

RADIOCENTRE SUBMISSION TO THE LORDS SELECT COMMITTEE ON COMMUNICATIONS:
MEDIA CONVERGENCE AND ITS PUBLIC POLICY IMPACT

Introduction

1. Founded in 2006 after the merger of the Radio Advertising Bureau (RAB) and the Commercial Radio Companies Association (CRCA), RadioCentre represents radio groups and stations from rural, small scale ventures, to household names serving major metropolitan areas. Its member shareholders together represent over 98% of commercial radio listening.
2. RadioCentre works with a range of stakeholders for the greater benefit of commercial radio, from lobbying on the industry's behalf with government, Ofcom and policy makers, to raising the profile of commercial radio with advertisers and their agencies, and of course, working with radio stations themselves, helping them maximise the potential of their businesses. As the industry body for UK commercial radio our role is to help support a strong and successful commercial radio industry, so that the sector grows revenues and audiences year-on-year. Within this, we help promote the public value and diversity of commercial radio.

Executive Summary

3. RadioCentre welcomes this opportunity to submit evidence to the Lords Select Committee inquiry into media convergence. Commercial radio is widely respected as a significant part of the UK's creative industries. It produces a range of immensely popular and diverse broadcast and online audio content; is a key partner of the UK's music industry; and employs thousands of staff across the country, including hundreds of broadcast journalists.
4. It is 40 years since parliament paved the way for the first commercial radio stations with the passage of the Sound Broadcasting Act 1972. In that time these radio stations have provided 40 years of public value and entertainment for millions of people, and have become a much loved part of British daily life.
5. Today it remains true to say that Britain Loves Radio, with 9 out of 10 adults tuning in for an average of 22 hours each week. Commercial radio now comprises 300 licensed stations, which provide a vast array of national and local output to a total audience of over 33 million listeners across the UK each week. It is the market leader at a local level with a 79% share of local listening hours (against BBC Local Radio). And while commercial radio's total share of listening is just over 43% (against the BBC's 54%), it achieves this in a very efficient way through using just over 40% of the FM spectrum, compared to the BBC's 60%.
6. While convergence is not a new phenomenon (it was one of the key drivers behind the formation of Ofcom following the 2003 Communications Act) the rapid growth of smartphones and widespread high-speed internet access in the last few years has meant that its impact on traditional media has accelerated. Radio is no different in this regard, and it has seen its business model face significant disruption.
7. In many ways new technology and convergence provides real opportunities for radio. In recent years commercial radio operators have sought to innovate in order to provide consumers and advertisers with content and experiences that utilise these new opportunities. This not only includes new requirements to ensure that content is available across platforms, but also extends

to exploring ways of using online and digital broadcast technology to enhance and deepen the experience of our listeners.

8. However, the powerful disruptive impact of convergence on traditional media like radio has also brought significant challenges. This has manifested itself in a number of ways, with much greater competitive intensity across media (particularly among younger listeners); ever greater requirements for investment in digital technology; and an unprecedented shift in advertiser spend to online.
9. Consequently traditional business models, particularly for local media operators, are under unprecedented pressure. Print media has felt a large impact of this with only 18% of the population now reading a national newspaper on an average day and regional newspaper circulation has declined by 29% over the past 5 years¹. Ad revenues for classified advertising for motors, jobs and houses (previously the staple of local press) have collapsed and migrated on-line. Whereas local news, traffic and weather information is increasingly accessed online (often from providers not based in the locality, or via aggregators not even in the same country).
10. Therefore, convergence provides a combination of exciting opportunities and serious challenges for a traditional advertiser-funded broadcast media like commercial radio. Yet the pace of this change has also had the effect of making the current regulatory framework in which we operate seem outdated and in need of serious revision.
11. Under the old model operators were required to provide highly regulated broadcast content, in return for licences that granted them access to highly valuable (and scarce) spectrum in discrete markets. The scale of the disruption brought about by the rapid growth of the internet means that this arrangement is now outdated and looks seriously flawed.
12. We appreciate that calls for an entirely 'level playing field' with online content providers, which operate in a largely unregulated or self-regulated environment, are not realistic in the short term. We also recognise that there should still be certain public service obligations that come with the gift of broadcast spectrum.
13. However these requirements should be proportionate. The level of detailed regulatory requirements that still exist for commercial radio illustrate the stark difference that exists compared to new media, which in turn raises serious public policy questions about the future regulation of content received across the same platforms or devices.
14. We believe that there are several short/ medium term initiatives that could be implemented to assist commercial radio output to remain sustainable and highly valued in the converged media environment.
 - Localness rules – The current rules, which require quotas of production from local studios rather than local content, are anachronistic. They force operators to spend money on maintaining local buildings rather than invest in local output.
 - Formats – Prescriptive station formats are outdated in an era of almost infinite choice of music and audio content.
 - Licensing - Short term licences are an unnecessary cost, and financially unviable when competing against digital start-up businesses.

We urge the Committee to support these changes as part of the on-going Communications Review.

¹ ABC Circulation Figures

What do we mean by convergence?

15. Convergence - the process of bringing technologies, platforms and devices closer together to perform similar tasks - is affecting the broadcast and communications sectors at a rapid rate. An increasing number of services are being delivered on a wide range of competing platforms by both traditional players and new entrants. Consumers can now get television and music on their mobiles, digital radio on their televisions and make calls over the internet. Many advertisers and businesses are now able to communicate directly with citizens without using traditional broadcasters as the 'middle men'.
16. The digital online sphere has grown to revolutionise connectivity, disrupting old and new media. Global technology trends have dictated how consumers interact with each other and consume media, entertainment and news offerings. Within this transformation radio has experienced convergence directly, as the lines have blurred between a conventional linear broadcast, and audio content is consumed in divergent ways across platforms by listeners, through online, TV and mobile. New technology has enabled traditional radio businesses to extend their reach beyond traditional linear broadcast via new operational platforms and to forge new powerful relationships with customers.
17. For many content suppliers and creators, technological developments present opportunities to re-evaluate operations and implement more cost-effective and more efficient ways of offering services and distributing content. The process of bringing technologies, platforms and devices closer together is affecting the broadcast and communications sectors at a rapid rate. Commercial radio is no different and is seeking to respond to the demand with innovation and the creation of a wider consumer proposition.
18. Convergence has also encouraged different players to engage in other areas of the supply chain outside their 'traditional' areas of business. Organisations are realising that innovation, along with partnerships to share expertise and build upon respective strengths, will be essential if they are to ensure that they can deliver the higher value propositions that consumers want.

Opportunities for radio

19. As the oldest broadcast medium, radio is very much part of this converging environment and the level of choice of radio stations and their content has never been greater. This is in part a response to demand, but digital platform capability is also altering the way people listen to radio. Listening on digital devices now comprises 31.5% of total listening. DAB accounted for the largest component of digital listening, 20% of total hours, while digital TV accounted for 4.7% and online/ apps account for 4.6% of overall listening (up 37% year-on-year)².
20. Radio will need to utilise this combination of the power and scale of broadcast technology, along with the depth and interactivity of digital opportunities, in order to continue to thrive in future. This will require sustained investment in a broadcast backbone (FM or DAB) and online content.
21. In recent years, commercial radio has sought to advance its online presence significantly. Stations now offer websites to grow online brand identity, web portals for interactive online listening, and a portfolio of online properties as a key dimension for attracting and retaining listeners' attention. Much more consideration is now, quite rightly, given to the information

² Rajar, Q2 2012

provided by radio stations online and their 'visualisation' – i.e. how it appears on PCs, tablets and mobiles devices as well as digital radio sets.

22. Radio can now be consumed on the move through FM and digital enabled mobile phones. 39% of UK adults own a smart phone which can utilise 3G/4G connectivity providing the opportunity to listen to the radio at almost any time. National and regional radio brands have undertaken significant investment in platform development and creating a digital presence for stations on mobile smart phone devices through app development to reach these consumers.
23. Web based apps and consoles like Radioplayer go one step further to aggregate the whole market into one place for consumers to listen on any digital device. Funded jointly by commercial radio and the BBC, Radioplayer was founded to serve the radio industry and its audiences by making listening free and easy through the development of its online player portal and mobile app. The functionality of the player serves as search engine of all stations, by type and brand, with station schedules and links to content. The mobile app has the added ability to see local stations using the phone's GPS. Over 342 stations are accessible through the online player and allowing the consumer to seamlessly listen to any station online or through the mobile app. To date Radioplayer has an estimated 7m unique users.
24. Another way in which radio brands are exploring the possibilities afforded by digital and internet functionality is through the provision of exclusive content through logged in listening online. For commercial radio this provides the possibility of listeners receiving fewer or more targeted ads when listening online, and gives advertisers the opportunity to tailor adverts to their target demographics more effectively³.
25. The capability for instant 'two-way' interaction, reaction and interaction online is also especially powerful for radio, making it even more social and accessible. The rise of social media, alongside online listening means interaction with listeners is constant. Most stations have 'fan-pages', access to exclusive online content, such as interviews, news and direct interaction with DJs. These innovations help keep the listeners attention, build brand identity and deepen relationships with the audience.

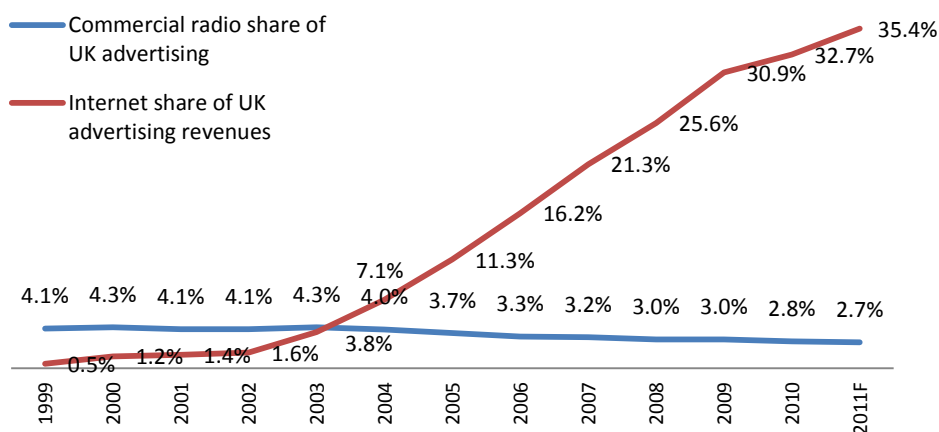
Challenges for radio

26. Notwithstanding the opportunities presented by convergence, competition for audience attention is clearly a challenge for radio, particularly in an environment where there is almost unlimited choice for consumers and relatively low barriers to entry for would-be competitors. Consequently, although total audiences remain high, the amount of time people are listening to the radio is reducing due to growing competition for ears and eyes.
27. Shifts in media consumption are even more pronounced with younger people, whose habits are shaped by these technological changes, and are now able to listen to music and entertainment content in so many other ways. Consequently, among 15-24s, over the past ten years the overall time spent listening fell by 22%. In 2001, 15-24s listened to 21.8 hours of radio in the average week, in 2011 this stood at an average of 17 hours. Retaining and encouraging younger listeners, who are the next generation of radio audiences, is a significant challenge.

³ See example of Absolute Radio 'instream' service for logged-in listeners:
<http://www.mediaweek.co.uk/news/1076784/Absolute-Radio-launches-targeted-spot-ads/>

28. Competition for commercial radio share of 'ear' no longer comes solely from other radio broadcasters (commercial and BBC). Many simulcast internet radio services provide access to an extraordinary number of streams. Tuneln, for example, offers access to over 50,000 radio stations from around the world. There is also now a surplus of streaming services which allow consumers to listen to music through a connected device without downloading. These come in the form of 'on demand' services and personalised streaming services. Spotify, for example, acquired 20m users globally in 3 years since it launched and has doubled its user base in the last year. Through its free or paid-for services, this gives users access to a catalogue of over 15m songs, with 10,000 new tracks added daily.
29. Music download services such as iTunes have been available for more than a decade and there are currently more than 75 legitimate digital music retailers available to UK consumers online. This will become more acute in coming years as services continue to launch.
30. These changing patterns of media consumption clearly go well beyond music and entertainment. Indeed the on-going transition of substantial ad-spend to the internet is the most significant economic trend facing all media. The very nature of commercial radio's business model is being affected by this expansion of online advertising. Over the last decade, radio's share of total UK advertising has fallen from 4.1% to 2.7%, while internet ad revenues have grown to 35%⁴.

Share of advertising spend, radio versus internet, 1999 – 2011⁵



31. This shift is particularly the case at the local level given its strength in replacing traditional local press and classified advertising. This trend is likely to continue with the continuing increase in smartphone penetration and high-speed broadband roll-out across the UK. As the chart above demonstrates the share of advertising spend online has grown dramatically in recent years, while commercial radio's share has declined.
32. As noted above, part of radio's response to these changes has been to invest in its online offering in an attempt to compete by providing the sort of depth and breadth of content that consumers now expect across a range of platforms. In addition the radio industry has been investing for over a decade in digital broadcast technology (DAB) to try and provide greater choice, functionality and interactivity for radio listeners. It is estimated that commercial radio alone has invested over £200m in transmission and build out of DAB in that time, in addition to

⁴ OFCOM / RAB

⁵ Screen Digest, RadioCentre analysis 2012

the costs of FM transmission. Therefore we have welcomed the Government's indication that it will provide a clear in-principle decision before the end of 2013 on digital radio switchover for national and large local services.

Convergence and regulation

33. Convergence clearly provides a combination of exciting possibilities and serious challenges for traditional advertiser-funded broadcast media like commercial radio. While it currently remains the case that the vast majority of radio listening is to linear broadcast on a FM or DAB radio set, we will no doubt see further changes in listening habits over time (and consequently advertiser spend). This will occur in any event as a consequence of market developments like broadband roll out, increased 4G provision and smart phone market expansion.
34. This continuing and widespread change will raise serious questions about the viability of some traditional media. While radio remains confident that its popularity, ubiquity and valued content will stand it in good stead, RadioCentre believes that there are a number of serious public policy questions that need to be addressed to help secure commercial radio's future, and not undermine its competitiveness.
35. It would be naive (not to say extremely challenging) to call for a 'level playing field' with online content providers, which operate in a largely unregulated or self-regulated environment. However, the level of detailed regulatory requirements that still exist for broadcast media like commercial radio do illustrate the stark difference in regulation that exists compared to new media, despite the fact content is received across the same platforms or devices.
36. Traditional players such as TV and radio are regulated in a way which may have been appropriate in the past, but now seems anachronistic in a more converged world. Therefore a revision of the current regulatory framework is needed, so operators are able to seize the opportunities presented by convergence.
37. Current regulation highlights the asymmetry between broadcasters and the digital sphere where content is not 'broadcast' by its creator and websites serve as aggregators rather than editorial gateways. For example, online music services may carry advertising but are not subject to same Codes affecting broadcasters. Online radio stations also are not subject to Format and content regulation like Ofcom-licensed broadcasting stations, but will be consumed in the same way in a seamless transition between content.
38. In the long term regulation may well need to allow radio to operate in a similar environment as internet content providers and responsibly self-regulate content in the public domain for taste and decency. This would allow the opportunity for commercial radio to flourish in the converged digital world without being stifled by outdated regulation from the analogue age.
39. While it may not wish to go as far as this in the short/ medium term, the Government must take the opportunity in the next Communications Bill to begin to equalise the opportunities in a converged media ecology and balance the stringent principles which underpin regulation of the media. Radio is a fragile ecology and there are several short term measures that would immediately benefit the industry as it struggles to compete in a converged crowded market.
40. **Localness – Local production quotas should be removed.** It is simply no longer appropriate or necessary to use the proxy of local production rules based on inputs to measure localness. Requiring a radio operator to operate a studio in a particular area and broadcast from there at

certain times of day does not guaranteed local output. Future regulation should focus instead on the output and impact of local radio services. As such, we propose that Government asks Ofcom to work with the radio industry to design an appropriate licensing regime to retain local output, but without specific production quotas.

41. **Station Formats – Prescriptive station formats are outdated in an era of almost infinite choice of music and audio content.** As part of a new approach to licensing, restrictive specific station formats should be removed. Stations should instead be required to comply with the conditions of their licence category, which should be pro-actively monitored and enforced. This would allow markets to grow and respond to changing consumer demands rather than enforced formats for music types and audience segmentation.
42. **Licensing – Short term licences are financially unviable when competing against digital start-up businesses.** All FM licences should be granted to the incumbent operator at point of renewal, with no fixed term. In exchange they should commit to the output requirements of a licence category.
43. There are also other barriers to growth in the sector, including advertising restrictions, which apply to radio and not to online. Regular reviews of the Broadcasting Code should be undertaken to ensure that it remains current and up to date, and we would support a full review of the code as it relates to advertising and sponsorship and other commercial issues. Greater commercial freedom should be provided and specifically the requirements on advertisers to include such detailed terms and conditions in radio ads should be removed where possible.

Conclusion

44. Commercial radio is an important local, regional and national medium, highly valued by its audiences. But despite being a comparatively small industry with annual revenues at the level of £500m, it tends to attract a level of regulatory and parliamentary scrutiny disproportionate to its size and scale. If radio is to compete in the converged world, and secure growth in a period of economic difficulty, the regulatory framework around traditional broadcast media must be less restrictive.
45. We propose a number of modest regulatory changes to help compete with relatively unregulated new media start-ups and aggregators. This move to lighter touch regulation will provide greater operating freedom, to help ensure radio businesses are able to invest further in new technology and develop their services in line with consumer demand.
46. RadioCentre calls on Lords Communications Committee to urge the Government to implement the simple regulatory changes outlined in this document to improve the long term viability of this much loved medium.

12 December 2012