

# THE VALUE OF COMMERCIAL RADIO TO THE UK ECONOMY

A REPORT FOR RADIOCENTRE

MAY 2016

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## **May 2016**

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# GLOSSARY

**The following terms are used throughout this report.**

**DAB** stands for Digital Audio Broadcasting and is the system employed to digitally transmit high quality audio signals.

**Direct impacts** are the gross value added and jobs that the commercial radio industry itself generates in the UK.

**Employment** is the number of people employed, regardless of whether their employment is full-time or part-time.

**Gross domestic product**, or GDP, is the most commonly used aggregate measure of total economic activity. It is used to assess the economy's growth rate and whether the economy has entered or exited a recession.

**Gross value added**, or GVA, comprises the profits, business rates and employee compensation a company or industry creates or pays. UK GDP is the sum of gross value added of all the industries, plus taxes on products and imports less subsidies on products.

**Indirect impacts** are the gross value added and the jobs that the commercial radio industry supports along its UK supply chain through its procurement of goods and services.

**Induced impacts** are the gross value added and the jobs that the commercial radio industry supports by its payment of wages to staff, who then spend them at retail and leisure outlets in the UK economy.

**Input-output models** are designed to give a snapshot of an economy at a particular time, showing the major spending flows. An input-output model is essentially a table which shows who buys what from whom in the economy.

**PPL** is one of two organisations that license the use of music played in public or broadcast on radio, TV and on the internet. PPL collects and distributes money on behalf of performers and record companies for the use of their recorded music.

**Procurement expenditure** is the money the commercial radio industry spends on inputs of goods and services to be used up in the course of its operations in a single year.

**Productivity** measures the amount of economic output that is produced per head. It is calculated as a ratio of gross value added per employee.

**PRS** is the other organisation that licenses the use of music played in public or broadcast on radio, TV and on the internet. PRS collects and distributes money on behalf of songwriters, composers and music publishers, for the use of their musical compositions and lyrics.

**'The commercial radio industry created/generated'** refers to metrics—like gross value added and jobs—that the commercial radio industry is directly responsible for (direct impacts).

**'The commercial radio industry supported'** refers to metrics—like gross value added and jobs—that other companies create because of the commercial radio industry's expenditure: for example, because radio stations purchase inputs of goods and services from them (indirect impacts), or because they pay wages to their staff, who then spend them (induced impacts).

# EXECUTIVE SUMMARY

**Commercial radio plays a vital role in UK culture, communities and the modern UK media landscape.** Every week, more than 35 million people listen to over 300 commercial radio stations all across the UK. Despite GDP growing slightly below trend recently, a reduction in government investment in radio advertising and tough competition from both the BBC and music streaming platforms, commercial radio continues to reach more than two-thirds of the population every week. This work highlights the important economic and social impact of commercial radio stations in the UK.

**The economic impact of the commercial radio sector can be calculated using an economic impact methodology.** To give a sense of the scale and nature of this impact, this study is conducted in two parts. First, a core economic impact assessment articulates how the activities and expenditure of the commercial radio sector stimulate economic activity across many industries. Second, we discuss the wider benefits that the commercial radio sector enables beyond its immediate economic footprint—known as the ‘catalytic’ impacts of the industry. These include the benefits that accrue to UK companies through effective advertising, the value to the wider music industry from enhanced music sales, and the wider social value that arises from the promotion of charitable and community activities across all corners of the UK.

**The presence of the commercial radio industry in the UK generates economic activity and supports jobs across the economy. In 2014/15, it supported nearly 12,340 jobs in the UK.** The industry’s own workforce numbered 4,410 people, over three times as many as employed in the computer games development industry. As well as the people directly employed in the industry, commercial radio generates activity and supports jobs all across its supply chain. And on top of this, its own employees and those in its supply chain all go on to spend their wages in the wider consumer economy, supporting even more jobs. In 2014/15, some 7,920 jobs were supported by the industry through these secondary channels.

**In total, the industry supported a £683 million gross value added contribution to UK GDP in 2014/15.** Gross value added comprises the profits, business rates and employee compensation a company or industry creates or pays. Gross Domestic Product (GDP) is the sum of gross value added of all the industries, plus taxes on products and imports less subsidies on products.

**Commercial radio’s value added contribution arises from three different channels – direct, indirect and induced.** Some £310 million of this impact was generated by the industry itself (direct contribution). The expenditure that the industry made on goods and services from UK suppliers in 2014/15 supported a further £210 million gross value added contribution to UK GDP (indirect contribution). Moreover, the wages paid by the commercial radio sector and its supply chain were subsequently spent in the UK consumer economy, supporting an additional £163 million gross value added contribution (induced contribution).

**Workers in the commercial radio industry are highly productive.** Each employee is estimated to generate a £70,200 gross value added contribution, making the industry workers much more productive than the economy as a whole and the creative industries in the UK— at £53,200 and £46,500, respectively.

**The impact that commercial radio has on the UK goes far beyond these expenditure impacts. Radio-based adverts deliver significant value for firms, which in turn support a large amount of economic activity.** A study for the Radio Advertising Bureau found that the return for a pound invested into radio advertising was £7.70. We therefore estimate that the £592 million spent on radio advertising in the UK in 2015 produced returns of £4.6 billion in that year.

**Radio airplay is also a key driver of music sales;** in the UK, the retail value of the recorded music industry stood at £1.1 billion in 2015. However music is purchased, it remains the case that radio stations are fundamental in driving music sales. Research suggests that between 14 and 23 percent of music purchases are driven by purchasers first hearing the song on the radio. Using the mid-range estimate and taking into account the share of listening, an estimated £103 million of music sales can be attributed to commercial radio alone.

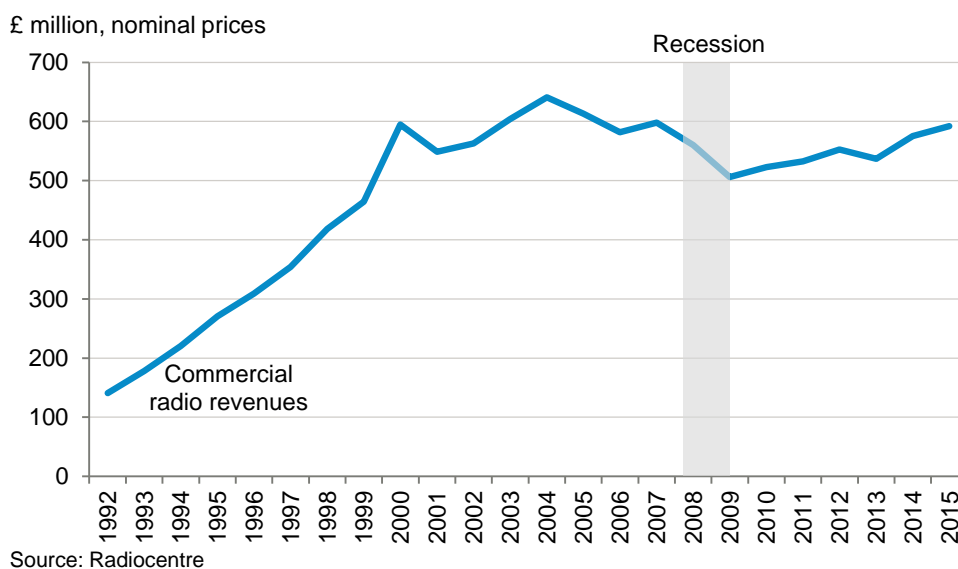
**Finally, commercial radio stations also produce a significant amount of public service broadcasting and charity content in their schedule.** In 2015 these stations broadcast an average of 13 hours and 15 minutes of public service output each week, including news, sport, travel, weather and local information. They also directly generated £25 million in charitable donations and 93 percent of stations were contacted by listeners about charity appeals. This demonstrates the ongoing ability of commercial stations to connect listeners with important social and charitable causes within their communities.

# 1. INTRODUCTION

Some 35 million people, or two-thirds of the UK population, listen to commercial radio's mix of music, entertainment, news, travel and local information every week.<sup>1</sup> It is a highly competitive market, with over 300 licensed stations serving a wide range of musical preferences, local communities and social backgrounds.

The industry generated over £592 million in revenues in 2015, having peaked at over £640 million in 2004 (Fig. 1). In 2014/15 it accounted for one in every 400 people employed in creative industries in the UK, and contributed £683 million to the country's economic output through direct and secondary channels.<sup>2</sup> Most recently, as Fig. 1 shows, revenues have once again started to climb.

**Fig. 1. Commercial radio revenues<sup>3</sup>**



However since the mid-2000s, revenues have declined by 27 percent in real terms for a number of reasons, most notably a period of recession (grey shaded area in Fig. 1) and the increased competition for revenue with the expansion of digital media and rapid growth in online advertising.

Competition for listening has also intensified, with the BBC increasing its spend on radio and shifting the positioning of its mainstream pop music stations (Radio 1 and Radio 2).

<sup>1</sup> RAJAR Q4 2015

<sup>2</sup> For a complete list of the creative industries, see Annex.

<sup>3</sup> According to data from the ONS, "Quarterly National Accounts: Quarter 4 (Oct to Dec) 2015", (31 March 2016), the UK experienced five consecutive quarters of negative GDP growth (the 'recession') between 2008 Quarter 2 to 2009 Quarter 2.

The growth of online music streaming services may also be contributing to a decline in overall time spent listening to commercial radio, even though the total number of listeners has held up remarkably well.

In recent years the industry has also invested heavily in digital radio content and infrastructure, sustaining multiple transmission platforms and growing the share of digital listening to 42 percent overall. The sector also remains relatively heavily regulated given its size.

Against this background, this report explores the value that this sector brings to the UK economy, both in terms of the jobs and GDP it generates. It is based on a financial survey of the five largest players in the industry that are Radiocentre's members and an employment survey by Radiocentre of an additional 30 commercial radio groups.<sup>4</sup> This work demonstrates just how much the whole UK economy benefits from the commercial radio industry.

The foundation of this analysis is the use of an economic impact assessment to compute the economic contribution that is made to the UK in terms of jobs and GDP. The wider benefits brought about by the commercial radio industry are then explored in the specific context of music sales, returns to advertising and charity promotion.

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<sup>4</sup> We have consolidated and grossed up data for five groups – Global, Bauer, Orion, Communicorp, and Lincs FM. The data were drawn from a survey designed by Oxford Economics and circulated by Radiocentre. We have also included data from Wireless Group plc from publicly available sources. In addition, Radiocentre collected data from about 30 other commercial radio groups and estimated the headcount of a further 30 smaller groups.



## INTRODUCING ECONOMIC IMPACT ANALYSIS

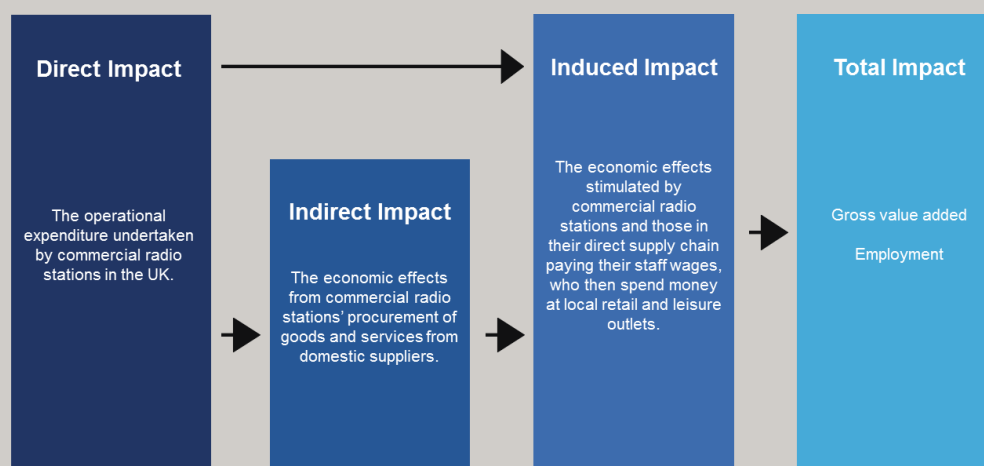
This study quantifies the economic contribution of the commercial radio industry using an analytical method called Economic Impact Assessment. It focuses on the impact of the sector on the UK economy and quantifies values for 2014/15 as the latest year for which data are available.<sup>5</sup>

By employing a bespoke model of the UK economy, we estimate the way the commercial radio industry's expenditure ripples through three different impact channels. The channels are:

- **Direct impact:** the output and employment created by the industry itself.
- **Indirect impact:** the economic effects of the commercial radio industry's procurement of goods and services from domestic suppliers.
- **Induced impact:** the economic effects resulting from employees within the industry and its supply chain spending their wages on consumer goods, leisure activities and utilities in the domestic economy. This spending generates further economic activity in the supply chains of the companies that serve these customers.

The contribution of the sector and its supply chains to an economy is the sum of all three channels of economic impact. The results are presented on a gross rather than a net basis.<sup>6</sup>

**Fig. 2. The commercial radio industry's impact channels**



Each channel of impact is quantified using two metrics:

- **Employment:** measured in headcount terms, rather than on a full-time equivalent basis, to ease comparisons with official statistics.
- **Value added contribution to GDP:** Gross value added is the contribution an institution or company makes to Gross Domestic Product (GDP). It is perhaps most easily thought of as the value of the output a company/industry produces less the value of the inputs used up in that output's production.

<sup>5</sup> Financial year ending in March 2015

<sup>6</sup> A gross basis looks at the employment and economic activity the industry supports now, it does not subtract what the resources used by the commercial radio industry could generate in an alternative industry.

## 2. THE ECONOMIC IMPACT OF THE COMMERCIAL RADIO INDUSTRY

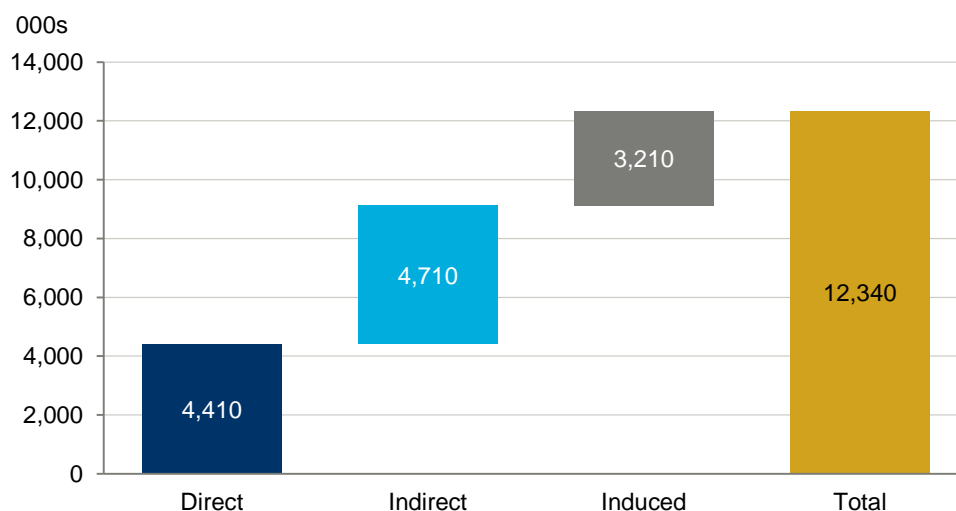
The economic contribution that the UK commercial radio industry makes to jobs and GDP is considerable. It includes not only the direct impacts generated by the operational activity of radio stations themselves, but also the economic activity stimulated elsewhere in the economy by the industry's supply chain expenditure on goods and services. And beyond this again, employees within both the industry itself and within its supply chain spend their wages at retail and leisure outlets in the UK. We quantify each of these impacts as a mechanism to explore the relationship between the commercial radio industry and the wider UK economy.

### 2.1 EMPLOYMENT CONTRIBUTION

The presence of the commercial radio industry in the UK generates economic activity and supports jobs across the economy. Including all impact channels (direct, indirect and induced), we estimate that commercial radio stations supported nearly 12,340 jobs in the UK in 2014/15 (Fig. 3).

This means that commercial radio has an employment multiplier of 2.80; for every job in the radio stations themselves, it supports 1.80 jobs elsewhere in the UK economy.

**Fig. 3. Total employment contribution of commercial radio in the UK, 2014/15**



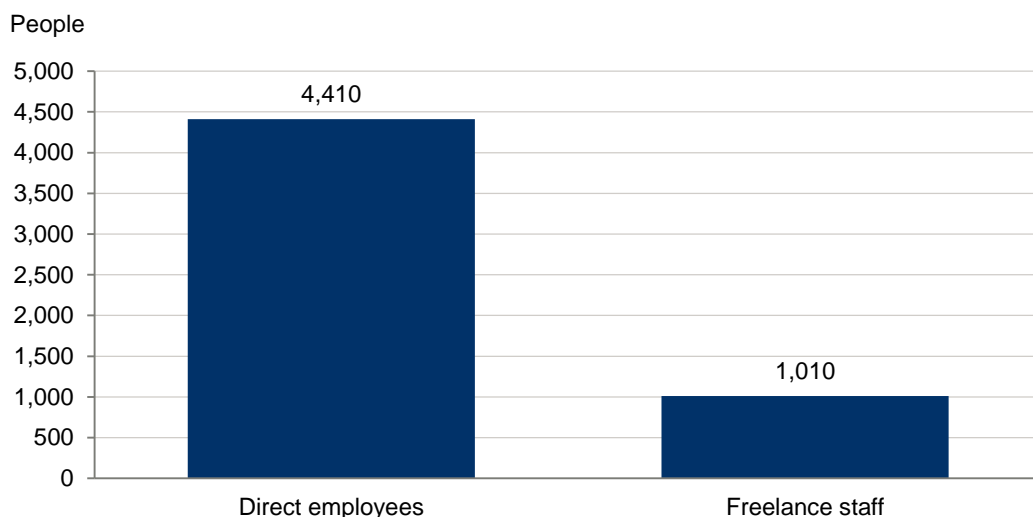
Source: Radiocentre, Oxford Economics

#### 2.1.1 Direct employment in the commercial radio industry

The total employment contribution is made up of three channels (Fig. 3). The direct workforce employed in commercial radio in 2014/15 amounted to 4,410 people and was equivalent to one in every 400 people employed in the UK

creative industries.<sup>7</sup> On top of this direct employment, the commercial radio industry also relied on around 1,010 freelance workers in 2014/15.<sup>8</sup>

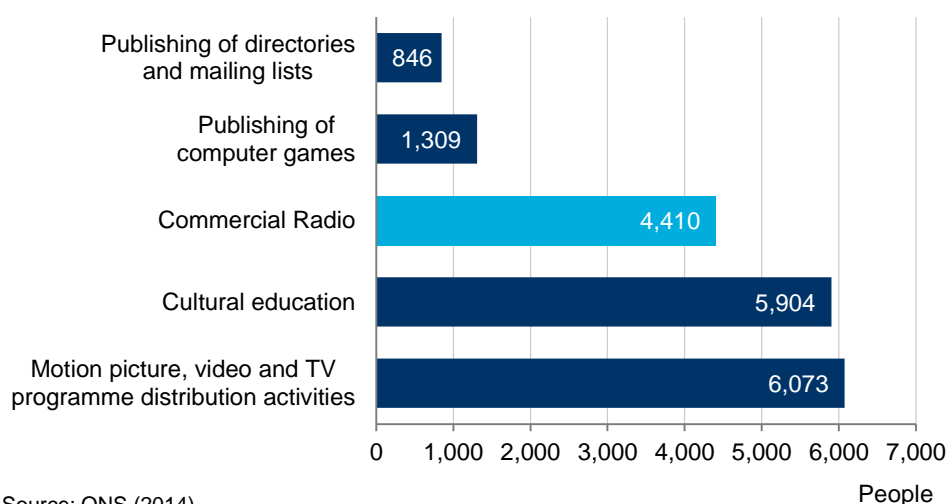
**Fig. 4. Direct employment and freelance workers, 2014/15**



Source: Industry sources, Oxford Economics

These numbers mean that commercial radio plays an important role within the creative sector. For example, firms in the commercial radio sector employed over three times as many people as employed in the publishing of computer games in 2014 (Fig. 5).

**Fig. 5. Direct employment by industrial sector in the UK, 2014/15 vs 2014<sup>9</sup>**



Source: ONS (2014)

<sup>7</sup> Department for Culture, Media and Sport, "Creative Industries: Focus on Employment", 30 June 2015.

<sup>8</sup> To provide context, some 6,000 people were employed in Radio broadcasting in 2013, according to the ONS Annual Business Survey.

<sup>9</sup> ONS, "Business Register and Employment Survey (BRES) provisional results: 2014", 24 September 2015. The comparison is not fully accurate as commercial radio data refer to the UK, while BRES covers Great Britain only.

### 2.1.2 Indirect (supply chain) and induced (wage spending) employment contribution

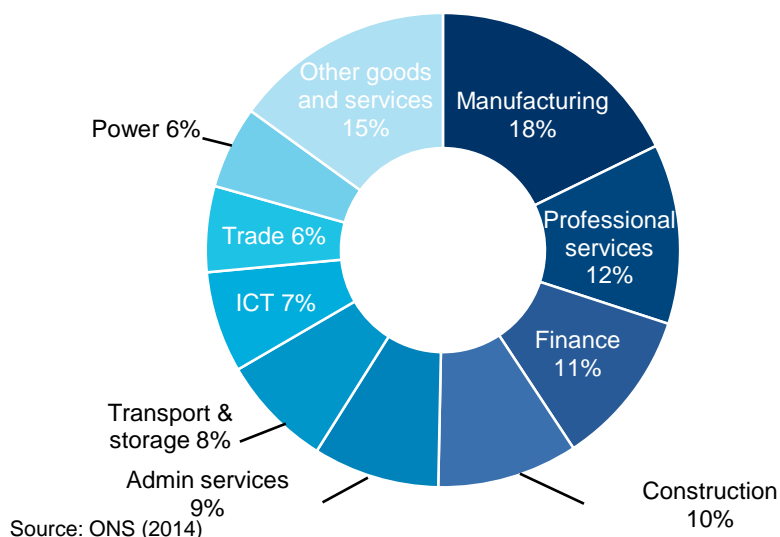
Besides the direct employment created by the commercial radio sector firms themselves, the spending of these businesses and their employees also supports employment opportunities which is spread more widely in industries all across the economy.

To undertake its activities, the sector purchases goods and services from suppliers across the UK. Data on the major commercial radio groups' procurement from UK-based suppliers can be grossed up to quantify the whole sector's supply chain.<sup>10</sup> These data show that the commercial radio industry procured an estimated £244 million of goods and services from UK-based suppliers in 2014/15.

The purchases that commercial radio makes from such suppliers, and the subsequent economic activity that this expenditure stimulates further down the supply chain, fuel economic growth by creating and sustaining jobs in the UK economy. We estimate that this supply chain activity supported around 4,710 jobs in the economy in 2014/15.

Both the commercial radio industry and its suppliers pay wages to their employees, and a proportion of these wages is subsequently spent by employees within the consumer economy. An illustration of how this consumer spending is allocated across the UK economy as a whole is shown in Fig. 6.

**Fig. 6. Consumer spending by industry in the UK**



<sup>10</sup> The grossing technique is based on revenue. We employed revenue data collected by Radiocentre for the five groups participating to this study, plus publicly available revenue data for Wireless Group, and contrasted them to the industry size in revenue terms. This resulted in a scalar of 1.17, which we applied where necessary. A different assumption is used for profits, following Communications Chambers' methodology; we assume that smaller groups and stations, for which no data are collected, are likely in aggregate to break-even. Hence the profit's multiplier is 1.00. In other words, only the six major groups are assumed to make profits. This will not be entirely accurate, but is a reasonable basis on which to make a conservative estimate.

The economic activity generated by consumer spending constitutes the induced impact of an industry on the UK economy. Data from Radiocentre's members reveal that firms operating in the commercial radio sector paid an estimated £157 million in wages and salaries in 2014/15 and we can further estimate that firms in the sector's supply chain paid their staff a further £196 million.<sup>11</sup>

A proportion of these incomes will be spent at retail and leisure outlets. Overall, our calculations show that this expenditure supported an additional 3,210 jobs in the UK in 2014/15. This is both at the initial outlets visited and their supply chains. The kinds of industries that benefit from this consumer wage spending are much wider in scope than for indirect spending. The industrial sectors that are estimated to receive the greatest boost from commercial radio firms' payment of wages are the retailing, housing and hospitality sectors.

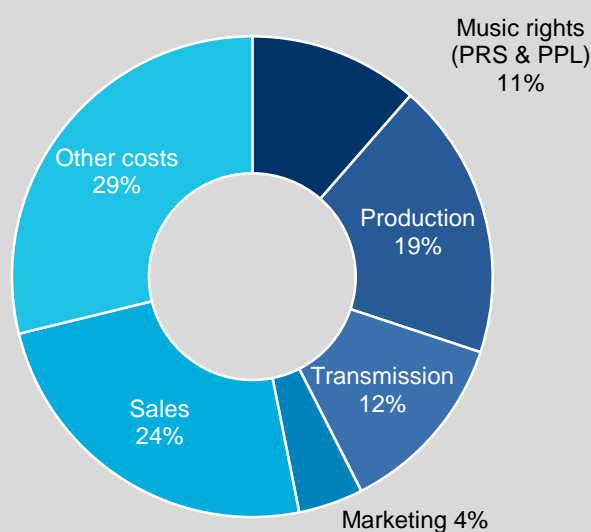
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<sup>11</sup> The grossing technique for wages and salaries is based on employment. We used employment data provided by Radiocentre on about 70 commercial radio groups and independent stations. The six large groups accounted for about 71 percent of this employment and we therefore scaled up the large groups' wages by 1.40 to estimate the salaries paid out to employees by the industry as a whole.

## WHAT DO RADIO STATIONS SPEND THEIR MONEY ON?

A study by Communications Chambers estimated that the seven major commercial radio groups spent about £375 million in total operating costs in 2015.<sup>12</sup> The industry's suppliers span a wide range of industries. Some 24 percent of total expenditure is spent on advertising and sponsorship sales. The second largest spend (19 percent) is on inputs that feed into the production of radio shows. The purchase of music rights and transmission costs correspond to another 12 and 11 percent respectively (Fig. 7).

**Fig. 7. Commercial radio industry's supply chain spend by type, 2014/15**



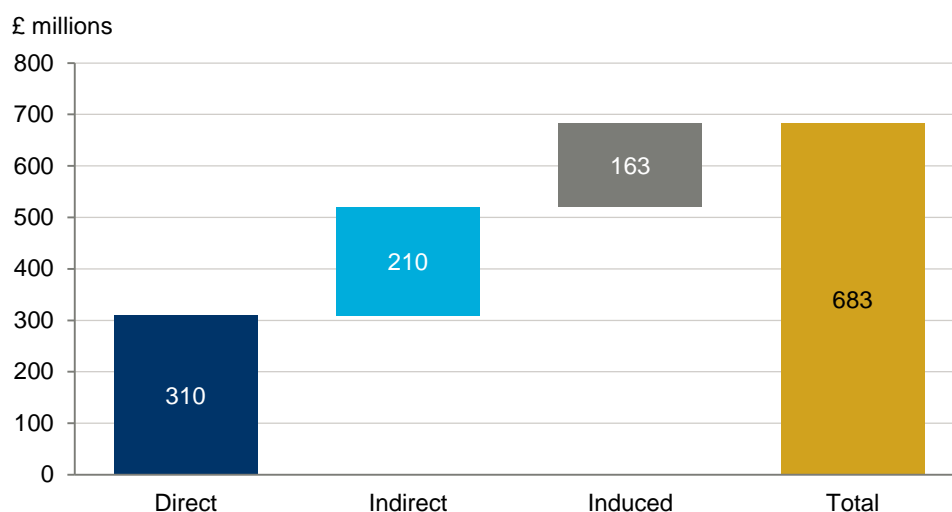
Source: Communications Chambers (2015)

## 2.2 GDP CONTRIBUTION

As well as supporting employment, the commercial radio industry also contributes considerably to UK GDP. The industry's total impact on the UK economy was worth £683 million in 2014/15 (Fig. 8). As with employment, this contribution arises from three different channels: its direct operations, its procurement and its staff wage-spending.

<sup>12</sup> Communications Chambers, "Commercial Radio Economics - 2015 update", 6 July 2015. This cost figure includes both procurement and employment costs. The seven groups included in the study are: Bauer, Global, Orion, Absolute, GMG, Communicorp and UTV.

**Fig. 8. The commercial radio industry's contribution to UK GDP, 2014/15**



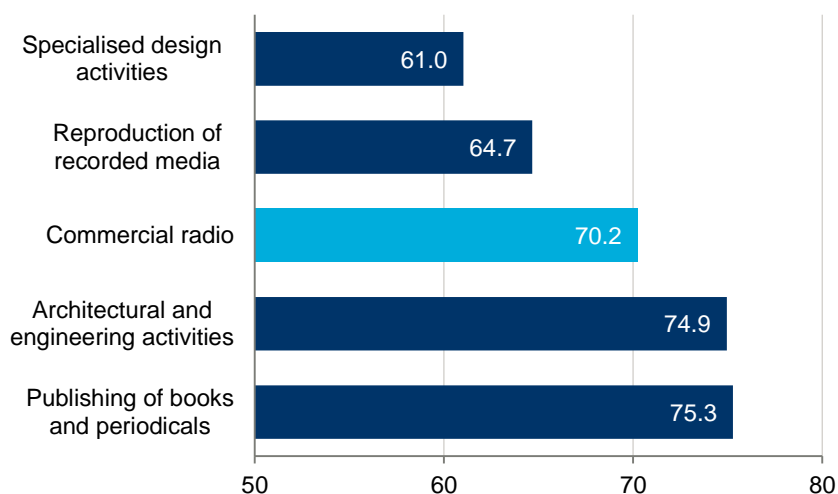
Source: Oxford Economics

Our analysis suggests commercial radio has a value added multiplier of 2.20; for every £100 gross value added in the commercial radio industry, it supports £120 elsewhere in the UK economy. The gross value added multiplier is significantly lower than its employment counterpart.

This shows how productive the commercial radio industry is, compared to the rest of the UK economy, which ensures the industry workers are well paid. The high level of wages paid boosts the standard of living of the recipients and their families in the UK. In the commercial radio industry, gross value added per person employed is 1.3 times as large as in the economy as a whole and 1.5 times as large as in the creative industries.<sup>13</sup>

<sup>13</sup> Department for Culture, Media and Sport, "Creative Industries Economic Estimates", January 2016.

**Fig. 9. Productivity in selected UK creative industries, 2014/15 vs 2014**



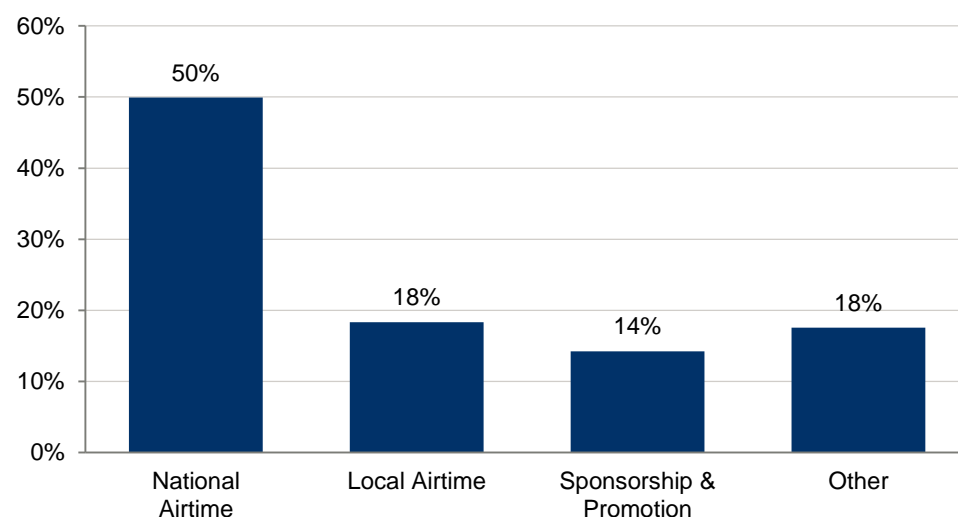
Source: ONS (2014)

£ thousand per head

### 2.2.1 Direct GDP contribution of the commercial radio industry

Radiocentre's data suggest that, in 2014, firms in the commercial radio sector generated revenues of £575 million, rising to £592 million in 2015 (in current prices). These revenues came predominantly from advertising on national airtime (50 percent) and local airtime (18 percent) (Fig. 10).<sup>14</sup>

**Fig. 10. The commercial radio sector's revenue by source, 2014/15**



Source: Communications Chambers (2015)

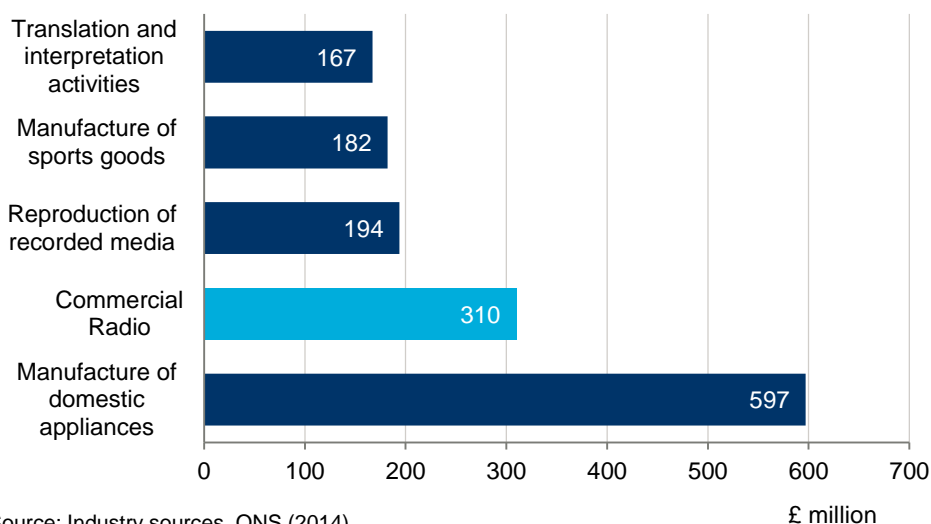
From this revenue, the commercial radio industry is estimated to have directly generated a £310 million gross value added contribution to UK GDP in

<sup>14</sup> Communications Chambers, "Commercial radio industry financial analysis", May 2015.



2014/15. Fig. 11 compares the direct value added contributions of different sectors to UK GDP with commercial radio.

**Fig. 11. Gross value added contribution to UK GDP by sector, 2014/15 vs 2014<sup>15</sup>**



### 2.2.2 Indirect and induced GDP contribution

As with employment, the commercial radio industry's contribution to the UK economy is much more than just the direct GDP contribution. The sector's supply chain and its payment of wages to staff generate further economic benefits for the economy. This stimulates considerable activity at businesses across the UK.

In 2014/15, the industry spent £244 million on inputs of goods and services from suppliers within the UK. This is estimated to have supported a £210 million gross value added contribution to GDP.

As we have seen with employment, the payment of wages by firms in the commercial radio sector and within the sector's supply chain supports activity throughout the domestic economy (the induced contribution). In 2014/15, firms in the commercial radio sector paid £157 million in gross wages and a proportion of these was subsequently spent in the UK consumer economy (in retail and leisure outlets). This and the wage spending of staff in the industry's supply chain are estimated to have supported an additional £163 million gross value added contribution to UK GDP.

<sup>15</sup> ONS, "Annual Business Survey - 2014 Provisional results", 12 November 2015.

## 3. WIDER IMPACTS OF COMMERCIAL RADIO

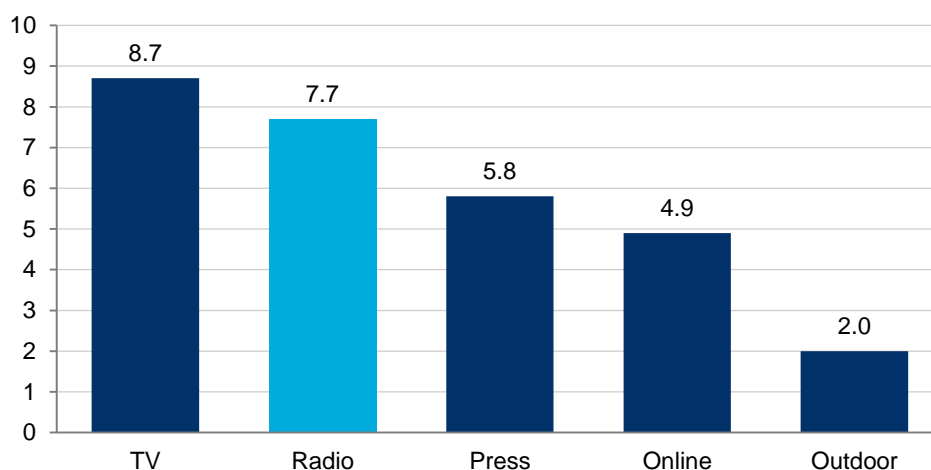
### 3.1 ADVERTISING

Commercial radio stations are dependent on selling adverts for their survival. But these radio-based campaigns also deliver significant value for firms who advertise, which in turn support a large amount of further economic activity at a local and national level.

Again, there is a range of evidence about how much value radio advertising generates. A report for the Radio Advertising Bureau, for example, analysed the returns on the 7.2 percent of all paid advertising that takes place on commercial radio. It found that the return for £1 of investment into radio advertising was £7.70, second only to TV advertising.<sup>16</sup>

**Fig. 12. Average revenue returns to advertising**

Revenue ROI (Return on Investment)



Source: RAB

In 2015, £592 million was spent on radio advertising in the UK.<sup>17</sup> Using the ratio of returns that Radio Advertising Bureau cite, we estimate that the returns to advertisers are likely to have been in the order of £4.6 billion in 2015 alone.

The same study also considered the impact in different sectors and found considerable variation. Consumer-facing industries such as retail, leisure and entertainment enjoyed significantly stronger average returns from their advertising spend, at £19 and £11 return per pound invested, respectively. The

<sup>16</sup> Radio Advertising Bureau, "Radio: The ROI Multiplier".

<sup>17</sup> Advertising Association, "Drive to digital sends UK advertising to its highest growth for four years", in <http://www.adassoc.org.uk/> <<http://www.adassoc.org.uk/news/drive-to-digital-sends-uk-advertising-to-its-highest-growth-for-four-years/>>

quality of advertising was also important, with the most effective campaigns enjoying returns of up to £24 per pound spent.

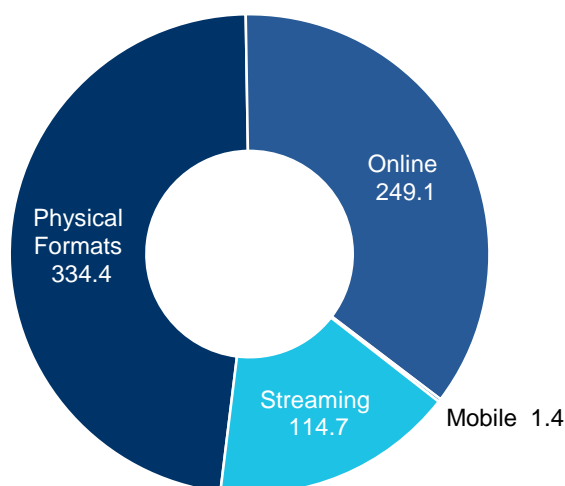
While this study focussed primarily on the success of national campaigns, the significant value provided by commercial radio to local advertisers should not be overlooked, as it provides a highly targeted and cost effective way of reaching local communities.

### 3.2 MUSIC SALES

In 2015, the retail value of the UK recorded music market stood at £1.1 billion, a 3.5 percent increase from 2014's £1.0 billion.<sup>18</sup> The most striking feature of the industry is the explosive growth of streaming; in 2014, audio streaming income increased by 50 percent year on year, bringing this channel to 16 percent of total industry income (Fig. 13).

**Fig. 13. Music sales by channel in the UK, 2014**

£ million



Source: BPI

However, the evidence suggests that streaming is largely a substitute for music purchase and is simply the way that a growing number of people now listen to their own music collection, with the music retail model shifting from ownership to access.

Radio stations still play a fundamental role in driving music sales and meeting different needs for audiences.<sup>19</sup> Radio is the primary way through which listeners hear about new music, with some evidence suggesting it is a significant factor for as many as 64 percent of consumers. Furthermore, hearing songs on the radio, either once or repeatedly, has been shown to be the most important influence for 35 percent of music purchases. Individuals who listen to the radio also spend more on both live and recorded music.<sup>20</sup>

<sup>18</sup> That's the amount spent on buying albums, singles and streaming subscriptions.

<sup>19</sup> Radio Advertising Bureau, "Audio Now", 2015.

<sup>20</sup> Communication Chambers, consumer research for Radiocentre, 2011.

Radio airplay is therefore a key driver of music sales, a fact broadly recognised within the industry.

Although detailed evidence from the UK is limited, analysis in the United States has shown the major contribution of radio to music sales and has identified a strong correlation between airplay and peak music sales—as having an immediate and sustained impact.<sup>21</sup>

In recognition of this, the most comprehensive study into this area attributed 14-23 percent of music sales to radio.<sup>22</sup> Using 2015 retail revenue data of £1.1 billion and a mid-range estimate for the proportion of sales attributable to radio (18.5 percent), we can therefore estimate that around £196 million of music sales can be attributed to all radio in 2015 (BBC and commercial radio).

Given that commercial stations currently have a 52.7 percent of the UK music radio market, it can be estimated that £103 million of music sales can be attributed to commercial radio alone.<sup>23</sup> This is likely to be a conservative estimate given the sector's particular role in supporting and sustaining the most commercially valuable hit songs and artists.

### 3.3 PUBLIC SERVICE CONTENT AND CHARITABLE CAUSES

Commercial stations are not only a valuable source of music and entertainment, but they also play a vital role in communities by broadcasting a range of public service content. This includes regular news bulletins covering national and local issues, sport, weather, travel and local information as well as promotions for charitable appeals and flagging community events and causes to the public. Evidence from Radiocentre suggests that commercial stations include an average of 13 hours and 15 minutes per week of public service content, a programming commitment that goes above and beyond any regulatory requirement.<sup>24</sup>

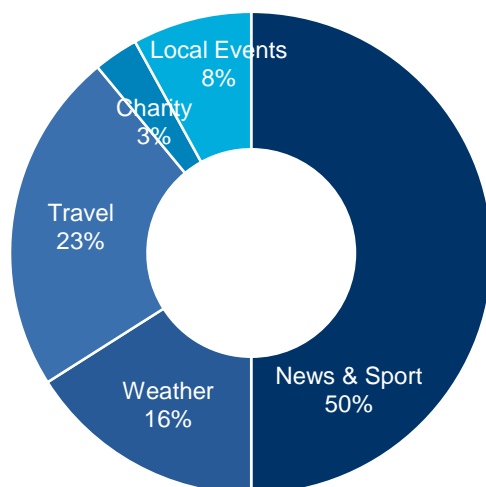
<sup>21</sup> Nielsen, "Study: Radio Airplay and Music Sales", 2013.

<sup>22</sup> J. Dertouzos, "Radio Airplay and the Record Industry: An Economic Analysis", 2008.

<sup>23</sup> RAJAR Q4 2015 (UK music radio being all stations except talkSPORT, LBC, Radio 4, Radio 5 Live)

<sup>24</sup> Ofcom requires that certain TV and radio broadcasters fulfil public service requirements as part of their licence to broadcast.

**Fig. 14. Output of public service content on a UK commercial station**



Source: Radiocentre

One particular pathway through which charities are supported is in an emphasis on the local and the way in which this works to foster a connection between listeners and a wider community. Analysis by Kantar Media, for example, found that 93 percent of stations reported that listeners had contacted them about charity appeals.<sup>25</sup>

Commercial radio stations also make their own charitable contributions, with stations running appeals and fundraising events across the year. Indeed 85 percent of stations report making financial contributions to not-for-profit events and schemes. The total raised directly for charity by commercial radio stations stood at £25 million in 2015.

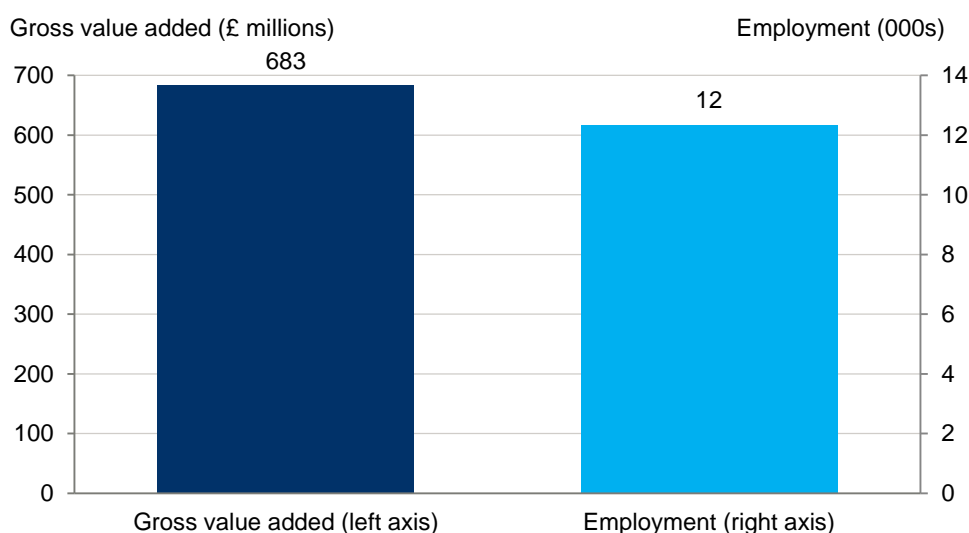
<sup>25</sup> Radiocentre, "Action Stations. The Output and Impact of Commercial Radio", 2014.

## 4. CONCLUSION

The commercial radio industry plays a vital role in the UK economy and its communities. It is estimated to support 12,340 jobs in total in 2014/15. Of these, 4,410 were in the sector itself and 7,920 elsewhere in the UK economy. The industry therefore had an employment multiplier of 2.80: for every person employed directly, it supports 1.80 jobs in other industries.

The commercial radio industry also made a significant contribution to UK output. It supported a total value added contribution of £683 million to UK GDP in 2014/15.

**Fig. 15. The economic impact of the commercial radio industry in the UK, 2014/15**



Source: Oxford Economics

On top of this, as this report has explored, the commercial radio industry's health is also vital to support UK music sales, an industry generating £1.1 billion revenues in the UK in 2015. Moreover, this work suggests that radio remains an increasingly valuable medium for advertisers, simultaneously generating revenue for commercial radio itself. And finally, this report has highlighted commercial radio stations' role in supporting public service broadcasting, promoting charities and galvanising support for social action.

The positive impact of commercial radio on the UK economy and the wider economic and social benefits are all the more notable given the competitive challenges (from the BBC and digital music services) and regulatory constraints it faces (including content and production rules).

The current initiatives being taken as part of BBC Charter Review and the proposed deregulation of commercial radio being considered by Government provide significant opportunities to address these issues. Everything else being equal, the value of the sector is likely to be greater still if greater progress and flexibility could be achieved in these areas in the coming years.

## 5. APPENDIX A: METHODOLOGY

### MODELLING THE UK ECONOMY USING INPUT-OUTPUT TABLES

In order to quantify the commercial radio stations' multiplier impacts, this analysis is based on the UK analytical input-output (IO) table produced by the ONS.<sup>26</sup> IO tables are designed to give a snapshot of an economy at a particular time, showing the major spending flows from:

- (1) 'final demand' (i.e., consumer and government spend and exports to the rest of the world);
- (2) intermediate spending patterns (i.e., each sector's supply chain);
- (3) how much of that spending stays within the economy; and
- (4) the distribution of income between employment income and other income (mainly profits).

In essence an input-output model is a table which shows who buys what from whom in the economy. The domestic use input-output table for UK was for calendar year 2010.

This table is used to estimate the impact on other industries as a result of commercial radio's spend on inputs of goods and services and its employees' spend at leisure and retail outlets.

The starting point for estimating the indirect impact is through information provided by the five main commercial radio groups and Wireless Group's accounts regarding their procurement of inputs of goods and services from other UK-based companies. This excludes purchases from overseas. The sector's procurement expenditure is consequently split into 106 different categories of goods and services based on the type of products and services purchased by the average firm in the 'Motion Picture, Video & TV Programme Production, Sound Recording & Music Publishing Activities & programming and broadcasting activities' industry.

The next step in estimating the indirect impact is to examine the effect of this spending on the total sales of different industries in the UK (using the domestic use input-output table). This is done by calculating multipliers for each industry that can be used to show how commercial radio's supply chain purchases impact each individual industry.<sup>27</sup> As such, the impact on both first-tier and the second-tier suppliers further down the supply chain can be modelled.

The induced impact is modelled using a similar method. We asked the five major commercial radio groups to provide data on their expenditure on employment and extracted this figure from Wireless Group's annual accounts. We then grossed this up using industry revenues. Oxford Economics used this to model the typical spending profile of employees of commercial radio and its suppliers, by allocating consumer expenditure according to household expenditure identified in the domestic use input-output tables. Here again multipliers are calculated for each industrial sector and are employed to estimate the impact of consumer spending at leisure and retail outlets in the domestic economy.<sup>28</sup>

The impact on employment can also be modelled by taking into account the productivity (or gross value added per employee ratios) of the sectors involved in the supply chain and consumer spending, obtained from ONS and Oxford Economics data.

<sup>26</sup> ONS, *Input-output analytical tables - 2010*, ed. Richard Wild (Newport: ONS, 2014).

<sup>27</sup> These are known as Type I multipliers, which estimate the impact on the whole domestic economy of £1 spent in a given industry, through its supply chain.

<sup>28</sup> Here Type II multipliers are calculated, which also include the effect of spending by households stimulated as a result of the additional employment generated by the additional £1 spend.

## 6. APPENDIX B: DCMS' DEFINITION OF THE CREATIVE INDUSTRIES

The Creative Industries is made up of the following 4-digit Standard Industrial Classification 2007 (SIC) codes, as defined by the Department for Culture, media and Sport.

**Fig. 16. Creative industries**

Creative industries group	SIC (2007)	Description
Advertising and marketing	70.21	Public relations and communication activities
	73.11	Advertising agencies
	73.12	Media representation
Architecture	71.11	Architectural activities
Crafts	32.12	Manufacture of jewellery and related articles
Design: product, graphic and fashion design	74.10	Specialised design activities
Film, TV, video, radio and photography	59.11	Motion picture, video and television programme production activities
	59.12	Motion picture, video and television programme postproduction
	59.13	Motion picture, video and television programme distribution
	59.14	Motion picture projection activities
	60.10	Radio broadcasting
	60.20	Television programming and broadcasting activities
	74.20	Photographic activities
IT, software and computer services	58.21	Publishing of computer games
	58.29	Other software publishing
	62.01	Computer programming activities
	62.02	Computer consultancy activities
Publishing	58.11	Book publishing
	58.12	Publishing of directories and mailing lists
	58.13	Publishing of newspapers
	58.14	Publishing of journals and periodicals
	58.19	Other publishing activities
	74.30	Translation and interpretation activities
Museums, galleries and libraries	91.01	Library and archive activities
	91.02	Museum activities
Music, performing and visual arts	59.20	Sound recording and music publishing activities
	85.52	Cultural education
	90.01	Performing arts
	90.02	Support activities to performing arts
	90.03	Artistic creation
	90.04	Operation of arts facilities



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