

Submission to Culture, Media and Sport Select Committee Inquiry into the future for local & regional media

Background

1. RadioCentre is the industry body for Commercial Radio. Its membership comprises the overwhelming majority of UK Commercial Radio stations, who fund the organisation. RadioCentre is governed by a board of eight directors, representing a cross section of the industry and including all the major Commercial Radio groups.
2. The role of RadioCentre is to maintain and build a strong and successful Commercial Radio industry in terms of both listening hours and revenues. RadioCentre operates in a number of areas including working with advertisers and their agencies, representing Commercial Radio companies to Government, Ofcom, copyright societies and other organisations concerned with radio. RadioCentre also provides a forum for industry discussion, is a source of advice to members on all aspects of radio, jointly owns Radio Joint Audience Research Ltd (RAJAR) with the BBC, and includes copy clearance services for the industry through the Radio Advertising Clearance Centre (RACC).

Executive Summary

3. RadioCentre's submission to Lord Carter's Digital Britain project set out Commercial Radio's vision for a digital future; a vision which encompasses the needs of listeners, advertisers and industry.
 - To deliver the majority share of radio listening in Digital Britain
 - With three strong tiers of listener choice:
 - Strong national brands to compete with BBC
 - Large local and regional services, on DAB, to deliver news, information and entertainment to reflect the tastes of their area
 - Small local and community services in smaller towns
 - Via new content, innovative programming and interactivity
 - Which, as a consequence, re-engages advertisers' passion for radio and grows our revenues, fuelling further investment in content
4. This paper therefore considers how Commercial Radio can contribute to a strong and plural local media ecology in the context of this digital ambition; and what impediments need to be removed in order to secure this future.
5. It proposes a number of regulatory and legislative changes that are informed by the dramatic transformation in the media landscape. These proposals are shaped by the way in which Commercial Radio, like television and print media, is being affected the combined effect of severe economic downturn and significant structural change in advertiser behaviour.
6. In radio this has been compounded by an increased dependency on national advertising, by a trend towards national rather than local radio listening, and by a growth in the number of local licences leading to an over-supply in the market.
7. The overall impact on the Commercial Radio market has been a downturn in revenues and profitability.
8. However, against this background we continue to believe that radio's ability to connect and communicate with local audiences in a convenient and complementary way will enable it to thrive in the digital age. But in order for

this to happen, there must be recognition that the structures and frameworks of the past are unlikely to be fit for purpose in the future.

9. As a result, the Commercial Radio industry has called for a number of specific measures which it urges the Committee to support as the Digital Britain process is carried forward by Government in the coming months.
 - **A new method of regulating local radio**, which delivers operational flexibility for stations but ensures that the content which matters most to listeners is delivered.
 - **Measures to enable the radio industry and Ofcom to re-plan the local DAB network**, including giving new powers to Ofcom to merge and extend multiplexes and change frequencies, and committing public money to support the extension and enhancement of coverage.
 - **An extension to all current analogue radio licences up to digital switchover** to ensure greater certainty and focus on migrating to digital.
 - **An extension to DAB multiplex licences** to provide security and an incentive for the significant investment in the new coverage map.
 - **New OFT rules on local media mergers**, applied equitably across all local media.
 - **New rules on media ownership** to allow plurality to be assessed across all media rather than within a single sector like radio.

Introduction

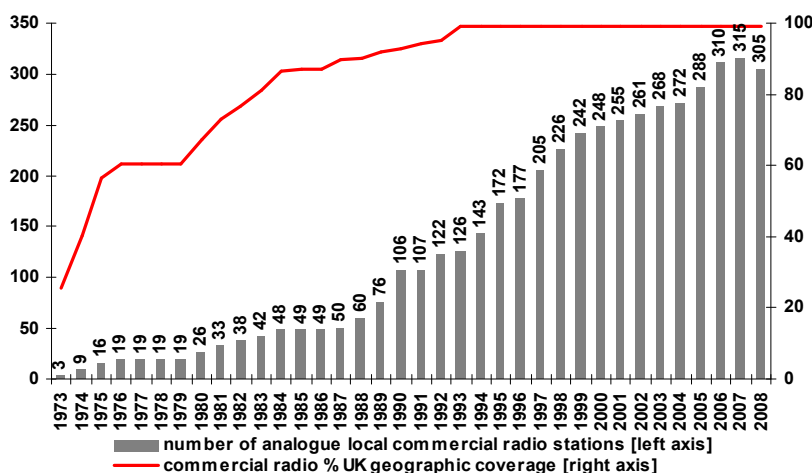
10. In March 2009 RadioCentre's submission to Lord Carter's Digital Britain project set out Commercial Radio's vision for a digital future; a vision which encompasses the needs of listeners, advertisers and industry.
 - To deliver the majority share of radio listening in Digital Britain
 - With three strong tiers of listener choice:
 - Strong national brands to compete with BBC
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 - Via new content, innovative programming and interactivity
 - Which, as a consequence, re-engages advertisers' passion for radio and grows our revenues, fuelling further investment in content
11. We believe strongly that radio's ability to connect and communicate will enable it to thrive in the digital age. But in order for this to happen, it is important to understand the fundamental changes in the media landscape and the need to move to a new framework.

A transformed landscape

12. Reports of traditional media's death are premature, particularly if the right steps are taken now by industry, by government and by regulators. Radio, in particular, has a clear role in a world where people are increasingly busy but still require relevant information and personal entertainment delivered in a convenient and complementary way.
13. Yet the industry needs to act decisively and promptly to modernise itself in order to remain relevant to listeners and advertisers. That work is already being undertaken in planning the drive to digital, in partnering with the BBC to devise interventions that will secure radio's place in the digital age, in building new business models and in innovating new content.

14. Like television and print media, Commercial Radio is feeling the combined effects of a severe economic downturn and significant structural change in advertiser and, to a lesser extent, consumer behaviour. In particular, the migration of advertiser revenues to on-line and digital media has had an effect. To put this in context, in 2003 internet advertising revenue was comparable to that of radio; by 2007 it was nearly six times the size of the radio market¹.
15. In contrast to the behaviour of advertisers, overall consumer behaviour towards radio has changed positively (albeit less dramatically). Despite the rise of new media propositions include online music providers such as Last.fm and Spotify, radio recently recorded its highest ever reach: 90% of the UK population listen to the medium every week².
16. Commercial Radio's share of listening has, however, declined in recent years from a high of 49.2% in 1999 to 41.6%³ today. Almost all of this transfer of listening has been from local Commercial Radio to national BBC radio. This reflects trends in other sectors with the rise of global brands and a desire from consumers to interact (principally online) with others who share their interests, regardless of their location.
17. However, in terms of share of the local listening market, Commercial Radio continues to perform well, gaining 76% of all local radio listening and 91% of all local listening by those aged under 50⁴.
18. At its launch in 1973, Commercial Radio was established as a local proposition. For thirty years, licences were awarded to defined geographical areas, with programme formats and news provision designed to appeal to the locality. Initially all held in separate ownership, from the start these licences had strong listener appeal. However, the growth in the number of licences overseen by three regulators (the IBA, the Radio Authority and Ofcom) outstripped growth in audience or revenues. (see figures 1, 2 and 3 below)

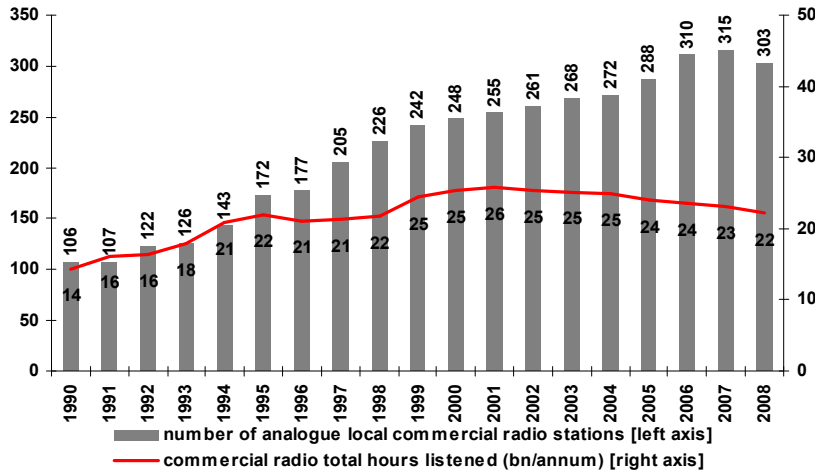
Figure 1:
Number of local commercial radio stations and UK geographic coverage⁵



[source: Ofcom]

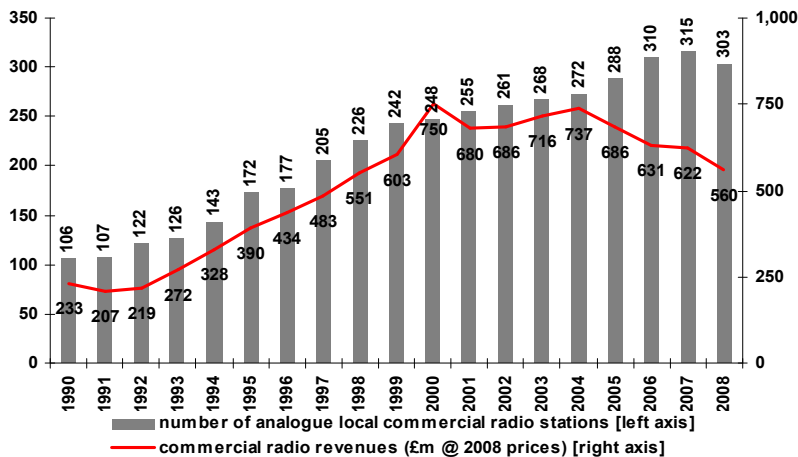
¹ Ofcom, The Communications Market 2008, p.52.
² Rajar Q1 2009
³ Rajar Q1 2009
⁴ Rajar Q1, 2009
⁵ Ofcom. The Communications Market 2008, p.244, Figure 4.11.

Figure 2
Number of local commercial radio stations and the volume of listening to commercial radio (billion hours per annum)



[source: Ofcom, RAJAR, JICRAR]

Figure 3
Number of commercial radio stations and total commercial radio sector revenues (£m at 2008 prices)



[source: Ofcom, Radio Advertising Bureau]

19. Commercial Radio’s local audiences and revenues can be seen to have cannibalised themselves as a result of over-supply in the market. The current economic situation compounds these challenges with revenues at a five year low: total revenue for Commercial Radio in Q4 2008 was £116m⁶; the lowest quarter since the publication of the Communications Act in 2003.

20. Research conducted by RadioCentre for an independent report commissioned by Digital Britain has found that this downturn in revenues has translated to an extremely serious position in terms of profitability.

⁶ RAB

- Currently, half of all Commercial Radio stations are loss making, with two thirds of all stations (66%) loss making or only generating profits of less than £100k per annum⁷.
 - 80% of stations serving populations of <700,000 are loss making or generate profits of <£100,000 per annum.
 - 12% of stations are predicting to lose more than £250,000 in the current financial year (of whom more than 80% also lost >£250,000 last year and of those almost 70% also lost >£250,000k in the previous financial year)⁸.
 - Taken together, this data suggests that the industry as a whole is loss-making.
21. The downturn in revenues and its effect on profitability may be partly attributable to a growing contradiction: while the heart of Commercial Radio's output is local, the heart of the industry's revenue is national. 72% of the sector's revenue is nationally secured and, within this, the top 50 national advertisers provide more than half of the industry's revenues.⁹
22. The growth in the dependency on national revenues for a primarily local medium has evolved over the 35 years of Commercial Radio's existence and reflects profound social and media changes. For example, the growth of national retail brands, the decline of the traditional high street in favour of out of town retail parks, the loss of local franchises in core sectors of the local economy like car dealerships or estate agency have all triggered a trend towards national advertising.
23. This has been accelerated by parallel media trends (e.g. small local cinemas evolving to branded city multi-screens, the loss of regional ITV franchises and the decline of regional/local press). The rise of the digital economy, of course, then completes this transition with new technologies facilitating the emergence of global aggregators and media owners.
24. So a prosperous future for Commercial Radio must include offering the programming formats and station coverage that appeal to national advertisers – whether for stations licensed on a national or a local basis.
25. Add to this the need to invest in DAB, DTT, on-line and mobile broadcasting to secure a digital future and competing with an ever-stronger BBC, and it is clear that the world in which Commercial Radio operates today is transformed from that into which it was created.

A transformed landscape requires a transformed framework

26. So whilst some suggest that the industry's future lies in a return to the practices of the past, the evidence points strongly in the other direction.
27. Self evidently the operational model which worked for Commercial Radio in the 70s cannot be relied upon to secure local radio in today's market. When Commercial Radio was established there was only one local station per area, and many areas had no provision at all, there were three television channels, no mobile phones and, of course, no internet. The picture outlined above could scarcely be more different.
28. So, what might the future hold for local Commercial Radio, for its place as a provider of local news and information, as a connector in communities, and as a contributor to local plurality?

⁷ Stations generating profits of less than £100,000 per annum are extremely vulnerable to relatively small downturns in revenue (less than £2k per week, equivalent to one major client)

⁸ RadioCentre. Profitability and localness survey of local Commercial Radio, March 2009

⁹ Radio Advertising Bureau, 2008, Advanced Radio Revenue Indicator (ARRI)

Varied approaches

29. There is no single blueprint of a Commercial Radio station in the UK, or even of a Commercial Radio company. Some stations are independently owned, often by talented enthusiasts involved in day to day operations, others by large national or international private or public companies, either operating solely in radio or across other media. Similarly, radio groups have different strategies to support listeners – some with national brands delivered locally, some with stations which only exist in their locality.
30. These differing strategies do not, however, undermine the continued delivery of the local news, information and connectivity which listeners value. Research conducted by RadioCentre during April 2009 found that: 75% of local stations broadcast local news for more than 8 hours a day, with 65% broadcasting local bulletins for 12 or more hours¹⁰. A comprehensive audit of the industry carried out in 2008 found that, on average, each station broadcasts:
- 22 news bulletins every day, each of which lasts on average three minutes. Almost 70% of these news bulletins contain local news;
 - 17 weather and 12 travel bulletins each day;
 - Five 'What's on' bulletins every day. The average duration of a bulletin is just over a minute, a 33% increase on 2004
 - 25 charity bulletins every week
 - And promotes nearly 28 different community events and organisations every week

Regulation of local radio in the 21st century

31. This data demonstrates that Commercial Radio is meeting one of its key public policy roles: to provide compelling local content. However, digital technology presents opportunities to produce, edit and transmit compelling local content in new ways. This opportunity to modernise local delivery in light of the opportunities presented by digital origination has, however, been stymied by existing legislation and regulation.
32. In the analogue radio era, the provision of localness was founded on successive regulatory emphasis on programming inputs as the best proxy then available to secure local programming outputs. Where the studio is based or how many hours of programmes are broadcast from a certain town are *input* measures designed to secure locally relevant *output*.
33. But, digital technologies render these proxies redundant. A Google server in Seattle is able to deliver locally based search on Indian restaurants in Brighton; a printing press in Derby can digitally print a newspaper for Plymouth and a citizen in Glasgow can post a video from his mobile phone of the airport attack on YouTube for his aunt to see simultaneously in Australia.
34. So for radio, local content can be made and produced anywhere. The key in the digital age is to ensure that content is relevant and engaging for local listeners. We are moving to a digital age, where listeners in Penzance expect up-to-date and accurate local traffic news but recognise that accuracy might be delivered by a GPS satellite in space whereas in the analogue days it could only be delivered by a traffic observer standing on the local high street.
35. News hubs, a deregulation already enable by Ofcom, are a good example of how breaking free from traditional production techniques can improve the

¹⁰ RadioCentre, Profitability and localness survey of local Commercial Radio, March 2009

service offered to consumers. In operating news hubs, stations' news gathering efforts remain focused within the local area, but bulletins are compiled and read from a shared central resource. Other examples of new programme production techniques include networking of well-known presenters across several stations but inserting station-specific locally-relevant information; pre-recording custom local information to enable it to be broadcast even when a station cannot afford to be live; and using technology to provide tailored information to different geographical areas simultaneously.

36. In order to enable stations to maximise the benefits of the digital age, we advocate changing the regulatory model from input-based regulation for the analogue era to output-based consumer needs for the digital age. We are therefore working with Ofcom and Government to devise a **new method of regulating local radio** going forward. Our shared objective is to deliver the operational flexibility stations need, whilst ensuring that the content which matter most to listeners is delivered.

37. We believe this should include:

- Increased flexibility to co-locate stations within defined geographical regions
- The opportunity to merge adjoining stations where appropriate in order to ensure their ongoing viability
- A significant reduction in the dependence on locally-produced hours as a proxy for the delivery of local content which listeners value most highly
- A reduced dependence on music output as a defining characteristic of local Commercial Radio services

38. A model which delivers these objectives, and which also dovetails with our digital ambition for radio has the best opportunity of success for the sector going forward.

39. Just as not all stations take full benefit of all the regulatory freedoms they currently have, so there is no reason to expect they will do so in the future. We noted earlier that a recent survey undertaken had found that 65% of local stations broadcast hourly local news for 12 or more hours a day; that survey also found that, even if there was no regulation whatsoever, only 6% would reduce their local news output to less than 12 hours a day. It is not regulation that secures the delivery of localness, but an underlying understanding of how local relevance secures a viable business.

Planning for a digital future

40. Earlier we set out that our vision for Commercial Radio in a Digital Britain included three strong tiers of listener choice. In this submission we have focused on the interventions required to support the second and third elements of our vision:

- Large local and regional services, on DAB, to deliver news, information and entertainment to reflect the tastes of their area
- Small local and community services in smaller towns (that are likely to remain on FM at least in the medium term)

41. For example, the localness deregulation outlined above will be crucial in ensuring local services are in good robust shape for migration and so that, while they remain on analogue, they provide the financial security that radio companies need in order to invest in migration. In particular, facilitating mergers of some smaller local services will aid the transition to the digital world.

42. However, in order to deliver the *large local services on DAB*, it will also be necessary to introduce **measures to enable the radio industry and Ofcom to re-plan the local DAB network**. In practice this means re-planning the current map for local DAB and facilitating a build-out of local DAB networks.
43. At present too many of local DAB multiplexes are too small to be viable. We have therefore proposed that the industry and Ofcom will undertake a process to reassess how and where local multiplexes operate. Ofcom will then need new powers (to merge and extend multiplexes, and to change frequencies where necessary) so that results of this process can be implemented.
44. Delivering this new map will require public money to support build-out and to increase the robustness of coverage. But the benefit of this will be to ensure that local DAB reaches FM equivalence, thus enabling switchover to become a reality for many local services.
45. Once this process is complete it will also be necessary to provide **an extension to DAB multiplex licences** to ensure that multiplex owners have the security that they need. This is especially important due to the significant investment that will be required in reconfiguring the technical infrastructure as a result of re-planning.
46. In addition, radio stations migrating from analogue/digital simulcast to a digital-only world, require confidence that analogue licences will continue to generate revenue until audiences transfer to digital. Operators would be unable to commit to digital if some of their simulcast brands were to risk their AM/FM distribution being withdrawn or face re-advertisement prior to switchover. **An extension to all current analogue radio licences up to switchover** is therefore necessary.
47. While these changes will provide particular benefit to larger local services, many are also important for the future of *smaller local services* (those that likely to remain on FM in the medium term). In particular the rollover of analogue licences and localness deregulation will enable them to be in the best possible shape in order to contribute to localness and plurality in Digital Britain.

Plurality

48. As we have noted, Commercial Radio delivers high levels of local news and information across its local stations and therefore the industry's very existence makes an important contribution to plurality at a local level. It is valued highly by its audiences and is an important local medium. It plays an essential role in local democracy and accountability, with an editorial independence that is secured by legislatively-enforced impartiality requirements¹¹. Perhaps as a result of this importance, the industry tends to attract a level of regulatory and parliamentary scrutiny disproportionate to its size and scale, including inappropriately detailed ownership regulation.
49. There is growing evidence that consumers rely less on single sources of information and local viewpoint. Independently research commissioned by RadioCentre¹² found that half or more of the population are able to access local news and information from TV (50%), newspapers (53%) or the internet (58%), as well as radio (79%). As long ago as 2007, it also found that 88% thought there were more different places from where they could get their local news and information than there were 5 years ago; this figure likely to be higher today. Less than half of those surveyed (43%) said that radio provided

¹¹ Section 320, Communications Act 2003

¹² The Big Listen Phase 3, Base: 10,375 Commercial Radio Listeners, Source: You Gov, June 2007

content which they could not get elsewhere whereas almost three quarters (74%) attributed that characteristic to the internet.

50. These findings do not diminish the importance of radio, but they do provide evidence that indicates it is time to reconsider the radio-specific rules on the concentration of ownership. There are two types of separate but related processes affecting local radio ownership – rules governing local and regional media mergers (as reviewed recently by the OFT); and regulations on media ownership, which were created to protect plurality in a single media sectors and between sectors (to be reviewed later this year by Ofcom). Both of these rules should be revised to reflect the transformed media landscape.

- **New OFT's rules governing local and regional media mergers** – These rules focus too narrowly on the impact of mergers within a single-media market and have been subject of a review by the OFT following the Digital Britain Interim Report.

A broader interpretation of media markets is required, which recognises how local media are substituted for one another and the way this competition keeps prices down for advertisers in particular.

- **New rules on media ownership regulations** – The current regulations¹³ include detailed points systems limiting ownership in order to protect plurality in single media sectors and across media. This limits consolidation and enforces artificial separation of media companies (e.g. two Commercial Radio stations plus the BBC in local areas).

Ofcom is reviewing these rules later in the year and must take the opportunity to remove single sector consolidation constraints.

51. A consistent approach across both these areas is also important in order to ensure that Commercial Radio has the same freedom as other local media (such as local press). There must be no asymmetry in the rules and their application at a local level.

52. Retaining the status quo risks more station closures and a further decline in competition and plurality in local media, whereas changes to existing rules will enable radio to compete with its freer new media competitors and provide real benefits for listeners.

Partnerships and new approaches

53. As we enter the digital age it may be that there is more that unites than divides the different sectors within local radio – Commercial, BBC and Community. To that end, Commercial Radio is developing partnership ideas with BBC Local Radio and Community Radio.

54. These ideas include pooling audio content, sharing infrastructure, technology and expertise, informal talent swaps and hosting joint on-air events. We recognise that each sector will have an important and distinct role to play for its different audiences, but our discussions have revealed opportunities to share costly infrastructure burdens and provide mutual support.

55. Should we decide to pursue our discussions to a more formal conclusion, we are keen to ensure that any partnership does not undermine the editorial independence of each sector, thereby ensuring that, in local radio alone, there are at least three separate voices contributing to local plurality.

Conclusion

¹³ The Media Ownership (Local Radio and Appointed News Provider) Order 2003

56. Radio can and will thrive in this digital age. However, if Commercial Radio is fully to seize the opportunities offered by digitisation, regulation that unnecessarily limits and restricts the industry must be re-shaped.
57. At the local level, commercial stations will continue to serve their local community with dedication and passion. In a globalised world, outstanding local output carries an even higher value. Yet this local output is threatened; the system under which it is currently produced is no longer viable. Re-targeted localness regulation, relaxed ownership rules and partnerships with fellow radio providers will, in totality, advance the industry's digital ambitions and help secure a healthy and prosperous local Commercial Radio sector.

RadioCentre, May 2009

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