

RadioCentre response to 'Platform for Success' by the Scottish Broadcasting Commission

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).

Summary

3. RadioCentre is encouraged by the fact that the Scottish Government is committed to ensuring the best possible media environment for the people of Scotland, at both a national and local level. We also welcome the fact that the report recognises the importance of delivering programming for Scotland that is distinct from the rest of the UK.
4. In regard to the central proposal in the report, namely that a Scottish Digital Network (SDN) be created, we believe that a number of issues need to be clarified before it is possible to assess the true public value of this initiative and understand the potential impact of such a network on other media, including commercial radio in Scotland. As with any Government backed intervention in the market on this scale, we believe it is crucial that the public value of the proposal needs to be carefully balanced against the likely effect on Scotland's existing media ecology.
5. Commercial radio in Scotland is a diverse and popular medium that broadcasts music, news, information and local programming to large audiences. However, commercial radio operates in an extremely difficult economic environment and we have some concerns that the proposed SDN could make the position of stations in Scotland even more challenging.

The current state of commercial radio - UK

6. The commercial radio industry faces a difficult financial situation across the UK, due to a combination of structural change in the industry and the ongoing advertising recession. Indeed, Ofcom acknowledged recently that commercial radio is *"facing possibly its greatest ever challenges"*.¹
7. Small local stations have been hardest hit by this combination of high fixed costs and structural change (particularly the rise of online advertising and the shift to national rather local advertising) which has been compounded by the cyclical change of a recession and downward pressure on advertising prices.
8. Research conducted by RadioCentre for John Myers' independent report commissioned by Digital Britain found that this downturn in revenues has translated to an extremely serious position in terms of profitability. It found that:

¹ Ofcom, 'Radio: the implications of Digital Britain for localness regulation', July 2009, p.2

- Half of all commercial radio stations were loss making, with two thirds of all stations (66%) loss making or only generating profits of less than £100k per annum.
 - 12% of stations were predicting they would lose more than £250,000 in their 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).²
9. At the national level commercial radio's gross revenues were £505m in the 2009 calendar year, down by around 20% from the peak in 2004 calendar year (when revenues were £641m).³ The most recent data suggests that total industry revenue for 2010 is expected to have recovered slightly.

The current state of commercial radio – Scotland

10. Commercial radio is more popular in Scotland than in any other part of the UK, both in terms of audience share and revenue per head. Adjusting for population size, in 2009, local commercial revenue in Scotland was equivalent to £7.84 per head. This was 17% above the UK average of £6.68 per person⁴.
11. This disproportionately strong performance means that revenues from Scottish commercial stations represent around 9.9% of the UK total. However, unsurprisingly these revenues have also been under pressure in recent years, falling by 8% between 2008 and 2009 alone⁵.
12. Bauer and GMG Radio are the two largest owners of commercial radio stations in Scotland, however the radio landscape is diverse with over half (51%) of the local commercial radio services in Scotland under independent ownership. This is a higher proportion than the other UK nations, amounting to 20 of the 39 Scottish stations.⁶
13. A number of these independent stations are some of the smallest commercial stations in the UK and much of their success lies in the fact that they provide news, information and cultural programming at a very local level. For example, Cuillin FM on Skye provides three to six hours of Gaelic programming per week while Two Lochs Radio has a strong emphasis on Scottish and Gaelic music and provides severe weather information every winter because of its location in a coastal and mountain environment.⁷

Commercial radios provision of local news

14. 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.
15. Ofcom research has demonstrated that, out of all local content provided on commercial radio, listeners value news most highly.⁸ In addition, while local radio does not constitute listeners' main source of local news, Ofcom also research reveals that listeners believe that no other media can rival radio's capacity to deliver time-sensitive

² John Myers, An Independent Review of the Rules Governing Local Content on Commercial Radio, April 2009, p. 34

³ Radio Advertising Bureau, November, 2010

⁴ Ofcom, 'The Communications Market in Scotland', 2010, p.81

⁵ Ofcom, 'The Communications Market in Scotland', 2010, p.81

⁶ Ofcom, 'The Communications Market in Scotland', 2010, p.80

⁷ RadioCentre 'Audit of Member Stations, 2010'

⁸ Ofcom local media research, April-May 2009; quantitative research conducted by MORI for Ofcom, 2004

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)⁹.

16. Recent research by RadioCentre has found that 75% of commercial stations across the UK produce more locally-made programming than is required of them by Ofcom. Responses also demonstrated that in terms of news, commercial stations in Scotland deliver an average of:
 - 20 news bulletins a day (over 90% of which contain local news content)
 - Over seven hours of bulletins and news programmes each week¹⁰
17. We believe that the Commission's report should have more clearly acknowledged that, as a medium, commercial radio's delivery of news is hugely important to communities across Scotland. Consequently, when assessing the viability of the proposed SDN, the potential threat to the continued delivery of this service should be taken into consideration.

Scottish Digital Network

18. The central recommendation of the Commission's report is that a Scottish Digital Network (SDN) be created; *"making more original content from Scotland available on television and on demand to viewers at home or abroad."*¹¹
19. Although this recommendation is clear, we do feel that there are questions that need to be asked of the proposal before we can truly assess its implications on behalf of the commercial radio sector. Namely;
 - How would the SDN be funded?
 - On what platform(s) would the SDN be delivered?
 - How will this content and output be regulated?

We address each of these matters in turn in the sections below.

Funding of the SDN

20. On the issue of funding, the report calls for the financing of the potential SDN to come from public funds. Although the report acknowledges that *"detailed planning"* around the likely costs of the proposed service has not been done, a figure of £50 –75 million per annum is suggested. While the report favours public funding, we would question how the SDN could be fully funded in this way, against a background of an overall £1.3bn cut in Scotland's budget for next year.
21. Regardless of whether the proposed SDN is funded wholly by public money, or by a combination of public money and advertising, it would represent a major intervention into the Scottish market. We believe that this intervention could have a potentially damaging impact on the already fragile commercial radio industry in Scotland.
22. Although the Commission is not proposing a radio offering as part of the SDN, the introduction of a new, digital network on television and online (that would inevitably require a degree of commercial funding) will only increase the imbalance within local media markets between available advertising and the potential pool of local advertising spend.

⁹ RadioCentre/ YouGov research *'The Big Listen'*, 2007

¹⁰ RadioCentre *'Audit of Member Stations, 2010'*

¹¹ Scottish Broadcasting Commission *'Platform for Success'* – Executive Summary p.2

23. 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.
24. Therefore, the introduction of additional advertising inventory, potentially at the local level, in order to fund the SDN could have the unintended consequence of reducing the amount of advertising and sponsorship that current local media rely upon. Consequently we suggest that the introduction of a major new network, both on television and online, will ultimately further endanger the viability of local and national media within Scotland, rather than securing it.

Platform

25. The report states that the proposed channel should *“function as part of a wider and deeper network of Scottish content, with rich online services complementing and enhancing the programmes in their linear broadcast channel.”*¹²
26. However, it is unclear from this description whether the SDN is envisaged as a channel in the traditional sense (perhaps as competition for the BBC’s regional output), which could sit on the Freeview platform, or if it is more likely to be an online content provider of programming from Scotland.
27. In considering the most appropriate platform for the SDN it may be useful to examine the conclusions of the panel chaired by Nicholas Shott, who has been asked by the Secretary of State for Culture, Media and Sport to consider the viability of local TV. While we appreciate the SDN is a different sort of proposition, the interim conclusions from Shott were clear in that the economics of a TV business funded by advertising are challenging and likely to be prohibitive for DTT in most cases. It considered IPTV technology (such as YouView) to be more appropriate.
28. Further detail in this area is essential if the SDN is to be a realistic and viable proposition.

Regulation of the SDN

29. The regulatory framework for the SDN is also far from clear. However, there may be useful parallels that could be drawn with other local media and the regulation that has been put in place. For example, there are specific measures that govern the activity of community radio.
30. Essentially, Ofcom has a general obligation to ensure that community radio services do not “prejudice unduly” the economic viability of existing local radio services. No community radio station is permitted to raise more than 50% of its operating costs from a single source, including on-air sponsorship and advertising. The remainder of operating costs must be met through other sources. However, where a community radio station lies totally within the transmission area of a commercial station with a population coverage of under 150,000, no sponsorship or advertising may be sought and all funding must come from alternative sources.

¹² Scottish Broadcasting Commission ‘Platform for Success’ – Executive Summary p.3

31. Community radio licences may not be awarded if the proposed coverage area would overlap by 50% or more (in adult population terms) with the measured coverage area of a local commercial station which contains 50,000 or fewer adults. This is in order to protect the financial interests of smaller commercial stations.¹³
32. For radio services to qualify as community radio services they must be non-profit-distributing, centre on a target community, deliver social gain objectives, invite access and participation in the service, and are accountable to the target community.
33. The report states that the Commission has been *"persuaded by the importance of community radio stations, particularly in parts of Scotland underserved by other media"*.¹⁴ We feel it is important to note that smaller commercial stations in Scotland are essentially the same as community radio stations in terms of their scale and role in the community. Indeed, in some cases, the only reason commercial stations are not community stations is that they came into existence prior to the legislation which created most commercial stations.
34. We believe that the Commission's recommendation that *"regulation and support for community radio should be reviewed by Ofcom in Scotland"*¹⁵ should be made with the understanding that there is a legislative commitment to be mindful of the impact of these services on the economic viability of local commercial radio. Moreover, small commercial radio stations also operate in a restrictive regulatory environment. Therefore, given the nature of the intervention being proposed to establish the SDN it may also be appropriate to consider a version of this commitment when considering the regulation of this network.

Conclusion

35. RadioCentre welcomes the Commission's emphasis on the need to provide Scotland and its regions with distinctive, individual programming. However, we believe that the report should have done more to recognise the valuable role that existing local media (including commercial radio) already play in Scotland, in terms of programming, local news and information.
36. In regard to the central recommendation in the Commission's report, RadioCentre believes that more clarification is required on the way the proposed SDN would be funded and how it would operate. Until that takes place, it is difficult to draw clear conclusions as to what impact the proposed SDN would have on Scotland's commercial radio market.

RadioCentre, November 2010

RadioCentre

4th Floor, 5 Golden Square, London W1F 9BS

t: +44 (0) 20 3206 7800

www.radiocentre.org

¹³ Ofcom website 'Licensing Community Radio' 2004

¹⁴ Scottish Broadcasting Commission 'Platform for Success' – Executive Summary p.13

¹⁵ Scottish Broadcasting Commission 'Platform for Success' – Executive Summary p.13