

Response to 'Creating viable local multi-media companies in the UK' **consultation paper**

Background

1. RadioCentre is the industry body for Commercial Radio. Its members consist of the overwhelming majority of UK Commercial Radio stations, who fund the organisation.
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. As such, 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, and working with stations themselves. 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 welcomes the decision of the Shadow Secretary of State for Culture, Media and Sport to commission a report to examine potential means to "*create strong local media organisations which would provide their communities with a full range of journalistic and advertising services*"¹. Localness is fundamental to Commercial Radio's business model, and therefore any effort to secure the future prosperity of the local media sector is valued.
4. At the heart of the proposals contained within the consultation paper '*Creating viable local multi-media companies in the UK*' is a desire to preserve plurality in the provision of local news. The first half of our response therefore focuses on the likely evolution of Commercial Radio's local and regional news provision.
5. The second half of our response examines the specific proposals contained within the consultation paper and focuses on two issues: Commercial Radio's perspective on the licensing of Local TV franchises; and the potential interaction of Commercial Radio with Local Multi-media Companies (LMCs), were they to be established.
6. Commercial Radio remains committed to the provision of news at all levels; national, international, regional and local. It does so on air and, increasingly, on-line. This commitment will continue - regardless of regulation, economic conditions and public funding - because the industry recognises that news provision is integral to the radio listening experience.
7. We welcome the suggestion made within the consultation paper that the competition authorities should "*take a significantly less restrictive view of local media competition issues*"². RadioCentre has long lobbied for removal of radio-specific ownership rules and a relaxation of cross-media ownership rules (on which Ofcom is currently consulting). In addition, we are encouraged that the Office of Fair Trading has indicated that in future it will take a broader view when considering media mergers, including consulting Ofcom to utilise their understanding of media markets. Implementation of these measures will allow the market to dictate the configuration of the local media industry; an outcome which we support.
8. However, we also recommend that Government conducts a fundamental review of state intervention within UK media, predominantly in the shape of the BBC. We caution against further state intervention in the local media sector, in the form of the licensing of Local TV franchises. Whilst we support the aspiration behind the proposal, we ultimately question whether it will address citizens' and consumers' local media requirements and suggest

¹ Roger Parry, '*Creating viable local multi-media companies in the UK*', July 2009, p. 3

² Roger Parry, '*Creating viable local multi-media companies in the UK*', July 2009, p. 17

instead that the introduction of dedicated Local TV channels will ultimately further endanger the viability of local media within the UK, rather than securing it.

PART ONE: THE FUTURE PROVISION OF NEWS ON COMMERCIAL RADIO

Commercial Radio's current news provision

9. Commercial Radio is not, primarily, defined by its news provision, and news is not, for most listeners, the primary reason for tuning in. However, news (national, international, regional and local) undoubtedly forms an integral part of the majority of Commercial Radio stations' on-air and online³ offering, alongside the provision of other information including traffic, weather, sports and 'what's-on' updates.
10. Recent Ofcom research demonstrates that, out of all local content provided on Commercial Radio⁴, listeners value news most highly⁵. In addition, whilst local radio does not constitute listeners' main source of local news, Ofcom research reveals that listeners believe that no other media can rival radio's capacity to deliver time-sensitive or mobile information. Audience research commissioned by RadioCentre and undertaken by YouGov in 2007 found that 77% of respondents felt that radio was the best medium for providing live information (versus 62% for TV and 52% for the internet)⁶.
11. The distribution and consumption of radio news complements other news provision; radio's emphasis is on immediacy i.e. breaking local stories first, whilst the local press typically writes more in-depth local news stories. And, as acknowledged by Ofcom⁷ and evidenced during heavy snowfall in February 2009⁸ and the summer floods of 2007 (to take two examples), radio news plays a vital role in its community during times of adverse weather conditions.
12. Commercial Radio news bulletins may be perceived to be short and snappy, but they satisfy the majority of listeners' needs and expectations, and therefore brevity is not an indicator of poor quality or relevance. Research undertaken by RadioCentre in 2008 found that, on average, stations broadcast 22 news bulletins per day which last for an average of three minutes. Cumulatively then, stations each broadcast over an hours of news every day. The proportion of news bulletins containing local news had increased by almost 5% since 2004; 69% of news bulletins were found to contain local news⁹. This content is all produced with extremely limited resources; in many local stations, a maximum of two or three news journalists manage to produce live local news throughout weekday and weekend daytime.
13. We therefore query this consultation paper's suggestion that "*a combination of economics and public demand means that it [Commercial Radio] has focused on music, weather and traffic news rather than local journalism*"¹⁰. Certainly Commercial Radio's *raison d'être* is the provision of music and entertainment output for (primarily) 15-44 year olds, not local journalism, but the industry invests significant sums annually in local and regional news, above and beyond what is required by regulation.
14. As Ofcom recently acknowledged¹¹, Commercial Radio is '*facing possibly its greatest ever challenges*'; most crucially, revenue could decline by as much as 20% during 2009. We also note this consultation paper's acknowledgment that local radio has suffered from a decline in revenue and resources.

³ Research conducted by RadioCentre in 2008 found that 87% of station websites contain local news – this figure is likely to have risen since then. See '*Action Stations! The Output and Impact of Commercial Radio*', July 2008.

http://www.radiocentre.org/rc2008/documents/RC_CRCAPSBReportWEB.pdf

⁴ Including core functional content (local traffic and travel, local weather and local news) and human, engaged local content (such as local community issues and local entertainment).

⁵ Ofcom local media research, April-May 2009; quantitative research conducted by MORI for Ofcom, 2004

⁶ These findings come from *The Big Listen*, a wide-ranging study of radio listeners conducted in 2007. Ipsos-Mori carried out a survey of 1001 ex-Rajar respondents, aged 15-44, who filled out a self-completion questionnaire.

⁷ Ofcom, '*Radio: the implications of Digital Britain for localness regulation*', July 2009, p. 62

⁸ See attached snow-e-newsletter

⁹ RadioCentre, '*Action Stations! The Output and Impact of Commercial Radio*', July 2008, p. 38

¹⁰ Roger Parry, '*Creating viable local multi-media companies in the UK*', July 2009, p. 8

¹¹ Ofcom, '*Radio: the implications of Digital Britain for localness regulation*', July 2009, p. 2

15. However, these challenging circumstances have not had a substantial impact on Commercial Radio's news provision. A recent survey of RadioCentre members found that, between the hours of 0600 and 1900 weekdays, 65% of stations broadcast local news every hour. 10% more stations broadcast local news during 8-11 of those hours¹². This means that the vast majority of stations are producing more local news than Ofcom's localness guidelines require them to do; according to these guidelines, stations are currently required to broadcast local news throughout peak-time (weekday breakfast and afternoon drive and weekend last breakfast), equating to approximately 7 hours per weekday.
16. Ofcom's recent localness monitoring of eight local commercial stations¹³, conducted in January 2009, found that news continues to be generally well delivered (alongside other local information). Differing approaches to local content provision, including news, depended very much on both the size of the station and the character of the service. These observations contradict Ofcom's 2007 finding that "*local news coverage on Commercial Radio has tended to be the first victim whenever stations hit financial problems*"¹⁴.

Considering Commercial Radio's future news provision

17. Given its importance to the sector, Commercial Radio can confidently assert that the sector will, in some configuration, continue to provide international, national, regional and local news in the future – with or without regulation or public funding.
18. Fitting with Commercial Radio's vision for the evolution of the sector¹⁵, we anticipate that:
 - a. **Strong national brands** will continue to offer well-produced national and international news bulletins¹⁶, which enhance their content and brand. These may not be produced in-house, but will likely be tailored for the station in question;
 - b. **Large local and regional services** will provide listeners with locally-relevant news content produced within their transmission area, in addition to national and international news;
 - c. **Small local and community services** will produce locally-relevant news content, which will be broadcast at times most relevant for their listeners. This content will be produced with limited resources, and may therefore originate from a 'news hub'. In operating news hubs, stations' news gathering efforts remain focused within the local area, but bulletins are compiled and read from a shared central resource¹⁷.
17. Commercial Radio has long rallied against its status as the most regulated medium in the UK broadcasting sector. The industry believes that it should be able to shape its own destiny; it is stations, not regulators, which know best what their listeners want. If a station misinterprets its audience's expectations, listening (and therefore revenue) will rapidly decline.
18. In fitting with this proposed ethos of regulation, Commercial Radio's news provision would not require regulation, beyond perhaps a commitment from stations to provide news in a manner that is most relevant to their listeners. Instead, it would be up to stations' judgement to dictate the scheduling, length and content of news bulletins.
19. Confidence in this assertion can be achieved through consideration of Ofcom's recent localness monitoring¹⁸. This found that all monitored stations provide travel and weather, despite this not being demanded by the stations' Formats or Ofcom's localness guidance. In addition, whilst all stations are required to provide a certain number of hours of

¹² RadioCentre, 'Profitability and localness survey of local Commercial Radio', March 2009

¹³ The eight monitored stations were chosen to represent a cross-section of the Commercial Radio industry.

¹⁴ Ofcom, 'New News, Future News, June 2007, p. 38

¹⁵ See RadioCentre submission to the Conservative Party's Review of the Creative Industries

¹⁶ Sky News Radio is the provider of national and international news to the vast majority of UK Commercial Radio

¹⁷ We welcome Ofcom's recognition that the use of news hubs can bring benefits - Ofcom, '*Radio: the implications of Digital Britain for localness regulation*', p. 29

¹⁸ Annex 9, Ofcom, '*Radio: the implications of Digital Britain for localness regulation*'

locally-made programming each day and an appropriate amount of local material, "stations choose to deliver localness in a number of different ways"¹⁹. Some see localness as a programme 'driver', whilst others preferred a lighter approach; the adopted approach "depended very much on the character of the particular service and was calculated to feed that character delivery"²⁰.

20. In addition, a recent survey of RadioCentre members found that 86% of stations would continue to broadcast the same level of news provision that they currently provide (three-quarters of stations already provide more than Ofcom's localness guidelines dictate, including 65% of stations that broadcast 12-13 hours of local news every weekday)²¹.
21. We therefore acknowledge the suggestion, contained within Ofcom's recent consultation 'Radio: the implications of Digital Britain for localness regulation'²², that a strengthened news requirement might feature in a reformed regulatory regime for localness on Commercial Radio. FM stations would be able to reduce the number of locally-made programmes that they are expected to produce per day, from ten to seven, if they commit to providing local news at least hourly during weekday daytime and weekend peak, in place of a requirement to provide local news at peak times (breakfast and afternoon drive on weekdays and late breakfast on weekends). It would also be re-emphasised that local news stories should be up-to-date and regularly refreshed and the pre-recording of news bulletins (outside of peak-time) should be the exception rather than the rule.
22. We welcome this changing regulatory approach because they replace a focus on how and where programming is made and, instead, secure the news provision that listeners value and stations are keen to provide.

Funding Commercial Radio's future news provision

23. News has, and always will be, an expensive output strand. Findings from Ofcom's 'Market Impact Assessment of the BBC's Local Video Service' revealed that, in 2007, one radio group spent £3.5m on local news content, whilst news accounted for c.15% of another group's overheads spend²³.
24. Even when harnessing digital technology and new methods of delivery, and when Commercial Radio's business model is on a more stable footing (following economic recovery and relaxation of sponsorship and promotions regulation²⁴), news will continue to represent a significant investment.
25. Commercial Radio may wish to accept some form of public funding for news provision, but only if it did not unduly dictate output and/or impose another level of unsustainable regulation on the sector.
26. In place of public funding, to guarantee plurality in the provision of national, international, local and regional radio news, Commercial Radio requires the optimal regulatory and legislative environment²⁵ and a successful Digital Radio Upgrade. Many of these requirements (further discussed in RadioCentre's submission to the *Review of the Creative Industries*, submitted May 2009) are currently being considered by Ofcom, DCMS and industry players.
27. In addition, Commercial Radio would enormously benefit from the radio stations provided by the BBC focusing more clearly on promoting the BBC's public purposes, rather than a

¹⁹ Annex 9, Ofcom, 'Radio: the implications of Digital Britain for localness regulation'

²⁰ Annex 9, Ofcom, 'Radio: the implications of Digital Britain for localness regulation'

²¹ RadioCentre, 'Profitability and localness survey of local Commercial Radio', March 2009

²² <http://www.ofcom.org.uk/consult/condocs/radio/>

²³ Ofcom, 'Market Impact Assessment of the BBC's Local Video Service', November 2008, p. 88

²⁴ Ofcom are currently conducting a targeted review of the Broadcasting Code, including sections related to sponsorship and commercial references in editorial. RadioCentre, on behalf of its members, recommends radical revision of the guidelines, to provide Commercial Radio with a significant new revenue stream.

²⁵ Including a new method of regulating localness, which focuses upon outputs rather than inputs.

relentless ambition to achieve audience scale. This should allow the industry to increase its share of listening and hours, and hopefully increase advertising revenue.

28. Commercial Radio's news provision could also benefit from some form of 'in kind', reciprocal arrangement. The sector is currently in preliminary discussions with BBC Local Radio about partnership proposals, including pooling news audio. Similar partnership arrangements could be established with LMCs, should they be established.

PART TWO: COMMERCIAL RADIO'S PERSPECTIVE ON LOCAL MULTI-MEDIA COMPANIES, INCLUDING LOCAL TV

Considering the evolution of the local media sector

29. RadioCentre recognises that the current business model upon which local media is provided is unviable and in danger of collapsing; multiple local newspapers and local Commercial Radio stations are at imminent risk of closure.
30. Analysis by Value Partners, on behalf of Ofcom, showed a cumulative Commercial Radio EBITDA²⁶ margin of just 8% in 2008, with smaller stations generating an EBITDA of -6%. In the worst-case scenario, if industry revenues decline 20%, the vast majority of stations serving fewer than 750,000 people would become unviable²⁷. Research conducted by RadioCentre for the Myers Review of local Commercial Radio predicated that up to 50 local Commercial Radio stations are at risk of closure during the next 18 months. Already seven stations have closed since the start of 2009, and the future of more looks uncertain with another local radio group having gone into administration at the start of August 2009²⁸.
31. We therefore welcome the Conservative Party's concerted efforts to investigate means by which to safeguard the UK's local media sector and secure its future.
32. We agree with the consultation paper that the survival of local media partly depends upon revising the cautionary and restrictive nature of current ownership rules to allow for a certain amount of consolidation and harmonisation across the local media sector. New production methods and the harnessing of digital technology will also prove beneficial, and further investment in these is important.
33. However, where we disagree with the consultation paper is its prediction of the future shape of the UK's local media sector. It is almost impossible to predict what effect changes in ownership rules will have and it is highly unlikely that a uniform approach will be adopted across the UK; it is therefore vital that the market is freed to find the right solution.
34. This means it is essential to have a fundamental review of all state intervention in UK media, in particular the significant market intervention of the BBC²⁹. Unless the scope and size of that intervention is overhauled, any further commercial local media enterprises will simply further divide an already fragmented advertising and consumer market.
35. We therefore caution against the licensing of Local TV franchises. Not only do we fear that Local TV could have a detrimental effect on the health of other forms of local media provision, but with its relatively high production costs, TV is the medium least suited to local broadcasting.

Concerns about the viability of Local TV franchises/LMCs

36. We disagree with some of the arguments presented by the consultation paper in response to arguments that Local TV franchises, and therefore LMCs, will not be viable:

²⁶ Earnings before interest, taxes, depreciation and amortisation.

²⁷ Ofcom, 'Radio: the implications of Digital Britain for localness regulation', July 2009, p. 31

²⁸ 05/08/09: South West Radio, owner of five commercial stations, goes into administration: http://radiotoday.co.uk/news.php?extend_5025

²⁹ Indeed, the BBC Trust has just agreed to a proposal to enhance the BBC's TV and radio services in the nations and regions. See here http://www.bbc.co.uk/bbctrust/news/press_releases/2009/local_proposals.html.

- **BBC funding.** It is suggested that LMCs may be reliant upon income from the BBC (in exchange for use of LMC output) in their first few years. However, the BBC already has a substantial local and regional news infrastructure and it is therefore questionable whether the BBC would be willing to pay for another organisation's local output, particularly if BBC budgets are brought under even greater pressure. In addition, this proposal could further cement the BBC's current position in local media markets; we believe it is important to consider what will be the optimal role for the BBC in the localities, as the digital age progresses.
- **Digitisation.** It is proposed that LMCs will harness digital technologies and new production methods that will allow for the creation and distribution of content at a fraction of the costs experienced by 'conventional' broadcasters. However, whilst current local media operators are encumbered with structures and mechanisms that were established in the 'analogue' era, there has been a significant shift to adopt digital technologies over the past few years. We therefore question exactly how much of a saving this would produce. It must also be pointed out that many 'new' media organisations, even the high-profile, larger-scale ones, are still struggling to create viable business plans, and are largely reliant upon investment and subsidisation from shareholders or parent companies³⁰.
- **Volunteer-power.** LMCs will be highly reliant upon unpaid volunteers. We caution against such a reliance which jeopardises certainty and continuity and depends upon a substantial interest in locality which may not exist. It also raises questions about quality (see point below).
- **Reduced quality.** The report acknowledges that local television '*is not designed to have the same look and feel as network broadcasting*'; indeed it shouldn't be thought of as 'television' but as 'video' that may be used on websites as well as free-to-air DTT³¹. However quality of output needs to be sufficient for people to consume, and for advertisers to pay to associate their brand with it.
- **Networked programming.** The consultation paper suggests that '*light-touch*' PSB obligations may require LMCs to ensure that a minimum of 20% of broadcast hours are generated locally. We suggest that, if the proportion of local content is to be set this low, Local TV franchises will be adding little to the local media mix and are unlikely to produce distinctive TV content. Again, this raises questions of the quality of output required to generate sufficient interest from consumers and advertisers.
- **Share of the local media market.** If the LMC were to have a monopoly on the local media market, this could secure its viability. However, as outlined above, we do not envisage that Commercial Radio will easily fold into the LMC vision and the monopoly is therefore not guaranteed (whilst the potential threat that it would pose to the viability of Commercial Radio is significant; see section below, 'LMCs' potential impact on the wider local media market').

Questioning the need for Local TV

37. We do not believe that the consultation paper presents a clear enough case for the widespread introduction of dedicated Local TV channels to the UK. Further consideration must be given to the type of local content that consumers and citizens value, and are likely to value in the future.
38. We believe that consumers and citizens benefit from, and appreciate, two distinct types of local content:
 - i. **Up-to-date, regularly refreshed local news, travel, weather and 'what's-on' information.** This is necessarily provided by a live local medium, which up

³⁰ See for examples Spotify (<http://www.guardian.co.uk/media/2009/aug/04/spotify-close-30m-injection>) and YouTube (<http://www.telegraph.co.uk/technology/google/5870544/YouTube-will-turn-a-profit-soon-insists-Google.html>)

³¹ Roger Parry, 'Creating viable local multi-media companies in the UK', July 2009, p. 17

until recently has been limited to local radio (BBC, commercial and community). It is likely that locally-focused websites, provided by local radio stations, newspapers and/or community organisations, will become increasingly rich in quality and content and will therefore also be able to provide time-sensitive information.

- ii. **More in-depth consideration of local news, community issues etc.** Up till now this has most successfully been provided by local print media. Again, once radio stations and newspapers are able to increase investment in their online offerings, websites will equally be able to provide this content.
39. We believe that the first category of local content will be sufficiently provided by current incumbents in the local media sector. As discussed in the first half of our response, we are confident that Commercial Radio will continue to provide live and up-to-date local and regional news bulletins, and will continue to invest in and develop local and regional news content on station websites, whilst Community Radio (designed to operate on a small-scale and deliver social gain to communities) will also provide local content.
 40. It is the latter category of local content that is currently most at threat. Yet we anticipate that large sections of the local and regional newspaper industry will survive, albeit in a reduced and consolidated configuration, and will continue to provide some degree of in-depth, detailed coverage of local news and issues in print and online formats. We question whether Local TV channels (albeit in a cross-platform setting) would be able to provide the depth of analysis that many seek to preserve.
 41. We therefore do not perceive a citizen or consumer need for local content to be delivered via a dedicated TV channel, especially if it is mostly to be filled with networked programming. We do acknowledge a need for plurality of provision in national, international and regional TV news, but believe that this is an issue of programmes as opposed to channels. The advent of video-on-demand is likely to mean that the future evolution of audio-visual media is a move away from channels to content, as people seize control of their viewing habits. Already, people's TV viewing habits are defined by their favourite programmes, not their favourite channels (whereas radio listening continues to be defined by favourite stations, highlighting the difference between programmes and programming).
 42. As discussed above, the consultation paper even acknowledges that the content on the proposed Local TV channels shouldn't be thought of as 'television' but as 'video' that may be used on websites as well as free-to-air DTT. As well as raising questions of quality, it raises questions of the need to provide the same audio-visual local content both online and on a dedicated TV channel, especially given the development of internet protocol television (IPTV) through the proposed Project Canvas³², which will allow for online content to be viewed via a digital TV set. Online-quality audio-visual local content is already being generated by consumers, and can be distributed without a Local TV channel³³.

LMCs' potential impact on the wider local media market

43. We believe that Local TV franchises risk damaging the likelihood that those existing forms of local media delivery (radio, newspapers and their respective websites, which already providing audio, audio-visual, print and online local content) will be able to weather their current economic difficulties.
44. The consultation paper acknowledges that LMCs "*might seem to be local media monopolies*"³⁴ but insists that this will not disadvantage local advertisers. This may or may not be true. However, it will undoubtedly disadvantage those local media organisations that do not join the LMC – likely including Commercial Radio stations/groups (as explained below).

³² http://www.bbc.co.uk/bbctrust/news/press_releases/2009/canvas_additional.html

³³ See YouTube's 'News Near You' module: http://www.nytimes.com/2009/08/03/business/media/03youtube.html?_r=2

³⁴ Roger Parry, 'Creating viable local multi-media companies in the UK', July 2009, p. 5

45. The introduction of Local TV will only increase the imbalance within local media markets between available advertising inventory and the potential pool of local advertising spend. There is already significant competition within the local media market between newspapers, radio stations and their respective websites; a competition that has only intensified due to a pronounced shift from local to national advertising. This shift has been partly triggered by social trends, including the growth of national retail brands, the decline of the traditional high street in favour of out-of-town retail parks and the loss of local franchises in core sectors of the local economy like car dealerships or estate agency. Parallel media trends (e.g. small local cinemas evolving to branded city multi-screens and the loss of regional ITV franchises) have accelerated the shift.
46. Future local (display and classified) advertising and S&P revenue will be unlikely to match this increase in inventory, threatening both the proposed LMCs, and the whole of the local media sector.

Considering the evolution of Commercial Radio

47. We agree with the consultation that local and regional newspapers and Commercial Radio stations need to diversify their business models (in some cases with the assistance of regulatory reform) in order to survive.
48. We believe that a more practical model for a LMC, as opposed to the wide scale licensing of Local TV, would be to facilitate the evolution of much of today's incumbent local and regional media industry, to encompass paid-for online content and IPTV delivered audio-visual local news content. Relaxed cross-media ownership rules would give the potential for local newspapers to acquire analogue radio licences, or vice versa. These new stronger local media companies should then be freed to develop in a range of directions and models, depending on the demands and characteristics of their local markets.
49. We believe that the survival and future viability of commercial media organisations depends to a large extent on a wide-scale review of state intervention within the UK media industry; specifically, the role and remit of the BBC. Within this review, we would urge the Conservative Party, were it to get into Government at the next General Election, to consider conducting a holistic review of local media markets, including the role of the BBC and the potential impact of Local TV.

RadioCentre, August 2009