



Radio. Connecting past and future.

Sound, commercial, sense.



RADIOCENTRE

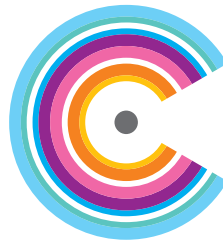


Contents

- 1 Where are we today?
- 2 What are the big changes currently underway for the sector?
- 3 How is the industry responding to these challenges?
- 4 What are the obstacles and barriers to innovation and growth?
- 5 The future

Radio is the original broadcast medium.

Today, combined with digital and online technologies, it continues to provide a compelling proposition for audiences and advertisers alike.



RADIOCENTRE

Summary

This paper summarises where the commercial radio industry is today and lays out a vision for the future. It examines the challenges and opportunities presented by technology and changing consumer behaviour.

There are 340 licensed commercial radio stations in the UK, twice as many as 20 years ago. It is a highly competitive market, generating over £575m in revenues each year. 34 million people (63% of the UK population) listen to commercial radio's mix of music, news, travel and local information every week.

Challenges facing the medium include increasing competition for people's time; the continuing growth of online advertising; the mighty market share of the BBC (54%); out-dated regulation; and the costs and opportunities of growing digital radio.

Commercial radio in the UK

340
stations 



Listened to for
450m
hours per week

34m  listeners


£575m
revenue per annum



3,000+
hours of public service
content per week


20m+
for charity

For its part, to continue to thrive commercial radio will:

- provide consumers with what they want – including local news and information
- work with UK businesses to provide effective advertising and stimulate the economy
- work with all our partners to grow digital radio and expand choice
- grow our contribution to a thriving, diverse creative sector
- work with the BBC where we can make common cause
- continue to innovate, on air and online.

To help the sector grow, we need:

- from Government – updated legislation enabling greater flexibility, beginning with a wide-ranging review to a defined timetable. In particular, consumer protection regulation resulting in garbled on-air caveats needs urgent reform
- from Ofcom – support for forward-looking regulation, placing the consumer at the centre
- from the BBC – more distinctive services, more rigorously regulated.

1

Where are we today?



1.1 A highly competitive market

The number of commercial radio stations in the UK has increased significantly in the past ten years with a growth in digital and analogue, national and local stations.

Diversification of services via analogue and digital technologies, broadcast and online, is leading to the rise of ever more specialist scheduled, streamed and pure on-demand services, competing for advertising revenues and audiences.

Commercial radio revenues are growing but haven't yet reached pre-recession levels.

1.2 Commercial radio's total audience remains high but average listening hours are under pressure

The number of people listening to broadcast radio is as high as ever - 48 million (89%) of adults listen every week and 34 million (63%) are commercial radio listeners.

The average time spent listening to radio has reduced from 24.4 hours per week in 2004 to 21.4 hours in 2014. This trend is more marked amongst those aged 15-24.

1.3 Commercial radio provides significant public value

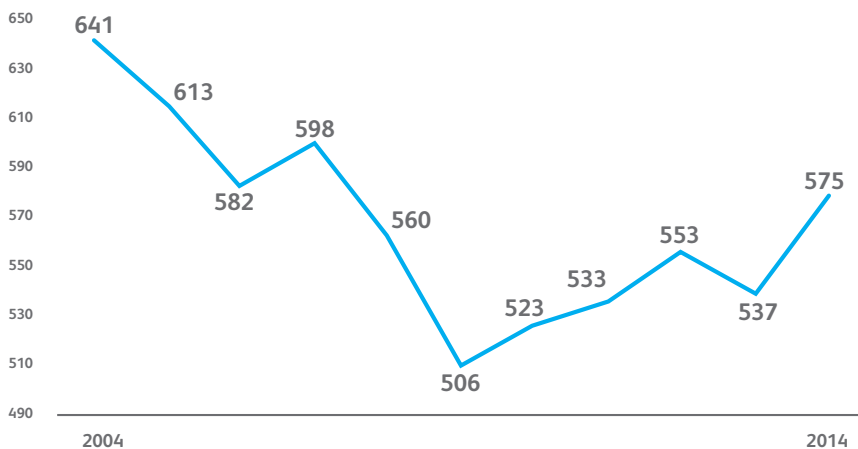
Commercial radio stations contribute to public service broadcasting, producing on average 10 hours and 21 minutes of public service content every week.

- 97% of stations broadcast 12 or more news bulletins per day, updated regularly and broadcast live.
- Local events, weather, travel, sport and community action comprise the remainder.
- The sector also raises over £20m each year for charity and provides airtime to support international appeals.

The commitment to news on commercial radio supports media plurality.

- Commercial stations provide consumers with a choice of independent news sources and a plurality of voice, both nationally and locally
- Radio is held in high regard by audiences as a trusted source of news that is impartial and presents a range of views
- The sector spends approximately £27m per annum on professional journalism and employs hundreds of journalists.

Annual commercial radio revenues (£m)



Source: Radiocentre

- Commercial radio news provides important competition to the BBC and a diminished local press.

Commercial radio stations of all sizes support training and development for young people.

- 37% of stations invest in courses to train young people in radio, three quarters visit schools and colleges or host open days in their studios. Over 90% run work experience programmes.
- Examples include creative media training by the Bauer Academy and the forthcoming Global Academy, a full accredited University Technical College.

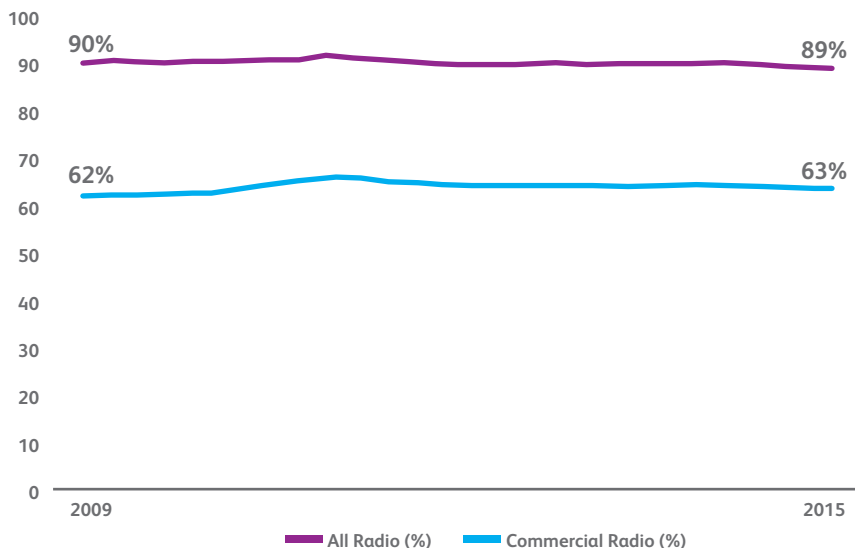
1.4 Commercial radio contributes significant economic value

Commercial radio supports investment in music.

- Last year commercial radio paid around £50m to songwriters, composers and music publishers in the UK under licensing agreements with PRS for Music and PPL.
- 75% of listeners report discovering new music on commercial radio stations broadcasting over 37,000 hours of music each week.
- 1 in 4 stations have supported unsigned acts that went on to be signed.
- 80% of stations broadcast live music sessions and support live music events.

Radio's total audience remains high but is under pressure

Radio reach remains stable



Overall radio returns £7.70 for every £1 invested by advertisers

- Radio remains the most popular way to discover new music¹ and its promotional power makes a significant contribution to music sales.

Advertising on radio supports the local economy.

- Commercial radio provides efficient, cost effective advertising for local businesses – with local advertisers accounting for 30% (£167m) of spending on radio in 2014.
- As an advertising medium commercial radio has the second highest ROI (after TV) providing a critical route to customers, especially for local businesses and SMEs. Overall radio

returns £7.70 for every £1 invested by advertisers.

- Radio stations are also themselves local businesses that employ thousands of people across the UK and invest in local marketing and advertising.

1.5 The commercial sector is investing in digital radio

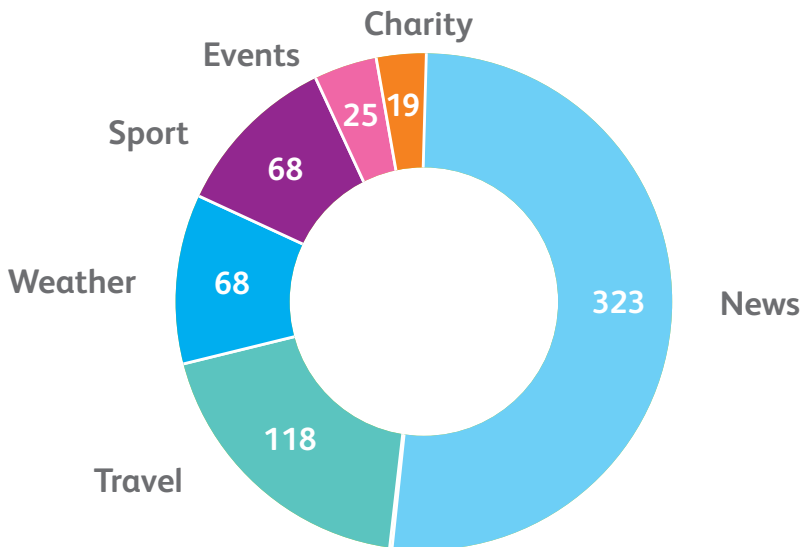
The UK leads the world in the development of digital radio. Alongside almost 300 analogue and dual services, more than 40 dedicated DAB stations provide a range of choice and diversity for specific audiences and demographics.

Digital listening hours have grown to a high of almost 40% - and are expected

1. YouGov report, Music Consumption 2014 (Sept 2014)

Public value output (mins per week)

A total of 10 hours 21 minutes per station per week, making a total of over 3000 hours across the UK



Commercial radio stations contribute to public service broadcasting, producing on average 10 hours and 21 minutes of public service content every week

to exceed 50% of all listening in the next three years.

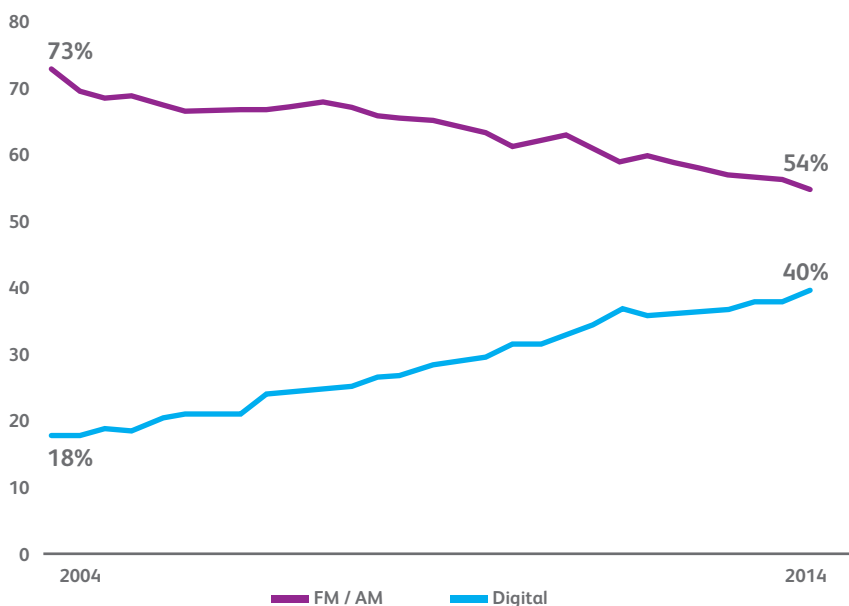
Digital radio coverage is being extended to FM equivalence following an agreement between Government, BBC and commercial radio to build new transmitters.

A second national multiplex is due to launch in 2016, providing more stations and even greater diversity of choice.

Trials are taking place of small-scale DAB services providing a route to digital for small commercial and community stations.

However, analogue radio remains the largest single platform accounting for 54.3% of listening hours. Therefore it is likely that FM will remain an important platform for radio for some time.

Share of radio listening - digital vs FM/AM



Source: RAJAR



What are the big changes currently underway for the sector?

2.1 Competition for listening time has never been more intense

According to a recent Ofcom survey streamed online music services such as Spotify have gone from nothing to 30% of all listening for 16-24 year olds in the last decade².

The UK market is now open to global competitors (such as Rdio and Apple's

Beats1) as never before, with 80% of UK adults today having household internet access³.

As well as commercial radio stations audiences have access to 56 BBC radio stations, 225 licensed community radio stations and over 100,000 stations from around the world via aggregators such as TuneIn Radio.

2. Ofcom Communications Market Report 2014, Section 3 (Aug 2014)

3. Ofcom Communications Market Report 2014, Section 4 (Aug 2014)

In the last 15 years, digital advertising has grown from 1% to a predicted 50% share of UK ad revenue

2.2 Unprecedented shift in advertising revenue to online

In the last 15 years digital advertising has grown from 1% to a predicted 50% share of UK ad revenue in 2015.

This transition of ad-spend to online is the most significant economic trend that has put pressure on revenues across all media.

Display is now the main source of digital ad growth, in direct competition to TV and radio. Over the same period (since 2000) radio's share of display ad revenue has fallen from 6.4% to around 5.5%.

2.3 Broadcast radio is still robust but there is a challenge amongst the under 30s demographic as online services grow in popularity

Radio accounts for 89% of listening to commercial audio among all adults but only 71% of listening among those aged 15-24.

A vital question for radio broadcasters is whether younger audiences will revert to more traditional listening habits as they age. Also, whether radio listening among older audiences is undermined as they adopt new listening behaviours.

Qualitative and quantitative research is playing an important role in understanding these changing habits – supplemented by concept testing to help identify new radio-led services with the greatest audience potential for the future.

As an issue that is challenging the whole radio industry it makes sense to share the cost and learning of a wide-ranging research project of this nature in conjunction with the BBC.

2.4 The dominance of radio in the car is being challenged by the growth of connected cars

Over 20% of all radio listening is done in the car so it remains vitally important.

However many new cars now come with a fully digital dashboard - with interfaces such as Apple Car Play that look like a smartphone display.

The evidence so far is that radio remains strong but it faces a challenge to remain the default entertainment platform in cars.



How is the industry responding to these challenges?

3.1 Innovation in business models and in compelling new services for consumers is an essential feature of radio today

The growth of digital stations has meant an expansion in choice and diversity of content with stations catering to different genres and eras of music. A further 15 national stations will launch in 2016 as part of the new national multiplex.

Radioplayer (launched in 2011 via a partnership between BBC and commercial radio) provides all UK radio in one place on fixed line and on mobile. It attracts around 7million users each month and is the online console used by all the main BBC and commercial radio stations.

95% of commercial radio stations offer an online streaming service to complement broadcast output. Each station

Innovation is an essential feature of radio today

experiences an average of 250,000 website visits every month. Sites contain blogs, video and local information as well as sound output.

70% of stations have a mobile app. 25% of adults report having listened to the radio on a mobile phone.

On-demand and interactive services are growing in importance for many stations (e.g. KISS, Classic FM) and also have the potential to contribute to the development of UK music, provided that fair terms are established for music licensing.

Hybrid radio or smart radio - developed in the UK by Radio DNS - provides a seamless combination of broadcast radio (FM, DAB, DAB+, HD Radio) and the internet, to enable better data and interaction with listeners.

The radio industry has been working with car manufacturers to increase the availability of digital radio in cars – 65% of new cars now have digital radio as standard – and Radioplayer has developed a hybrid or smart radio adaptor for cars.

3.2 New offers for advertisers


Web-based services use listener interaction to produce better targeted ads, music recommendations and sharing on social media. This improved listener data helps stations sell a more compelling and targeted advertising product, enabling advertisers to see real time responses to promotions for upcoming events.

Global Radio's Digital Audio Exchange (DAX) offers a single access point for advertisers to a range of digital audio channels encompassing connected radio and streamed music services.

Radio sponsorship and promotion continues to offer advertisers options beyond the traditional spot-ad – especially since changes to the Broadcasting Code in late 2010 allowing for greater integration of commercial communications within radio programming.

Many stations already offer enhanced services for registered listeners such as exclusive access to offers, news and events. Absolute's In-Stream mobile app provides a personalised 'logged in listening' service benefiting both advertiser and listener. Logged-in listeners can receive advertising messages based on their profile (demographics, location, device) with less relevant ads replaced by more music.

RAJAR, the industry's audience measurement body, is also developing more sophisticated ways of measuring online audio listening.



What are the obstacles and barriers to innovation and growth?

4.1 Inflexibility in regulation hampers scope for services to innovate and meet 21st century consumer needs

In revenue terms, commercial radio is a relatively small medium. Production costs are high and margins squeezed. The capacity to invest and develop new services for advertisers and consumers

depends critically on being able to control costs and seek out new revenues.

Radio regulation is in danger of stifling innovation and growth of these UK businesses in a highly competitive market.

Current rules were devised in a pre-internet age to ensure choice and diversity of content. But the world has moved on since

Radio regulation is in danger of stifling innovation and growth

this time. Listeners are now able to access a range of content on air and online that was inconceivable just a few years ago.

The regulation has not caught up with this reality and as a result much more detailed rules apply to radio than online, with processes that are slow and bureaucratic in comparison.

Consumers and advertisers look for innovation, flexibility, increased personalisation and responsiveness in multiplatform services. If regulation prevents radio from responding to these demands it will lose audiences and become increasingly uncompetitive. Investment in talent, professional news and journalism, plurality of news provision and music performance (both live and recorded) will be in jeopardy.

There are several key areas that require attention.

- **Local production quotas** – Specific requirements on location of production mean that radio content must be produced in artificially created regions (or approved areas) at peak times. These restrictions fail to recognise that local news and information can now be delivered to audiences in a variety of ways using the latest broadcast technology.
- **Music formats** – Rules that involve Ofcom determining the music format of local radio stations also represent a level of micro-regulation that is unnecessary and inappropriate in the digital age.

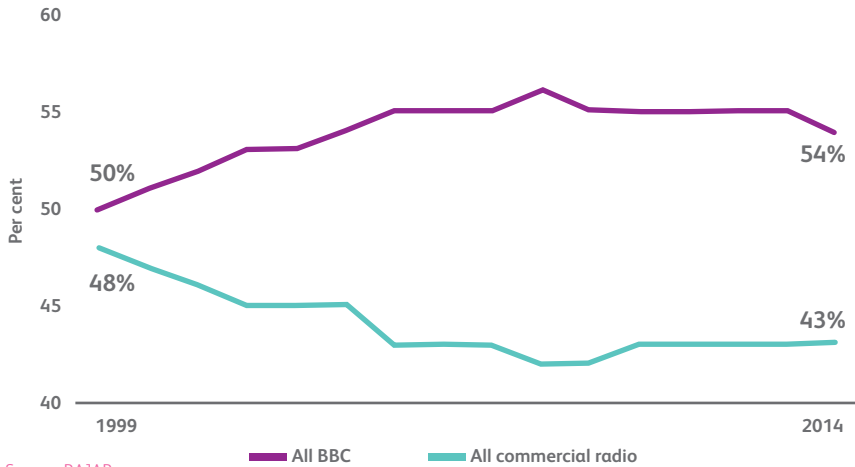
- **Advertising regulation** – Fast talking disclaimers in radio ads are annoying for listeners and ineffective as consumer protection. A new approach is required based on shorter, simpler messages with further detail online. The complexity of this area means this requires support from the Financial Conduct Authority (FCA), Ofcom and European authorities.
- **Competition rules** – At present the Competition and Markets Authority (formerly OFT/ Competition Commission) only considers the impact of media mergers on competition for advertising in a single sector – such as radio or press – and in specific geographic areas. This should be revised to take into account the availability of other media, which is more consistent with local media ownership rules and will enable companies to consolidate and build value.

4.2 Market dominance by the BBC and overlap of BBC services with commercial competitors

The BBC's share of the UK radio market continues to be extraordinarily high – increasing from 50% in 1999 to 54% in 2014 (extending its lead over commercial radio from 2% to 12%).

- Much of this growth is driven by strong presence in the 25 to 44 age bracket, which is also the sweet spot for advertisers.
- This growth is principally because the audience of Radio 1 has drifted older and Radio 2 younger – squeezing

BBC Market Share



Source: RAJAR

commercial radio audiences. While this shift in audience has slowed in recent years, there are no signs of it being reversed, despite the continuing obligations on Radios 1 and 2 to serve more distinct audiences.

- The BBC spends £480 million producing content on its national and local radio stations - compared to around £75 million spent on production for 340 licensed commercial radio stations. This disparity in investment is impossible to justify unless the BBC is producing distinctive public service content across the schedule.
- BBC music radio's public service obligations should ensure that public service content is scheduled in peak as well as off-peak hours.
- Despite recent findings from the BBC Trust it remains the case that BBC music radio is insufficiently distinctive in peak times, with most of the music on Radio 1 and Radio 2 in weekday daytime also being played elsewhere on commercial radio (Radiocentre research found a 60% duplication rate).
- The BBC (and the BBC Trust) continues to believe that funding by the licence fee means that it should seek to provide 'something for everyone'. This was not the view of MPs on the CMS Committee in their recent report⁴, nor is it the view of Radiocentre. This should be addressed as part of BBC Charter review.

The BBC's share of the UK radio market continues to be extraordinarily high – 54% in 2014

Commercial radio is supporting the expansion of digital radio and extension of choice for listeners

4.3 Broadcasting on both analogue and digital platforms has cost hundreds of millions of pounds, which could have been invested into improved content

It is not sensible for commercial radio or the BBC to sustain two broadcast networks indefinitely.

Commercial radio supports the expansion of digital radio and is a crucial partner in extending coverage and choice for listeners on an affordable basis.

Work should continue to enable national and large local services to switch off their FM frequencies when they are ready to do so. But this process must be consumer-led and there should be no enforced switchover of local commercial radio stations.

Given that FM is likely to continue as a platform for radio for some time, consideration should also be given to how this can be utilised most effectively and repurposed in future.

4.4 Digital aggregators absorb advertising spend but don't invest in content

The major digital media companies are very different in nature to traditional media owners – perhaps best described as content aggregators vs. content providers.

Content aggregators are technology companies that drive revenue by exploiting the professionally produced content created by traditional media

brands (and/or generated by consumers) – they rarely invest in standalone content themselves – although some are starting to do so now.

As the digital market expands to dominate advertising revenue trends, agencies and marketers are placing increasing value on and are allocating a greater proportion of their budgets to digital media solutions.

As ad budgets swing away from traditional content creators towards digital aggregators, this will cause tension in the quality content supply chain (this applies across all traditional media), undermining investment in content and media plurality.

This situation is exacerbated by outdated regulation that applies only to traditional media.

The future

5.1 Although there are many uncertainties in media in the next five years, we can be confident of the following

Broadband access and usage will continue to rise, bringing new services to all age groups.

Mobile use of audio and audio-visual services will continue to rise (using both

cellular networks and Wi-Fi) across all age groups.

Digital radio will account for the majority of listening time but FM will continue for the foreseeable future.

Competition for 'ear time' between online and broadcast audio services will continue to intensify.

Advertising spend will continue to fragment as use of online display advertising continues to grow.

Multiplatform/hybrid services combining scheduled, streamed and on-demand output will become the norm for most brands.

5.2 Radio can continue to capitalise on these developments

Digital radio provides scope for ever more specialist music and speech services, with deep audience understanding and targeted advertising.

Multiplatform brands and services use listener interaction to generate data and further improve advertiser targeting.

Stations and brands can build deeper relationships with audiences on traditional and social media.

Stations and brands can combine curated and on-demand services to meet consumers where they are in their day and in their mood.

Radio continues to offer the benefits of musical discovery both for consumers and for the benefit of writers, performers and publishers.

Stations continue to promote local talent through broadcast and supporting live events.

Stations maintain strong local links and continue to be the go-to service (on air and on line) for citizens on local news, information, events and weather.

5.3 Commercial radio's commitment

Provide consumers with what they want including local news and information by:

- continuing to meet the cultural needs of local audiences
- making the commitment to localism in digital licences more concrete
- supporting the value provided by a combination of local services and national brands.

Work with all our partners to support the growth of digital radio by:

- accelerating audience take up
- expanding services
- continuing to improve coverage
- developing affordable hardware (especially in-car)
- and supporting joint marketing efforts through Digital Radio UK (alongside the BBC).

Grow our contribution to the UK creative sector by:

- supporting UK music and artists by promoting music purchase (from legal sites not pirates), streaming and live events
- encouraging best practice and innovation in advertising
- supporting skills training for the next generation of radio entrepreneurs
- and leading the way encouraging diversity across the spectrum to ensure we bring on the best talent to produce high quality content.

Commercial radio will provide consumers with what they want including local news and information

Work with the BBC where we can make common cause by:

- continuing to invest jointly in cross-industry initiatives
- developing joint projects and research to prepare for future challenges.

5.4 To do this and to grow in a hyper competitive media environment radio needs

From Government:

- sensible consumer friendly regulation for financial products
- changes to the legislative framework that enable greater flexibility (following a wide-ranging review, to a defined timetable)
- stability and security for radio operators – by enacting licence rollovers; removing the prospect of an enforced switchover for local radio stations; and clarifying future plans for the FM platform.

From Ofcom:

- future-looking regulation on locations and format controls to enable the sector to respond quickly to new challenges from less-regulated competitors
- support for simpler and more effective advertising warnings on financial products.

From the BBC:

- the development of more distinctive BBC services that promote diversity and support the growth of radio to future audiences
- independent regulation to ensure these services adhere to a more rigorous public service mission
- a partnership approach to research in radio audience trends.



Sound, commercial, sense.





RADIOCENTRE

Radiocentre Limited
55 New Oxford Street,
London, WC1A 1BS

radiocentre.org