

## RADIOCENTRE RESPONSE TO COMPETITION AND MARKETS AUTHORITY INTERIM REPORT ON ONLINE PLATFORMS AND DIGITAL ADVERTISING

### INTRODUCTION

1. Radiocentre is the industry body for commercial radio in the UK, representing over 300 licensed radio stations of all sizes from national brands like Classic FM, Kiss, Magic, Heart, LBC and Jazz FM, to small independent stations in communities all across the country.
2. Commercial radio is funded almost entirely by advertising and operates in a highly competitive market, generating more than £700m in revenues in 2019. Over 36 million people listen to commercial radio's mix of music, news, travel and local information every week. It also supports £683m in gross value added to the UK economy and over 12,000 jobs.
3. Commercial radio companies are increasingly multi-media advertising businesses, operating across a range of complementary platforms including outdoor advertising, newspapers, magazines and numerous digital properties. As media owners and publishers they rely on different forms of display advertising, whether in digital, audio or printed form.
4. In common with many other media and business sectors, the growth in online platforms and digital advertising has had a significant impact on commercial radio. It has created numerous opportunities to distribute radio and audio content in different ways and has enabled radio companies to adopt new advertising models to support and monetise their content.
5. However, the shift to digital advertising has also been the biggest driving force behind the reduction in commercial radio's share of advertising revenues and real terms decline in total revenues for the radio since the early 2000s. This large scale transition of advertising spend to online platforms – and the growing dominance of Google and Facebook in particular – has been a concern of many established media and content businesses for some time, especially given the serious questions raised regarding the accountability, transparency and market power of these platforms. There has also been a well-documented breakdown in trust in some cases, with advertisers concerned about the safety of their brand in alongside inappropriate or illegal content online.
6. These issues and the fact that the digital advertising market does not appear to be functioning in a fair and effective manner are reason enough for the CMA to undertake an investigation, therefore its work to date is most welcome (as are the parallel initiatives by the UK Government and Information Commissioners Office). Yet for content providers such as radio and newspapers, which produce valuable public service content and journalism funded by advertising, there is also the fundamental question of the impact that content aggregators like Google and Facebook are having on society. If content businesses are no longer viable due to the dominance of the aggregators, then this has very serious implications for all of us. This should not be forgotten amid the important technical work on the operation of digital advertising markets.

### BACKGROUND

7. Radio remains incredibly popular with audiences with 88 % of the population still listening to some form of broadcast radio station each week. Listening habits have changed with the growth of digital listening on DAB and online platforms like smart speakers, as well as greater competition for listeners from podcasts and music streaming services. However live radio still represents far and away the biggest proportion of time spent listening to audio, with a share of around 72 %<sup>1</sup>.

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<sup>1</sup> Radio listening data from RAJAR and RAJAR MIDAS

8. Most radio content is made up of music, entertainment and speech content including local and national news. This output is valued highly by audiences with radio consistently found to be one of the most trusted of all media in the UK and across Europe<sup>2</sup>. Indeed research commissioned by Radiocentre found that 77% of listeners considered radio as a trusted source of news, compared to only 15% for social media<sup>3</sup>.
9. Radio has worked hard to innovate and develop its proposition for consumers and advertisers in recent years. There is now an unprecedented choice of radio stations available for listeners of all tastes and interests that can be accessed on a range of broadcast and online platforms. In addition, new services such as Global's Digital Audio Exchange (DAX) and Bauer's InStream services have created new ways of advertising in radio and audio, using data available from online listeners to provide better, more relevant ads, and a superior product for advertisers.
10. This has helped increase digital revenues in radio to £49m in 2019 up from less than £20m five years ago. These revenues are small compared to the digital ad market as a whole, but are growing as a proportion of radio's total income. As a result, it is crucial for radio to be able to offer such innovations so that it can evolve and thrive as a successful content business in future. Yet the dominance of the online platforms in both the national and local advertising market makes this particularly challenging.
11. Local revenues for radio have been under particular pressure in recent years as digital advertising has become more accessible to small and medium sized businesses. This is making it more difficult than ever to generate revenue for local radio advertising and ensure that valued radio services remain viable. Commercial radio remains committed to providing local news and information across its services, as it plays a vital role in keeping audiences informed on important issues at key points, times and locations throughout the day, but the economics of all ad-funded business have changed significantly in recent years.
12. While the economic challenge to radio has not yet been on the scale of local press, the nature of the pressures are not dissimilar and originate from the same source, namely the unchecked and unregulated expansion of digital platforms. In the case of radio this has led to work with Government<sup>4</sup> and crucially with Ofcom<sup>5</sup> to develop a new approach to regulation that supports a commitment to local news and information, but enables greater use of technology to provide more efficient ways of producing this content across local areas.
13. These changes were essential and have alleviated some of the immediate issues regarding the viability of commercial radio services, but will clearly do nothing to tackle the root cause of the issue as far as content businesses are concerned, which is the dominance of the online platforms and the exploitation of their market power.
14. This is likely to become an even greater concern in the coming years as more radio listening takes place on smart speakers or similar internet-connected devices that are designed and run on software platforms from major tech companies (including Google, Amazon and Apple). Currently over 20% of UK households owns a smart speaker, reaching 10 million users<sup>6</sup>. This is expected to grow significantly as voice services become more sophisticated and embedded in people's lives.
15. Radio listening is consistently found to be one of the most popular uses of smart speakers, therefore this constitutes a significant opportunity for commercial radio. However, it also has the potential

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<sup>2</sup> European Commission Eurobarometer study 109, 2019

<sup>3</sup> Radiocentre [Breaking News](#): How listeners value commercial radio news, 2017

<sup>4</sup> DCMS response on [Commercial radio deregulation](#), December 2017

<sup>5</sup> Ofcom statement on [Localness in commercial radio](#), October 2018

<sup>6</sup> Strategy Analytics [report](#), October 2019

to be a significant threat if one of the most important routes to market for radio is effectively owned and controlled by the US tech companies who will be able to act as ‘gatekeepers’ to radio content and custodians of valuable audience data. This is in stark contrast to the traditional broadcast model for radio where access to listeners is not mediated by a third-party, but managed by regulators that allocate broadcast licences and distributed on transmitters owned or leased by the broadcaster.

16. Due to this shift there is a risk that digital platforms could exploit their market power in this context, particularly regarding opportunities in digital audio advertising on smart speakers. In addition, it is likely to create greater opportunity for the sort of disaggregation of content that has been so damaging to news publishers. These changes alone have the potential to impact negatively on consumers, but there are also associated risks to provision of easy and free access to UK radio content. For radio businesses to remain viable in this new environment their output needs to be accessible on all platforms (with consideration given to potential ‘must carry’ arrangements) and findable by listeners. Therefore we would urge the CMA to consider the implications of these changes within the next phase of its market study and ensure that this relatively new area is within the scope of any future regulation or code of conduct.

## CMA FINDINGS TO DATE

17. As part of its study the CMA has identified a number of characteristics of the digital advertising markets that may inhibit or undermine effective competition, creating the potential for the online platforms to use their dominant position to increase prices, reduce quality or exploit their market power. These characteristics include:
  - network effects and economies of scale
  - consumer behaviour and the power of defaults
  - unequal access to user data
  - problems relating to lack of transparency
  - vertical integration and conflicts of interest.
18. The CMA’s detailed consideration of these complex issues is encouraging and we support its interim conclusion on the harmful effects of these concerns, which suggests that it has found evidence “consistent with the exploitation of market power” (para 59). The two main areas considered by the CMA that are most pertinent from the perspective of the commercial radio sector are unequal access to user data and problems relating to lack of transparency.
19. The power of Google and Facebook in these areas is clear and does not appear to be the basis for a well-functioning and competitive market. As many advertisers and publishers have already pointed out to the CMA, **unequal access to data** means that the platforms enjoy significant competitive advantages in both targeting and measuring effectiveness. As noted above, the growth in digital audio listening on connected devices such as smart speakers has the potential to create similar issues in future. Therefore the need to share sufficient and verifiable user data across these new and developing online audio platforms should also be considered.
20. In addition, one of the major concerns of media businesses with the operation of online platforms has been **problems relating to lack of transparency**. Many of these issues relate to the absence of full independent verification of the key metrics relating to the effectiveness of Google and Facebook, including crucial information on viewability of ads and quantification of ad impressions. Other media owners – including radio – do not ‘mark their own homework’ in this way and are subject to much greater levels of transparency on the methodology they use to determine levels of audience and engagement. We agree that the lack of transparency in this area (as well as in the operation of auctions and intermediaries) makes it more difficult to understand key decisions and undermines overall trust in advertising.

## PROPOSED INTERVENTIONS

21. The CMA’s willingness to intervene and regulate the activities of online platforms is welcome. It is also telling that the additional work carried out by the study to date has strengthened its view that “there is a strong argument for the development of a pro-competitive regulatory regime to regulate the activities of online platforms funded by digital advertising” (para 65). It outlines a number of specific measures that it is considering.
- Enforceable code of conduct
22. Introducing behavioural rules for firms with Strategic Market Status or market power (such as Google and Facebook) would be a significant step forward. The CMA is right to suggest that this should take the form of an enforceable code of conduct backed up by legislative powers. A key element of this from the perspective of commercial media businesses will be the focus on fair trading, trust and transparency. As noted above we also believe it would be appropriate for the scope of any proposed code to include these issues as they relate to the market power of online platforms in audio, to ensure that they cannot exploit their dominant role in smart speakers and on connected devices and that content remains accessible.
- Rules to improve transparency
23. The asymmetry and lack of transparency in information between platforms and customers is fundamental to some of the problems with digital advertising. Clear requirements on the platforms around data, privacy and fairness would help to rebalance the system.
- Interventions to address market power and promote competition
24. Any measures that would improve the sharing of data by Google and Facebook with a view to stimulating competition and improving transparency are welcome. The potential impact of the specific proposals on algorithms or the use of default search option to consumers are difficult to assess and it may be that separation of elements of the ad serving business is required.

## CONCLUSION

25. The work of the CMA and the Government on the digital advertising market is important and most welcome but it is clearly complex and multi-faceted. Co-ordinating the work of previous reviews (including the Furman Review and Cairncross Review) along with the measures to tackle online harms, the work of the ICO and the CMA will take time and significant political will. It must also consider international developments and where possible seek to co-ordinate these efforts.
26. Against this backdrop it is understandable that the CMA does not plan to make a full market investigation at this stage, particularly as it believes that there is a good chance of recommendations from its market study being implemented by Government. However, given the significance of the potential impacts, we urge the CMA to keep this decision under constant review in case it feels that changes to the regulatory framework are insufficient or it needs to be able to apply more significant remedies to improve the way the online advertising market is operating.