



## **The Future Licensing of FM Commercial Radio**

A submission by Absolute Radio (UK) Limited

11 March 2004

**This submission is made by Absolute Radio (UK) Limited (AR-UK). The company is a recent entrant to UK radio having recently acquired 107.6 Juice FM in Liverpool, now the UK's fastest growing Radio Station. The group is dedicated to growing its position in the sector through further UK radio acquisitions. It will also be, as it has been over the course of the last two years, a very active participant in the soon to begin analogue licensing process to be overseen by Ofcom later this year.**

**AR-UK is a joint venture company and is the exclusive vehicle through which Ulster Television plc has committed to expanding its presence in UK radio. AR-UK is also backed by one of the main radio groups in Germany, Eurocast GmbH, and through this has knowledge of and access to resources and ideas across the European radio landscape.**

**Set out below are our responses to the questions raised in the consultation paper.**

***Question 1:***

***Do you agree with our broad objectives for the radio sector?***

AR-UK generally supports Ofcom's broad objectives for the future of UK radio, including the principles of more choice, more competition and better quality services.

As a recent entrant to the UK radio landscape, the principles of innovation, the desire to create new brands and the ability to bring in new investors into UK radio for the first time are at the heart of what we do.

To date, we have made 6 applications for new FM licences to the Radio Authority. Each has been unsuccessful. However, in each application, we have promoted these principles through bringing together:

- partners with proven track records in the managing of and/or operation of radio stations,
- a talented and experienced management team,
- fresh ideas and the creation of new and exciting brands (including 'Jump FM', 'Go FM' and 'My FM').

Through these applications and the acquisition in September 2003 of 107.6 Juice FM in Liverpool, we have demonstrated our willingness to bring in significant new monies to the industry and to make a serious financial commitment to the sector.

To read much of the UK Press and to talk to the existing UK radio groups, one would think that there was no more room for any more new players in the sector. The implication is that there simply isn't any more room for new aspiring entrants into the industry. Recent FM license awards by the Radio Authority last year seemed to support this thesis, with the award of the East Midlands, Glasgow and West Midlands to Saga (established group which is now ironically for sale) and EMAP (an established giant within UK radio).

In our view, there is still enormous scope to bring new groups with fresh, vibrant ideas into the UK radio industry. Radio is a local business and we believe there is scope for numerous groups to operate profitably within the sector who each look to ensure that their respective radio stations remain "local". We believe it would not be in the interests of the citizen-consumer to allow the creation of a few

"super-groups" who simply want to use all of their locally owned stations to create fewer and fewer national networks.

One of the significant factors in the development of the radio industry over the last 12 years was the award of new commercial licenses and services. This has been central to radio's share of total display advertising increasing from 2% in 1990 to the near 7% it is today. Into the future, the sector will need further stimuli to keep it competitive and win listeners from the BBC.

Unlike television, which is primarily a national medium, radio should be regulated to remain local. More groups owning economically viable clusters of local stations should be encouraged. We believe that Ofcom, through the licensing process, should actively encourage this form of development.

**Question 2:**

***Do you agree with our proposed policy for allocating FM spectrum?***

AR-UK agrees with Ofcom's proposed strategy for allocating future FM spectrum. We certainly believe that there are clearly well qualified new groups, like AR-UK, who have not only significant management expertise, but also have extensive new financial resources available to invest in new UK radio opportunities.

Of course, there should be availability made to RSL and community operators, where possible, but the main focus of future allocation plans should be on awarding additional FM spectrum to groups and operators with the expertise and financial backing necessary to make these services a success.

**Question 3:**

***Do you consider that, where possible, advertising larger or smaller licenses best serves the interests of citizen-consumers?***

We hold the view that larger licenses are likely to be more profitable and effective than smaller ones and, as such, stand the greater chance of serving the interests of the citizen-consumer as there will be:

- a better guarantee of service throughout licence
- the ability to reinvest profits in better programming and content
- stronger local radio brands
- better promotion of the station and links to the local community.

As your consultation shows, the number of FM licenses in the UK has almost doubled in the past 10 years. However, there are variations in the number of services in metropolitan markets across the country. For example, in London there are 15 London-wide commercial services while in Liverpool there are only five commercial stations. Accordingly, we believe there is scope to award many of these larger licenses in other metropolitan areas of high population density.

**Question 4:**

**Should we agree to aggregate any or all of the potential license areas within the following four broad regions:**

- **North East England**
- **South West England**
- **South Wales**
- **Solent**

**What are the costs and benefits attached to adopting such a policy?**

As long as there is sufficient spectrum available to license additional services in the metropolitan areas identified by Ofcom in its consultation document, then AR-UK would support the licensing of additional regional licenses as indicated above.

AR-UK has undertaken Rajar research in all four regions and has identified that each region would benefit significantly from another regional licence rather than a collection of smaller licences that may struggle financially before unwillingly moving into the mainstream to stay in business. All four regions already offer mainstream services and amalgamating these licences will give applicants a better chance to extend choice and provide new and innovative local programming.

All four areas mentioned are recognisable UK regions that either already operate successful regional stations or other regional public services like Police, Health or Television.

**Question 5:**

**Should Ofcom adopt a policy of advertising two new licenses of a different size each month, or would advertising a larger number of licenses but at longer intervals be preferable? What impact would either option have for resource management among prospective applicants?**

We have mixed views on the idea of Ofcom advertising two new licenses per month, one large and one small. It may have the effect of putting the larger radio groups, who have greater personnel resources, at an advantage over other potential applicants. It could also mean that the quality of applications might suffer should regional operators wish to apply for a medium size licence as well as a larger metropolitan licence.

Our requirement is that we be given the time to do justice to the quality of the proposals that we wish to articulate. Preparing applications is not simply a question of money, but it also involves a significant commitment in terms of management time and know-how to prepare as complete documents as possible. While it may be unlikely that an existing big group may want to apply for both the large and small licence advertised in a particular month, it is not improbable that newer entrants like AR-UK might want to make applications for large licences advertised in successive months.

While we understand that the application process will be streamlined, it will only be with the passage of time that it will become clear whether the interval selected is working for all parties, Ofcom included.

We would, accordingly, suggest that the process commences at the rate suggested but that the position be kept under review so that the pace of

advertising might be reduced if it becomes clear that it is being counter-productive.

**Question 6:**

***What is your view regarding the proposal to provide information tailored around a specific license area at the time of its advertisement, rather than generic guidance on the licensing process?***

The more information Ofcom can provide as part of each area being licensed, the simpler and cheaper the process will be for each applicant. Accordingly, we regard this as a good thing and welcome it.

Under the Radio Authority award system, it was the obligation of each applicant to conduct extensive analysis and research on the market place. Arguably, this represented a huge duplication of effort which, in addition to the need to carry out extensive local lobbying, putting a local Board in place, printing and various other preparations, meant that each application cost a substantial amount of money. For example, AR-UK invested an average of £150,000 in direct out of pocket costs (excluding payroll) on each large scale application and, on average, £50,000 on each of its smaller ones.

**Question 7:**

***Would it be beneficial for Ofcom to vary the nature of information requested in an application according to the type of licenses and/or applicant?***

We would suggest that the larger the license, then the more stringent the information required should be. There is so much more risk involved in operating a larger scale license, that the applicants should be tested more vigorously. For the smaller licenses, less detailed information should suffice, because the investment required is less.

**Question 8:**

***Would applicants find it helpful to be provided with factual information about existing listening patterns etc. in a new license area?***

We believe that the suggestion of Ofcom providing the above information would be better suited to smaller scale licenses. Arguably, those applying for larger licences will want to carry out this exercise themselves in any event in order to build and refine their business plans.

**Question 9:**

***Do you agree that a single letter is preferable to other means of seeking clarification and/or amplification of an applicant's proposals? Please provide a rationale for your preferred method of follow-up questioning.***

AR-UK agrees that a single letter is the preferred means of seeking further information from applicants as this will allow more comprehensive answers and explanations to be given in response to queries. Each aspect of an application is interlinked and the answer to a question, say, on the business plan will inevitably be linked to programming proposals in the document. By combining the queries both the questions and answers should be less 'one-dimensional' in their focus.

**Question 10:**

***Are you content with Ofcom's proposals regarding the submission of applications?***

We support any ideas which will simplify the future licensing process for the applicants. We would be happy to write our own format as part of the application process and we would be happy to launch with the relevant fixed format.

With regard to the collection of local support, the timescale set for the award of on-going licenses will have a major bearing on the ability to collect local support as it takes time adequately to explain one's proposals to the community and to encourage them to submit their views in writing.

**Question 11:**

***Do you agree that a short-listing process such as that employed in Ireland could potentially slow down licensing? How might the adoption of such a procedure improve the overall process?***

The idea of short-listing applicants would, we believe, only make sense if a formal interview process would follow. Otherwise, we agree that it would just slow the process down.

**Question 12:**

***Would you prefer the statements made after license awards to include reference to unsuccessful applicants as well as to the winner? What would be the benefits/disbenefits of your preferred approach?***

Any unsuccessful applicant will naturally want to know why it didn't win, in order not to make the same mistakes the next time and so that it can prepare better applications in the future.

However, from a practical perspective, we do not necessarily expect Ofcom to refer and comment on every unsuccessful applicant for each license.

Perhaps, it might be possible for an unsuccessful applicant, should it so wish, to seek a brief private meeting with Ofcom to understand what it should expect to do better, if it intends submitting further applications in the future.

**Question 13:**

***Are you confident that these proposals for a new licensing process can deliver a regulatory system which is effective, consistent and timely?***

We believe that with the changes being suggested the process can become a more cost efficient, timely and open process which will encourage newer groups, such as ourselves, to continue to apply for new licenses in the future.

Without any changes, the existing large quoted UK radio groups will have succeeded in chasing away any real alternatives in the market place and this, we believe would be against the public interest.

The licensing process should at all times encourage as many groups as possible to apply to run and operate new services. Those with the best ideas, clearest vision

and strongest management should be successful. It is up to every applicant to convey their respective credentials to the regulator.

**Question 14:**

***Can you suggest any changes to the proposals which would improve on current practices?***

We would suggest a moratorium on winners of new licenses from being able to sell-on these new licenses for a period of at least 2 years from the date of award. Otherwise, speculators might have the chance to win licenses with a view to selling them immediately to the existing large quoted radio groups.

**Question 15:**

***Do you believe there would be additional costs, or savings for the radio industry as a result of the proposed changes? Please specify. If you anticipate higher costs in any area, do the benefits of the proposed new system justify these?***

We don't believe that there will be additional costs involved with the proposed new changes for the radio industry or prospective new applicants. Hopefully, the suggestions will make the process simpler, cheaper, quicker and more transparent.

Equally important, the new system should also encourage newer groups, like Absolute Radio, to be attracted further into the industry, thus ensuring its vitality, long term sustainability and the best quality programming for citizen-consumers.

**Conclusion**

Since the early 1990's, the UK radio industry has continued to grow and prosper for many reasons including

- the number of analogue local licenses being doubled
- the awarding of national and regional licenses
- the increasing professionalism of the industry through organisations like the RAB, and not least
- through the entry of new players into the industry every 'generation' or so.

Being a local medium, radio needs to continue to bring fresh new voices into the industry. The regulator has a chance to do this through the award of many more analogue licenses over the next few years. In order to ensure a competitive landscape, new and smaller groups should be encouraged to grow within the industry, just as some of the biggest groups today were encouraged to do so over the past 15 years. Only by doing this, can we ensure that new brands, new creativity, new money and new ideas will continue to flow into the sector. ARUK intends to be one of these groups in the future.

**[www.absoluteradio.co.uk](http://www.absoluteradio.co.uk)**