

**RADIOCENTRE SUBMISSION TO CULTURE, MEDIA AND SPORT SELECT COMMITTEE INQUIRY INTO  
SUPPORT FOR THE CREATIVE ECONOMY**

**BACKGROUND**

1. RadioCentre is 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.
2. 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.
3. Working with a range of stakeholders, RadioCentre works 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.

**OVERVIEW**

4. RadioCentre welcomes the Culture, Media and Sport Select Committee inquiry into the creative economy. Commercial radio is widely respected as a significant part of the creative industries sector. It produces a range of immensely popular and diverse broadcast content; is a key partner of the UK's music industry; and employs thousands of staff across the country, including hundreds of broadcast journalists.
5. 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.
6. 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%.
7. We are particularly pleased that the Select Committee recognises the importance of growth amongst the creative industries such as radio, and the fact that it is looking at ways to build on the successes of a wonderful summer for British culture. Radio played a big part of the success this summer. It kept millions in touch with events in the Olympic Park, worked as an official partners on some of the biggest events of the summer, covered the Olympic Torch relay, the Queen's Jubilee and provided a platform for people from across the country to listen and debate the events, as well as simply stay in touch with the latest news and information.

8. The ability of radio to provide live, mobile and up to the minute access to news, information and entertainment, which is free at the point of use, goes some way to explain its continuing popularity amongst listeners.
9. However, commercial radio continues to face a tough economic climate. Ultimately this a medium funded solely by advertising, and in recent years it has faced a perfect storm of cyclical short-term decline (in the face of a double-dip recession) alongside serious long-term pressures (due to the rapid growth in online advertising and competitive intensity). At the same time Government interventions are also putting pressure on our business model, due to the pressure from mainstream BBC radio services, the growth of community radio, the expansion of local TV and the rollout of broadband.
10. In response to these challenges – and in order to help restore growth to this part of the creative sector and related industries – RadioCentre is seeking support from Government for the removal of some outdated regulatory practices that we believe are barriers to growth. Specifically, as part of the Communications Review, we have asked Government to support commercial radio broadcasters by supporting the following principles (further details below).
  - Secure foundations – by providing platform certainty for stations (whether digital or analogue) and simpler licensing arrangements.
  - Maximising growth potential – by providing content freedom on localness and formats.
  - Protecting public value – by regulating local output, rather than measuring inputs (like quotas or local studio time).

#### **PUBLIC VALUE OF COMMERCIAL RADIO**

11. The growth in popularity and scale of commercial radio over the past 40 years has enabled it to emerge from its origins in pirate radio of the late 1960s and a smaller number of tightly defined (legal) services in its early days, to become an established and highly valued part of the UK's creative industries.
12. The core output of commercial radio is still the range of entertainment, music and local information. The value of this content should not be underestimated. Indeed recent research<sup>1</sup> found that radio can play a positive role in people's lives, making them feel happier and more energetic, in a way that exceeds other media including TV and online.
13. However, commercial stations also provide a valuable and tangible function for audiences and communities, by producing local content and contributing to the plurality that is fundamental to our democracy. Information collected from RadioCentre member stations demonstrates the scale and impact of this contribution<sup>2</sup>. Overall commercial stations broadcast an average of around 8½ hours of public service content each week. We estimate that, at current rates, the value of this public service activity is equivalent to more than £2.5m per week across the whole commercial radio industry – or around £130m in total per annum.
  - **Local charity initiatives** – Commercial radio broadcasts support for charity and community groups for an average of 13 minutes each week. This is in addition to the charity work done directly by radio groups. To take just a few examples, in 2011 Bauer Radio's Cash for Kids initiative alone raised over £9m, whereas one-off events such as the Free Radio walkathon in

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<sup>1</sup> Radio Advertising Bureau, 'Media and the Mood of the Nation', June 2011

<sup>2</sup> All figures are direct from RadioCentre members, or collated as part of 'Actions Stations: The Output and Impact of Commercial Radio' 2011 unless otherwise stated

Birmingham successfully mobilised 10,000 people and raised over £420,000. Charity events, big and small, continue to be an important part of the commercial radio schedules and are a crucial part of the sector's role in the community.

- **Local news provision** – The average commercial station broadcasts more than 300 minutes of news each week (including 180 minutes of local news and 120 minutes of national news), across 19 bulletins a day. This output requires investment of around £27m and the employment of hundreds of broadcast journalists<sup>3</sup>.
- **Supporting local economies** – Commercial stations also play an important economic role both as a local employer (whether directly, freelance or in a voluntary capacity) and as an affordable source of advertising for local businesses. Radio is an extremely efficient and cost effective advertising, both for small and medium sized enterprises so critical for our economic growth, as well as large national advertisers and brands seeking scale and profile across larger areas.
- **Providing a platform for new talent** – Commercial radio performs a crucial role in discovering and nurturing new talent in both broadcasting and journalism. As well as being a valuable and widely distributed employer in the creative industries, commercial stations provide a fantastic environment in which broadcasting talent can be trained and developed.
- **Building and promoting music** – Commercial radio is a key driver of economic growth of other creative industries, particularly the music industry. It is estimated that the UK music industry is worth around £3.8bn<sup>4</sup> and despite the availability of new services to purchase and access content, radio remains the most powerful promotional tool for music. It is essential to each stage of a musician's career, from building an initial following, to establishing mass market interest, promoting successful artists and playing back catalogue. The role of radio is understood and appreciated by the music industry, which is only too aware of radio's impact on consumers. This was confirmed in a recent RadioCentre survey<sup>5</sup>, which found:
  - 64% of people say that radio is the most important source for to find out about new music (twice as important as any other source).
  - 36% of consumers report radio as the most important influence on their recorded music purchases (compared to 16% for TV and 12% for internet).
  - On average radio listeners spend 36% more on music than non-radio listeners.

## **INDUSTRY CONTEXT**

- **Radio listening**

14. As noted above, despite the multitude of alternative media and entertainment services now available to consumers, radio listening remains remarkably robust (still reaching around 90% of the population in total each week).

15. However, the amount of time people are listening is reducing. A proliferation of media and services has created a scarcity of attention and growing competition for ears. This has become even more pronounced with younger listeners, whose habits are more shaped by these technological changes, and who are now able to listen to music and entertainment content in so

<sup>3</sup> Mediatique report for Ofcom, 'The Provision of News in the UK', June 2012

<sup>4</sup> PRS for Music, 'Adding up the Music Industry', August 2011

<sup>5</sup> RadioCentre/ Communications Chambers consumer research, May 2011

many other ways. Consequently, among 15-24s, over the past ten years, the time spent listening has fallen by 22%. In 2001. For example, 15-24s listened to 21.8 hours of radio in the average week, in 2011 this stood at an average of 17 hours.

16. The way people listen to radio is also changing. Digital listening has increased by 11 percentage points over four years and now accounts for 31.5% of listening in Q2 2012. Listening through a DAB set accounted for the largest component of digital listening, 20% of total hours, while digital TV accounted for 4.7% and online/ apps now accounts for 4.6% (up 37% year on year).

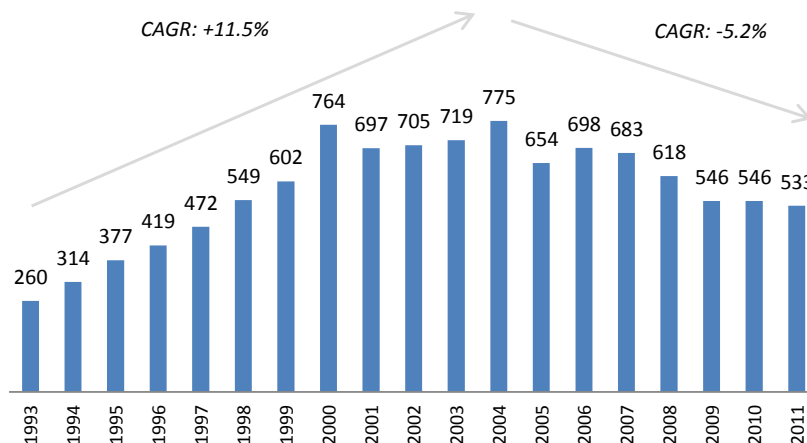
- **Radio revenues**

17. The last two years have seen small increases in commercial radio revenues – with gross revenue up to £533m in 2011 (and predicted to rise again in 2012). This growth has been driven principally by national advertisers, on the back of relatively strong listening figures, investment in radio brands and more effective and a compelling advertising proposition overall.

18. While these have been fairly modest increases, they are pretty remarkable against the backdrop of a double-dip recession and a substantial reduction in COI (government) advertising spend, which went from being the single largest spender on radio ads with £31.1m in 2009 to only £10.9m in 2011.

19. However, while these short term improvements in revenues have been welcome, they also mask a long-term decline in real terms for most of the past decade (with revenues down 32% in real terms since 2004 – as outlined in Figure 1, below).

Figure 1: UK commercial radio advertising revenues, 2011 prices, £m<sup>6</sup>



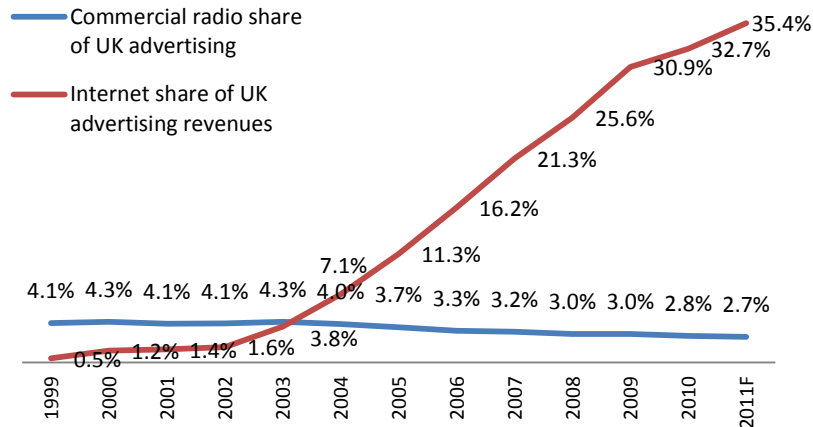
20. This pressure on revenue is forecast to continue, due partly to cyclical reasons, as economic growth has slowed and subsequently moved into recession. It has also been a result of structural changes and more intense competitive pressures. Ironically this has been exacerbated by Government intervention and over-regulation (outlined below).

21. Clearly the most significant economic trend, which has put pressure on revenues across all media, is the on-going transition of substantial ad-spend to the internet. Over the last decade,

<sup>6</sup> RAB (gross to include agency commission, but exclude production costs), rebased to 2011 prices using CPI

radio's share of total UK advertising has fallen from 4.1% to 2.7%, while internet ad revenues have grown to 35%.

Figure 2: Share of advertising spend, radio versus internet, 1999 – 2011<sup>7</sup>



- **Competitive pressures**

22. Alongside these broader economic trends, commercial radio has seen growing competitive pressure. During the 1990s and early 2000s this was driven largely by the rapid growth in the number of local commercial stations (rising from 126 in 1993, to 317 in 2008). As revenue growth stalled this put much greater pressure on individual stations, with revenue-per-station declining and fixed costs rising. However, in recent years the competitive pressure has come from a combination of the growth on online music services, accompanied by a number of unhelpful public policy interventions summarised below.
23. Probably the most significant intervention has been the **expansion in the footprint of the BBC**. The BBC's share of total radio revenues had grown to 61% in 2011 (up from 52% in 2004). BBC spending power not only distorts the market for radio production and talent, it changes the expectations of the resources required to deliver high quality programming. This financial intervention has run in parallel with an expansion in the mass market popular music services offered by the BBC, with Radio 1 attracting older listeners and Radio 2 attracting younger listeners, which has squeezed commercial radio's heartland audience of 25-44.
24. The **growth of community radio**, which was launched following 2003 Communications Act, has also led to a rapid growth of small scale not-for-profit radio stations aimed at particular communities of interest. Many of the 200+ licensed community stations have provided a valuable addition to the local broadcasting ecology, but they also bring added competition for existing radio operators - attracting local advertising and/ or depressing local advertising rates.
25. A further intervention that is currently being rolled out across the country, which may also have an impact on local advertising markets, is **Local TV**. Ofcom has now announced the details of the 57 bidders for the 21 local licences that are due to be awarded. Indeed it has started to award 12 year licences and expects to see certain services on air before the end of 2013. While the impact of these services is also uncertain, there is no suggestion (even from the Government's

<sup>7</sup> Screen Digest, RadioCentre analysis 2012

own advisors<sup>8</sup>) that this initiative will release a previously untapped market of local advertisers in a meaningful way. In fact it is much more likely to cannibalise existing local advertising revenue.

26. The internet also now represents significant competition for attracting advertising revenue. This 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 in any event. However, the investment by the Government in **high-speed broadband** roll-out across the UK (while entirely appropriate from a public policy point of view) is another factor that could accelerate the loss in revenue share to traditional media.

### **OUR VISION FOR GROWTH**

27. RadioCentre welcomes the focus of the Committee on barriers to growth in the UK creative industries. In the case of radio, we believe that there are potentially a number of areas where it may be possible to make simple, yet radical, changes to the rules applying to the current framework that would help the sector to release its potential.

28. While there have been some significant and positive changes in recent years, the sector continues to be regulated into an unnecessarily high cost base. Much of this is due to the continued regulation of radio stations 'inputs' (how many hours are produced from a certain studio, music policy etc) rather than 'outputs' (how much news and information, or locally-relevant content listeners can hear).

29. In order for the radio industry to thrive in future it will need to provide a compelling content proposition for listeners and advertisers, while also tackling high fixed costs. Our vision is therefore to work with Government to shape a framework for growth and investment that secures this for the future. In considering how this would manifest itself in practice, there are three broad principles that run throughout our thinking.

- Securing foundations – Growth will not be possible without secure foundations for the industry. This means certainty and clarity on licensing to allow operators to invest. It also requires a robust broadcast platform, digital or analogue.
- Maximising growth potential – Growing revenues is key to the industry's ability to invest in content. Providing flexibility on how content is produced and delivered, allows commercial radio to compete for audience and revenue. Scale, simplicity and clarity for national advertisers is critical for growth.
- Protecting public value – Commercial radio's role in producing public value output should be encouraged and promoted. Local production rules and format do not generate or protect this public value.

30. As a consequence RadioCentre has made the following recommendations to DCMS as part of its Communications Review, and would urge parliamentarians to support these proposals in order to help secure the viability of this popular and valuable medium.

- **ON LOCALNESS** – Retain local content by regulating the *output* of local radio stations, and removing local production quotas.

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<sup>8</sup> [http://www.culture.gov.uk/images/publications/Local-TV-Report-Dec10\\_FullReport.pdf](http://www.culture.gov.uk/images/publications/Local-TV-Report-Dec10_FullReport.pdf)

- **ON LICENSING** – Simplify licensing of FM radio by granting licences to particular categories of station with no fixed term, in return for commitments on locally-relevant content, local news and information.
- **ON FORMATS** – As part of a new approach to licensing, 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.
- **ON DIGITAL/ LOCAL FM** – The priority must be clarity and certainty for operators and listeners, by making a clear and early decision on whether to switchover and which stations would be required to switch.
- **COMMERCIAL FREEDOM** – Greater commercial freedom should be provided. Specifically, the requirements to include such detailed terms and conditions in radio ads should be removed, and further sponsorship opportunities considered (including around – but never within – news output and children’s programming).

## **CONCLUSION**

31. We believe that the key priorities outlined above would help to remove some of the ongoing barriers to growth in radio, and help it to fulfil its potential as part of the UK’s creative economy. For commercial radio, the benefit of making progress on these priorities is clear. Clarity and certainty on our future broadcast platform; simpler licensing arrangements; and content freedom on localness and formats.
32. The risks of taking such steps is also low, due to the extent of continuing public intervention on radio (through the BBC and community radio) and the fact that it is in the interests of commercial radio to continue to serve listeners and advertisers in future by providing the output that they value, just as they have done for the past 40 years.

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