RadioCentre
SHAPING COMMERCIAL RADIO'S FUTURE

Submission to Digital Radio Working Group Sub-Group 4: Mechanisms to encourage the growth and investment in the digital radio sector

Market intervention

What are the consequences of the DAB market failing?

1. Whilst the failure of DAB might provide short-term relief to the financial challenges posed by dual transmission, it would set back efforts to ensure that listeners and broadcasters access the potential benefits of digital transmission. The industry would continue to rely on analogue transmission platforms, which offer limited capacity and functionality, and thus restrict what broadcasters are able to offer to listeners. With other media using digital technologies to deliver a wide choice of varied and enhanced content, it seems likely that radio would suffer in the long term if it were unable to do likewise.

2. Arguing that radio needs to be able to employ digital technology in its distribution does not necessarily require the use of DAB. Various IP and web-based technologies exist which are able to distribute audio and provide additional content and services to enhance the listening experience.

3. However, all the evidence indicates that only broadcast technologies are robust enough to deliver the high listening hours which makes radio attractive to advertisers. Bearing in mind the level of set penetration (over 20%), DAB achieves an impressive share of total radio listening (around 10%) which is far in excess of the share of radio listening accounted for by the internet (under 2%), despite the latter technology's significantly higher penetration. Broadcast technologies also represent by far the best means of maintaining high levels of in-car listening. Of these, there is little evidence that any other digital broadcast technology is intrinsically superior to DAB or more likely to succeed in the open market.

4. In addition, DAB market failure is likely to damage confidence in the long-term future of radio in general amongst listeners and investors. Less discussed is the impact it might have on advertiser confidence. Discussions with radio advertisers over recent weeks have indicated that they believe that DAB market failure could have serious consequences. Advertisers' primary concern is that the industry delivers:

    - Audience growth;
    - A mix of strong national brands and radio's traditional strengths targeting a local audience;
    - A combination of mass and niche audiences by demographic and community of interest; and
    - An "anytime, anyplace, anywhere" consumer experience.

5. Although this does not of itself mean that the success of DAB is essential, we have identified a risk that withdrawal from DAB could undermine advertiser confidence in the long term future of radio in general for the following reasons:

    - The radio industry would face a credibility issue, given that it has spent many years articulating a future for our medium where DAB played a central role, with considerable debate around how we convert to DAB as the dominant platform;
    - It would risk confusion amongst agencies as to radio's digital future and would be likely to present the industry as being disunited and lacking a common vision;
    - Withdrawal from DAB would reduce the opportunities for niche targeted stations or more national brands and instead represent a retrenchment to basic and older technologies;

What might switchover / switch off in radio mean? Is it a viable means of driving the growth of digital? If not, why?

6. Switchover or switch off in radio would mean ceasing analogue transmission of BBC and Commercial Radio services and moving to digital transmission. The process could be phased:
    - By migrating some services to digital only transmission ahead of others; and / or
    - By switching off analogue transmission in certain areas first.
7. It would certainly be likely to drive purchase of digital sets and increase listening to digitally transmitted services. However we do not believe that it is categorically a good idea unless a clear plan is put in place first, since there is otherwise a substantial risk that listening hours could fall. This is because issues remain around (for instance) set penetration and transmission coverage.

Under what conditions/criteria might you switchover/switch off MW/FM?

8. Criteria for assessing whether certain services could be switched to DAB only in a given region could include:
    - Whether coverage in a target area has reached a certain level (such as 99%);
    - Whether national household penetration has reached a certain level (such as more than 50%);
    - Whether the share of listening hours accounted for by DAB has reached a certain level (such as 30%);
    - Whether a certain proportion of all cars on the road in the UK have DAB installed (such as 20%); and
    - Whether a certain proportion of new UK cars have DAB fitted as standard (such as 50%).

How do you encourage migration from analogue to digital platforms?

9. We believe that the success of DAB will be driven by listener demand for DAB sets and services. In order to generate this demand, there needs to be more exclusive content available on DAB sets. The best option for delivering this is likely to be migrating national services away from analogue transmission, potentially on a region by region basis over an extended timeframe. Logically, the stations which are migrated should be popular national services.
10. Accordingly, we believe that one effective means of encouraging migration from analogue to digital platforms would be to switch popular BBC services such as Radio 2 or Radio Five Live to DAB distribution. However, we recognise that there would be obstacles to be overcome before this could be achieved, with license fee payers likely to have concerns about losing access to services. This does suggest that such measures would have to be accompanied by additional public/private initiatives.

What public/private initiatives are necessary to drive digital radio take-up?

11. The three priority areas we can identify as requiring targeted initiatives are penetration of sets in cars, penetration of sets in general, and transmission coverage. In order for any kind of service migration to be agreed, commercial broadcasters as well as the BBC would need reassurance in each of these areas.
12. Thus far, set sales have been driven entirely on a commercial basis, and it is likely that some kind of targeted help scheme would be required, similar to that which has helped to facilitate TV DSO, to drive take-up amongst all sectors of the population.
13. In addition, multiplex operators are not automatically required to provide coverage to sparsely populated or difficult to reach areas, although the projected coverage area is an important consideration for Ofcom in awarding multiplex licence applications. The recently awarded mid and west Wales multiplex only offers outdoor coverage to 55.8% of the adult population, for instance. Yet to require universal coverage would significantly increase the cost of DAB for multiplex operators and service providers, eroding the viability of the platform.
14. It may be that funding through regional development agencies or other public sources is needed to supplement the cost of providing wider coverage. Alternatively, it may be that a range of technical and engineering solutions will need to be employed in maximising DAB coverage on a cost-effective basis.

Licensing

Is a common end date of analogue licenses a necessity for digital radio growth, how might this be best achieved?

15. A common end date for analogue licences may be helpful, but we do not view it as essential, given that switchover could be phased by service and area.

16. In RadioCentre's response to Ofcom's Future of Radio consultation we expressed concern that issuing analogue licences with a rolling two year termination date would impair the industry's ability to plan for the future. For instance, stations would be prevented from signing any long-term contracts with presenters, content rights holders, transmission providers or commercial partners. A rolling two year termination date would also substantially undermine investor confidence in the Commercial Radio sector.

17. We agree that flexibility will be useful in due course, but believe that imposing common end-dates without having a clear agreed plan towards DAB migration risks doing excessive damage to the sector.

The mechanism in the 1996 Act which awarded licence renewals for analogue licensees broadcasting on digital is coming to an end as a mechanism for encouraging investment in digital services. Are these an appropriate mechanism to encourage future/continued investment? If not, what other options are available?

18. We believe that this mechanism has a number of inherent weaknesses. Above all, it has created an environment in which operators choose to invest in DAB not because they are excited about the potential business opportunities it might provide, but in order to safeguard their existing core interests.

19. This has in effect encouraged them to continue to focus on FM and AM services, whilst investing in new DAB services as far as they can afford to do so. Accordingly, the services provided on FM and AM have remained compelling to listeners, with demand for new digital services proving insufficient to drive rapid take-up of the new platform. At the same time, the mechanism has prompted licences for analogue services to be extended further into the future, delaying options for switchover.

Content

Are there any appropriate incentives to encourage greater public/private investment in content?

20. We believe that greater private investment in DAB content will follow when the platform is suitably compelling, in terms of the cost of broadcasting, the availability of listeners, and the timescale over which a business can be planned. This underlines the need for a clear plan which promotes confidence in the long-term viability of the platform amongst investors, advertisers, broadcasters and listeners.

21. We do not believe that greater public investment in content is currently needed.

Ownership

Is greater consolidation in the commercial sector essential to the future of digital radio?

22. Although not essential, consolidation is desirable, given that the largest player, GCap Media, only accounts for 12.8% of all listening as opposed to the 55% accounted for by the BBC. Larger companies would be able to generate superior economies of scale and accept responsibility for the strategic leadership of the industry. We believe that consolidation has the following potential benefits:

    - It is generally accepted that a reduction in the number of owners of overlapping stations results in an increase in the diversity of the output of those stations, resulting in increased choice for listeners. Good examples of this are springing up across the UK including West-Central Scotland, London, Manchester and Oxford.
    - Common ownership of stations in similar areas results in operational efficiencies, enabling greater investment in quality content for listeners.
    - The strength afforded to more consolidated companies allows innovation and risk taking, resulting in compelling services for listeners.

<u>How, and in what guise, would a relaxation of the local and regional multiplex rules drive the growth of digital?</u>

23. The local and regional multiplex rules are predicated on the assumption that wide access to DAB multiplexes is a vital means of ensuring plurality of viewpoints in local and regional markets. In reality, commercial DAB services are just one component of local media ecologies, alongside daily and weekly newspapers, local and regional websites, community newsletters, local and regional TV, council publications and websites, BBC local radio, community radio services and analogue commercial services. Furthermore, many services provided on local and regional DAB multiplexes are effectively quasi-national, rather than bespoke local services.

24. We have enclosed a copy of a recent RadioCentre submission to the House of Lords Communications Committee inquiry into Media Ownership and the News. As this outlines, the primary reason for reforming the media ownership framework is that the current radio-specific rules are unnecessary in delivering the objectives they were introduced to achieve, such that their removal would have no negative impact on listeners.

25. Conversely, the removal of this regulatory and administrative burden would have the effect of giving the industry greater flexibility to consider or undertake changes of ownership with a view to securing the benefits outlined in paragraph 22. As the attached submission outlines, we propose maintaining a cross-media ownership regime alongside the Secretary of State's right to intervene in cases of special public interest, and within the constraints of Competition Law (which naturally limits the likelihood of plurality concerns arising, even if this is not its primary objective).

26. The effect of this reform would be to reduce the possibility of inadvertent negative outcomes, such as that experienced by listeners in Scotland when Emap was forced to remove its Smash Hits service from multiplexes in Scotland following its acquisition of Scottish Radio Holdings. The current points system assumes a high level of demand for access to multiplexes, and limits the number of stations which a single operator can provide on that basis. Where demand for access from other operators is low, this has the effect of reducing the choice which a single operator can make available to listeners, thus weakening the consumer proposition on DAB.

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