



**The Impact of Rising BBC Radio Audience Share on
Commercial Radio**

15th September 2014

Context

RadioCentre asked Prospero to look at the historical performance of BBC Radio and Commercial Radio to identify any key changes in relative performance and to assess the impact of any audience losses on Commercial Radio's advertising revenue.

We looked at the performance over the last 15 years as in 1999 RAJAR changed its measurement to the approach currently used. Prior to 1999 consistent time line analysis is not possible.

Stability in Reach and Listening in Radio

There a number of macro factor that influence spend on radio, notably total spend on advertising (which typically declines during recession) and the attractiveness of radio relative to other media. The most effective indicators of radio's overall attractiveness are

- **Reach:** the percentage of the population who listen to radio within an average week
- **Listening hours:** the total number of listening hours to radio

Looking at the market in aggregate over the past 15 years shows the following trends for reach and listening hours

- The total market reach of radio has remained fairly constant over the last 15 years rising by an annual rate of just 0.1% from 89% to 90% reach
- Total listening hours have also remained strong rising by an annual rate of 0.6% as a rising population more than offsets a decline in average listening hours per listener (down a CAGR of -0.5% from 23.1 hours per week in 1999 to 21.5 hours)

As a result despite the rise in new audio offerings such as internet streaming services, like Spotify, radio continues to remain a highly effective mass market advertising medium.

Rise in BBC Reach

While the total market has remained robust, analysis of the BBC and Commercial Radio shows that the status quo has shifted. While aggregate reach has remained constant for Commercial Radio, the BBC has grown its footprint driven by expanding reach of Radio 1, Radio 2 (in particular) and digital services Radio 6 Music and Radio 1Xtra (up from 44% in 1999 to 55% in 2013). These have offset a decline of nearly 50% (from 21% to 12%) in other BBC national and local services.

Rise in BBC Share at the Expense on of Commercial Radio Share

More importantly the BBC has increased its share of total audience (measured as Adults 15+ by RAJAR) significantly since 1999. In 1999 Commercial Radio had a market share of 48% and the BBC a share of 50% (a gap of 2.4%). In 2013 that gap had risen to 11.7% with the BBC having grown its share annually 0.6% to take 55% of radio audiences while Commercial Radio's share has declined annually by 0.8% to deliver just 43% of audiences.

Analysis of share in the Adults 25-44 audience (which is particularly valued by advertisers) shows an even more dramatic shift. In 1999 Commercial Radio had a share of 60% of Adults 25-44 versus a BBC share of 38%. However, by 2013 Commercial Radio's share had declined by 0.9% a year to 53% while BBC's share had risen by 1.0% per annum to 43%.

The majority of this growth in Adults 25-44 has come from the success of Radio 2 and from digital services Radio 1xtra and Radio 6 Music. In 2010 RadioCentre raised concerns about the BBC's growing share in this demographic and, in the case of Radio's 1 and 2, the shift away from their remit audiences. Since then while the share of Radio's 1 has declined (from a peak of 17.6% in 2009 to 11.9% in 2013), Radio 2 continues to have a share of 13.5% versus only 6.7% in 1999.

Change in Financial Equilibrium between BBC and Commercial Radio

In parallel with, and in consequence of, these changes in share, the financial equilibrium between the BBC and Commercial Radio has shifted.

- In 1999 total revenues for radio were £940m, with the BBC accounting for 55% (on a budget of £510m) and Commercial Radio 44% (with net revenues of £434m).
- In 2013 the picture is very different, BBC's radio budget has risen annually by 2.4% to £713m (now accounting for 61% of the market) while Commercial Radio is generating net revenues of £456m (and annual growth of only 0.4% giving a market share of 39%).

It is worth noting that the rise in BBC budgets has not been driven by increased efficiency – as budget per listener hour has increased at the BBC ahead of the rise of revenue per listener hour at Commercial Radio.

- The BBC now spends £1.27 per average listener hour up by an annual rate of 1.5% since 1999.
- By comparison Commercial Radio revenue per average listener hour has grown at only 0.8% per year to £1.03.

Quantifying the Impact of these Changes

Commercial Radio has three primary sources of revenue: national advertising, local advertising and branded content sales. The sale proposition and process for each of these categories is distinct with national advertising trading on cost per thousand based on last quarter RAJAR data, local advertising selling spots, and branded content selling audience impacts for sponsor credits and pre recorded trails. However, ultimately all of these revenue streams are contingent on the volume of hours of listening to Commercial Radio.

Assuming, not unreasonably, that all other dynamics remain the same it is therefore possible to quantify the impact of the loss of audience share from Commercial Radio to the BBC.

- Looking at the base audience demographic (Adults 15+) the audience that Commercial Radio has lost since 1999 would have contributed net revenues of £52m to the sector in 2013.
- Even over a ten year horizon, since 2003, the commercial sector has lost audiences which would have been worth a net £25m in 2013.

Arguably these figures understate the impact as the decline in Commercial Radio's Heartland (Adults 25-44, the audience highly valued by advertisers) has been even greater.

In conclusion, if the BBC had not taken significant audience share over the last 15 years, then Commercial Radio net revenues would be between 5% and 13% greater than they currently are.

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Appendix:

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Supporting Graphs

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Context

RadioCentre asked Prospero to look at the historical performance of BBC Radio and Commercial Radio to identify key changes in relative performance and to assess the impact of any loss of radio share to the BBC.

Prospero looked at the performance over the last 15 years as in 1999 RAJAR changed its measurement to the approach currently used. Prior to 1999 consistent time line analysis is not possible.

Total Market Changes

There a number of macro factor that influence spend on radio, notably the total spend on advertising (which typically declines during recession) and the attractiveness of radio relative to other media. The most effective indicators of radio's overall attractiveness are

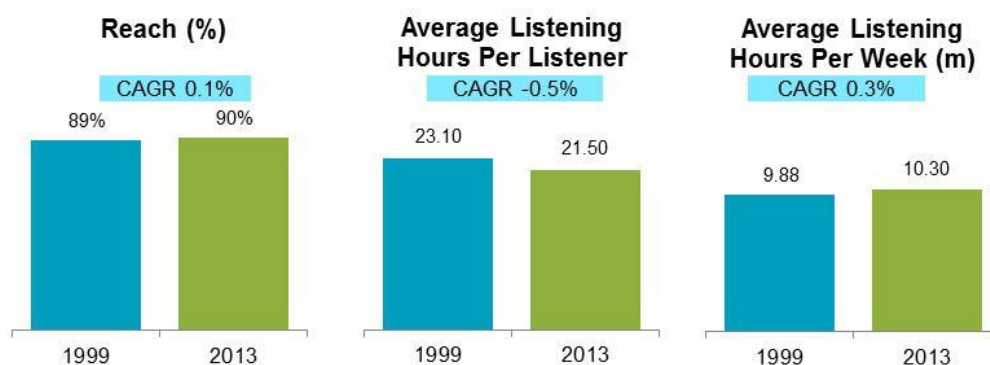
- **Reach:** the percentage of the population who listen to radio within an average week
- **Listening hours:** the total number of listening hours to radio

Looking at the market in aggregate over the past 15 years shows the following trends for reach and listening hours

- The total market reach of radio has remained fairly constant over the last 15 years oscillating between 89% and 91%
- Total listening hours have also remained strong rising by a CAGR of 0.6% as a rising population more than offsets a decline in average listening hours per listener (down a CAGR of -0.5% from,23.1 hours per week in 1999 to 21.5 hours)

As a result despite the rise in new audio offerings such as internet streaming services, like Spotify, radio continues to remain a highly effective mass market advertising medium.

Figure 1: Changes in Total Radio Market Effectiveness

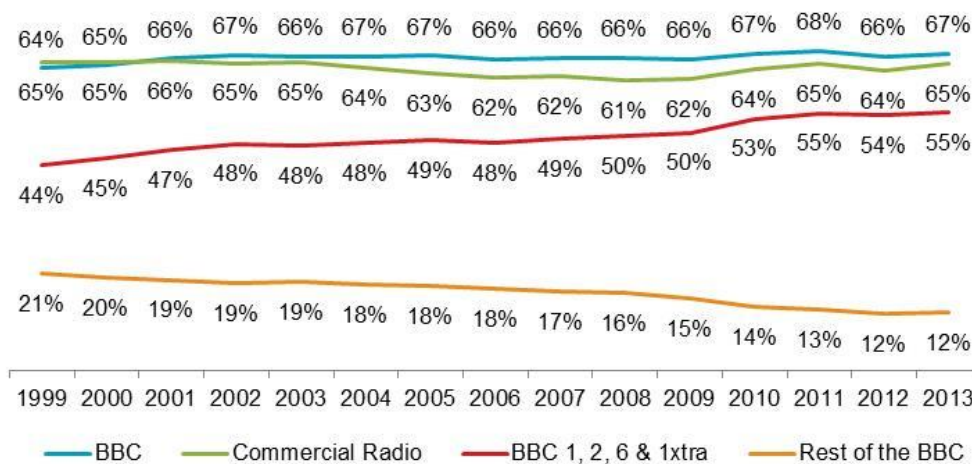


Source: Radio Advertising Bureau, Ofcom Commercial Market Surveys, Prospero Analysis

Changes in Commercial Radio and BBC

While the total market has remained robust, analysis of the BBC and Commercial Radio shows that the status quo has shifted. While aggregate reach has remained constant in the market and within Commercial Radio, the BBC has grown its footprint driven by expanding reach of Radio 1, Radio 2 (in particular) and digital services Radio 6 and Radio 1xtra (up from 44% in 1999 to 55% in 2013). These have offset a decline of nearly 50% (from 21% to 12%) in other BBC national and local services.

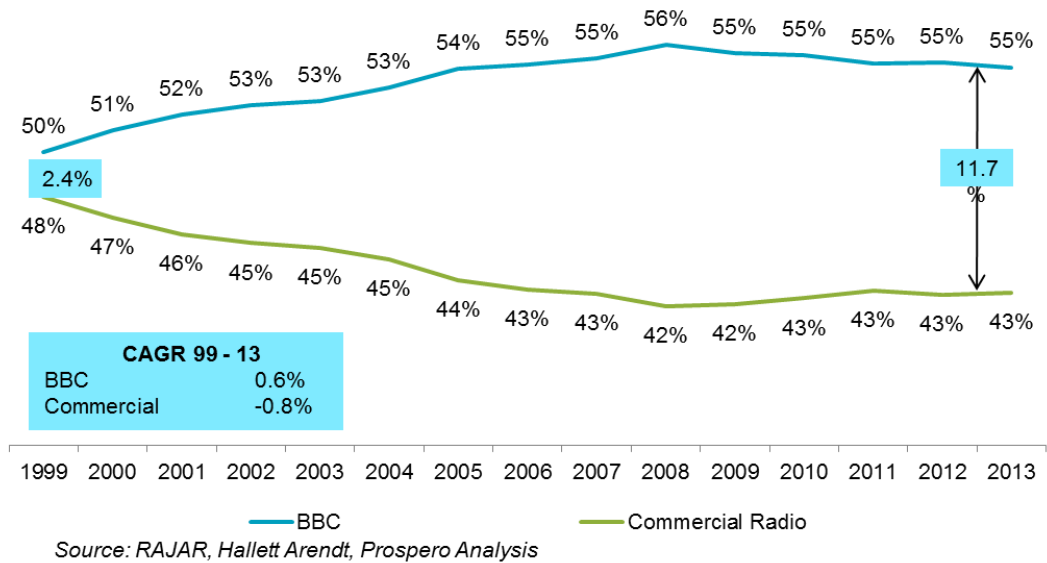
Figure 2: Changes in Reach



Source: RAJAR, Hallett Arendt, Prospero Analysis

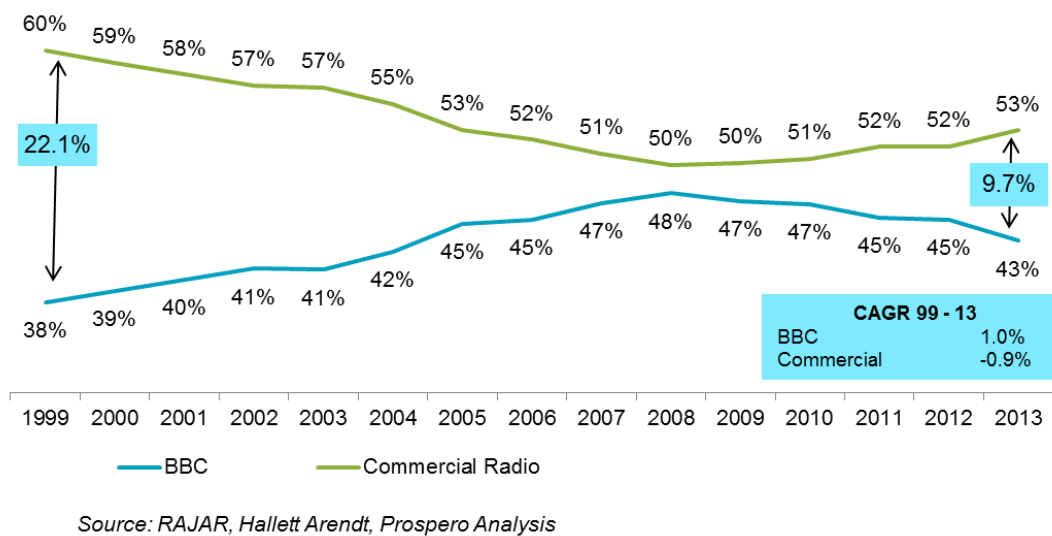
More importantly the BBC has increased its share of total audience significantly since 1999. In 1999 there was a gap of 2.4% between commercial radio's market share of 48% and the BBC's share of 50%. In 2013 that gap had risen to 11.7% with the BBC having grown at a CAGR of 0.6% to a 55% share of audiences while Commercial Radio's share has declined annually at 0.8% to 43%.

Figure 3: Changes in Audience Share Adults 15+



Analysis of share in the Adults 25-44 audience which is particularly valued by advertisers shows an even more dramatic shift. In 1999 Commercial Radio had a share of 60% of Adults 25-44 versus a BBC share of 38%. However, by 2013 Commercial Radio's share had declined by 0.9% a year to 53% while BBC's share had risen by a CAGR of 1.0% to 43%.

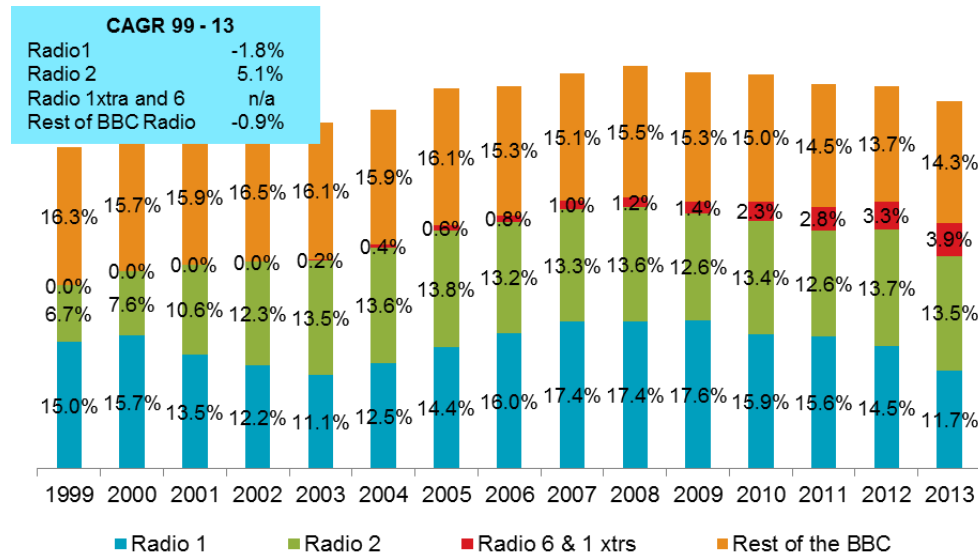
Figure 4: Changes in Audience Share Adults 25-44



The majority of this growth in Adults 25-44 has come from the success of Radio 2 and from digital services Radio 1xtra and Radio 6 Music. In 2010 RadioCentre raised concerns about the BBC's growing

share in this demographic and, in the case of Radio's 1 and 2, the shift away from their remit audiences. Since then while the share of Radio's 1 has declined (from a peak of 17.6% in 2009 to 11.9% in 2013), Radio 2 continues to have a share of 13.5% versus only 6.7% in 1999.

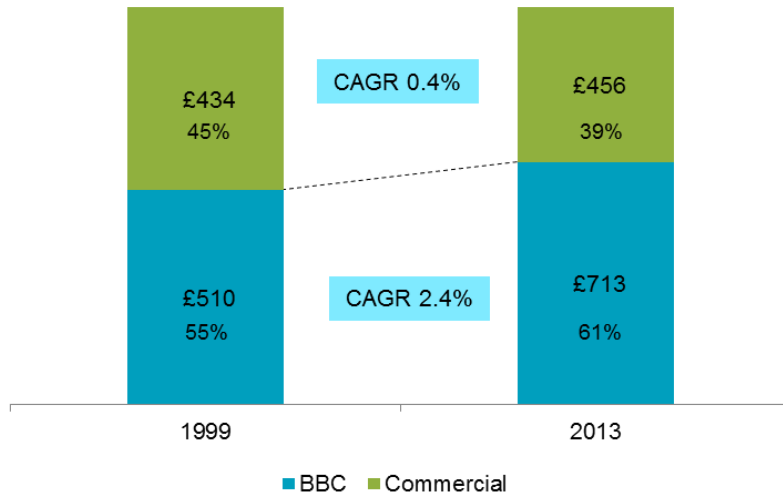
Figure 5: Changes in BBC Radio Station Shares Adults 25-44



Source: RAJAR, Hallett Arendt, Prospero Analysis

In parallel with, and in consequence of, these changes the financial equilibrium between the BBC and Commercial Radio has shifted. In 1999 total revenues for radio were £940m, with the BBC accounting for 55% (on a budget of £510m) and Commercial Radio 44% (with net revenues of £434m). In 2013 the picture is very different, BBC's radio budget has risen annually by 2.4% to £713m (61% of the market) while Commercial Radio is generating net revenues of £456m (39% of the market), an annual growth of only 0.4%.

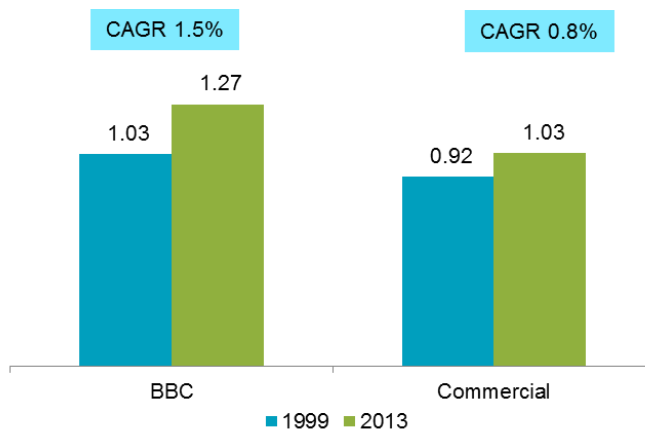
Figure 6: Changes in Radio Revenues (£m)



Source: Ofcom Communications Market Report, Prospero Analysis

It is worth noting that the rise in BBC budgets has not been driven by increased efficiency – as budget per listener hour has increased at the BBC ahead of the rise of revenue per listener hour for Commercial Radio. The BBC now spends £1.27 per average listener hour up by an annual rate of 1.5% since 1999. By comparison Commercial Revenue per average listener hour has grown at only 0.8% per year to £1.03.

Figure 7: Changes in Revenue Per Listener Hour (£m)



Source: Radio Advertising Bureau, Ofcom Commercial Market Surveys, Prospero Analysis

Quantifying the Impact of these Changes

Commercial Radio has three primary sources of revenue: national advertising, local advertising and branded content sales. The sale proposition and process for each of these categories is distinct with national advertising trading on cost per thousand based on last quarter RAJAR data, local advertising selling spots, and branded content selling audience impacts for sponsor credits and pre recorded trails.

However, ultimately all of these revenue streams are contingent on the volume of hours of listening to Commercial Radio.

Figure 8: Radio Advertising Sales Propositions

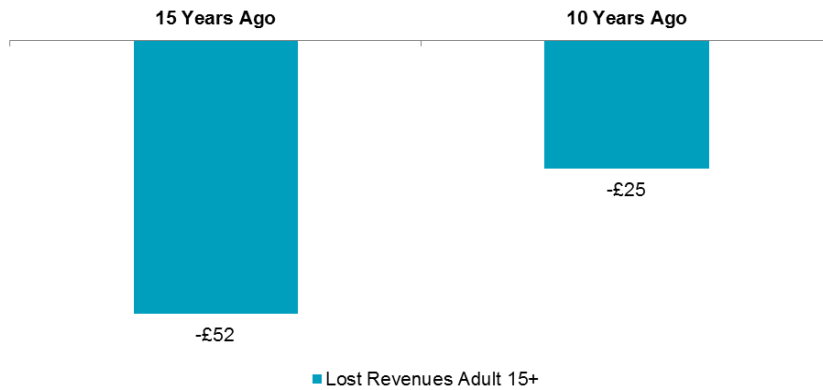
Revenue Stream	Strategic Sell	Trading Sell	Impact of Losing Audience Share to BBC
National Advertising	<ul style="list-style-type: none"> A combination of reach and total listening hours (often in comparison with other media) 	<ul style="list-style-type: none"> Traded on adult CPT based on the most recent audience data from RAJAR 	<ul style="list-style-type: none"> Direct correlation as reduced audience share means fewer impacts to trade; also undermines strategic sell
Local Advertising	<ul style="list-style-type: none"> Less sophisticated buyers Radio often sold against other local media (e.g. press) 	<ul style="list-style-type: none"> Package of spots with value informed by reach and overall share 	<ul style="list-style-type: none"> Overall erodes perception of strength of radio vs other media
Branded Content	<ul style="list-style-type: none"> Reinforcement of advertisers brand values through programme association 	<ul style="list-style-type: none"> CPT applied to total audience impacts for sponsor credits and pre-recorded trails Value of presenter talking about brand not priced 	<ul style="list-style-type: none"> Declining audience undermines the attraction of associating with a station brands; more trail/credits required to maintain cost (and knock on impact on overall commercial inventory)

Source: Radio Advertising Bureau, Prospero Analysis

Assuming, not unreasonably, that all other dynamics remain the same by looking at the changes in Commercial Radio's listening hours it is therefore possible to quantify the impact of the loss of audience share from the commercial sector to the BBC.

- Looking at the base audience demographic (all adults 15+) the audience that Commercial Radio has lost since 1999 would have contributed net revenues of £52m to the sector in 2013. Even over a ten year horizon, since 2003, the commercial sector has lost audiences which would have been worth a net £25m in 2013.
- Looking at the loss in Commercial Radio's heartland demographics (i.e. Adults 25-44) the figures are even greater – with the sector having lost audiences to the BBC worth £60m since 1999 and worth £32m since 2003

Figure 9: Lost Revenues (£m)



Source: RAJAR, Hallett Arendt, Ofcom, Prospero Analysis

In conclusion, if the BBC had not taken significant audience share from the Commercial Sector over the last 15 years, then Commercial Radio net revenues would be between 5% and 11% greater than they currently are.

Figure 10: Key Annual Changes Since 1999

	CAGR 1999 - 2013			
	Reach	Share (Adults 15+)	Share (Adults 24-55)	Revenue
Total Market	0.1%	n/a	n/a	1.6%
BBC	0.3%	0.6%	1.0%	2.4%
Commercial Radio	0.0%	-0.8%	-0.9%	0.4%

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