

RADIOCENTRE RESPONSE TO DCMS SELECT COMMITTEE INQUIRY ON THE IMPACT OF COVID-19 ON THE DCMS SECTORS

SUMMARY

1. Radio is currently playing a vital role in keeping people informed and entertained throughout the Covid-19 crisis. Valuable output is being produced in difficult circumstances and evidence suggests that listening remains strong. However, commercial radio stations were already facing intense competition for listeners and a challenging advertising market prior to the crisis. The current economic shock means that a number of radio stations may not be viable without financial support or significant cost reduction.
2. Falls in advertising revenue have been very substantial, higher than initial estimates. The commercial radio sector is entirely reliant on this income and is now expecting year-on-year declines of around 50% for Q2 2020, with many local stations reporting significantly greater reductions as small local advertisers cut their marketing spend entirely. The advertising sectors hardest hit are some of the biggest radio advertisers (Entertainment & Leisure; Travel & Transport; Retail; Motors).
3. The Government's business support schemes have been very welcome and essential in ensuring the viability of commercial radio stations so far. Unfortunately, due to the scale of the collapse in advertising revenues, these measures alone will be insufficient to secure the future viability of the current range of commercial radio stations.
4. Radiocentre and its members have been working with Government and Ofcom on what other steps could be taken to reduce the cost base of radio stations or help to increase revenue. In the short-term this will mean relief on major costs such as radio transmission (on FM, AM and DAB) and further commitments to using commercial radio for Government advertising campaigns.
5. In the longer term it may be possible to support the sector by considering measures that would also act as a broader economic stimulus, such as an Advertising Tax Credit and revising ineffective terms and conditions in radio advertising. There is also scope to review regulation to protect news and information, as some of the most valuable output for listeners, while using technology to produce this content in different ways.

BACKGROUND

6. Commercial radio is funded entirely by advertising and operates in a highly competitive market, generating £703m in revenues in 2019. 36 million people listen to commercial radio's mix of music, news, travel and local information every week. It also supports around £683m in gross value added to the UK economy and 12,000 jobs.
7. Even before the Covid-19 pandemic and its economic impact became apparent, the radio and audio sector was facing a challenging outlook. While total revenues have risen in recent years, they fell in 2019 for the first time in six years. This was mainly due to declines in local advertising revenue (down £30m vs.2017), driven by a combination of economic uncertainty and a continuing shift among SMEs to online advertising platforms.
8. Competition for audiences and for advertising has grown significantly and has never been more intense. The rapid growth in online platforms means that digital advertising now accounts for the

majority of UK ad revenue. This transition of ad-spend to US tech companies, principally Google and Facebook, has put severe pressure on revenues across all media content businesses (most notably news brands) and has also contributed to a decline in radio's share of total ad revenue.

9. In addition, while total audiences remain strong, listening has fragmented due to the range of entertainment options now available. Services like Spotify and Apple Music – which are not subject to any significant form of content regulation – are starting to account for an increasing proportion of overall listening time (particularly among younger audiences). The latest RAJAR MIDAS survey found that on-demand music services now account for 14% of the share of audio listening on average, rising to 44% for those in the 15-24 year old age group. Partly as a result of these trends the average time spent listening to radio overall has reduced from 22.5 hours per week in 2008 to 20.2 hours in 2020.
10. Alongside these broader trends there has also been a shift in listening patterns, away from local commercial radio stations to national commercial radio. Between 2010 and 2020 this has seen local commercial radio's share of listening decline from 31.6% to 25.6%, while national commercial radio listening share has increased from 10.3% to 22.3% according to RAJAR. The combination of this backdrop and developments in technology has meant commercial radio groups have had to innovate and deliver content in new and exciting ways, providing the best possible mix of national, regional and local output for audiences across their networks. This has proved popular with listeners and underpinned the capacity of radio stations to compete more effectively with the BBC and online streaming services, while continuing to provide valuable news and information output (as demonstrated by the sector's response to COVID-19 and its continuing public value role).

IMPACT OF COVID-19 AND RADIO'S RESPONSE

11. The economic shock due to Covid-19 (in addition to the existing pressures on commercial radio, especially at a local level) means that a number of radio stations may not be viable without financial support or significant cost reduction. Initial feedback from Radiocentre members suggested that around 50 radio stations could end up going off air or being sold off in the next few months without some form of intervention.
12. Commercial radio stations require advertising revenue to support their operation and content production. The collapse in the advertising market and declines in radio revenue since the start of lockdown in March 2020 are huge and unprecedented. The sector is expecting year-on-year declines of over 50% in Q2 2020, with many local stations reporting significantly greater reductions of up to 80-90% due to their reliance on small local advertisers and SMEs that have been unable to trade and moved quickly to cancel their campaigns. It is also notable that some of the business sectors hardest hit by the lockdown are the biggest radio advertisers (Entertainment & Leisure; Travel & Transport; Retail; Motors). These sectors account for over 40% of total radio revenues.
13. Despite this very difficult backdrop, commercial radio is providing significant value for audiences and has stepped up the frequency and duration of news coverage across the vast majority of stations and networks. This has meant additional news coverage and regularly refreshed news bulletins 24 hours a day every day, as well as special coverage of Government daily news briefings and breaking news flashes.
14. As a result of these changes many of the most popular commercial radio brands have increased the number of daily bulletins on air by over 50%. These news bulletins are also significantly longer in duration, especially at peak times. Commercial radio also continues to provide a valuable

regional or local angle on Covid-19, most notably by tracking the impact of the virus in specific communities, nations and regions of the UK. This has been especially notable as the authorities in England, Scotland, Wales and Northern Ireland have all adopted slightly different approaches to ending the current lockdown.

15. This commitment to news and information is only part of the public value provided by commercial radio during Covid-19. There have also been a whole range of public service initiatives being broadcast on everything from mental health to charitable work, to supporting local businesses and providing a sense of community and companionship. The range, quality and consistency of this output has been notable despite the shifts in production techniques and reduction in formal regulatory obligations. Ultimately, stations have a vested interest in providing the most compelling content for listeners.
16. This mix of content on commercial radio may have been produced in very difficult circumstances, but it does appear to be in line with what listeners value and expect. The last available data on radio listening from RAJAR – the official audience measurement body – was for Q1 2020 (largely before the start of the pandemic and lockdown measures in the UK) and showed that commercial radio stations are attracting their biggest ever audience.
17. No official data is yet available for the lockdown period but there is some evidence of a boost to online listening as habits change and more people are working from home. Many commercial radio stations and groups are reporting increases in online listening of around 15-20% on average, with news and information stations such as LBC seeing even high increases of over 40%.
18. More broadly a recent survey from research company DRG for Radiocentre found that a significant proportion (38%) are listening for an extra 1hr 45 minutes per week on average. According to the DRG research, the reasons people give for listening longer to the radio as they spend more time at home are unsurprising and include the following:
 - Keeps me in touch with the outside world (90%)
 - Keeps me informed (89%)
 - Keeps me company (84%)
 - Makes me feel happy (77%)
 - Delivers trusted news (64%)
19. It is clear from this that, even in these very difficult times, commercial radio retains strong foundations with a large and loyal audience that recognises the value of its output more than ever. This is also evident from recent research from the Reuters Institute that highlighted the low levels of news avoidance for radio during the pandemic, when compared to news on TV, newspaper brands and social media.

SUPPORT FROM DCMS, GOVERNMENT AND ARMS-LENGTH BODIES

20. The challenge for the commercial radio sector in recent months, working closely with Government and Ofcom, has been to ensure that as many stations as possible can remain viable and continue to provide important news, information and entertainment for audiences in the face of unprecedented economic and operational challenges. As part of this process Radiocentre and its member companies have been in regular contact with Ministers, DCMS officials and Ofcom executives ever since lockdown began, providing detailed information on the impact on commercial radio and advising on the necessary response.

21. On an operational level there have been a number of crucial measures that have enabled radio stations to continue to broadcast. For example, DCMS provided early confirmation that essential commercial radio staff are considered as 'key workers' under the Government definition. This was welcome as it meant that journalists, presenters, producers and technical support staff were able to move freely, travel for work where necessary and keep stations on air.
22. In addition, Ofcom's has adopted a sensible approach to the enforcement of programming and production requirements, enabling networks of stations to share news resources and deliver crucial national and regional bulletins. This important measure has underpinned continuity of service for many radio stations, allowing operators to focus on delivering regular news, information and entertainment for audiences. This highly professional and uninterrupted output is also a credit to the dedication of commercial radio staff during this difficult time, who have enabled radio to continue to sound and appear largely unaffected. Live radio has retained its human connection and provided a continuous stream of music and entertainment output during difficult circumstances in a manner that is broadly identical for the audience. This has not always been the case with other media. Television for example has encountered numerous difficulties with regular production and output, with no studio audiences or sporting events, fewer live programmes and an increasing reliance on repeats.
23. Separately, several commercial radio stations have received helpful support in the form of public service programming to support audiences during Covid-19 made by independent producers and financed by the Audio Content Fund, part of the contestable fund pilot scheme supported by DCMS. While this did not provide direct financial support for radio stations its ability to deliver this additional content was welcome.
24. Unfortunately, it has been much more difficult to secure any significant financial support from Government for the sector. In common with other creative and media businesses many commercial radio companies have been forced to furlough a significant proportion of their staff under the Government's Job Retention Scheme. This support is welcome and has been essential to secure the short-term viability of a number of services. Alongside this we understand that several smaller radio operators have sought access to loan schemes such as a Coronavirus Business Interruption Loan (CBIL) or Bounce Back Loan, although not always successfully due to difficulties with the criteria and application process.
25. Due to the scale of the collapse in advertising revenues, these measures alone will be insufficient to secure the future viability of the current range commercial radio stations. Therefore Radiocentre and its members have been working with Government and Ofcom on what other measures could be implemented to reduce the cost base of radio stations or help to drive increased revenue. The main focus of these discussions with DCMS has been reaching an appropriate cross-industry deal to reduce fees payable for radio transmission for a fixed period with Arqiva, as the principal provider of radio transmission in the UK. Transmission is the largest fixed cost for most radio broadcasters, so the agreement of temporary measures to waive these fees (announced 16 June 2020¹) was essential in enabling a number of radio stations to stay in business.
26. Commercial radio has also sought to explore a number of other options with Government to support the sector and the valuable role that it continues to play. For example, Radiocentre has highlighted to the Cabinet Office that there is a case for significantly enhanced Government

¹ <https://www.radiocentre.org/commercial-radio-gets-temporary-relief-on-transmission-costs/>

advertising on radio, both on Covid-19 messaging and other public information campaigns. Advertising on commercial radio is easy to consume, listening levels are strong and it reaches a broad cross-section of the population (reaching 62% of BAME audiences, 67% of C2DE audiences). A significant increase in Government investment in radio advertising – with a broader range of creative executions – would enable effective public service messages to get out quickly to large audiences across a wide range of the population. This increased investment would not only provide useful and effective communication but would also help keep radio stations on air.

27. There are also a range of smaller financial and operational support measures that Radiocentre has been pursuing with Government and Ofcom. In particular, this includes the annual licence fees charged by Ofcom to licensed broadcasters, which we believe should be significantly reduced or waived for commercial radio stations for this financial year in recognition of the extraordinary circumstances at this time and the collapse in revenue.

LONG-TERM IMPACT AND SUPPORT REQUIRED

28. It is currently difficult to assess the long-term impact of the Covid-19 economic crisis on commercial radio and its valuable role. As we have noted many stations are currently at risk of closure without immediate intervention and support. This is a scenario that the industry is working with the Government and regulator to try and avoid.
29. A much more positive outcome is achievable by supporting radio stations through the current crisis, then acting quickly to enable them to adapt their operations in a way that meets the evolving needs of audiences by focussing the output that is most valuable, such as local news and information output. As we have noted, this process has been taking place already in recent years as a response to market changes and shifts in listening habits, with radio groups using technology to innovate and deliver content in new and exciting ways, providing the best possible mix of national, regional and local output for audiences across their networks. This trend is likely to be accelerated by Covid-19 and will ultimately provide a good outcome for listeners if it is carried out in the right way, but may require further consideration of the regulatory framework for radio with Ofcom and DCMS.
30. For radio businesses to remain a viable part of the public service broadcasting sector in this new environment their output needs to continue to be supported and regulated appropriately. During lockdown, Ofcom has relaxed regulation in order to allow public service broadcasters like commercial radio to survive and prioritise high quality news output. In practice this has meant flexibility on production quotas and content sharing arrangements to ensure the best possible output for audiences. Radiocentre has welcomed this move and has noted the strong public service role played by commercial radio during this period. Given this background we believe that there is a strong case to adopt a similar approach on an ongoing basis.
31. There are also a number of other possible regulatory changes that would help to support the long-term viability of commercial radio, including steps to revise the current requirements for long and garbled terms and conditions (Ts&Cs) at the end of radio ads. These disclaimers are particularly intrusive in an audio environment, but crucially are found to be ineffective as a form of consumer protection. They are also estimated to cost the radio industry around £120m a year in lost advertising. Many of these requirements derive from European legislation (e.g. the Consumer Credit Directive), so there will opportunity to revisit these requirements and simplify them once the Brexit process is complete.

32. A further challenge for the media and creative sector, working with Government and regulators, is to develop an appropriate package of measures that could help drive more a direct financial benefit. For example, commercial radio is working with other content providers and the advertising industry to consider what type of economic stimulus might be possible to encourage businesses to advertise once again through an Advertising Tax Credit. A boost in advertising will have the shared benefit of increasing economic activity and sales for businesses, while also helping to drive revenue that supports valuable media content such as radio, television or news brands. There are a number of examples of similar schemes already in place in different markets, including in Italy where measures to support advertising campaigns were recently expanded further in the light of the Covid-19 crisis.
33. There may also be a case for smaller, bespoke interventions through the extension of contestable funding schemes built on the successful Audio Content Fund model. This approach has provided evidence that it is possible to distribute public funding or a proportion of the TV licence fee to support investment in a broad range of public service content that may be difficult to support commercially. It may be worth exploring the potential for more arm's-length Government funding of this nature, for example to support news and journalism on radio and audio platforms.

ABOUT RADIOCENTRE

Radiocentre is the industry body for commercial radio. We work on behalf of more than 50 stakeholders who represent over 90% of commercial radio in terms of listening and revenue.

www.radiocentre.org

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