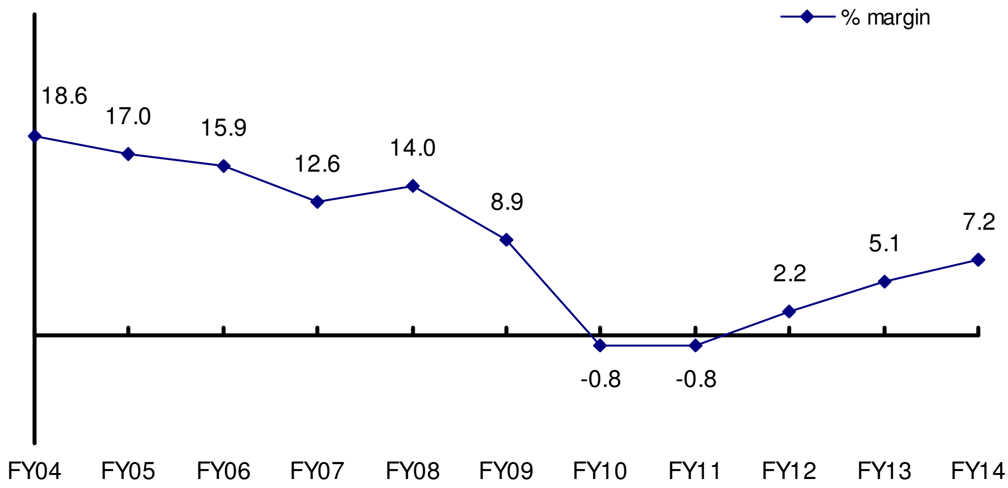
[20] Source: Ofcom Communications Report (August 2009)
[21] Source: Ofcom Communications Report (August 2009) – Ofcom estimates based on BBC Annual Reports (2007/08 and 2008/09) – figures include apportionment of overheads, e.g. items such as the costs of licence fee collection and the BBC orchestras
[22] Source Ofcom / RAB

Between 2003/04 and 2007/08[23], commercial radio's profit margins halved, falling from 19% to 9%. With the recession, margins have fallen further – the sector is expected to be loss-making in both 2009/10 and 2010/11[24]. Margins are expected to recover slowly thereafter – but only reaching 7% by 2013/14[25].

Exhibit 3: Commercial radio EBITA margins



Source: Value Partners analysis, Absolute, Bauer, Global, GMG, Lincs FM, UKRD, UTV

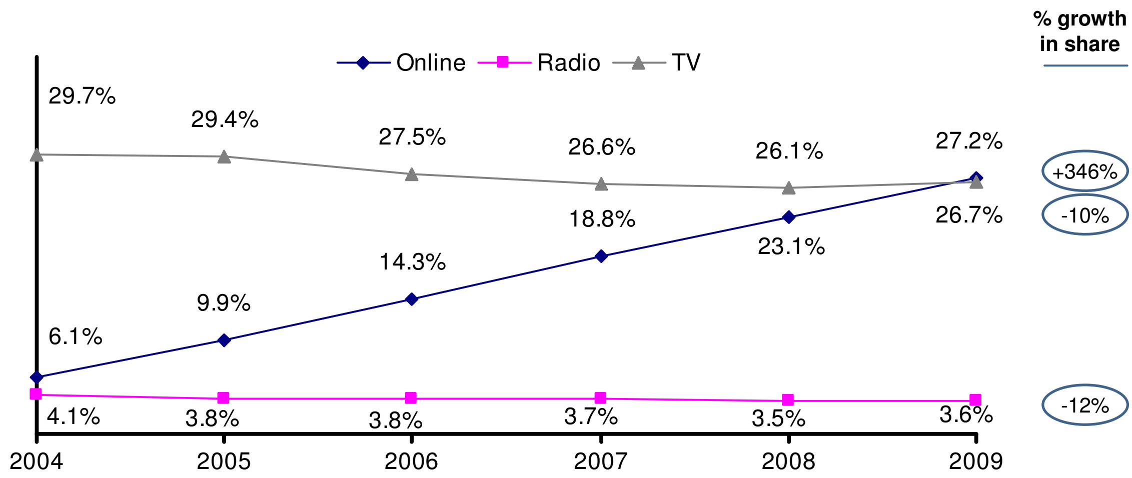
In addition to the recession, several factors, have contributed to this decline:

- growth in online as an advertising medium
- a reduction in listening to linear radio
- growth of the BBC share of listening
- increased transmission costs.

As **online has grown its share of advertising** from 6.1% in 2004 to 27.2% in 2009, traditional media have seen a decline in share (from 93.9% to 72.8%). Specifically, radio's share has fallen from 4.1% to 3.6% (down 12%); a decline that is comparable to TV (down 10%) but less steep than the decline in press advertising (down 34%) - classified advertising has been more severely affected than display. Going forward, these trends are set to flatten, with online expected to increase its share slightly (to 28.9% in 2012), whilst radio maintains its share at 3.6%.

[23] Years ending in March
[24] A survey conducted in March 2009 by RadioCentre (Profitability and Localness Survey of Local Commercial Radio) found that 66% of all local commercial stations were loss - making or generating profits of less than £100,000 per annum
[25] Source: Value Partners – Economic Modelling of Commercial Radio (Sep 2009)

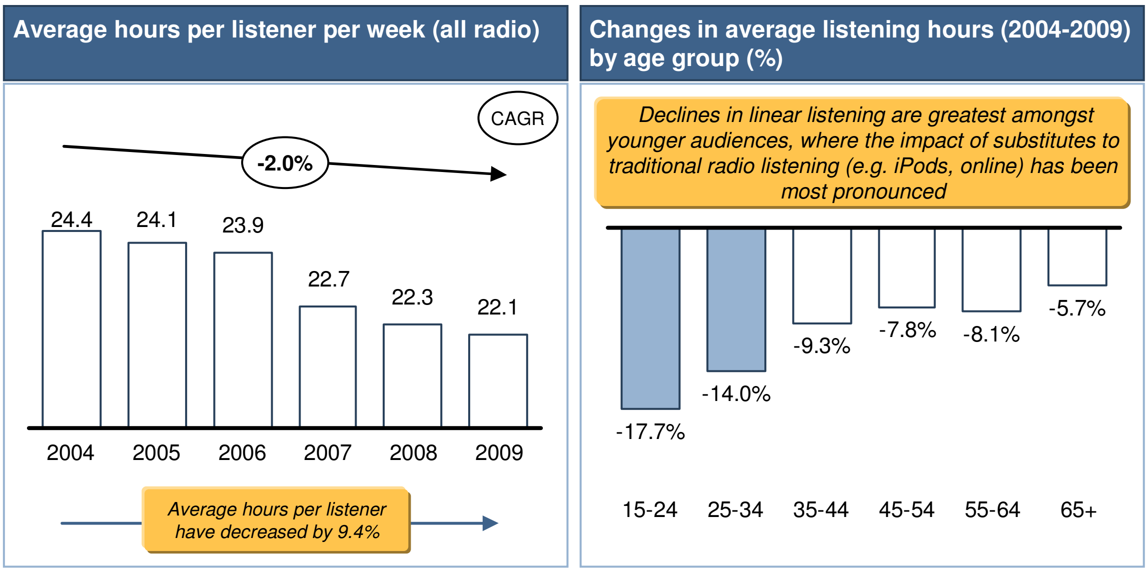
Exhibit 4: Online, radio and TV share of UK advertising revenues



Source: ZenithOptimedia, Value Partners analysis
Note: Share of print fell from 52.3% to 34.7% (down 34%); other (including cinema and outdoor) fell marginally from 7.8% to 7.7%

In the last five years, **average hours per listener have fallen** by 9%. Nevertheless, according to BBC "Share of Ear" research (April 09), radio still accounts for 83% of all audio listening. The greater challenge for the medium rests with younger (15-18) audiences, for whom radio accounts for only 62% of listening. Declines amongst younger listeners have been driven by a rise in the popularity of new technologies that allow access to music "on the move", e.g. portable MP3 players and integrated devices (such as the iPod, iPhone, portable media players) and alternative online audio services, such as Last.fm and Spotify.

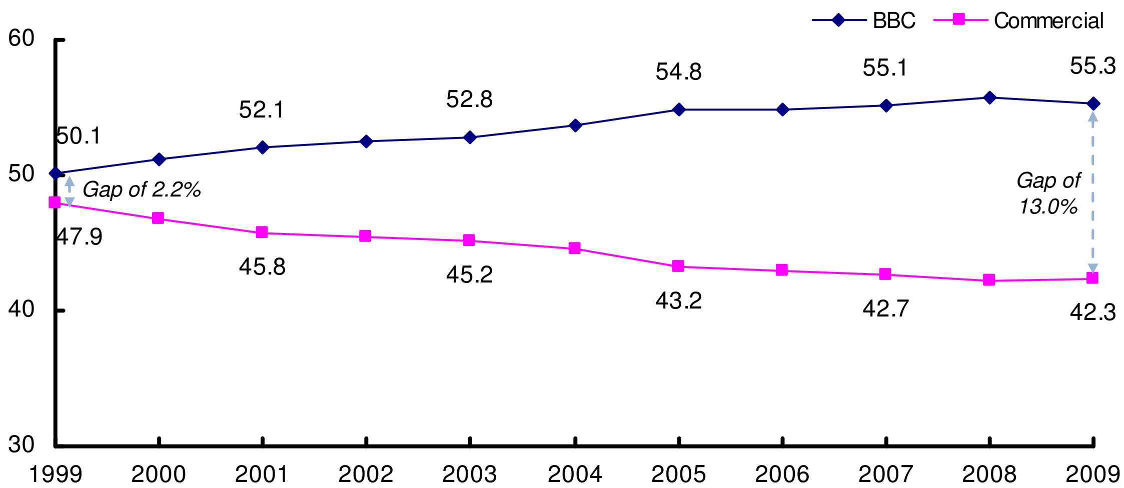
Exhibit 5: Radio listening (average hours per listener, changes in hours by age)



Source: RAJAR, Value Partners analysis

Commercial radio's problems have been exacerbated by a **loss of audience share to the BBC**. Over the last ten years, BBC Radio has gradually grown its share of listening – extending its lead over the commercial sector from 2.2% in 1999 to 13.0% in 2009[26]. This growth has been driven by: Radio 2 growing its share from 12.5% to 16.0%; Radio 4 growing its share from 11.0% to 12.4% and, the BBC's digital services growing from zero to a 1.6% share[27]. Commercial radio's loss of share, combined with a decline in average listening hours, has had a negative impact on advertiser perceptions of radio as an advertising medium. This has contributed to the gradual decline in radio advertising revenues over the last five years.

Exhibit 6: Share of listening



Source: RAJAR, Hallett Arendt, Value Partners analysis

Commercial radio (in common with the BBC) also faces **upward pressure on costs** due to the need to simulcast stations on both analogue and digital platforms. For the commercial sector, the incremental costs of dual transmission are in the region of £10-20m[28] (2-4% of commercial radio's £460m revenues). As radio is predominantly a fixed cost business (only about 20% of costs are directly related to revenues[29]), this increase in costs drops straight through to the bottom line.

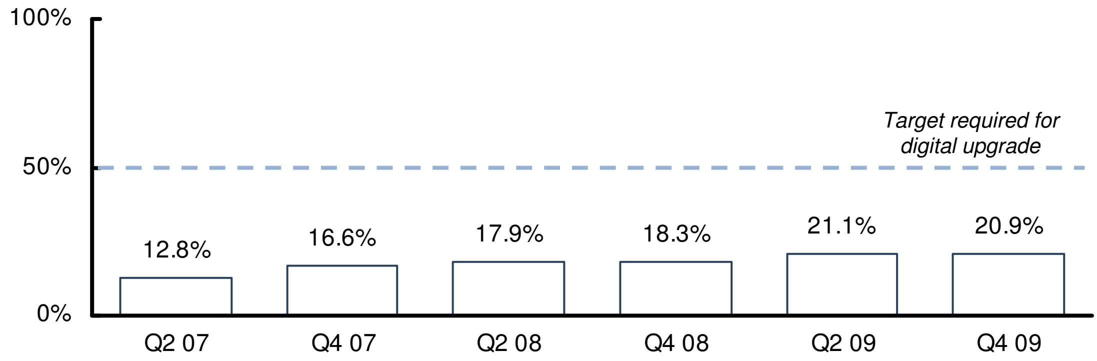
4.3 UK radio is seeking to make the transition to digital

The Government's aim is to convert a large part of UK radio to digital-only. Its declared target is to turn off analogue signals of national, regional and larger local stations ("Digital Radio Upgrade") by the end of 2015. Smaller local stations and community stations would remain on analogue. The Government has stated that a firm commitment to Digital Radio Upgrade can only be announced when 50% of listening is digital, national DAB coverage is comparable to national FM coverage and local DAB reaches 90% of the population and all major roads[30]. To date, progress towards the 50% target has been slow. Currently, digital accounts for only

[26] This trend continues in 2010; in Q1 2010, BBC Radio's share of listening was 56.0% and commercial radio's was 41.3% (a gap of 14.7%)
[27] The BBC's other services have either seen their share remain at similar levels to those achieved in 1999 - Radio 1 (10.5% share in 2009), Radio 3 (1.2%), 5 Live (4.6%) and the Nations services (1.8% nationally, 11.6% in their target markets), or have seen a slight decline – BBC Local Radio's share of national listening has fallen from 8.4% in 1999, to 6.8% share in 2009
[28] Value Partners' estimate
[29] Music royalties and a portion of sales costs are directly related to revenues and can be considered fully flexible. Transmission, programming, marketing and G&A are generally considered as fixed (though do have a degree of flexibility)
[30] Digital Britain Report (June 2009)

21% of total radio listening (even though 34% of the population have digital radio sets and many more have digital TV and internet, both of which offer digital radio services[31]).

Exhibit 7: Digital share of radio listening



Source: RAJAR, Value Partners analysis

Whilst digital listening remains low, the economics of commercial digital-only stations remain unattractive (several digital-only stations have closed, including One Word, The Jazz, The Storm, Primetime, Capital Disney and 3C).

The immediate challenge is to complete the roll-out of (national and local) DAB transmitters across the UK (and to strengthen DAB signals) - not least to encourage car manufacturers to install DAB sets as standard. The House of Lords Select Committee on Communications has set out two immediate priorities in this regard[32]:

- Given the importance … of universal reception of the BBC's national stations, it is essential that a firm and unambiguous plan and funding for the completion of build-out of the BBC's national multiplex is put in place as soon as possible
- As a matter of urgency, the Government, the BBC and commercial radio should agree a plan and allocation of funding responsibility for local multiplex build-out in order that local DAB coverage can be raised to 90%.

To date, the BBC has committed only to roll out its national multiplex to coverage levels of 90%.

4.4 Conclusions

This analysis of BBC Radio's market context provides three key themes which run through the rest of this report:

- First, in the light of the growing funding gap between BBC and commercial radio, **it is essential that the BBC is not profligate in its spending; expenditure should be focused on areas which are distinctive and actively promote the public purposes - where feasible, funds should be returned to the licence fee payer.**

[31] The divergence between ownership and listening is due to many households having only one digital set – but primary sets only account for 40% of total listening, whilst secondary sets (of which only a small minority are digital) account for 24% and in-car (almost none digital) accounts for 18% - with the remainder being online (2% of listening), DTV (4% of listening) or unspecified (13%). Sources Ofcom and RAJAR

[32] The Committee also recommended that, in due course, coverage of the national commercial multiplex should be extended from its current 87% (which matches the coverage of Classic FM) to 94%.

- Second, given the structural and economic challenges facing commercial radio, **the BBC must ensure that proposals about its priorities, its range of services and its conduct take due account of their potential for market impact on commercial players**
- Third, the key long-term challenge facing UK radio is the transition to digital. The BBC has demonstrated the leadership role it is capable of playing in the related field of digital TV. **As highlighted by the House of Lords Select Committee, the BBC should (with partners) urgently prepare plans, including funding responsibility, for the roll-out of DAB infrastructure – both nationally and locally.**

5 Overview of BBC Radio (performance, market impact and recommendations)

This chapter is structured in four sections:

- **Introduction**
- **Analysis of performance** - using the BBC's own framework (reach, quality & distinctiveness, impact[33] and value for money) - and market impact
- A summary of **Strategy Review's proposals** which cut across BBC Radio (proposals about individual services are contained in subsequent chapters)
- Value Partners' **response** to those proposals

5.1 Introduction

With funding of £588m[34] in 2008/09, BBC Radio receives 17% of the licence fee - TV receives 69% (£2.4bn) and online receives 5% (£177m).

BBC Radio currently operates **five national analogue services**: four on FM - Radio 1, Radio 2, Radio 3 and Radio 4; and one on AM - Radio 5 Live[35]. The remits of these stations are defined by format (e.g. popular or classical music, speech, sport and news) and / or target audience (e.g. specific age groups, such as 15-29) or audiences interested in a specific type of content (e.g. lovers of jazz music).

Exhibit 8: National AM and FM networks

Station	Remit / description of service	Target audience
BBC Radio 1	• Aims to offer a high-quality service for young audiences combining: - the best new music - a comprehensive range of live studio sessions, concerts and festivals - tailored speech output	• 15-29s
BBC Radio 2	• Brings listeners a broad range of popular and specialist music focused on British talent and live performances - complemented by a broad range of speech output including - current affairs and documentaries - religion and the arts	• 35+
BBC Radio 3	• Centres on classical music, around which it provides a broad spectrum of jazz, world music, arts programmes and drama • Strong emphasis on musical performance from across the UK	• Lovers of classical, jazz music • All ages
BBC Radio 4	• Aims to use the power of the spoken word to offer programming of depth which seeks to engage, educate and inspire, with a unique mix of: - factual programmes - drama, readings and comedy	• Those with interest in high quality speech content • All ages
BBC Radio 5 live	• BBC Radio 5 live broadcasts live news and sport 24 hours a day covering events as they happen in an accessible style	• Keen followers of news, sport • All ages

Source: BBC Trust

[33] i.e. delivery of public purposes
[34] Source BBC Annual Report 2008/09, excludes any apportionment of "other costs", such as the cost of licence fee collection.
[35] All of these services are also broadcast on digital platforms

The BBC also operates **five digital-only services** (launched in 2002): 1Xtra, 5 Live Sports Extra, 6 Music, Radio 7 and the Asian Network. These stations serve a range of niche / community audiences:

Exhibit 9: National digital-only BBC Radio services

Station	Remit / description of service	Target audience
BBC Radio 1Xtra	• BBC 1Xtra plays the best in contemporary black music - with a strong emphasis on delivering: - high-quality live music - supporting new UK artists	• 15-24s
BBC Radio 5 live sports extra	• BBC Radio 5 Live Sports extra is a part-time network that provides additional sports coverage using rights already owned by the BBC, and so delivering greater value to licence fee payers	• Keen followers of sport • All ages
BBC Radio 6 music	• BBC 6 Music aims to engage with lovers of popular music by offering - the best music from the BBC sound archive - current releases outside the mainstream - complemented by music news and documentaries	• Lovers of popular rock music • All ages
BBC Radio 7	• BBC Radio 7 is a speech-based digital radio service offering - comedy, drama and readings mainly from the BBC archive - programmes for children	• Those interested in high quality speech content • Children
BBC Radio Asian Network	• BBC Asian Network aims to offer challenging debate, informed journalism, music, sport, entertainment and drama for British Asians from different generations	• Individuals interested in content relevant to Asian community

Source: BBC Trust

The **BBC's Nations services** comprise - three English language services for the nations (Scotland, Wales and Northern Ireland), one Welsh and one Gaelic language service. In England, the **BBC Local Radio** consists of 39 local radio services in England.

Exhibit 10: BBC Radio's Nations and local radio services

Station	Remit / description of service	Target audience
BBC LOCAL RADIO	• BBC Local Radio is a primarily speech-based service of news, information and debate, with a strong emphasis on interactivity	• 50+
BBC Radio nan Gàidheal; BBC Radio Scotland	• Radio Scotland is a speech-led service for adults • BBC Radio nan Gàidheal is a speech, music service for Gaelic speakers • Both offer a wide range of genres and reflect issues, events, culture and interests of the people of Scotland	• Individuals interested in content relevant to Scotland, Wales and Northern Ireland • Welsh and Gaelic speakers
BBC radio cymru; BBC radio wales	• Radio Wales is a speech-led service for adults • BBC Radio Cymru is a speech and music radio service for Welsh speakers. • Both offer a wide range of genres and reflect issues, events, culture and interests of the people of Wales	
BBC Radio Ulster; BBC Radio Foyle	• BBC Radio Ulster/Foyle is a speech-led service that covers a wide range of genres and reflects all aspects of contemporary life in Northern Ireland • They combine coverage of local issues, interests and events with coverage of national and international developments	

Source: BBC Trust

5.2 Analysis of performance

5.2.1 *The BBC's objectives*

The BBC's objectives combine a mix of quantitative and qualitative aspects. The challenge for the BBC is to ensure that it achieves the **appropriate balance** between these objectives. In particular, it needs to balance **pursuit of audiences** with its **pursuit of quality** / **promotion of the public purposes**. It needs to do so, whilst delivering **value for money** to the licence fee payer - and not having a disproportionate **market impact**.

Exhibit 11: BBC objectives and public purposes

BBC Objectives as agreed with BBC Trust	BBC Public Purposes
1. Maintain the **maximum reach** consistent with its purposes and values	1. Sustain **citizenship** and civil society
2. Increase the **distinctiveness and quality** of its output	2. Promote **education and learning**
3. Maintain **perceived value** among high approvers and increase perceived value among middle and low approvers	3. Stimulate **creativity** and cultural excellence
4. Restore **trust** in its output	4. Represent the **UK, its nations, regions and communities**
5. Increase the delivery of its **public purposes**	5. Bring the **world to the UK** and the UK to the world
6. Deliver an improvement of 3% each year against its **efficiency** targets	6. Deliver to the public the benefit of **emerging communications technologies** and services

5.2.2 *Balance between objectives*

Reconciling the potentially conflicting demands of delivering reach and promoting public purposes is not always easy. The challenge for the BBC is get this balance right – as David Liddiment highlighted when writing about Radio 2:

*"We'd like Radio 2 to provide the audience with more imaginative, entertaining content the licence fee payer can't hear anywhere else. We want to preserve the aspects that make it popular but we'd like to give the BBC Executive a mandate to be more ambitious, including during the daytime peak schedule, even though **we recognise that this carries with it a risk that audiences fall**. Whilst **it is vital that the BBC reaches large audiences, doing so is not an end in itself for a public service broadcaster**."*

Achieving the right balance is complicated by the fact that performance against some objectives (e.g. reach) can be measured quantitatively, whilst others (e.g. distinctiveness, promotion of public purposes) require qualitative judgements. It is often easier for managers (if not regulators) to focus on metrics which are captured, on a regular basis, in quantitative form. As a result, there can be confusion about priorities:

> *"At controller level, there appears to be a lack of clarity about objectives"* Paul Robinson
>
> *"The Chairman of the Board of Governors and the Director General always used to say that quality and distinctiveness were the top priorities; programme makers believed their job was to maximise audiences."* Lord Smith

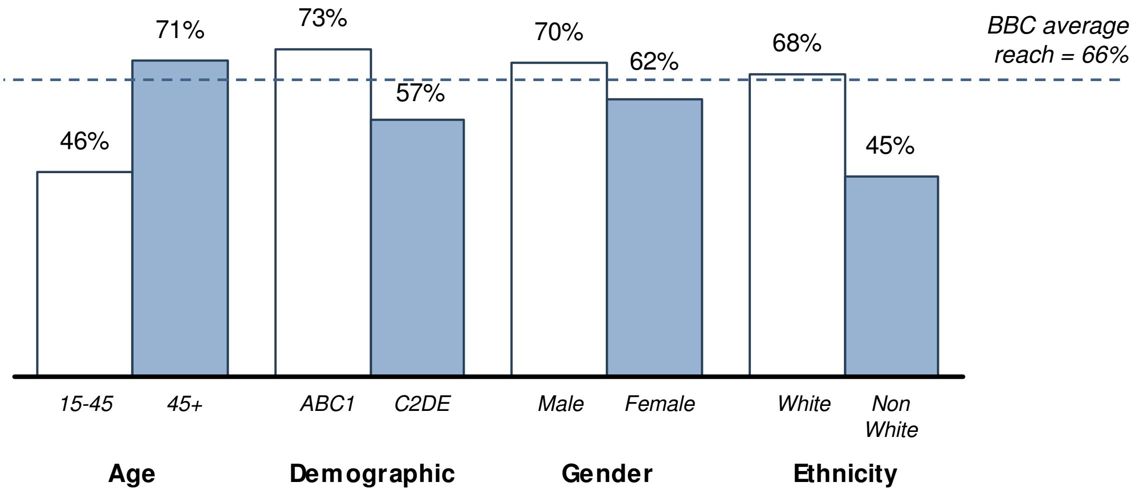
There was also a suggestion from some interviewees that timing in the licence fee cycle was a factor in determining the relative focus on ratings or public service output – as licence fee renewal approaches, there tends to be a greater emphasis on quality and distinctiveness.

5.2.3 Reach

BBC Radio plays an important role in **delivering reach** for the BBC - the universal licence fee creates an obligation to serve as wide an audience as possible (consistent with the BBC's purposes and values). As radio is a lower cost medium than TV, it can be used as a cost-effective means of reaching certain audiences (for example, young adults who are typically light TV viewers).

On a weekly basis, BBC Radio reaches two thirds of the adult population. However, its reach is higher amongst certain groups, e.g. over 45s, ABC1s and males, and lower amongst others, e.g. ethnic minorities[36].

Exhibit 12: BBC Radio reach



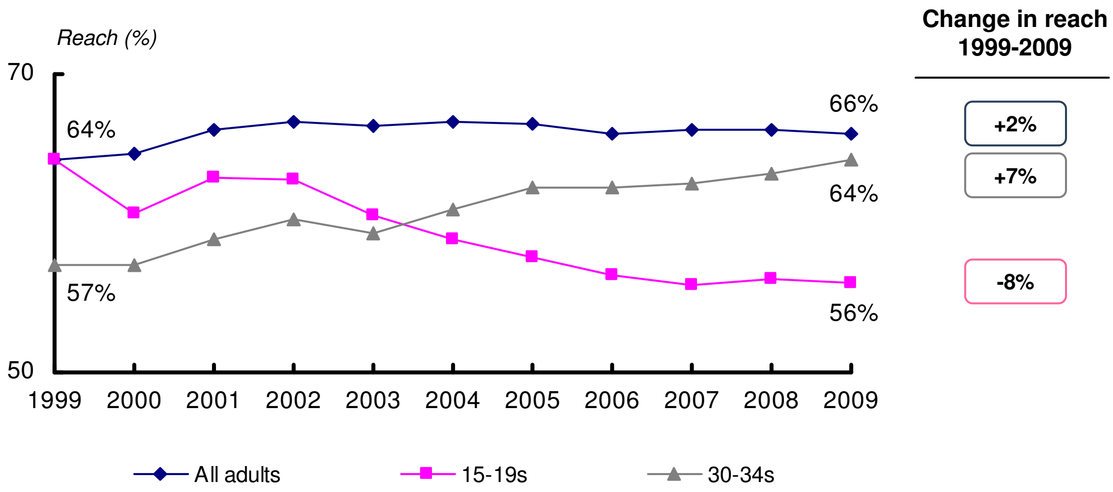
Source: RAJAR, Hallett Arendt, Value Partners analysis

Over the last ten years, the reach of BBC Radio has increased slightly, from 64% in 1999 to 66% in 2009. However, certain groups have seen significant change:

- BBC Radio's **reach among 30-34s is up from 57% to 64%** - driven by Radio 1 and Radio 2:
  - Radio 1's reach is up from **33.9%** in 1999 to **38.2%** in 2009
  - Radio 2's reach is up from **5.6%** in 1999 to **10.2%** 2009
- Reach **among the 15-19 age group is down from 64% to 56%**
  - Radio 1's reach of this audience is down from **51.4%** in 1999 to **39.9%** in 2009

[36] BBC Radio reaches 43% of Afro-Caribbeans and 44% of Asians

Exhibit 13: Reach of BBC Radio services

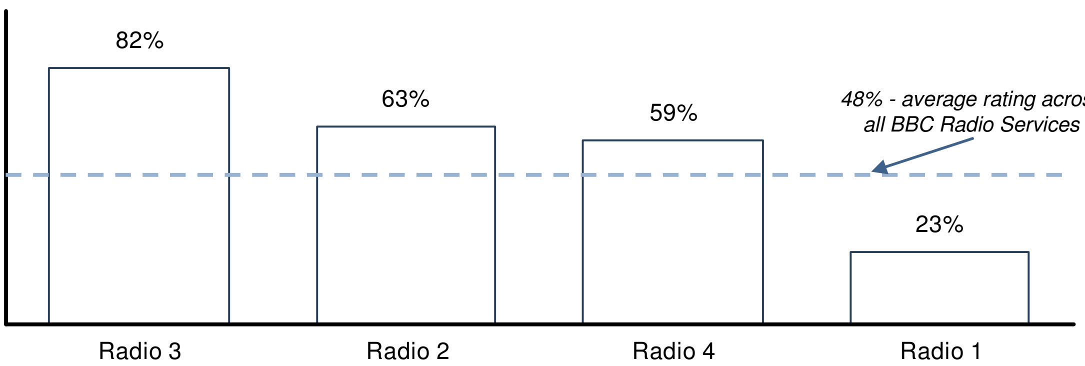


Source: RAJAR, Hallett Arendt, Value Partners analysis

5.2.4 *Quality and Distinctiveness*

According to the BBC's Annual Report, there is significant variation in listeners' **perception of the quality** of programmes on different BBC Radio services. Radio 2, Radio 3 and Radio 4 have high quality ratings – but Radio 1 appears less highly regarded (data for other services was not published).

Exhibit 14: % of programmes achieving appreciation scores of 80+



Source: BBC Annual Report 2008/09

Assessments of distinctiveness rely heavily on qualitative judgements (supported by quantitative data[37]). However, at a headline level, there is a degree of consensus amongst interviewees:

- Radio 3, Radio 4 and Radio 7 are the most distinctive, providing high quality speech and classical music services not replicated by the commercial sector

[37] e.g. the number and type of songs played by different artists

- BBC Radio's more mass market services, i.e. its popular music services (Radio 1, Radio 2, 1Xtra and 6 Music) and 5 Live / Sports Extra are less clearly differentiated from their commercial rivals – if only, because large elements of their output (popular music, sport) are the staple output of commercial radio
- The BBC's Nations and local services are intended to be distinctive from commercial radio by providing more speech-based content and aiming their services at an older demographic. However, at times, these services' reliance on popular music reduces their distinctiveness from the commercial sector.

5.2.5 Promoting the public purposes

BBC Radio promotes the BBC's **public purposes** in numerous ways, for example:

- The news and speech services of Radio 4 and 5 Live help to "**bring the world to the UK**", "**promote education and learning**", and "**sustain citizenship**"
- The music services of Radio 1, Radio 2 and Radio 3 "**stimulate creativity and cultural excellence**"
- The Nations and local services "**represent the UK, its nations, regions and communities**"
- The digital portfolio helps to "**deliver the benefit of emerging communications technologies**".

In broad terms, BBC Radio is seen (by interviewees) as delivering significant public value – but certain services offer scope for improvement:

Radio 4 and Radio 3 are seen as the most effective in delivering the public purposes (albeit the relatively small audience delivered by Radio 3 limits the impact it can have).

In contrast, there is a strong feeling that the BBC's popular music services could achieve more – an opinion shared by the BBC Trust:

> *"Radio 2 should use its size and influence to* ***make a greater contribution to the BBC's public purposes*** *in peak time"* BBC Trust Review of Radio 2
>
> *"We believe (Radio 1) has* ***potential to increase its public value further****, given the strength of its market position; in particular, we have asked the station to renew its focus on serving a young audience and to deliver more public value via its speech output"* BBC Trust Review of BBC Services for Younger Audiences

Similarly, 5 Live, the Nations and BBC Local Radio, which have strong public service remits, could do more to promote the public purposes – for example, through more distinctive / higher quality programming (discussed in the respective chapters later in this report).

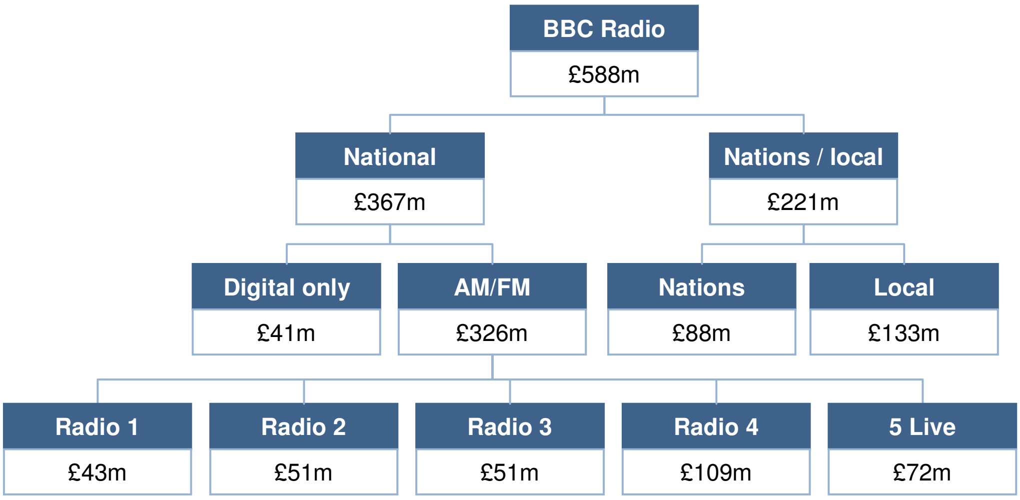
Regarding digital radio ("delivering the benefit of emerging communications technologies"), the BBC is widely seen as not delivering as much as it could[38] – a point highlighted most recently by the House of Lords Select Committee, who called for urgent agreement on plans for infrastructure roll-out, and also by interviewees, who pressed for more active on-air promotion of the medium.

[38] Especially when compared to its contribution to encouraging the take-up of digital TV

5.2.6 *Value for Money*

BBC Radio's £588m service budget is divided between its five national AM and FM services (55% of budget), the nations and local services (38%) and its digital only services (7%).

Exhibit 15: Allocation of BBC Radio budget (including transmission costs)



Source: BBC Annual Report 2008/09

There are two ways to assess if this expenditure delivers value for money:

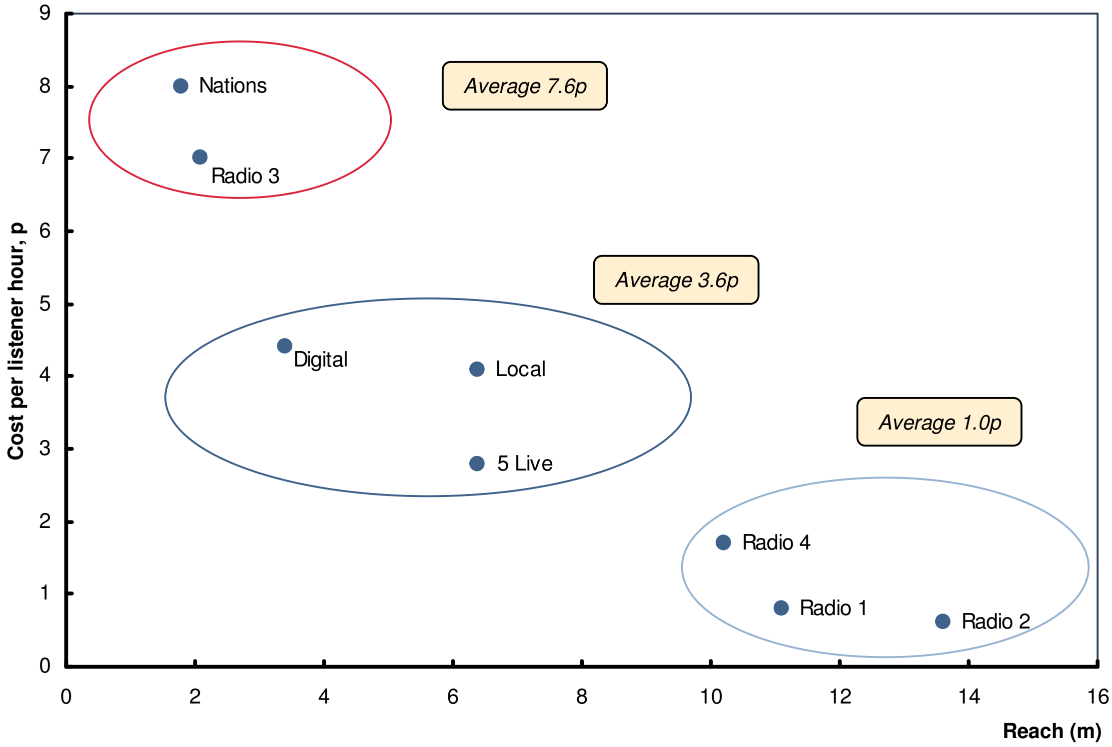
- First, do the outcomes of that expenditure (in terms of reach, quality & distinctiveness, delivery of public purposes) represent a satisfactory **return on investment**?
- Second, have the programmes or services been **delivered efficiently**?

a) Return on investment

Because the BBC must rely on a combination of quantitative and qualitative measures to assess its performance, it is difficult, if not impossible, to find a single metric to assess value for money.

The BBC's preferred (but not exclusive) metric for radio is cost per listener hour. On this basis, stations with the highest audiences tend to have the lowest costs per listener hour. The relatively high costs of the Nations services and Radio 3 are justified on the basis of essentially qualitative judgements. (Notwithstanding the use of qualitative measures, the focus on cost per listener hour as the primary metric carries the risk that managers will seek to build audience figures at the expense of other programming objectives, such as quality, distinctiveness and the promotion of public purposes).

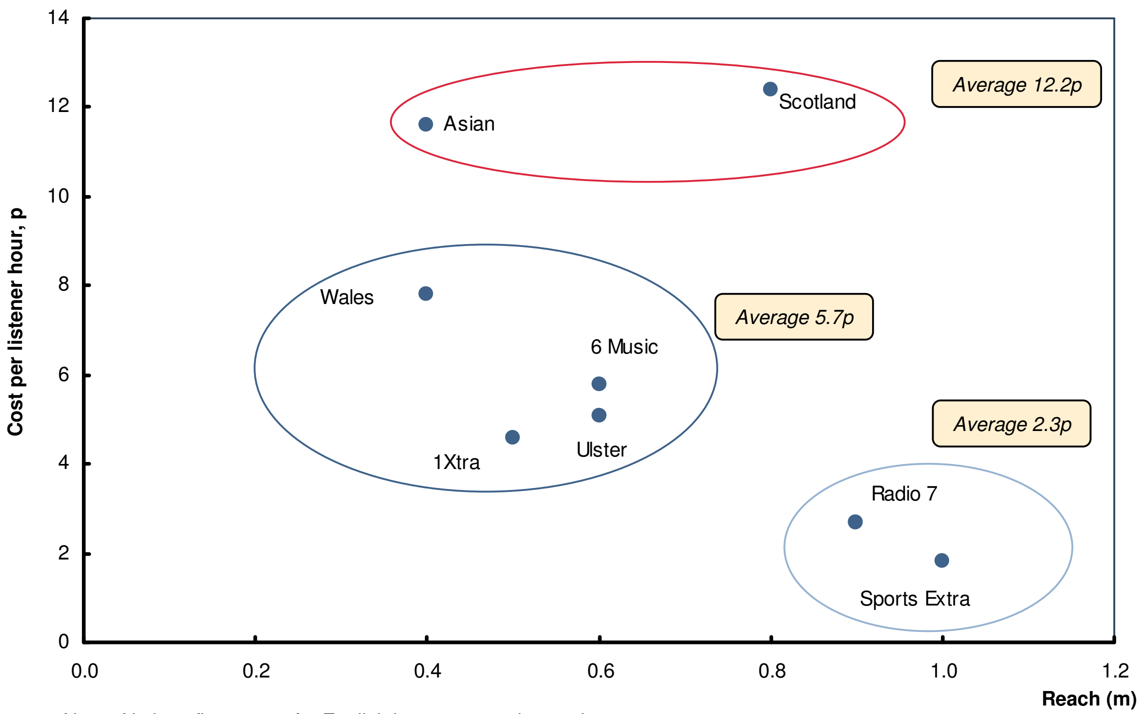
Exhibit 16: Reach and cost per listener hour, by service (2008/09)



Note: (1) The reach of the BBC's digital services has been summed – combined reach of these services would be lower
(2) Nations figures are for English language services only
Source: RAJAR, Hallett Arendt, BBC Annual Report 2008/09, Value Partners analysis

A more detailed assessment of the Nations and digital services demonstrates the variations in cost per listener hour between services. Radio 7 and Sports Extra have relatively low costs per listener hour – through a combination of low costs (re-using existing BBC assets / acquired rights) and somewhat larger audiences than other digital services. BBC Scotland and the Asian Network, in contrast, appear relatively expensive.

Exhibit 17: Reach and cost per listener hour, digital and nations services (2008/09)



Note: Nations figures are for English language services only
Source: RAJAR, Hallett Arendt, BBC Annual Report 2008/09, Value Partners analysis

The extent to which services offer value for money is debatable – and depends heavily on qualitative judgements. However, the relatively high cost of Radio Scotland is potentially an issue which should be assessed in more detail.

b) Efficiency

Concerns have been raised (by interviewees) that the BBC places insufficient focus on ensuring that programmes are produced efficiently – examples include: levels of talent and management pay, the number of staff employed on shows, and the "over-engineering" of production processes. Concerns have also been raised about excessive expenditure in technical areas, such as web servers and broadcast infrastructure. A general observation from interviewees was that too few managers within BBC Radio had had P&L responsibility in the commercial world.

> *"Unlike the commercial sector, the BBC has rarely tried to drive through really significant cost savings (e.g. of 25%)* Andria Vidler, EMI
>
> *"Over-manning is at crisis levels. What do all these people do?"* Richard Park, Global Radio (referring to number of production staff working on a single programme)
>
> *"If commercial radio's technical infrastructure is a Ford Fiesta which gets you quite comfortably from A to B, the BBC's is a gold-plated Rolls Royce with three engines, in case two of them break down"* James Cridland

These concerns have been supported by recent independent reports which have recommended more rigour be applied to managing BBC Radio costs:

- In February 2009, the National Audit Office conducted a review of BBC Radio's production efficiency. This report called for benchmarking against the commercial sector (and internally between BBC services).

To date, more than 12 months after the review, no benchmarking study has been agreed, let alone undertaken.

- In April 2009, the House of Commons Public Accounts Committee reviewed the NAO report and drew a number of conclusions, summarised below:

Exhibit 18: Conclusions and recommendations of House of Commons Public Accounts Committee

Issue	Description	Recommendation
Unacceptable restrictions	• The BBC Trust placed unacceptable restrictions on information made available to the Comptroller & Auditor General	• The Comptroller & Auditor General should have unrestricted statutory right of access to BBC data (as he does for other publicly funded organisations)
Confidentiality agreements	• By using **confidentiality agreements** with some presenters, the BBC puts use of public money beyond scrutiny of Comptroller and Auditor General and Parliament	• The BBC should provide for the Comptroller and Auditor General to have access to all its contracts, including those with presenters
Benchmarking	• The BBC has **failed to use cost comparisons** to identify scope for efficiencies	• The BBC should establish benchmarking arrangements with the commercial sector and a rolling programme of internal benchmarking
Presenter pay	• For some presenters, the BBC appears to pay **more than twice** what commercial radio stations pay their presenters	• The BBC should take advantage of current market conditions and the BBC's standing in the industry to attract and retain talent at the minimum cost necessary
Breakfast and drivetime shows	• For 'drivetime' and breakfast shows, the BBC spends over 75% of its staff costs on presenters – limiting the cost base from which the it can seek efficiency savings	• The BBC needs to demonstrate that expenditure on presenters is not unduly constraining its ability to identify deliverable efficiency savings
Cost variations	• The average cost/hour of comparable music programmes on Radio 2 is 50% higher than on Radio 1 (one of many variations in the cost of similar shows)	• The BBC should report to the Trust the reasons for these variations and, by end 2009, the Trust should review the radio efficiency target it has set the BBC
Efficiency metrics	• Over-reliance on cost/listener hour can be misleading - with the risk of justifying high costs, e.g. payments to presenters, on the strength of increasing audience size	• The BBC should use a basket of measures, including cost per hour, to manage costs

The Public Accounts Committee report found significant room for improving how the BBC manages the value for money of its radio services. In particular, the report highlights the need for **greater transparency**, more **rigorous benchmarking** (with particular focus on presenter pay and cost variations for similar types of programmes) and deploying a **broader range of efficiency metrics** (that are open for public scrutiny).

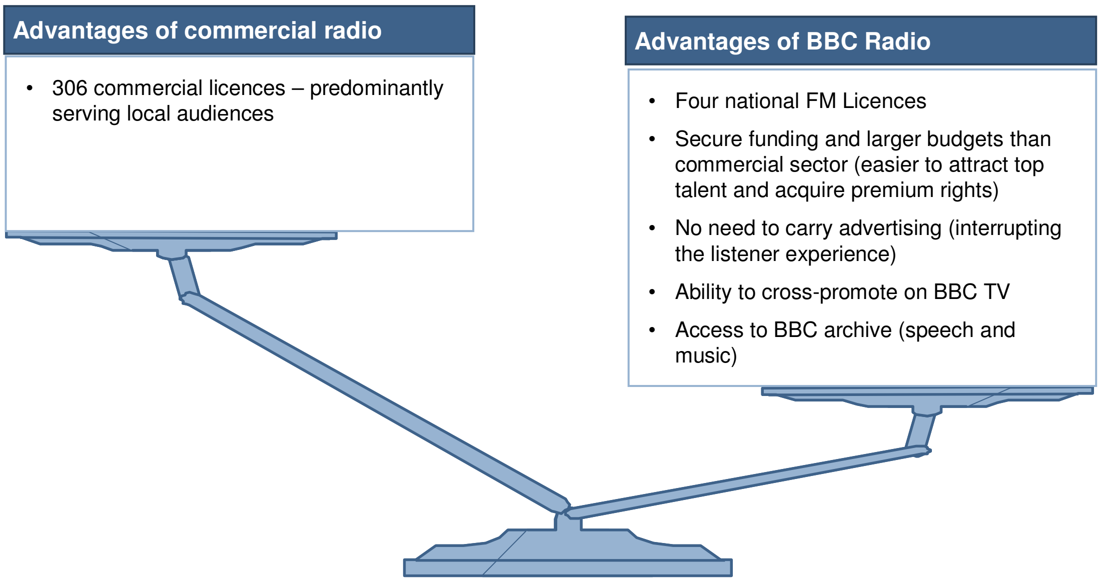
Until these changes are implemented it will be impossible to assess whether BBC Radio genuinely offers value for money.

5.2.7 Market impact

"It is important that the BBC does not squeeze out good quality operators" Lord Smith

The BBC has significant advantages over the commercial sector. These include the scale and relative certainty of its funding, its spectrum privileges and the fact that it does not have to interrupt its programming with commercials.

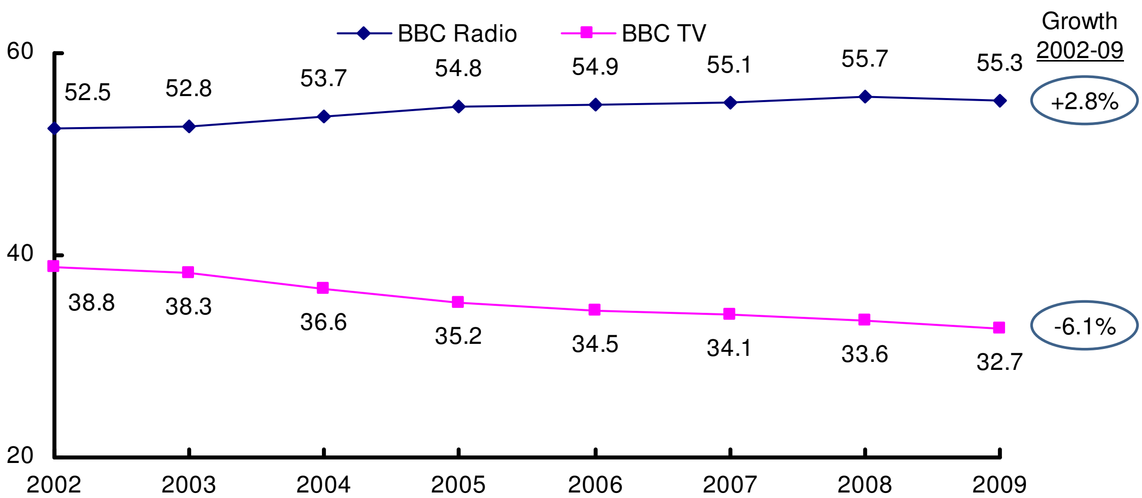
Exhibit 19: Relative advantages of BBC and commercial radio



Source: Value Partners analysis

The scale of these advantages is highlighted by two comparisons. The first is with UK television, where the BBC has a share of 32.7% of viewing – down from 38.8% in 2002; on radio the BBC's share of listening is significantly higher at 55.3% - up from 52.5% in 2002.

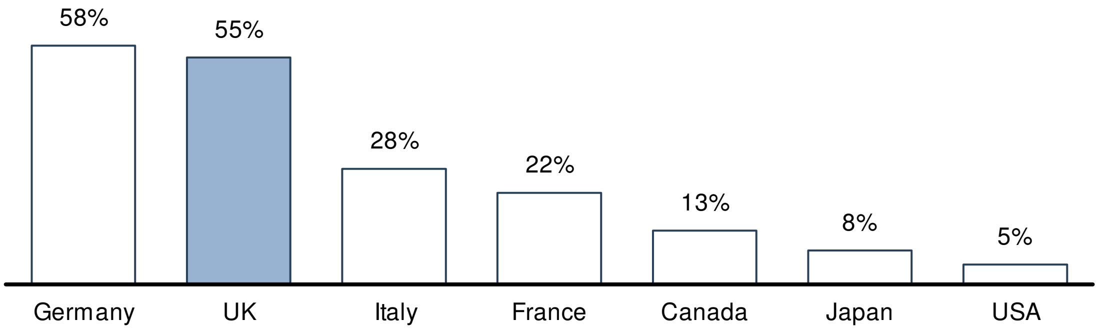
Exhibit 20: Audience share of BBC Radio and BBC TV, %



Source: RAJAR, Hallett Arendt, BARB, Attentional, Value Partners analysis

The second is internationally, where, by comparison, the scale of public intervention in the UK radio market is significantly higher than most major markets, with the exception of Germany.

Exhibit 21: PSB radio share of listening, 2008



Source: Ofcom International Communications Report (Dec 2009), IDATE (2008), RAJAR

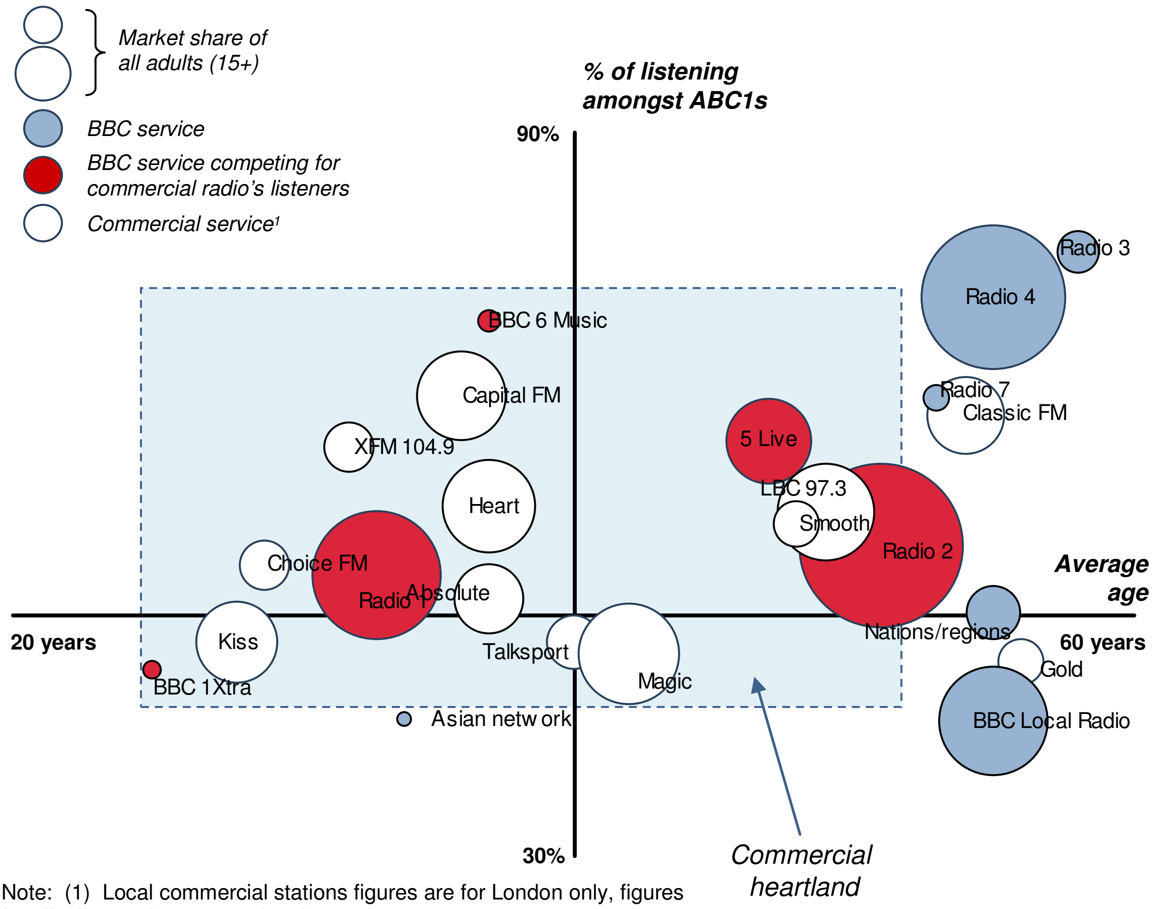
These advantages, coupled with the financial challenges facing the commercial sector, place a responsibility on BBC Radio to ensure it does not have a market impact disproportionate to the value it delivers to licence fee payers. Specifically, the BBC needs to exercise caution in two areas: first, the pursuit of the audiences most attractive to commercial radio (25-44s[39]); second, the use of its scale and funding to outbid the commercial sector for rights and talent. In recent years, significant concerns have been raised on both counts.

a) Audiences

Concerns have been raised that BBC Radio is having a disproportionate impact on commercial radio through its pursuit of audiences critical for generating advertising revenues – i.e. 25-44s. Analysis below shows that Radio 1, Radio 2 and 5 Live (and to a lesser extent, 6 Music and 1Xtra) all have positions which impinge on commercial radio's core target market.

[39] Source: Interview with Bauer Media - 25-44s are the age group most sought after by advertisers, followed by 15-24s.

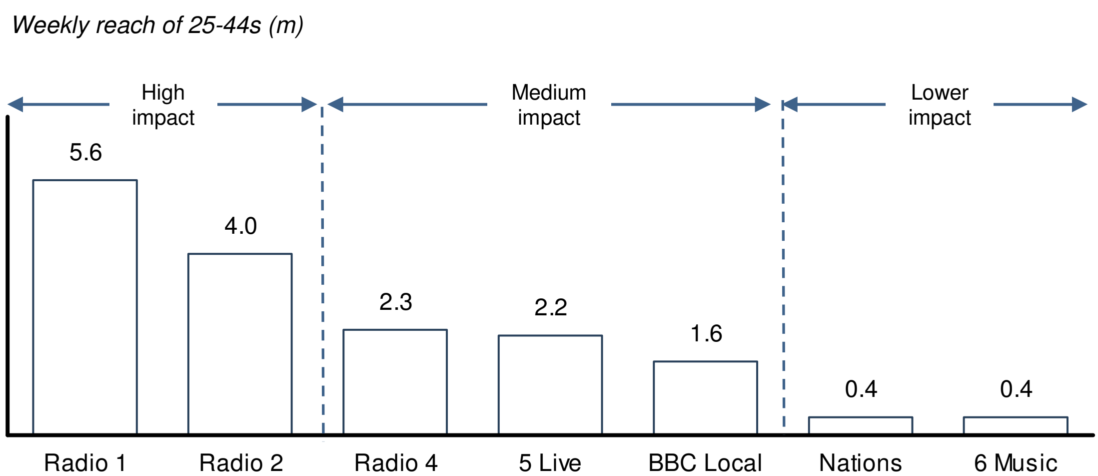
Exhibit 22: Age and demographic profile of BBC and commercial radio services



Note: (1) Local commercial stations figures are for London only, figures for all other stations are national
Source: RAJAR, Hallett Arendt, Value Partners analysis

This is reflected in the number of 25-44s who listen to each of the BBC's radio services – with Radio 1 and Radio 2 presenting the greatest threat.

Exhibit 23: Reach of 25-44s by BBC services



Note: The reach of 25-44s of all other BBC Radio services is lower than 400k (next highest is Radio 3 with 0.3m)
Source: RAJAR, Hallett Arendt, Value Partners analysis

b) Talent and sports rights

BBC Radio also has the potential to have a significant market impact in the prices it pays for talent and its acquisition of rights (especially exclusive rights). The underlying issue with regards to talent (regardless of whether the BBC overpays) is that the BBC is the only broadcaster which can consistently afford top talent[40].

> *"The BBC's guaranteed funding and the scale of that funding give the BBC a marked advantage over the commercial sector in negotiating terms with talent"* Andria Vidler
>
> *"This in turn draws audiences which keep commercial radio in second place, i.e. the BBC's dominance is self-perpetuating. The BBC should address this by doing more to break new talent - new bands, but also new writers, composers, artists and performers of all sorts"* Peter Bazalgette

In 2008, a report by consultants, O&O, into BBC Talent Costs found the BBC seemed to *"have been increasing its payments per hour to leading breakfast and drive time presenters in the last three years, while the commercial sector seems to have been reducing their payments".*

In its 2009 follow-up to the Review of BBC Talent Costs, the Trust wrote: "***We welcome the BBC setting out a renewed commitment to benchmarking radio talent costs****. Although we are mindful of the real difficulties in comparing the BBC's radio operations with the commercial sector,* ***the Trust expects to see clear progress in implementing regular benchmarking studies*** *to maintain accurate market intelligence in this area. We are also pleased to note the BBC's work on developing talent market studies and benchmarking for journalism, and we expect to see concrete progress in this area over the coming months."*

As with benchmarking studies in general – there has yet to be significant progress in this area.

The issue of sports rights is covered in the section on 5 Live.

5.3 Strategy Review

Whilst the majority of the Strategy Review's recommendations are covered in the following sections of this report, a number of generic points can be highlighted – under five headings:

Exhibit 24: Strategy Review proposals cutting across BBC Radio

Issue	Proposal / statement
Funding and efficiency	• No part of the BBC can be exempt from the process of identifying efficiencies and better ways of working, but the BBC should take great care to ensure that BBC Radio has the resources further to increase the quality of its output[41]
Market impact	• The BBC recognises the lead role commercial radio plays in serving popular music to 30-50 year olds (and, as a result, proposes to refocus Radio 1 and Radio 2) • The BBC will make explicit its commitment to consider the market impact of major decisions[42]

[40] As found by O&O's report for the BBC Trust into Talent Costs – "some leading talent on BBC national network radio earn fees per hour which are significantly higher than the commercial sector pays"
[41] BBC Strategy Review page 11
[42] BBC Strategy Review page 5

Issue	Proposal / statement
Clarity around boundaries	• The BBC can and must set clearer boundaries for itself • It must take seriously legitimate concerns about its activities raised by commercial media players[43]
Partnerships	• The BBC will make partnership its "default setting" for most new activities[44] • The BBC should become a better partner both with other broadcasters and media players[45]
Talent costs	• The BBC has committed to reducing the amount spent on top talent progressively over the next few years • It will take a more systematic approach to considering its bargaining power • The BBC will publish the total talent costs incurred on an annual basis

5.4 Response to the Strategy Review

In this section, we respond to the five broad subjects identified above.

5.4.1 Funding and efficiency

Comments from interviewees (including from recent BBC employees) indicate a widespread belief that much more could be done to reduce costs – e.g. through reducing production headcount, being more pragmatic about technology investment decisions, or not "over-engineering" programme production – especially for music programmes (where clear benchmarks exist with the commercial sector).

The funding gap between the BBC and commercial radio (27% prior to the recession) is clearly a cause for concern. This is not to say that we necessarily advocate an immediate reduction in BBC Radio's licence fee funding (though this should be considered), but rather it puts the onus on the BBC to ensure that its services deliver value for money – particularly in terms of quality, distinctiveness and promotion of the public purposes.

We have particular concerns about BBC services with the greatest overlap with commercial radio (the popular music services, 5 Live and BBC Local Radio). Together, these services account for £318m (or 54%) of BBC Radio licence fee funding. **For these services to merit this level of funding, it is essential that they improve significantly:**

- **their quality** (e.g. on Radio 1, only 23% of programmes achieve an audience appreciation score of 80+)
- **their distinctiveness** (e.g. much of Radio 2's daytime programming though of high quality is not so different from commercial radio; similarly BBC Local Radio has a tendency to mimic commercial radio by playing mainstream popular music – especially when audience figures are felt to be under pressure)
- **their promotion of public purposes** (both Radio 1 and Radio 2 need to do more).

5.4.2 Market impact

We welcome the Executive's recognition of the importance of considering market impact on its major decisions (i.e. market impact needs to be considered outside of public value tests).

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43 BBC Strategy Review page 15
44 BBC Strategy Review page 5
45 BBC Strategy Review page 16

However, the Strategy Review links this point to commercial radio's leadership role in providing music services to 30-50 year olds. Whilst recognition of this role is welcomed, it implicitly understates the role of commercial radio in providing music services to younger audiences, e.g. through stations, such as Choice, Galaxy, Kiss, Kerrang, and XFM.

At a minimum, when considering the market impact of its music services, **the BBC should in the first instance consider its impact on audiences within the 25-44 age range**.

5.4.3 *Clarity around boundaries*

Again, we welcome the Executive's declared intent to provide greater clarity around the boundaries of its radio services. The Strategy Review provides a number of examples, for example: Radio 1 should **focus on its target audience** of 15-29s[46] (as opposed to listeners outside this age range).

Our concerns with these proposals can be framed in three questions:

1. Are the proposed boundaries appropriate?
2. Will these boundaries be respected?
3. What sanctions will be imposed if they are not?

The issue of proposed boundaries for individual services is discussed in the following chapters; in this section, we focus on the second and third of these concerns.

BBC Radio has shown an inability or unwillingness to adhere to its remits. For example, over 50% of Radio 1 listeners fall outside its 15-29 target audience; similarly, 38% of BBC Local Radio's audience is younger than its target age group of 50+. We do not suggest that all listeners should fall within a service's specified target audience, but **greater rigour is required to ensure adherence to service boundaries**.

Our other concern about boundaries is a critical issue for the Trust, as well as the Executive. Concerns about the role of the Trust acting as "cheerleader and regulator" have been well documented prior to the publication of the Strategy Review. In this report, our focus is more specific – i.e. what sanctions can the Trust employ to ensure boundaries are not breached? This question becomes increasingly important when so many of the BBC Executive's proposals are of a qualitative nature. **We welcome a number of the BBC's proposals, but without robust processes to enforce them, we remain sceptical that they will be adhered to.**

5.4.4 *Partnerships*

We welcome the Executive's stance on partnerships. In radio, several partnerships between the BBC and the commercial sector already exist – for instance, in the areas of audience research (joint funding of RAJAR) and The Radio Council (which has encouraged initiatives such as the RadioPlayer).

However, in two specific areas, **the BBC should be more partnership focused:**

- **the licensing of archive material to other stations:**
- **promotion of digital radio and investment in the roll-out of DAB infrastructure**

To date, the BBC has not responded positively to requests for licensing of archive material. Approaches from Funkids Radio to license children's archive content have been unsuccessful; and, rights issues

[46] BBC Strategy Review page 56

notwithstanding, much of the BBC's music archive has been declared "off-limits" because of the possibility that one day 6 Music might broadcast that material. The Strategy Review talks at length about the opening up of the BBC's archive – we look forward to progress on the radio front.

We discuss in Chapter 11 the role of the BBC with regard to digital radio. **But given that BBC Radio accounts for more than 50% of UK radio (in terms of funding and audience share), we recommend that the BBC plays a leading role in promoting the medium and investing in infrastructure roll-out.**

5.4.5 Talent

According to interviewees, the BBC started to increase its spending on talent (and senior management) in the late 1990s / early 2000s – in order to address perceived under-performance relative to the commercial sector.

Numerous interviewees from the commercial sector spoke of examples where they were unable to come close to matching fees paid by the BBC – and not just for top talent. We welcome the BBC's announcements about reducing talent costs. **However, we are very concerned that the Executive appears to be using concerns around talent cost confidentiality as an obstacle to undertaking benchmarking studies with the commercial sector. We recommend that the Trust addresses this issue urgently.**

6 Radio 1 and Radio 2

6.1 Introduction

Radio 1 and Radio 2 are the mainstay of the BBC's popular music output - complemented by digital services, 1Xtra and 6 Music. These services are intended (by their remits) to target:

- Radio 1 and 1Xtra: audiences aged **15-29** and **15-24** respectively
- Radio 2: listeners aged **35+**
- 6 Music: all ages (the **average is 37**).

Exhibit 25: Summary of BBC's popular music services

Station	Remit/description of service	Target Audience	Competitors
BBC Radio 1	• Aims to offer a high-quality service for young audiences combining: - the best new music - a comprehensive range of live studio sessions, concerts and festivals - tailored speech output	• 15-29	• Capital • XFM • Galaxy • Kiss • Kerrang
BBC Radio 2	• Brings listeners a broad range of popular and specialist music focused on British talent and live performances - complemented by a broad range of speech output including - current affairs and documentaries - religion and the arts	• 35+	• Heart • Magic • Smooth • Real
BBC Radio 1Xtra	• BBC 1Xtra plays the best in contemporary urban music - with a strong emphasis on delivering: - high-quality live music - supporting new UK artists	• 15-24	• Choice • Galaxy • Kiss
BBC Radio 6 music	• BBC 6 Music aims to engage with lovers of popular music by offering - the best music from the BBC sound archive - current releases outside the mainstream - complemented by music news and documentaries	• Lovers of popular rock music • All ages	• XFM • Kerrang • Planet Rock

Source: BBC Trust

In practice, listeners often fall outside the prescribed target audience - 18% of Radio 2's adult listeners are aged under 35. However, the problem is more significant for Radio 1, with **listeners aged 15-29 forming a minority** of its adult reach (55% of listeners are aged 30+).

6.2 Analysis of performance: Radio 1

Radio 1 is widely seen (by interviewees) as a key component of BBC Radio:

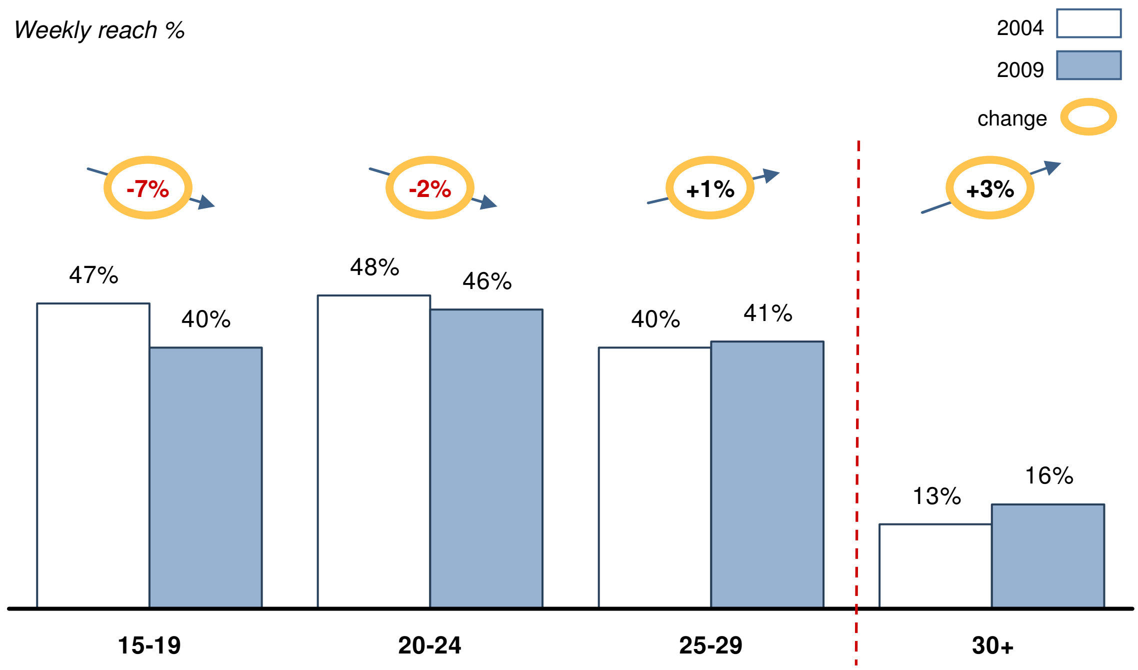
> *"I am a huge supporter of Radio 1 as part of the BBC Radio portfolio"* Lord Smith
>
> *"Radio 1 is hugely important for breaking new music"* Andria Vidler (EMI)
>
> *"The BBC plays a very important role in terms of bringing young people into radio. We do not want to lose this."* Phil Riley

Over the last five years, Radio 1 has grown its **reach** from 10.0m to 11.1m. This growth has been driven almost entirely by attracting audiences outside the station's defined target audience:

- reach of **15-29s** has grown from **4.9m to 5.0m** (up 2%)
- reach of listeners aged **30+** has grown **5.1m to 6.1m** (up 20%)

Perhaps of greater concern is the station's loss of reach amongst the younger (15-19) element of its target audience:

Exhibit 26: Radio 1 reach, by age group, 000s



Source: RAJAR, Hallett Arendt, Value Partners Analysis

Interviewees attributed this shift to a music policy insufficiently focused on the tastes of younger listeners and, critically, a presenter line-up which has only recently seen some refreshment.

In terms of promoting the **public purposes**, interviewees felt that Radio 1

- was insufficiently adventurous in its choice of **new music**, with many of its choices destined for the charts - arguably XFM and Kerrang do more to promote new music in their respective genres
- should be increasing its focus on campaigns around **social issues** relevant to younger listeners (who, in the present economic climate, are in danger of becoming a "lost generation").
- should increase its commitment to live and UK music:

"Radio 1 should have less recorded music, more original content" Peter Bazalgette

"Radio 1 and 1Xtra have been driven by American culture" Richard Park, Global Radio

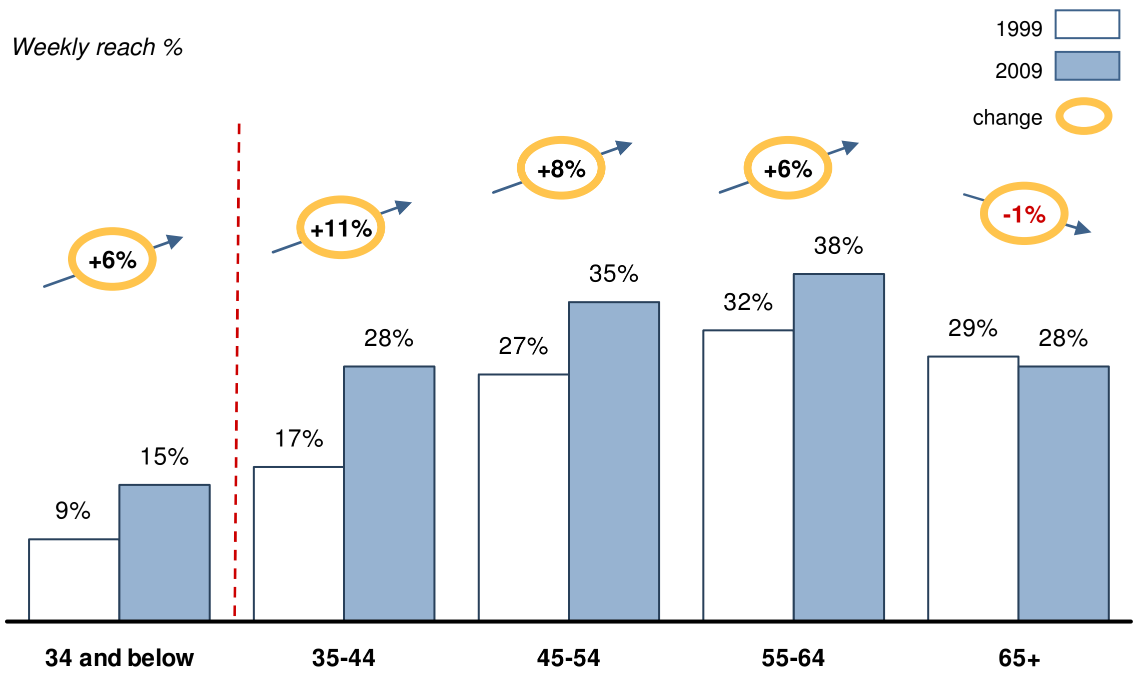
"Radio 1 has been fishing too far in the populist pool. It should be more like Triple J in Australia – a bit left field and more eclectic" Phil Riley, Orion Media

Concerns were also raised about the playing on Radio 1 (and 1Xtra) of songs with homophobic and misogynistic lyrics (the practice of beeping out offensive words is not regarded as sufficient)[47].

6.3 Analysis of performance: Radio 2

Since 1999, Radio 2's weekly **reach** has grown by 39% - from 9.7m to 13.5m. This growth has been skewed towards the younger end of the station's audience:

Exhibit 27: Radio 2 reach, by age group, 000s



Source: RAJAR, Value Partners Analysis

Radio 2's remit is to serve a 35+ audience, but for the last decade, it appears to have been behaving as if its **primary target audience is 35-54s**, with over 55s of secondary importance. This is reflected in the station's choice of daytime music and presenters (in the first instance, Steve Wright and Jonathan Ross, more recently Chris Evans).

The station's age profile has shifted younger (average age shifting from 53 to 50 over a ten year period), but interviewees[48] felt that this decline would have been greater were it not for Terry Wogan (until the end of last year) and the fact that few commercial services actively target listeners aged 65+.

In terms of promotion of public purposes, it is felt that Radio 2 could be doing more:

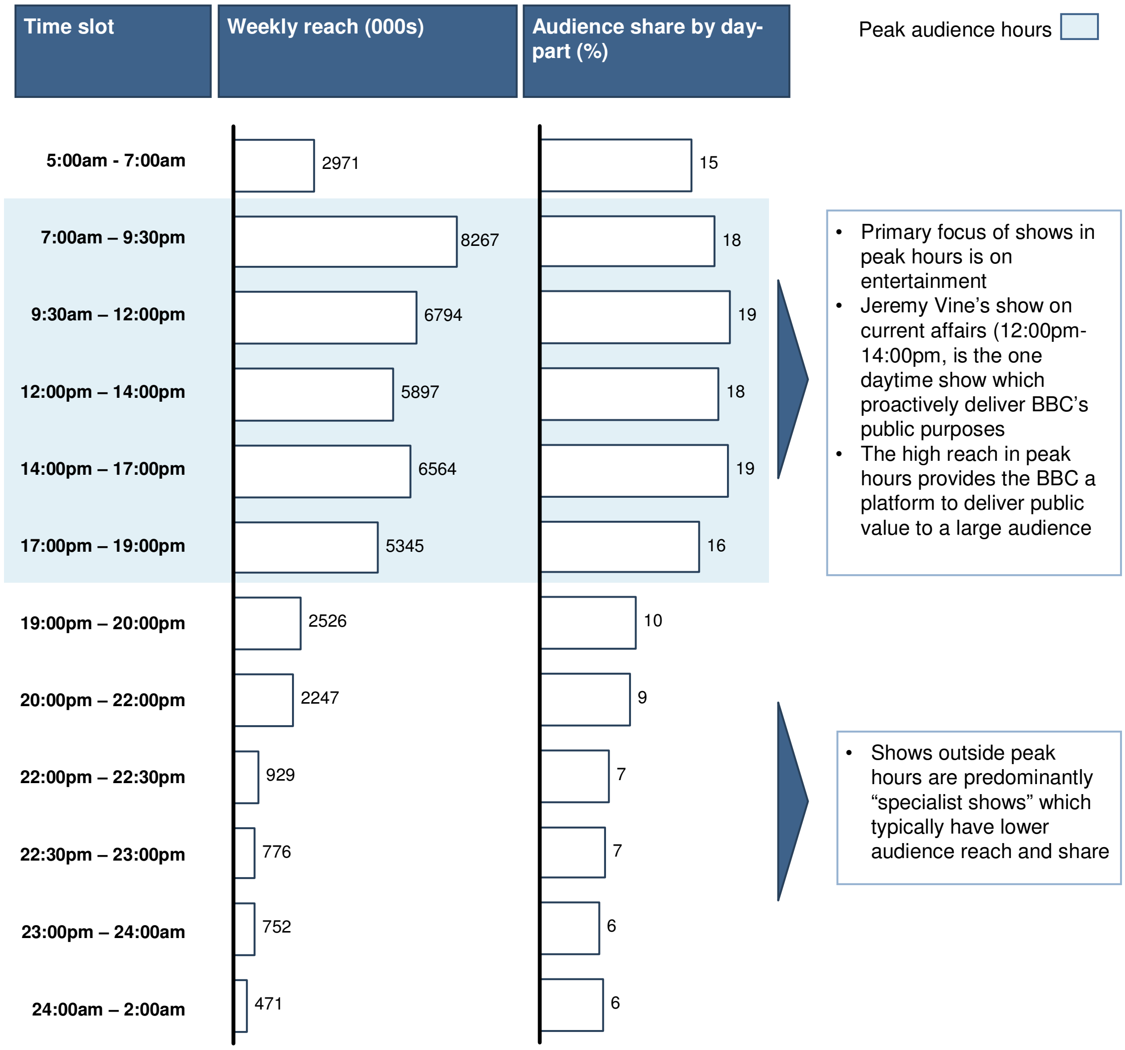
> *"The Chris Evans show in its current format is not public service broadcasting; it's more like commercial radio without the advertisements… inane chatter… very safe music choices"* Paul Robinson
>
> *"Leave pop and prattle to the commercial sector"* Richard Park, Global Radio

[47] The BBC Executive may need to consider the extent to which services such as Radio 1 should be reflecting rather than leading public opinion and standards

[48] e.g. Andria Vidler, President of EMI Music UK and Ireland

In particular, the very large audiences which the station achieves during daytime (almost one fifth of radio listening in daytime is to Radio 2) offer a potential platform for more distinctive programming. Currently, specialist music shows and documentaries are scheduled in the evenings, whilst comedy has lost its Saturday daytime slot.

Exhibit 28: Radio 2: weekly reach and share by time slot



Source: RAJAR, Hallett Arendt, Value Partners analysis

These issues (under-serving of older audiences, opportunities for greater distinctiveness and promotion of the public purposes) have been identified by the Trust in its recent review of Radio 2.

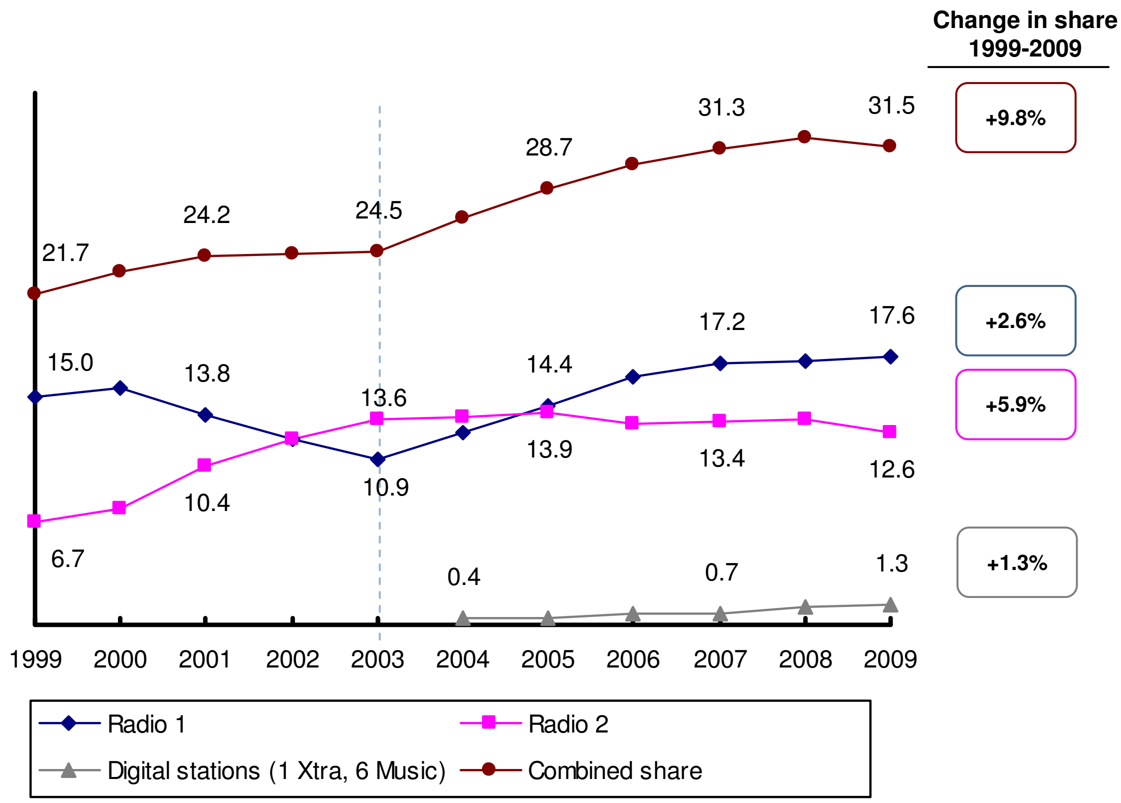
6.4 Radio 1 and Radio 2 (combined)

6.4.1 Market impact

Over the last ten years, Radio 1 and Radio 2 have aggressively grown share amongst 25-44s, the core audience for commercial radio – from 22% to 30%[49].

- Between 1999 and 2003, this growth was driven by Radio 2 (doubling its share from 7% to 14%)
- Since 2003, growth has been driven by Radio 1 – which took three years to recover the losses of the previous four, and then carried on gaining share (growing from 11% to 18% over six years).
- The situation has been exacerbated by the launch of 1Xtra and 6 Music – though currently the scale of these audiences is limited.

Exhibit 29: BBC popular music services share of 25-44 listening



Source: Hallett Arendt (RAJAR), Value Partners analysis

One result of these trends is that Radio 1 and Radio 2 now account for 33% of all listening of 30-34s (up from 22% in 1999) – even though this **age group is outside the remit of either station**.

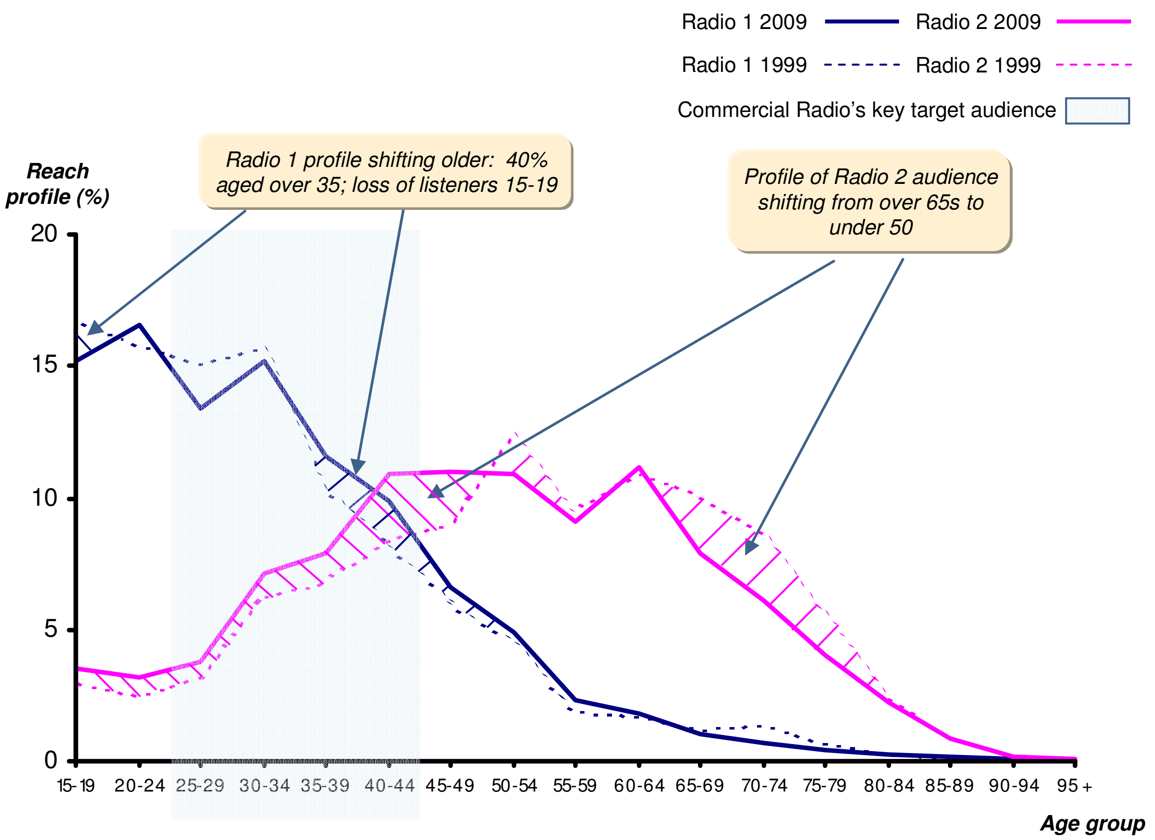
6.4.2 Convergence of Radio 1 and Radio 2

This pursuit of audiences within the 25-44 age range has led to a growing convergence of the audiences of Radio 1 and Radio 2:

[49] Including the digital services, the share of BBC popular music services rises to 32%.

- Since 1999, Radio 2 has increased its reach of 15-29s (Radio 1's target audience) by 68% - from 0.8m to 1.4m
- Since 2004, Radio 1 has increased its reach of listeners aged 35+ (Radio 2's target audience) by 23% - from 3.6m to 4.4m

Exhibit 30: Age profile of Radio 1 and Radio 2 listeners



Source: RAJAR, Hallett Arendt , Value Partners analysis

The result of this de facto overlap of target audiences is a **growing duplication of listeners** between the two services – with the percentage of Radio 1 listeners who also listen to Radio 2 growing from 16% in 1999 to 25% in 2009.

> *"The music policies of Radio 1 and Radio 2 need to be co-ordinated – to make sure they are different; Radio 1 should be targeting listeners under the age of 25; Radio 2 should be aimed at over 40s"* Paul Robinson

6.5 Strategy Review

The BBC's Strategy Review starts by recognising the lead role of commercial radio in serving popular music to 30-50s[50]. It subsequently states that "commercial radio effectively delivers mainstream popular music broadcasting to younger and middle-aged adults"[51].

[50] BBC Strategy Review pages 5 and 55
[51] BBC Strategy Review page 56

It then proposes a refocusing of both Radio 1 and Radio 2[52] (with the greater changes applying to Radio 2). However, as the Review also "strongly endorses the current creative direction and editorial performance of Radio 1"[53], it is not clear exactly how committed the Executive is to pushing through change.

The review also proposes closing 6 Music (due to concerns, amongst others, about its potential market impact).

6.5.1 Radio 1

The Strategy Review proposes that Radio 1 should ensure its focus is on the target audience specified in its remit (15-29s). In terms of content, the review places a strong emphasis on Radio 1 achieving distinctiveness. Specific recommendations include:

- Offering high-quality programmes which appeal to teenagers (including younger teenagers)
- Maintaining / increasing commitment in daytime to social action programming, specialist music, documentaries, impartial news and cross-platform initiatives
- *BBC Introducing* should aim to connect Radio 1 and 1Xtra with music-makers at the grass roots – across their schedules, both services should act as a platform for the best emerging talents.

6.5.2 Radio 2

The key recommendations for Radio 2 are that it should become "significantly and demonstrably more distinctive" and it should ensure that its average age does not fall lower than 50 (and preferably rises).

In terms of content, specific recommendations include:

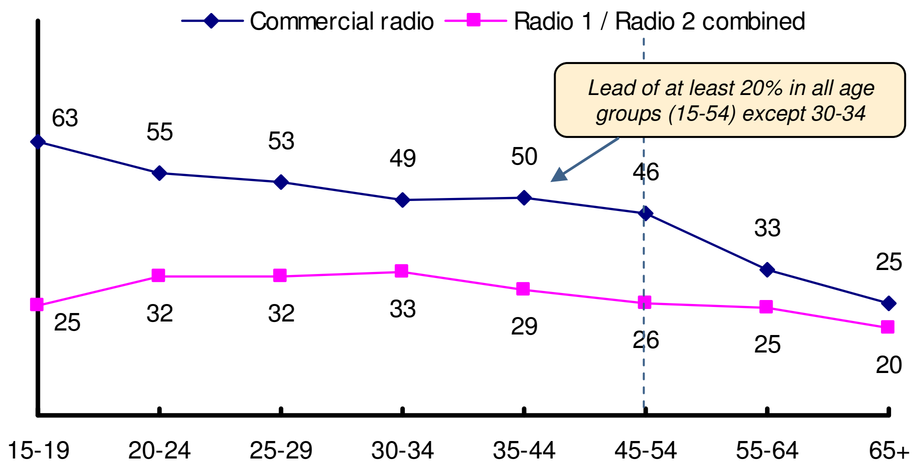
- An increased commitment to specialist and speech programming – especially through scheduling
  - over 50% of daytime output should be speech[54]
- greater focus on documentaries, live concerts, comedy, jazz, campaigns / celebrations and media literacy

6.6 Response to the Strategy Review

We welcome the direction of the Review's recommendations – but believe they should go further[55]. The Review highlights the role of commercial radio in serving popular music to 30-50 year olds. The role of commercial radio in serving younger audiences is mentioned, but is given lower priority. However, as the figures below indicate, commercial radio plays an effective role for all age groups from 15-54.

52 BBC Strategy Review page 55
53 BBC Strategy Review page 40
54 The current level is believed to be 46% (depending on definitions)
55 The recommendations for Radio 1 and Radio 2 do no more than repeat the conclusions of the respective service licence reviews. This represents a missed opportunity for fresh and original thinking – especially as the Strategy Review offers the opportunity to undertake a holistic review of all of BBC Radio's popular music services.

Exhibit 31: Commercial radio and Radio 1 / Radio 2 audience share by age group



Source: RAJAR, Hallett Arendt, Value Partners analysis

It would be helpful for the Review to acknowledge that the critical issue from a market impact perspective is the pursuit by Radio 1 and Radio 2 of audiences within the 25-44 age band.

6.6.1 Radio 1

"Radio 1 needs to target the younger end of its demographic group (15-24) – to discourage over 30s from listening" Paul Robinson

"It is very important that Radio 1 serves 15-19 year olds" Andria Vidler

Our central recommendation (and point of difference with the BBC Executive) is over the appropriate target audience for Radio 1. The Review calls for a focus on 15-29s. However, as this has been the target audience defined by the station's remit for several years, we are not entirely confident in the station's ability to focus on this age range (over half of Radio 1's listeners are currently over 30).

In terms of target audience, three issues need to be addressed:

- The historic decline in Radio 1's reach of 15-19s
- The market impact of Radio 1 on audiences aged 25-44
- BBC proposals to close *BBC Switch* and *Blast!*

We, therefore, recommend that Radio 1 should rediscover its "youth" positioning – i.e. **serving audiences under 25** years of age, with significantly greater focus on **teenage listeners (13-19).**

In terms of content, we support the Review's focus on programming which is distinctive and promotes the public purposes. As with the Review's other "qualitative" recommendations, we would like to see more evidence of how these proposals, if approved by the Trust, will be enforced.

Our final observation on Radio 1 concerns its relatively poor performance in its reported "quality appreciation" scores. These were significantly lower than for the BBC's other national FM networks. These should be investigated further and, if feasible, addressed.

6.6.2 Radio 2

As with Radio 1, we support the recommendations about increasing distinctiveness and promoting the public purposes, but retain concerns about the station's target audience.

We welcome the proposal that speech should make up more than 50% of daytime programming (though it is important that a high proportion of this speech should have discernible public value, e.g. documentaries, current affairs[56]). As with Radio 1, it will be important to monitor how effectively Radio 2 delivers in this area.

We agree that the station should place greater emphasis on serving the needs of older listeners – both in terms of daytime music choice (we recommend a broad range of music from across the last 55 years) and the scheduling of programmes of greater appeal to older listeners. Nevertheless, we retain concerns about the station's age profile - not least following the departure of Terry Wogan.

To address these concerns, and in order to reduce its market impact, we recommend that the target audience of Radio 2 **should be raised immediately from 35+ to 40+ (rising to 45+ within three years)**.

6.6.3 Privatisation

Privatisation is not an issue given explicit consideration in the Strategy Review. However, over the years, there have been numerous calls for the BBC to reduce its scale significantly – most frequently through privatisation (or similar) of Radio 1 and / or Radio 2.

In the longer term, there may be merit in pursuing this option, but currently there is limited appetite amongst the commercial sector for privatisation of these services. The sector is already struggling to break-even (66% of local stations are loss-making or generating profits of less than £100k). If Radio 1 and Radio 2 were to be privatised, the market for advertising airtime would be flooded with inventory, which would lead to a collapse in the revenues and margins of all other commercial stations.

6.6.4 Activities which may distort the market

In addition to these specific recommendations about Radio 1 and Radio 2, we also include in this section recommendations which are relevant across BBC Radio, but which have particular resonance with the popular music services.

Cross-promotion: The Ofcom Cross-promotion Code seeks to ensure that cross-promotional activity does not prejudice fair and effective competition. The Government has recognised that "it is important that the BBC should continue to promote its services on-air so that licence fee payers are aware of specific programmes and the breadth of the BBC's overall offering[57]". However, the Trust also recognises that promotion of services by the BBC could raise concerns about the competitive impact of the BBC's activities on the wider market.

We understand the importance of the BBC making audiences aware of different services available across the BBC – especially those with the greatest public value. However, a line needs to be drawn between raising awareness and running major advertising campaigns – as, for example, happened recently with the Chris

[56] It would also be helpful to know what the current proportion of daytime output is speech, so that the impact of these proposed changes can be properly assessed

[57] Competitive Impact Code

Evans breakfast show (which helped the Radio 2 breakfast show increase its audience from 8.1m in Q4 2009, when Terry Wogan was host, to 9.5m in Q1 2010)[58].

On a similar note, the recent decision to promote the Radio 1 Official Chart Show on TV seems highly questionable - not only because it competes head to head with similar shows on commercial radio, but also because the Trust's advice to Radio 1 has been to focus more on its promotion of the public purposes.

In the light of the financial challenges facing the commercial sector, **we strongly recommend that TV promotions are focused on truly distinctive programming (or the advantages of digital radio).**

Free events: We recommend that Radio 1 (and others) limit their use of free events (as promotional activities). Radio 1 is a significant promoter of free events, such as the Radio 1 Big Weekend. The primary purpose of these licence fee funded events is the promotion of Radio 1[59]. These events have a dual impact on commercial markets:

- first, as these events are free, the commercial sector is constrained in its ability to put on paid for events featuring well known acts
- second, Radio 1 live events can have a significant impact on listening in areas where the events take place - creating particular problems if the commercial station in question is small. This was acknowledged by Radio 1, with Controller Andy Parfitt saying in May 2007 "We know that we will have a huge impact in this area. When we did Dundee last year you could see it in our reach the quarter after."[60]

Giving undue exposure to artists or businesses: BBC Radio should limit the exposure it gives to artists or businesses seeking to promote products or services. From time to time, BBC Radio provides overly extensive coverage to artists seeking to launch new products or services. As a result, commercial radio can find itself "crowded out" from gaining access to these artists. Recent examples of the BBC giving undue exposure include U2 and Coldplay. It is important that such activities do not breach the BBC's Competitive Impact Principle and that the current revision of BBC Editorial Guidelines and the forthcoming review of Fair Trading Policy capture these concerns in an adequate fashion.

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58 Other examples include promotions for Chris Moyles http://www.youtube.com/watch?v=zcFltB2ZHyk
59 This should not be concealed by the fact that the costs for these events typically come from non-marketing budgets
60 Source: Sophie Morris, 'Who are the beneficiaries of these new Radio 1 Roadshows?', The Independent, 28 May 2007

7 Radio 3 and Radio 4

7.1 Introduction

Neither the Strategy Review nor this report places a significant focus on Radio 3 and Radio 4. Both are seen as pillars of the BBC's public service mission, offering high quality services, which are highly distinctive from commercial offerings. These services are likely to receive more detailed scrutiny when the Trust undertakes its recently announced review of Radio 3, Radio 4 and Radio 7.

Exhibit 32: Summary of BBC Radio 3 and Radio 4 services

Station	Remit / description of service	Target age group	Competitors
BBC RADIO 3	• Centres on classical music, around which it provides a broad spectrum of jazz, world music, arts programmes and drama • Strong emphasis on musical performance from across the UK	• N/A	• Classic FM
BBC RADIO 4	• Aims to use the power of the spoken word to offer programming of depth which seeks to engage and inspire, with a unique mix of: - factual programmes - drama, readings and comedy	• N/A	• LBC

Source: BBC Trust

7.2 Analysis of performance: Radio 3

Radio 3 serves a relatively small audience – reach has remained at 4% for ten years. Its content (classical music, jazz, world music and drama) is highly distinctive and actively serves to promote the public purposes – for example, through its active support for live performances.

Its "quality" positioning is complementary to the more "accessible" Classic FM (reach of 11%).

The consensus amongst all interviewees was that Radio 3 should continue in its current guise.

7.3 Analysis of performance: Radio 4

Described by Lord Smith as "the most brilliant talk radio in the world", the reach of Radio 4 has remained steady at 19-20% since 1999.

Radio 4's content (e.g. news, current affairs, drama, arts and comedy) is seen as highly distinctive – the more so since Channel 4 withdrew its plans to launch a rival speech / news service.

Whilst the quality of Radio 4 output is generally beyond dispute, it should be noted that its audience appreciation scores, as reported in the BBC Annual Report, are some way lower than for Radio 3 and slightly lower than for Radio 2. This may reflect the diversity of the station's output (i.e. some programmes only appealing to certain sections of the station's audience), but there is also a risk that investment in "edifice projects", such as the widely praised *A History of the World in 100 Objects*, could divert focus and resources from less high profile programming.

7.4 Strategy Review

The Strategy Review strongly endorses the "current creative direction and editorial performance" of Radio 3 and Radio 4[61]. Both are described as "strikingly distinctive":

- Radio 4 is "unique in world radio in its quality and range"
- Radio 3 makes " a critical contribution to music and music-making" in the UK

Specific recommendations are limited – for example, that Radio 4 should:

- increase its commitment to knowledge projects such as *A History of the World in 100 Objects*
- place an emphasis on major drama commissions and seasons.

7.5 Response to the Strategy Review

The Strategy Review has not called for significant changes to Radio 3 and Radio 4, a view which we support – and we welcome the BBC's proposals for major knowledge and drama projects on Radio 4.

7.5.1 Radio 3

For Radio 3, our main concern is that the service should retain its "quality" positioning and its distinctiveness from Classic FM. If Radio 3 were to broaden its appeal (for example, through more accessible programming - supported by promotional campaigns), this could have a detrimental impact on Classic FM's audience – though listeners might equally be drawn from other BBC services, such as Radio 2 and Radio 4. In order to ensure the retention of Radio 3's distinctiveness, there may be scope to tighten the service's remit – but any changes should wait until the Trust's review is completed.

7.5.2 Radio 4

Our main recommendations for Radio 4 are that it should:

- continue its focus on "built journalism", drama, comedy and documentaries
- avoid moving into phone-in type programmes which are already covered by 5 Live and Jeremy Vine on Radio 2
- seek to broaden its appeal to listeners outside London and the South East (its reach in these regions is 24.6% and 27.0% respectively, against a national average of 19.6%)

In addition, two issues may merit further investigation.

The first, perhaps surprisingly, is programme quality. As mentioned above, the proportion of its programmes receiving the highest quality appreciation scores is lower than for both Radio 3 and Radio 2. We expect that this issue will be covered in the Trust's forthcoming review.

The second area is costs. We have highlighted, in Chapter 5, our general concerns about cost management. For Radio 4, given the unique aspects of much of its output, it may be difficult to find appropriate external benchmarks. However, internal benchmarking and, where appropriate, the sharing of resources could help deliver cost efficiencies.

[61] BBC Strategy Review, page 40

8 5 Live

8.1 Introduction

5 Live is a national AM service, broadcasting live news and sports coverage, 24 hours a day. Its service licence[62] sets out the following remit:

- about 75% of its output should be dedicated to news programming (which should include weekday peak hours at breakfast and evening drivetime)
- its sports coverage should include commentary on major events, news and other programming on a broad range of sports from around the world, including minority sports.

Part of 5 Live's remit is to "draw a younger and more diverse audience to BBC news coverage than other parts of the BBC".

Sports Extra is a part-time sports commentary service providing additional sports commentary on DAB. It acts as a complementary service to 5 Live.

Exhibit 33: BBC Radio 5 and BBC Radio 5 Live

Station	Remit/description of service	Target Age Group	Competitors
BBC RADIO 5 live	• BBC Radio 5 live broadcasts live news and sport 24 hours a day, covering events as they happen in an accessible style	• N/A	• talkSPORT • LBC
BBC RADIO 5 live sports extra	• BBC Radio 5 Live Sports extra is a part-time network providing additional sports coverage using rights already owned by the BBC to deliver greater value to licence fee payers	• N/A	• talkSPORT

Source: BBC Trust

5 Live's closest competitors are talkSPORT and LBC (for sport and news respectively). The audience profiles of all three stations are fairly similar – average age in the 40s, over 50% ABC1 and over 60% male.

[62] BBC Trust, Radio 5 Service Licence April 2008, p3

Exhibit 34: Audience profile of 5 Live and competitors

Station	Average age	% ABC1	Proportion of male listeners (%)
BBC RADIO 5 live	• 45	• 67%	• 72%
talkSPORT 1089/1053AM and Digital Radio	• 40	• 55%	• 77%
LBC 97.3FM	• 49	• 65%	• 63%

- All three are speech-based services, with coverage focused to varying to degrees on news and / or sport
- 5 Live and talkSPORT are national services
- LBC is a London station

Source: RAJAR, Hallett Arendt, Value Partners analysis

8.2 Analysis of performance

Amongst interviewees, there was a significant high-level support for 5 Live:

"The mix of news and sport has been a surprising success" Lord Smith

"It provides a counterbalance to Radio 4's bias towards London and the South East" Paul Robinson

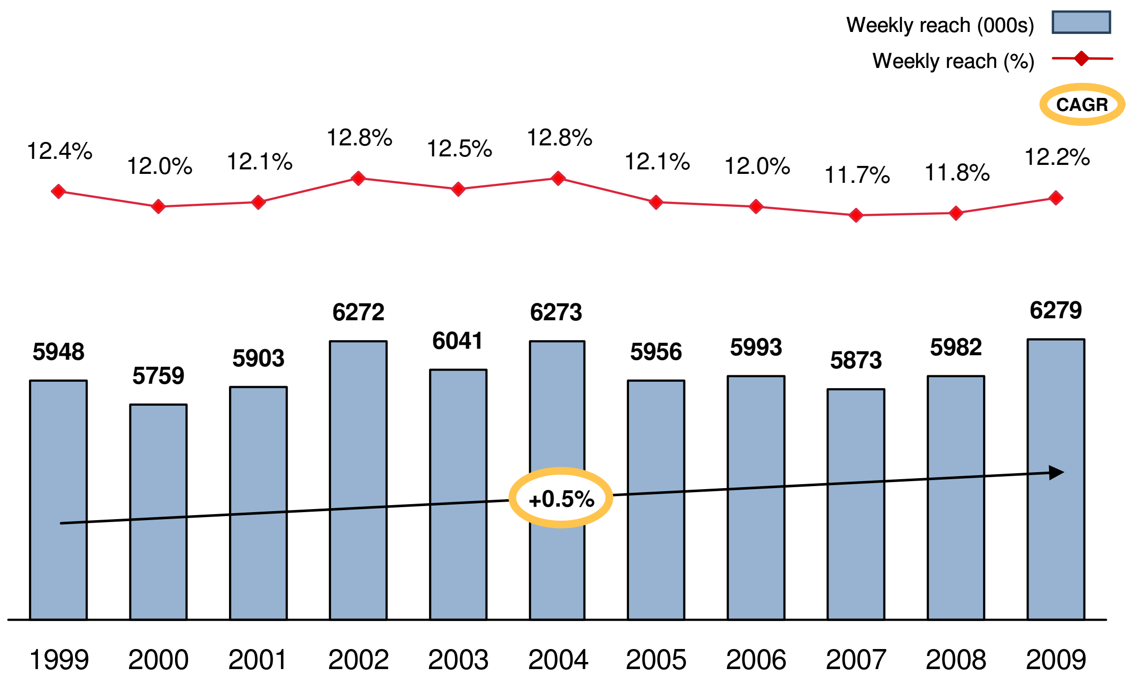
However, the service has yet to undergo the scrutiny of a Service Review by the BBC Trust (its first Review is scheduled for 2011). This may reveal a number of issues. For example, concerns have been raised by some interviewees about the service's delivery of its remit.

Analysis conducted by UTV suggests that news accounts for less than half of the station's output (45%), with sport accounting for over one third (37%) - the remainder might more accurately be described as "entertainment", e.g. celebrity interviews, trivia and funny stories. Whilst part of 5 Live's remit is to offer programmes which "inform and entertain", the service is at risk of being insufficiently distinctive from commercial speech-led services.

8.2.1 Reach

Over the last ten years, 5 Live's reach has been remarkably stable – at about 12% of the adult population (fluctuating between 11.7% and 12.8%).

Exhibit 35: Radio 5 Live weekly reach



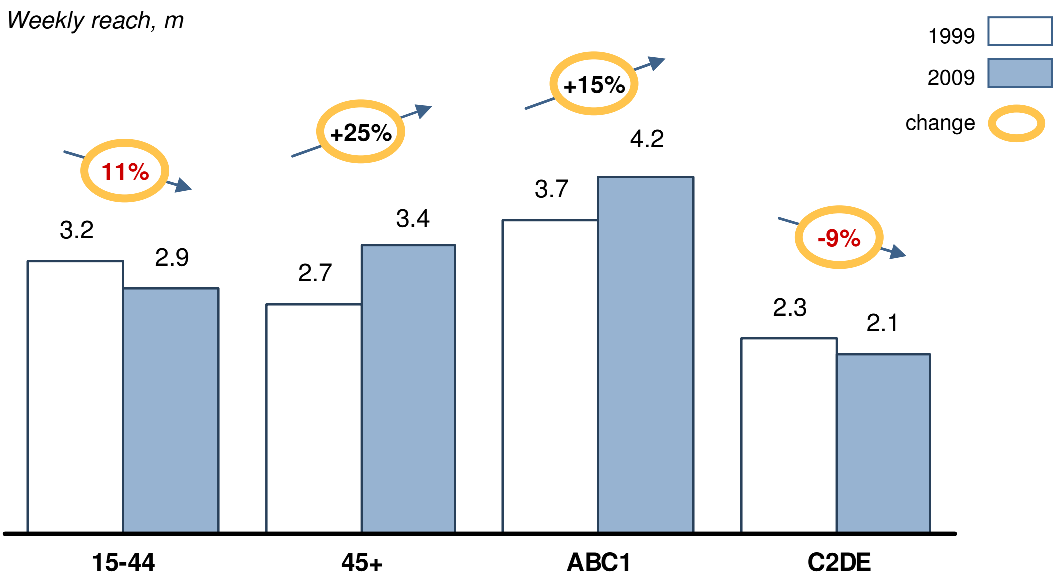
Source: RAJAR, Value Partners analysis

However, closer analysis raises a number of issues. First, the station's remit is to have its output split 75% news and 25% sport – with its **news output reaching a younger and more diverse audience** than other BBC news services. The challenge for the station is that its association with sport means that its audience is 72% male[63] (5 Live reaches 18% of men, but only 7% of women). Additional analysis would be required to see how this is reflected in the audience for the station's news programming – but this headline figure may indicate a lack of diversity.

The second issue is that, over the last ten years, 5 Live's audience profile has grown older and more upmarket – i.e. shifting towards audiences already well served by the BBC.

[63] Similar to Talksport, significantly higher than LBC

Exhibit 36: Radio 5 Live weekly reach (1999-2009)



Source: RAJAR, Hallett Arendt, Value Partners analysis

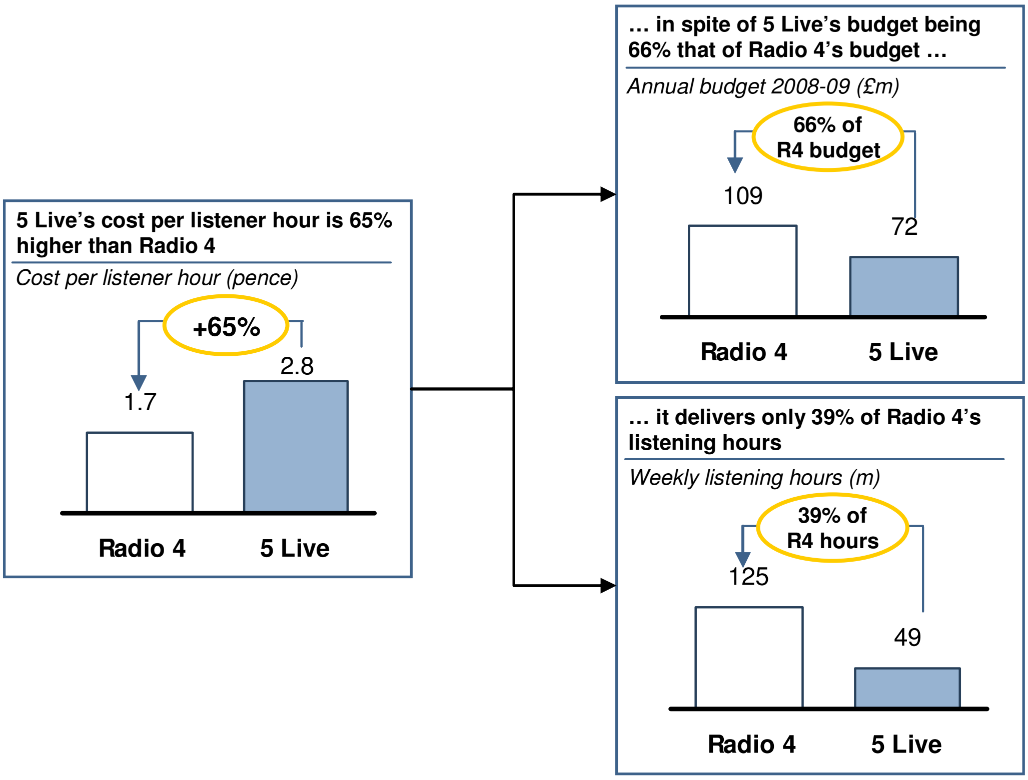
Although the decline in listeners aged 25-44 would be welcomed by commercial radio, these trends run counter to 5 Live's remit to attract a younger and more diverse audience. The risk is that 5 Live may end up super-serving the BBC's heartland audiences[64].

8.2.2 *Value for money*

The total budget for 5 Live is £72m. For the audience achieved, this seems high: 5 Live's cost per listener hour is **65% higher** than that of Radio 4 (generally considered a higher quality and more distinctive service):

[64] A view supported by the analysis of reach figures: the combined reach of Radio 1, Radio 2, Radio 3 and Radio 4 is 27.8m; adding 5 Live only increases this reach by 1.9m (to 29.7m).

Exhibit 37: Comparison of 5 Live and Radio 4 costs per listener hour



Source: BBC Annual Report 2008/09, RAJAR, Value Partners analysis

A breakdown of 5 Live's budget is not available, but clearly a major element of expenditure is on sports rights.

8.2.3 Sport rights

5 Live has acquired the rights to a wide range of sporting events (often on an exclusive basis). For some of these rights, e.g. English Premier League football, there is significant demand from the commercial sector; for other sports, e.g. rugby, athletics, there is less commercial interest.

Exhibit 38: 5 Live sports rights

Sport	Sporting event (s)	BBC's sports rights holdings		Commercial Radio's interest in gaining access to sports rights
		Rights held?	Notes	
Football	• English Premier League (EPL)	✓	• Currently holds 6/7 exclusive packages; 1 package held by TalkSport • In most recent tender, BBC has won four packages, Talksport has two and Absolute Radio has one	
	• FA Cup	✓	• Exclusive coverage of FA Cup and England games	
	• FIFA World Cup	✓	• Non-exclusive	
	• UEFA - European championships - Champions League - Europa Cup	✓	• Non-exclusive rights for the Champions League and Europa Cup	
Cricket	• Cricket World Cup	✓	• Non-exclusive	
	• Ashes	✓	• Non-exclusive	
Tennis	• Wimbledon	✓		
Rugby	• Rugby Union World Cup	✓		
	• Rugby League Challenge Cup	✓		
	• Rugby Union Six Nations	✓		
	• British and Irish Lions Tours	✓		
Various sports	• Olympics	✓		
	• Commonwealth Games	✓		
Horse racing	• The Grand National	✓		
	• The Derby	✓		
Athletics	• World Athletics Championship	✓		
Golf	• The Open Golf Championship	✓		
	• Ryder Cup	✓		

Source: Press search, Value Partners analysis

In addition to crowding out the commercial sector, BBC Radio's level of investment in sports rights raises two important issues:

- if the BBC were to bid less for these rights, it is highly likely that they would still be available to licence fee payers on a **free to air basis** (on either BBC or commercial radio)
  - interviews (and the evidence of the recent EPL tender) suggest strong interest from commercial radio in securing rights for events such as the EPL and the FA Cup
- it is rarely in the interests of licence fee payers for the BBC to own exclusive rights
  - exclusive rights are more expensive
  - exclusivity prevents other broadcasters from covering an event – an issue of concern when the BBC's limited capacity (even with Sports Extra) prevents it from providing full coverage of multiple matches (for instance, the FA Cup 3rd round)

It should be noted that last year, the BBC was criticised by the BBC Trust for not having a process for assessing the market impact of its rights acquisition strategy. Subsequently, in the most recent tender for English Premier League (EPL) rights, the BBC saw its share of the seven available rights packages fall from six to four (with talkSPORT winning two packages and Absolute Radio winning one). It is not clear whether this outcome was influenced by the Trust's criticism.

8.3 Strategy Review

The Strategy Review devoted limited space to 5 Live. Its main comments about the service were:

- a statement of the importance of its role as the "home of sport and breaking news on BBC Radio" [65]
- its description of 5 Live as a "key pillar of the BBC's commitment to its new home in the North"
- a strong endorsement of the station's "current creative direction and editorial performance".

The only specific (and important) recommendation that the review makes regarding 5 Live is that "the BBC will not insist on exclusive access to radio sports rights, unless there is an overwhelming audience or public value case to do so"[66].

8.4 Response to the Strategy Review

5 Live should consider if and how it should rebalance its focus between news and sport. The current balance is producing an audience skewed towards male / BBC heartland audiences – when its remit is to deliver a younger and more diverse audience for BBC news. The station should also review the distinctiveness of its output from commercial speech-led services.

In terms of the station's sports coverage, **we recommend that the BBC focuses less on football** (for which commercial stations have demonstrated strong demand) and offers greater support / airtime to less high profile sports, such as rugby and athletics, or emerging sports, such as women's football. This could have a number of benefits by:

1. reducing 5 Live's costs (football rights are the most expensive sports rights)
2. moderating 5 Live's market impact – with licence fee payers still likely to hear matches on commercial (free-to-air) radio
3. providing greater opportunity to promote "minority" sports
4. making it easier to focus on extending the reach of BBC news

The outcome of the latest EPL tender suggests that 5 Live may already be taking steps in this direction – though we are not aware of any statement to this effect.

Regarding exclusivity, **we strongly endorse the Review's proposal not to insist on exclusive rights**; but would like **greater clarity** on the sort of circumstances which are likely to constitute an "overwhelming audience or public value reason for pursuing exclusivity".

[65] BBC Strategy Review, p38
[66] BBC Strategy Review, p57

9 BBC Radio's Nations services

9.1 Introduction

BBC Radio operates five Nation's services for Scotland, Wales and Northern Ireland: three English language services - Radio Scotland, Radio Wales and Radio Ulster / Radio Foyle; and two non-English - Radio nan Gàidheal and Radio Cymru. The English language services face competition from the commercial sector, but commercial radio does not provide non-English language services.

Exhibit 39: Summary of BBC's Nations services

Station	Remit/description of service	Target Age Group	Competitors
BBC Radio nan Gàidheal / BBC Radio Scotland	• Radio Scotland is a speech-led service for adults • BBC Radio nan Gàidheal is a speech and music radio service for Gaelic speakers • Both offer a wide range of genres and reflect issues, events, culture and interests of the people of Scotland	• Individuals interested in content relevant to the Scotland, Wales and Northern Ireland regions • All ages	• Real Scotland • Clyde • Tay • West Sound
BBC radio cymru / BBC radio wales	• Radio Wales is a speech-led service for adults • BBC Radio Cymru is a speech and music radio service for Welsh speakers. • Both offer a wide range of genres and reflect issues, events, culture and interests of the people of Wales		• Real Wales
BBC Radio Ulster / BBC Radio Foyle	• BBC Radio Ulster/Foyle is a speech-led service that covers a wide range of genres and reflects all aspects of contemporary life in Northern Ireland - they combine coverage of local issues, interests and events with coverage of national and international developments		• Cool FM • Downtown Radio • City Beat

Source: BBC Trust

The primary roles of the Nations services are to:

- provide accurate, impartial and independent news
- report and scrutinise national political life (particularly important following devolution)
- support national music, arts and culture

As predominantly speech-based services ("mini Radio 4s"[67]), they generally offer a proposition which is distinctive to that offered by commercial radio. Each of the Nations services use split frequencies to offer local opt-outs – potentially bringing them into closer competition with more locally focused commercial services.

BBC Radio has acquired exclusive rights to all Scottish Premier League matches.

9.2 Analysis of performance

9.2.1 *Reach*

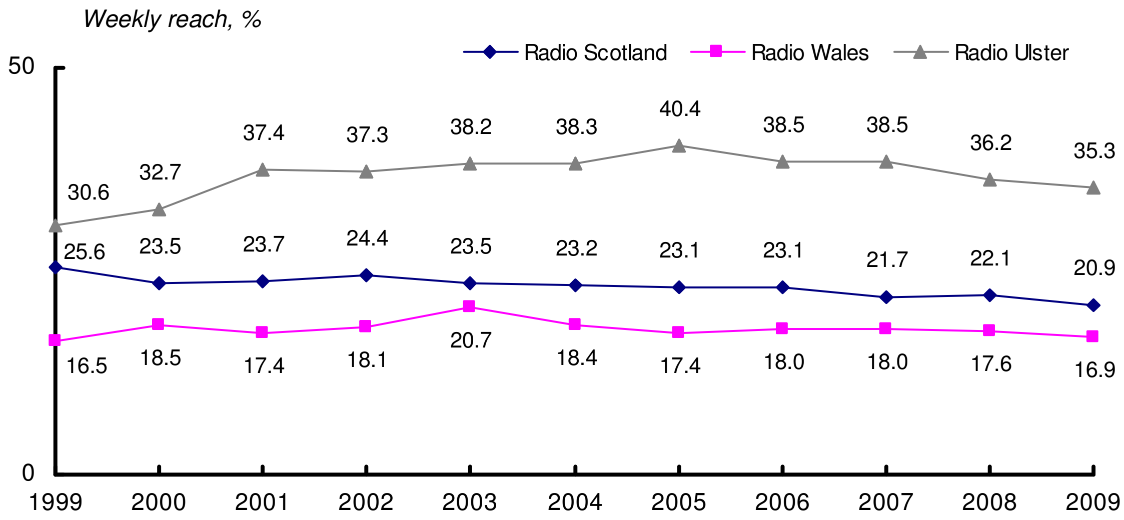
The combined reach of the Nations services is 1.9m – 23.4% of their target audience. There is, however, significant variation between the performances of the (English-language) services – with Radio Ulster

[67] Paul Robinson

achieving 35% reach, Radio Scotland achieving 21% and Radio Wales achieving 17% (Radio Cymru's reach is 6%).

In recent years, the three English language services have seen a fall in listeners – though over a ten year period, Radio Ulster has increased its audience, Radio Wales is broadly unchanged and Radio Scotland has seen a decline. (Radio Cymru has also seen a decline – its reach falling from 7.8% in 1999 to 6.0% in 2009[68].)

Exhibit 40: % Reach of BBC Nations English language services



Source: RAJAR, Hallett Arendt, Value Partners analysis

The relative strength of Radio Ulster appears to be at the expense of Radio 2 and Radio 4 which in Northern Ireland respectively take 6.2% and 4.3% share, compared to shares across the UK of 16.0% and 12.4%. (The share of commercial radio in Northern Ireland is 41.9% - similar to its UK share of 42.3%.)

The relatively weak performance of Radio Scotland reflects a general underperformance by the BBC in Scotland (especially Central Scotland, where the BBC Radio's share is 38.2% compared to a UK average of 55.3%).

In Wales (and the West of England), the BBC overall has a high audience share of 64.1%, but the % reach of Radio Wales is the lowest of three Nations services.

9.2.2 Value for money

In terms of cost per listener hour, the Nations are amongst the most expensive of the BBC's radio services. The average cost per listener hour for the (English language) Nations services is **8.0p**[69] (similar to Radio 3) – compared to an average for the BBC's total radio output of **2.1p.**

There is significant variation in the costs per listener hour of the three English language services – Radio Ulster's is 5.1p, Radio Wales's is 7.8p and Radio Scotland's is 12.4p.

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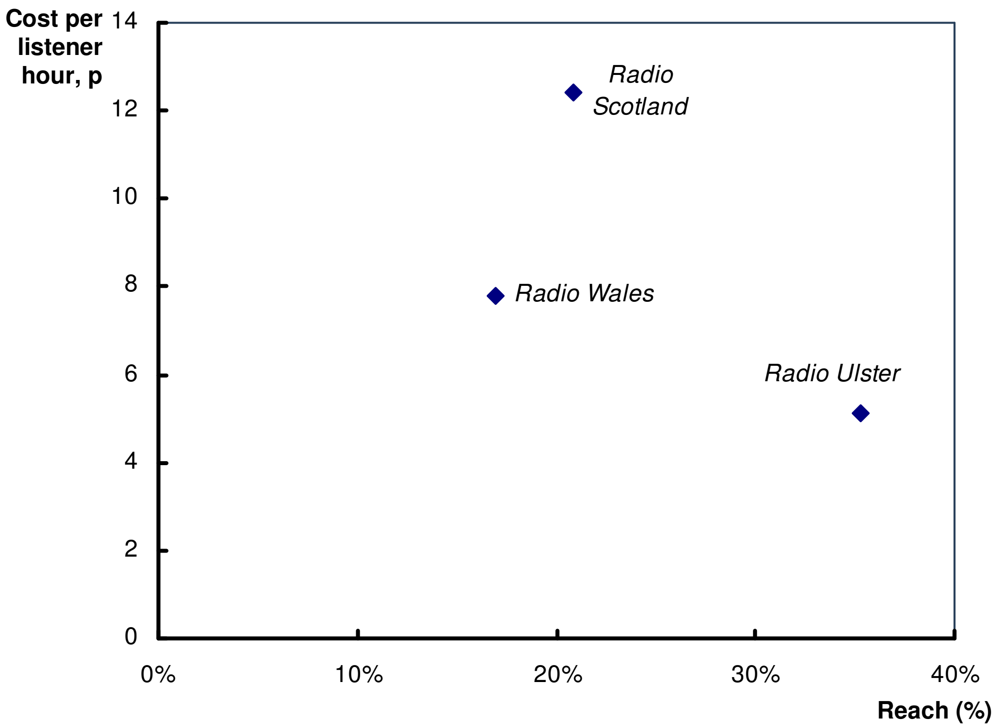
[68] RAJAR does not report audience figures for Radio nan Gàidheal
[69] The cost per listener hour for Radio Cymru is 29.6p

Exhibit 41: % reach and cost per listener hour of BBC Nations' services



Source: RAJAR, Hallett Arendt, Value Partners analysis

This variation reflects the differences in the budgets for the three services: Radio Scotland's is £32m – whilst Radio Ulster's is £18m and Radio Wales's is £16m. (The budgets for Radio Cymru and Radio nan Gàidheal are respectively £15m and £6m.)

9.3 Strategy Review

The Strategy Review devotes limited space to the Nations radio services – perhaps, because they are about to be reviewed by the BBC Trust. The two most relevant proposals were to:

- ensure that 40% of radio spend should be outside London
- enhance the quality of journalism that reflects the whole UK through a portfolio of UK-wide, nations and local news services

9.4 Response to Strategy Review

It is disappointing that so little attention has been focused on the Nations services – they account for one sixth of BBC Radio expenditure - £67m on the English language services, a further £21m on the Welsh and Gaelic language services.

We have three specific issues about the Nations services.

- Value for money
- Local opt-outs
- Sports rights

a) Value for money

According to the BBC Trust web-site, "licence fee payers tell us that the BBC's radio stations serving the nations (and local regions) make an invaluable contribution to their communities". Such benefits are clearly difficult to quantify when trying to assess the delivery of value for money – particularly when trying to compare them against alternative uses of licence fee funds. However, the significantly different cost per listener hour figures outlined above (in 9.2) suggest that at, a minimum, cost effectiveness comparisons can be made between the three English language Nations service**s. Specifically, we question the size of budget being spent on Radio Scotland, relative to the budgets for Wales and Northern Ireland.**

b) Local opt-outs

As mentioned in 9.1, the Nations make frequent use of local opt-outs. This brings them into closer competition with more locally focused commercial stations, for example in the Shetland Islands. **At a time when the BBC is proposing to place limits on its localness in England[70], it should consider placing tighter limits on its approach to "localness" in the Nations.**

c) Sports rights

We have already discussed at length 5 Live's approach to sports rights (7.2.4); and have made recommendations about reducing investment in rights (especially football), for which there is demand from the commercial sector. **The Strategy Review itself proposes not investing in exclusive rights apart from in exceptional circumstances. We strongly recommend that all BBC services (Nations and Local Radio) follow this same approach.**

[70] BBC Strategy Review page 57

10 BBC Local Radio

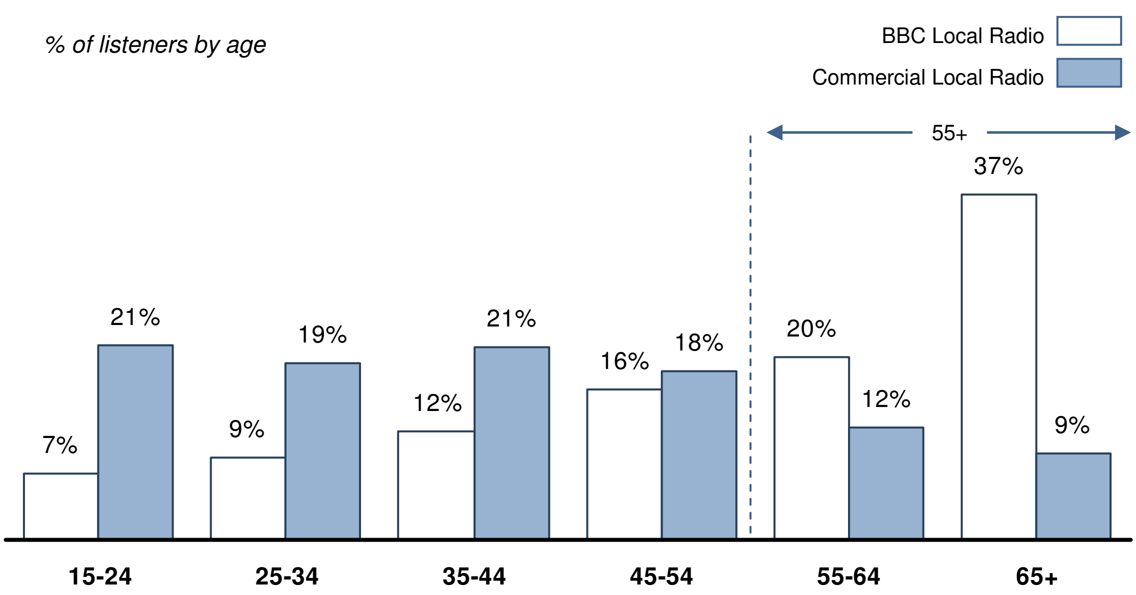
10.1 Introduction

The BBC has 39 local radio stations. The remit for these stations is to provide speech-led services (local news, local information, sport, and weather) focused on local communities.

The services are intended to target listeners aged 50+, an audience not generally targeted by local commercial stations. BBC London is the exception with a target audience of 45+. Overall, BBC Local radio has an older age profile than local commercial radio (as per its remit).

- 57% of listeners to BBC local radio are aged over 55
- 21% of listeners to commercial local radio are aged over 55.

Exhibit 42: Age profile of BBC and commercial local radio



Source: RAJAR, Hallett Arendt, Value Partners analysis

BBC services tend to serve broader geographic areas than commercial stations, which are more likely to be focused on single cities or towns (with the exception of the national and regional commercial stations).

All BBC local services are broadcast on FM. Two thirds (26) are also broadcast on AM.

The budget for BBC Local Radio is £133m p.a.

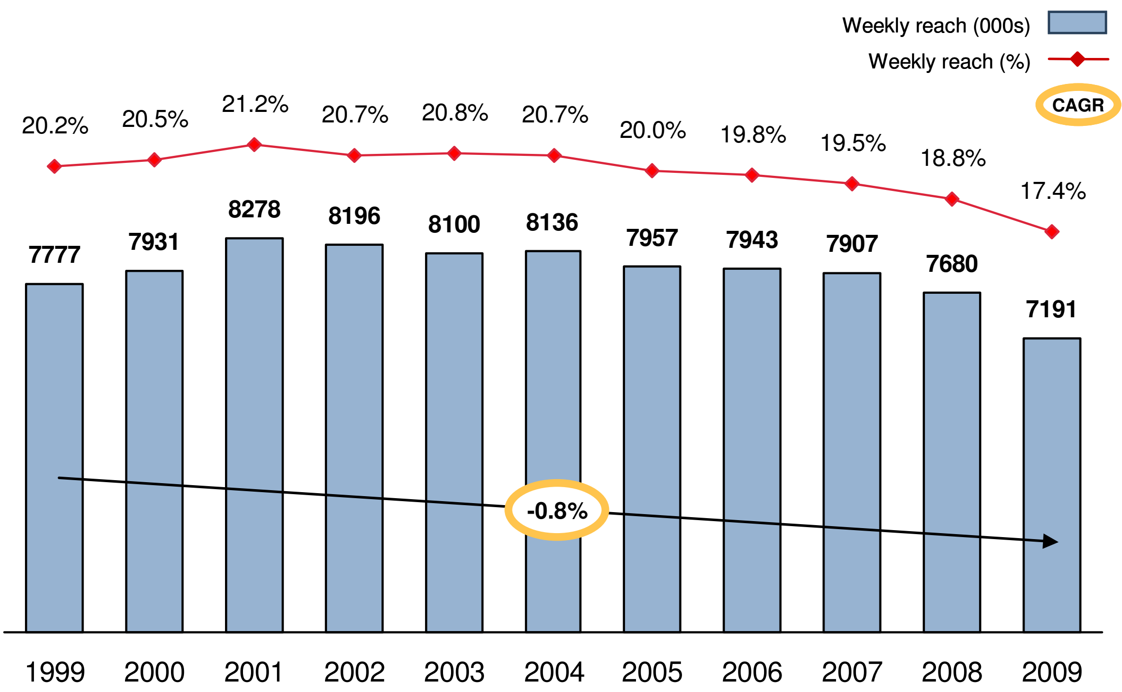
10.2 Analysis of performance

10.2.1 Reach

Since 2001, the reach of BBC Local Radio has been in decline:

- the bulk of this decline has been in the last five years (reach down 12% since 2004)
- with a particularly sharp drop in 2009 (down 6% year on year).

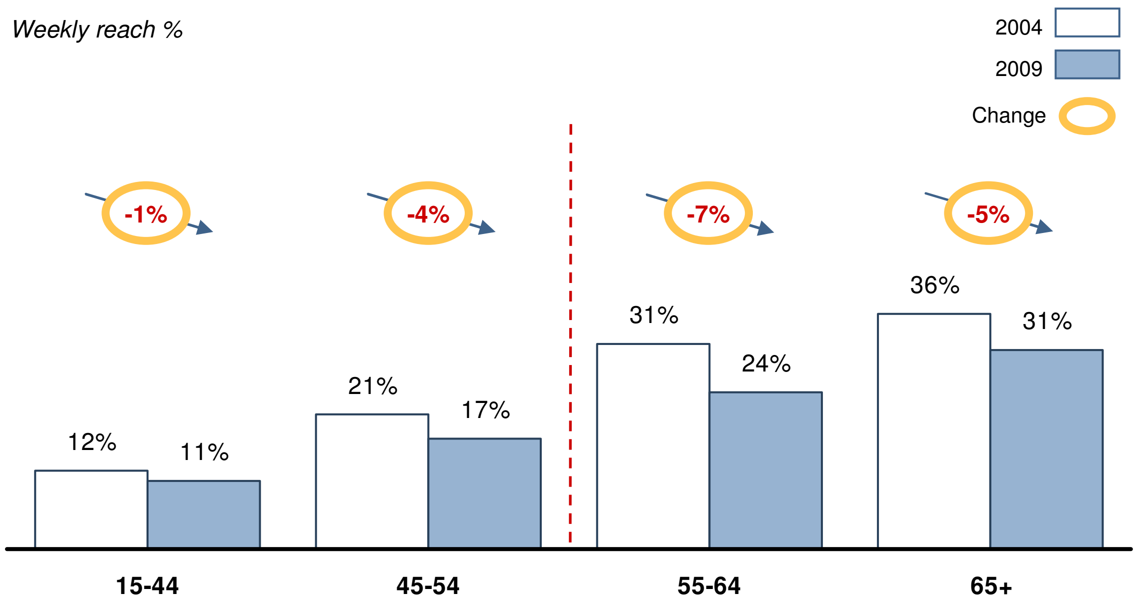
Exhibit 43: BBC Local Radio Reach (1999-2009)



Source: RAJAR, Value Partners analysis

In the last five years, the decline in reach has been greatest amongst listeners aged 55+ (in particular, 55-64s).

Exhibit 44: BBC Local Radio Reach by age group (2004-09)



Source: RAJAR, Hallett Arendt, Value Partners Analysis

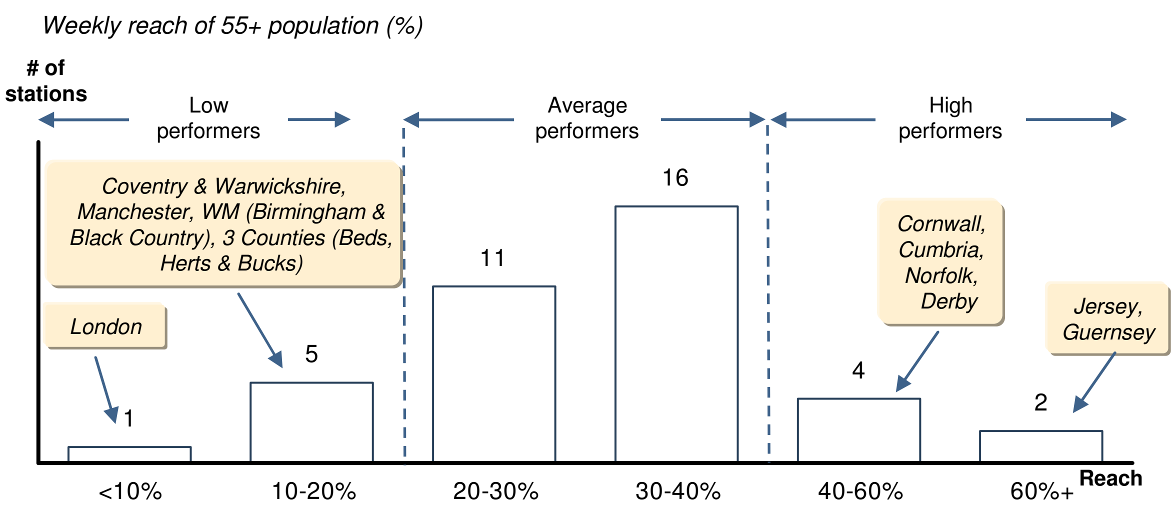
This decline is partly due to increased competition (e.g. from Radio 2 and commercial stations, such as Smooth and Real). However, according to interviewees, **the decline has probably been accelerated by relatively weak programming** – especially outside the peak times of breakfast and drivetime. Perhaps as a response to this pressure on audiences, some stations have a tendency to play a significant amount of mainstream popular music – which may attract listeners, but reduces their distinctiveness from the commercial sector.

> *"Outside of breakfast time, the audiences are often not large enough to justify a local (as opposed to regional) approach – in terms of quality or value for money. Phone-ins fail to work because there are not enough people to ring in; often the output becomes dull and irrelevant"* Michael Betton, MD Lincs FM
>
> *"When the format becomes predominantly music-based, it begins to mimic commercial radio and has less public value"* Paul Robinson

10.2.2 *Comparison of services*

The majority (27) of BBC Local Radio services reach between 20% and 40% of listeners aged 55+ within their target areas. A small number, in the Channel Islands and more rural areas, achieve very high reach figures amongst older listeners; but, there are also a number of services which achieve a much lower reach (less than 20%) – especially in and around the large metropolitan areas, where competition from commercial radio is significantly greater.

Exhibit 45: Reach amongst audiences aged 55+



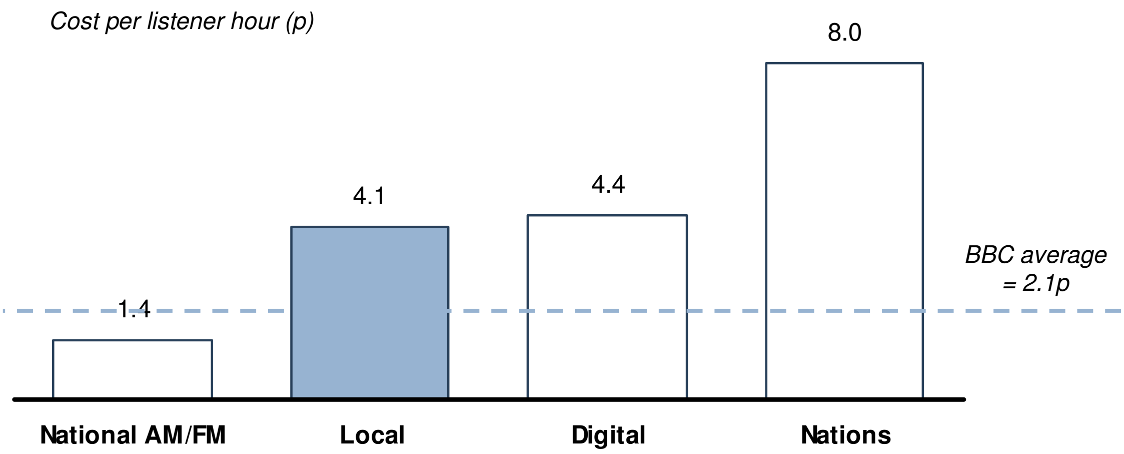
Source: RAJAR, Hallett Arendt, Value Partners analysis

10.2.3 *Value for money*

Compared to other BBC radio services, BBC Local Radio is relatively expensive with a cost per listener hour of 4.1p (three times that of the five core national networks, but only half that of the BBC's nations services).

As a result, BBC Local Radio accounts for 23% of the BBC's radio budget, but delivers only 12% of its hours.

Exhibit 46: Cost per listener hour of BBC Local Radio and other BBC services



Source: RAJAR, BBC Annual Report 2008/09, Value Partners analysis

10.3 Strategy Review

The BBC's Strategy Review has proposed that BBC Local Radio should target an audience of 55+ (in part, because this age group is under-served by commercial radio) – with particular focus on listeners aged over 65. As 43% of listeners to BBC Local Radio are currently aged under 55, a significant effort will be required to attract more older listeners.

In terms of content, the review proposes that BBC Local Radio should focus on its "distinctive mission" – with a renewed emphasis on speech and journalistic content:

- greater focus on breakfast, mid-morning and drivetime – with an audience focus on over 55s
- at other times, share programming (higher-quality speech content) across services
- 100% speech at drivetime

10.4 Response to Strategy Review

10.4.1 Positioning relative to commercial radio

We welcome some elements of the Strategy Review proposals – in particular, placing **greater emphasis on serving the needs of older listeners with higher quality speech-based services** (complementing the role fulfilled by local commercial stations).

However, **we remain concerned about the role of popular music on BBC Local Radio**. The review proposes a 15% cap on the proportion of music which is new / recent chart music. However, excluding breakfast and drive-time (when it is proposed there will be no music), no explicit limits have been set as to the volume of music played. This still leaves stations the option of playing artists such as Michael Bublé, Elton John, Abba and the Beegees – none of whom would be out of place on commercial radio. **In order that distinctiveness between BBC and commercial services is achieved, we believe that clear (low) limits on the volume of music played by BBC local stations are required.**

At the same time, potential exists in some areas for closer collaboration between BBC Local Radio and the commercial sector. **In particular, there is an opportunity for greater sharing of BBC news content with the commercial sector - commercial stations can repackage BBC local news content to meet the needs of their (younger) target audiences.** This would deliver the benefit of improved local news services for listeners to commercial radio, whilst extending the reach of the BBC's licence fee funded content.

10.4.2 Value for money

We believe **significantly greater focus should be placed on achieving value for money**. Currently, £133m p.a. is spent on BBC Local Radio (23% more than on Radio 4, delivering only 55% of the listening hours); there is no indication in the review as to whether this figure will fall or rise.

The review states that consolidation of programming outside breakfast, mid-morning and drivetime will release funding to invest in better quality local news within core listening hours. **We agree with the proposal to rationalise output, but the cost reductions achieved should, at least in part, be focused on returning funds to the licence fee payer**. **In addition, the BBC should reassess whether it is necessary to maintain all 39 of its services – with those achieving reach of less than 20% of listeners aged 55+ receiving particular scrutiny**.

In addition, **we strongly recommend that, where appropriate, benchmarking of BBC Local Radio with the commercial sector is implemented as quickly as possible** – again with the aim of achieving savings which could be returned to licence fee payers.

One other area where we would recommend further analysis is the role of AM distribution. Two thirds of local services broadcast on both FM and AM. The costs of AM transmission are typically about £100k per service. **If it is feasible to switch off some or all of these AM transmitters, it might be possible to achieve savings of £2-3m p.a.**

11 BBC Radio's digital-only services

11.1 Introduction

The BBC's digital portfolio (launched in 2002) has a dual purpose. **Individual services** seek to serve specific audiences with some form of "public service" content:

- Sports Extra and Radio 7 aim to exploit existing BBC assets (i.e. archive material, acquired sports rights)
- 1Xtra and 6 Music seek to serve diverse musical tastes and audiences
- The Asian Network attempts to reach an ethnic audience which the BBC traditionally has found hard to reach

The **entire portfolio** plays a central role in the BBC's support for digital radio (together with the BBC's marketing support of digital radio and its investment in DAB infrastructure).

Exhibit 47: Summary of BBC's Digital Radio services

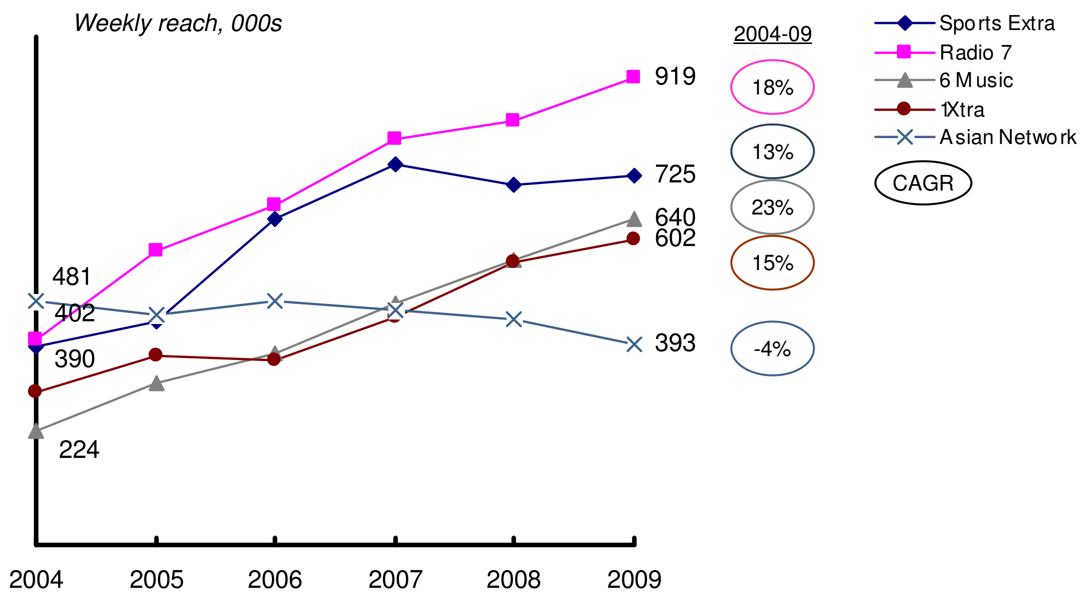
Station	Remit/description of service	Target Audience	Competitors
BBC RADIO 1Xtra	• BBC 1Xtra plays the best in contemporary black music - with a strong emphasis on delivering: - high-quality live music - supporting new UK artists	• 15-24s	• Choice • Galaxy • Kiss
BBC RADIO 5 live sports extra	• BBC Radio 5 Live Sports extra is a part-time network that provides additional sports coverage using rights already owned by the BBC, and so delivering greater value to licence fee payers	• Keen followers of sport • All ages	• talkSPORT
BBC RADIO 6 music	• BBC 6 Music aims to engage with lovers of popular music by offering - the best music from the BBC sound archive - current releases outside the mainstream - complemented by music news and documentaries	• Lovers of popular rock music • All ages	• XFM • Kerrang • Planet Rock
BBC RADIO 7	• BBC Radio 7 is a speech-based digital radio service offering - comedy, drama and readings mainly from the BBC archive - programmes for children	• Those interested in high quality speech • Children	• No direct competition since closure of One Word *(Jan 2008)*
BBC RADIO ASIAN NETWORK	• BBC Asian Network aims to offer challenging debate, informed journalism, music, sport, entertainment and drama for British Asians from different generations	• Individuals interested in content relevant to Asian community	• Sunrise • Panjab Radio

Source: BBC Trust, press search

11.2 Analysis of performance

The BBC's five digital services have had mixed fortunes. In the main, they have achieved healthy growth in listeners (four of the five stations recording double digital CAGR over five years). In terms of reach, the BBC's digital services are ranked in the following order: Radio 7, Sports Extra, 6 Music, 1Xtra, Asian Network:

Exhibit 48: Reach of BBC's digital radio services



Source: RAJAR, Hallett Arendt, Value Partners analysis

Since 2005, **Radio 7** has had the most listeners of the BBC's digital only services (920k in 2009). The station complements Radio 4 – extending its remit cost-effectively by re-using archive material.

Sports Extra has the second largest audience (725k in 2009) – though this has stagnated in the last two years. It extends listener choice by broadcasting sports events for which there is insufficient capacity on 5 Live. As with Radio 7, it is able to do so relatively cost-effectively as it broadcasts events for which the BBC has already bought the rights.

6 Music has probably the least clearly defined remit of the digital services (non-mainstream popular music – new, live and archive) – though it is seen, by interviewees and others, as seeking to promote the public purposes. Its reach in 2009 was 640k – it has been the fastest growing of the BBC's digital services (23% CAGR, 2004-09). The station's average age is 37 - commercial radio's heartland. As a result, if its audience continues to grow, the station's market impact could become significant.

1Xtra is a niche music service, focused on contemporary black music. It reaches a younger audience (average 25) than Radio 1 (average age 33). It seeks to differentiate itself from competitors, such as Choice FM, Galaxy and Kiss, by placing a greater focus on new / UK music. The aims of 1Xtra were generally welcomed by interviewees, but there were concerns that too much of the output focused on genres such as "gangsta rap" – which do little to raise the aspirations of listeners..

The **Asian Network** has seen its audience decline by a fifth since 2004 – falling in each of the last three years. This poor performance appears to be the result of:

- strong competition from the commercial sector, especially at a local level
- the service trying to serve diverse Asian communities with several different languages.

11.3 The drive to digital

The BBC has, on numerous occasions, stated its commitment to digital radio – most recently in the Strategy Review, where it highlighted "the critical role that (the BBC) must play in driving audiences to adopt digital radio"[71].

However, to date, the industry, as a whole, has made slow progress towards achieving the three pre-conditions set by Government for Digital Upgrade:

Exhibit 49: Progress towards meeting pre-conditions for announcement of Digital Upgrade

Issue	Target set in Digital Britain	Current status
Digital listening	• 50% of listening to be digital	• 21% of listening is digital[72]
National multiplexes	• National DAB coverage to be comparable to national FM coverage (c98%)	• BBC multiplex: 90% coverage • Commercial multiplex: 88%
Local multiplexes	• Local DAB to reach 90% of the population and all major roads	• Local multiplexes believed to cover 60-70% of the population[73]

Several factors contribute to the low proportion of digital listening – including limits on DAB coverage, very low in-car listening, limited consumer awareness / interest and the relatively high price of digital radios:

Exhibit 50: Factors contributing to slow take-up of digital radio

Issue	Status
DAB coverage	• 10% of the population has no coverage – and for many others, the strength / quality of signal is weak
In-car	• 18% of listening is in-car • But of c30m cars and commercial vehicles in the UK only 300-400k are believed to have DAB radios[74]
Consumer awareness / interest	• According to a survey conducted by MORI in 2007[75] - "non-users see digital radio as not yet established and quite a niche product, bought by early technology adopters and people who wanted it as a status symbol - there is felt to be a distinct **lack of advertising** / **marketing** of the features or benefits of digital radio."
Set prices	• Typically £20 higher than for analogue equivalents

[71] BBC Strategy Review page 12
[72] RAJAR Q4 09
[73] Based on industry interviews – due to difficulties in measuring coverage no official figure is available
[74] Source: Digital Radio UK
[75] Research commissioned by Ofcom as part of its consultation, "Radio – Preparing for the Future"

The BBC has no direct role to play in the installation of digital car-radios or the pricing of sets, but it clearly does have an influence in the roll-out of DAB infrastructure and the marketing of digital radio.

Currently, the BBC is committed to extending its coverage to 90%[76], but has yet to commit to anything more than this (notwithstanding Government encouragement that it should do so[77]).

With regards to marketing, the BBC has, along with the commercial radio sector, made efforts to promote DAB. However, the consistent view amongst interviewees was that significantly more could be done in this area:

> *"The BBC has a responsibility to promote digital radio – more than it currently does. It seemed to make more of an effort to promote the Chris Evans show"* Lord Smith

In particular, the finding that, until recently, awareness of the BBC's own digital services was only about 20%[78] serves to emphasize the point that further promotion is required.

11.4 Strategy Review

The most high-profile of the Strategy Review's recommendations about digital radio were the proposed closure of the Asian Network and 6 Music. However, the review contains a number of other important statements:

- the BBC must seek to promote growth of digital (radio) by nurturing the commercial digital radio sector[79]
- the BBC should maintain its level of investment in original radio content aimed specifically at digital services
- 1Xtra and Radio 7 should be more closely aligned with Radio 1 and Radio 4 respectively; Radio 7 should be rebranded "Radio 4 Extra" – with new content being introduced
- the most distinctive programmes on 6 Music should be transferred to other services

11.5 Response to Strategy Review

11.5.1 Individual services

a) Asian Network

The declining audience figures for **Asian Network** are a strong indicator of the service's failure to engage with listeners. Nevertheless, the BBC has a duty to serve Asian (and other ethnic minority) audiences effectively – currently, BBC Radio reach of Asians is 44%, compared to 66% for the total population.

Given the BBC's responsibilities in this area, before sanctioning the closure of the national Asian Network, the Trust should ensure that the Executive has developed robust alternative plans for serving Asian listeners, perhaps using BBC Local stations. (Currently, the Strategy Review is very light on what these alternative plans would be.)

[76] Caroline Thomson comments to House of Lords Select Committee (February 2010)
[77] For example, in comments made to the House of Lords Select Committee by Sion Simon, the departing Creative Industries Minister
[78] Source: BBC Strategy Review, Pan-BBC tracking study by TNS for BBC, Q4 09
[79] Strategy Review page 38

b) 6 Music

We are neutral on the BBC's proposals to close 6 Music. The arguments for closing the service are finely balanced – its proposition seeks to promote public purposes and it plays a (perhaps limited) role in helping to drive digital uptake. Against this, the potential market impact of the service (as it grows) is likely to become significant (though as stated earlier in this report, we have much greater concerns about the market impact of Radio 1 and Radio 2). In any case, we agree that the most important "public service" elements of 6 Music should be preserved by BBC Radio. We have no strong review as to whether this should be on 6 Music or one of the other BBC services (subject to our recommendation that Radio 1's target audience should be refocused on 15-24s). In any case, any decision about the potential closure of 6 Music should take into account plans for how the released spectrum might subsequently be used.

In the event that the BBC responds to the public outcry of the proposed closure of 6 Music, an alternative strategy would be to transfer the station to private ownership – either by the end of 2011 (proposed date for closure) or at some point between then and the date of Digital Upgrade.

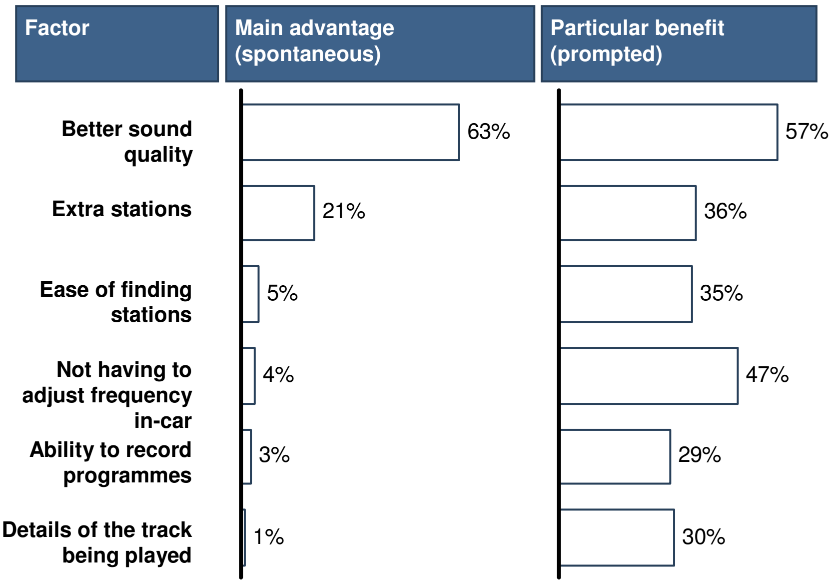
c) 1Xtra and Radio 7

In broad terms, we agree with the BBC's proposals to align 1Xtra and Radio 7 (4 Extra) more closely with their analogue sister stations. However, if there is to be closer alignment of 1Xtra and Radio 1 (and greater cross-promotion), **the distinctiveness of 1Xtra from commercial services, such as Choice, Kiss and Galaxy should be increased.** One option would be to make greater use of archive material to showcase the broader heritage which has influenced today's black music.

11.5.2 The drive to digital

The BBC's proposal to close 40% of its digital services clearly does not send out a positive message about the future of digital radio. However, consumer research suggests that increased choice of stations, although significant, is unlikely to be the primary driver of digital uptake. Research conducted for Ofcom by MORI in 2007, found that increased choice was only one (and not the most important) of several drivers:

Exhibit 51: Perceived benefits of digital radio (amongst analogue listeners)



Source: MORI Audience Research for Ofcom: Radio – Preparing for the Future, 2007

BBC Radio still has a crucial role to play in supporting the transition to digital. In the light of proposals to cut two of its five digital services, **we strongly recommend that the BBC should significantly increase its support for digital radio in other ways:**

- **sustained and heavyweight promotion of DAB (on both TV and radio)**
- **more "appointment to listen" content to be showcased on DAB, e.g. more high profile sports events on Sports Extra, perhaps showing the Archers on 4 Extra a day before being broadcast on Radio 4**
  - in partnership with the commercial sector, arrangements could be made to ensure that commentaries from all EPL matches are broadcast on either analogue or digital radio (i.e. a greater number of matches would be broadcast exclusively on DAB than is currently the case) – perhaps on the spectrum released by the proposed closure of Asian Network and 6 Music
- **in addition to the roll-out of the BBC's own national multiplex, significant financial support for the roll-out of local multiplexes**, to
  - help achieve the conditions for announcement of Digital Upgrade
  - ensure BBC Local Radio achieves the same levels of coverage on DAB as it has on FM.
- **a commitment to move one or more of the BBC's national FM or AM services exclusively onto digital** (only when the roll-out of national DAB infrastructure has been completed – perhaps in partnership with one or more commercial services).

Appendix: Summary of BBC Strategy Review and Value Partners' response

Exhibit 52: Proposed recommendations for BBC Radio

Service	Strategy Review Commentary	Strategy Review Recommendation	Value Partners' Response
Popular music services	• BBC recognises lead role of **commercial radio** in serving popular music to 30-50s	• Refocus Radio 1 and Radio 2 • Close 6 Music	• Agree with principle of refocusing – with specific recommendations for individual services below (neutral on closing 6 Music). • Significant concerns about enforceability of proposals (qualitative nature, lack of clarity re sanctions). Clear targets required, backed by sanctions for non-delivery
Radio 1	• Impressive value for money • Executive endorses creative direction and editorial performance • Gives pleasure to audiences and makes critical contribution to music in the UK	• Ensure focus is on 15-29s; work hard to remain distinctive - offer high-quality programmes / services which appeal to teenagers (including younger teenagers) - maintain / increase commitment in daytime to social action programming, specialist music, documentaries, impartial news and cross-platform initiatives - *BBC Introducing* will aim to connect Radio 1 and 1Xtra with music makers at the grass roots – a platform for the best emerging talent across the schedules	• Radio 1 should rediscover its "youth" positioning – i.e. **serving audiences under 25** years of age, with significantly greater focus on **teenage listeners (13-19)**
Radio 2	• Impressive value for money - most popular station in UK • Covers broader range of music than any other BBC service • Wide range of speech • Welcoming tone / quality of output • Opportunity exists to be more distinctive	• Become significantly and demonstrably more distinctive • Ensure average does not fall below 50, preferably rises • Increase commitment to specialist and speech programming – especially through scheduling • Over 50% of daytime output to be speech • Focus on documentaries, live concerts, comedy, jazz, campaigns / celebrations, media literacy	• Raise target age group to **40+ immediately, rising to 45+** within three years

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Service	Strategy Review Commentary	Strategy Review Recommendation	Value Partners' Response
Radio 3	• Gives pleasure to audiences and makes critical contribution to music in the UK	• Executive endorses creative direction and editorial performance	• Retain distinctive position relative to Classic FM
Radio 4	• Makes a unique and significant contribution to BBC purposes	• Executive endorses creative direction and editorial performance • Increase commitment to knowledge projects like *A History of the World in 100 Objects*	• Maintain focus on "built journalism", drama, comedy and documentaries; avoid moving into phone-in type programmes • Broaden appeal to listeners outside London and the South East
5 Live	• Important role as home of sport and breaking news • Key pillar of BBC commitment to the North	• Executive endorses creative direction and editorial performance • Will not insist on exclusive access to sports rights unless there is an overwhelming audience or public value case	• Review performance against service remit – in particular, assess whether news accounts for 75% of output • Reduce expenditure on sports rights, especially football; focus more on minority sports • Agree with position on exclusivity, but want clarity about potential exceptions • Review drift towards 45+ and ABC1 listeners
Digital portfolio	• **Part of strategy to help drive take-up of digital radio and widen choice for licence fee payers** • Awareness of BBC's digital services is about 20% • The smaller budgets of these services make it difficult for them to match consistently the quality of the analogue services • BBC's must seek to promote growth of digital by nurturing the commercial	• BBC should **maintain its level of investment in original radio content** aimed specifically at digital services	• Make significant investment in roll-out of DAB infrastructure (national and local) and strengthening of signals • Heavyweight and sustained promotion of digital radio on TV and radio • Increase provision of exclusive content on digital radio (including, once infrastructure roll-out is complete, early switch-over of a national analogue service – perhaps in partnership with a commercial service)

Service	Strategy Review Commentary	Strategy Review Recommendation	Value Partners' Response
	digital radio sector • Investments should offer good value to licence fee payers		
1Xtra	• Makes a unique and significant contribution to BBC purposes	• Plays key role in reaching teenagers • To be more closely aligned with Radio 1	• Increase distinctiveness from Choice FM, Galaxy and Kiss
6 Music	• Small audience of 700k per week • Plays range of music not available elsewhere and introduces music which is new to listeners • Popular amongst fan-base • Awareness is low (prior to closure announcement) • Adds little unique reach • Age of listeners (average 37) means station competes in commercial heartland • Boosting reach to deliver better value for money would have market impact	• Close by end of 2011 (subject to Public Value Test) • Transfer most distinctive programmes to other services • Review how support for new and specialist music can be sustained across the BBC	• We are neutral on proposed closure of 6 Music • If service is maintained, consider moving to private ownership when Digital Upgrade is announced (or earlier) • If service is closed, provide clarity about how the spectrum would be re-used
Sports Extra	• Complements 5 Live by extending its sports commentary offering	•	• Increase number of Premier League matches broadcast on digital only
Radio 7	•	• To be more closely aligned with Radio 4 – and rebranded as Radio 4 Extra; new content to be introduced	
Asian Network	• Has lost 20% of its listeners over three years	• Close the service • Serve Asian audiences through other means	• Before approving closure, robust alternative plans for serving Asian listeners should be

Service	Strategy Review Commentary	Strategy Review Recommendation	Value Partners' Response
	• Current scale does not justify level of BBC investment		developed
Nations and regions	• BBC faces complex challenges in Scotland, Wales, Northern Ireland and North of England – BBC performance varies significantly across UK • Other broadcasters struggling to invest in programmes and services for Nations • BBC committed to services which - reflect parts of the UK to the whole - serve specific areas with content which meets their needs	• **40% of radio spend, including 5 Live outside London by 2016** • Enhance quality of journalism that reflects the whole UK through portfolio of UK-wide, nations and local news services	• Assess budgets / value for money – especially for Radio Scotland
BBC Local Radio	• Reaches 17% of adults in England (37% do not listen to BBC network radio) • Highly valued by target audience – particularly important for older listeners • Distinctiveness lies in being a speech-led service for local communities • Reach in decline (down 15% in five years) – especially in urban areas (79% of net decline is from nine stations) • Marked decline amongst 65+ audience	• Focus on distinctive mission – renewed emphasis on speech and journalistic content - greater focus on breakfast, mid-morning and drivetime – with an audience focus on over 55s - at other times, share programming (higher-quality speech content) across services - 100% speech at drivetime • Aim to complement commercial radio provision - greater focus on serving needs of 65+ audience - current / recent chart hits to comprise no more than 15% of music output	• Review overall budget and rationalise services (whilst investing in high quality speech services at peak times) • Agree with shift towards older 55+ listeners • Place explicit (low) limits on amount of popular music which may be played • Explore opportunities for greater sharing of content between BBC and commercial sector
Efficiency	• No part of the BBC can be exempt from identifying efficiencies / better ways of working	• BBC should take great care to ensure that BBC Radio has the resources further to increase the quality of its output	• External benchmarking must be implemented as high priority (talent confidentiality clauses notwithstanding)

Service	Strategy Review Commentary	Strategy Review Recommendation	Value Partners' Response
Talent costs	• BBC deals represent value for money • But there has been significant inflation in top talent pay	• BBC will progressively reduce the amount spent on top talent over next few years and, to increase transparency, will publish total talent costs on an annual basis	• Specific targets should be set for total talent spend – broken down between "top talent" and the rest
Cross-promotion	• None	• None	• Focus should be on programmes / services which do most to promote the public purposes – rather advertising campaigns for most populist services (e.g. popular music breakfast shows)

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