

Background

This is a response to the Ofcom discussion paper: The Future of Radio has been prepared on behalf of Brighton and Hove Radio Ltd.

Brighton and Hove Radio Ltd (BHR) was established in 2003 to purchase and operate Brighton's Juice 107.2. At the same time principals in BHR also purchased interests in Worthing's Splash FM from vendor Forever Broadcasting. In the past three years a great deal of work has been undertaken to turn sizable losses at Juice into profitable trading. Worthing is also trading profitably. However both are operating in a difficult environment with high fixed costs, market intolerance to price increases and a large customer base of small advertisers, which require close management by execs. Unexpected personnel changes and shifts in local consumer confidence can quickly affect the bottom line. Things will get harder with increased competition from online services and a renewed commitment to local sales by GCAP expected to impact growth.

Radio Today

UK Commercial Radio operates against a backdrop of declining ad revenues and a projected increase in competition from digital platforms. As outlined in the discussion paper, Government intervention in the form of the BBC has restricted the development of the sector by comparison with other markets – both in terms of audience and by undermining the effectiveness of the medium as an advertising platform. Johnathon Bernard of Zenith Optimedia suggests that the recent rapid UK growth in online ad spend is because "the strength of the BBC in television and radio forces advertisers to look elsewhere".

Overall the sector is under achieving: 50% of licensees are under-performing or losing money. The public policy goals laid down by regulatory legislation may have cost the industry £155m in addition to the requirement to compete with the BBC. Additionally the sector is burdened with relatively high fixed costs leaving little room for manoeuvre.

In order to successfully complete the transition to a digital marketplace the industry needs to modify its focus, invest in technology and infrastructure and establish new revenue streams. At the same time it needs to persuade traditional advertising sector that it still has plenty to offer.

Radio Tomorrow

Media platforms and the channels they distribute are proliferating. The media consumer is anticipating a world of on-demand al-a-carte consumption customised to their specific interests. They will not be concerned about which delivery platform is being used but will expect to be able to access what they want where and when they like on a range of devices. Audio content has a continuing role to play because it's portable, non-obtrusive and it does not compete for eyeball time. Its modest bandwidth requirements mean it can readily adapt to a range of distribution methods. Content may either be linear ("live") or on-demand (streamed, downloaded, time-shifted). It will be commercialised through traditional advertising as well as monetising new inventory generated around distribution platforms (websites, visual radio, DAB images).

There are two ways for existing commercial businesses to go:

1. Develop a strong national brand that can cut through marketing clutter: this is particularly important for services that cater for mainstream audiences. Virgin, Talksport and Classic have strong brands and will continue to compete with the BBC as well as other brands – Channel 4, MTV, O2, 3, Coca Cola, Manchester United etc.
2. Create a clear identifiable and accessible niche service which could be national but will not target mainstream entertainment audiences.

The way forward is clear for existing national brands. Regional services will evolve into national brands and/or non-location based. This is already happening with brands such as Saga, XFM and Real Radio.

Small-scale local services are already niche channels focused on location based communities of interest, but they still need to evolve in a number of ways:

1. They need to be available on multiple digital platforms: the consumer is not concerned about how content is delivered, only that they can access it. FM, DAB, DRM, IP, 3G, Freeview, Cable, Satellite, OTA Download, Sideloaded (podcasting), linear and on-demand access are all options and local services should adopt as many as practical.
2. They need to offer services beyond audio. Visual interfaces containing text and visual elements will be required to filter content or provide more information (epg's, websites). Consumers expect to interact and transact with each other through blogs, chat, forums, profiles and location specific media brands are well placed to offer such services.
3. They need to maintain and extend their community focus and close relationship with the consumer. Radio has a head start over other traditional media platforms here and needs to leverage this to become more than just a source of entertainment.

However there are number of threats to the successful evolution of local radio:

1. Insufficient access to broadcast digital platforms: DAB is too expensive, with too much wastage and inadequate capacity; DRM is a way off and too little consideration has been given to Wifi and Wimax.
2. New digital platforms reduce barriers to market entry, leading to increased competition: the discussion document already highlights the existing decline in local listening against an increase in listening to national BBC services, other services will follow.
3. Sizable investment is required to facilitate new methods of production and distribution, and to fund the development of new consumer tools. New skills need to be developed.
4. The industry does not seem to have accepted the scale of evolution local radio needs to go through.
5. A lack of a clear Government strategy has lead to industry indecision.

What can Ofcom do?

By reducing the regulatory burden Ofcom can support UK radio through a period of transition. A number of observations follow:

1. In theory there is now no requirement for station formats to determine what should be broadcast in terms of both music and local content. The increasingly competitive market can determine the need. However there is a statutory duty to regulate licensed services and a requirement for local content and social gain so abandoning formats is impractical. Nevertheless there is a strong case for creating a level playing field across DAB, Satellite and FM/AM.

In the past the scarcity of FM bandwidth and lack of alternative options meant there was a need to ensure public policy objectives were met and best value for the citizen was secured. In a digital world the barriers to entry for broadcasters are lower. Anyone can broadcast over IP without restriction, and securing carriage on a satellite or multiplex requires meeting limited conditions and having the ability to pay (assuming there is capacity). The regulatory burden for Satellite and DAB is appropriately light. With the advent of new broadcast platforms (DRM, WiMax) the barriers are further reduced. In this context it is unnecessary to require AM and FM services to meet much higher regulatory requirements than those imposed on competing digital services.

In the case of Juice 107.2 there is significant and unnecessary disparity between its DAB and FM formats:

Rhythmic Modern Hits (DSPA Provider: Brighton and Hove Local Radio Limited)
A simulcast of Juice 107.2 (Ofcom licence number AL211-1), providing music, news and lifestyle information. Speech will be locally relevant to the people in Brighton and to the surrounding communities. Approximately 75% Music and 25 % Speech.

The format for the FM service is more prescriptive:

A locally-oriented contemporary music and information station reflecting the culture of the area
Juice's target is primarily 15-44 year-olds in Brighton and Hove. Its programming should reflect the culture – particularly the youth culture – of the area through a diverse array of features, such as social action initiatives, movie and music reviews, local comedy, local sport and other targeted programming. Local news will run hourly at least during weekday and Saturday peaktime. At other times national news will feature.
The music will be mainly current and recent dance/indie tracks, reflecting the changing tastes of the young, local audience. Hits less than three months old would not normally comprise more than 70% of the music output. Specialist programmes featuring music which clearly complements the main music mix may be aired in non daytime, and must include at least 30 hours of specific specialist programming (reflecting such genres as club, dance, indie, world music, or similar).

Under the FM license there is a great deal of detail relating to feature and music content. The FM format more clearly defines the nature of the service but restricts the ability to react to changing market conditions – which could lead to vulnerability in more competitive climates. This has been the case historically where a similar disparity existed between the format structure of heritage ILR services and smaller licenses. For example Surf 107.2 (the precursor to Juice), was established as an alternative service targeting a clear 15-34 market gap. However the format flexibility of the main commercial rival Southern FM, allowed a wholesale change in direction that saw significant musical overlap with Surf. Southern was able to stretch its appeal from 35-55 all the way to 15-55, thereby removing the market gap Surf was intended to service. Surf lacked the format flexibility to alter its focus and its development was severely affected.

In fact, despite greater flexibility from Ofcom around format change requests there is often still disparity between small and larger services. Juice now operates under a fairly flexible format but comparison with Southern demonstrates greater flexibility for the latter, while Splash FM continues to operate under much tighter guidelines limiting its ability to react to future competition.

Universally simplifying formats would create a level playing field between digital and non-digital services and would eradicate any lingering disparity between small scale and heritage services. It would allow all commercial services to adjust to evolving conditions and be in keeping with Ofcom's stated desire to move from input to output regulation. We would recommend that all station formats be simplified to match the structure adopted for DAB services.

2. Ofcom should consider further relaxing ownership restrictions and allow cross media ownership. Current restrictions limiting radio ownership by newspapers are irrelevant when online services or non-newspaper print may also command significant share in any specified market. Similarly abandoning the two plus the BBC rule is unlikely to reduce further the plurality of voice in a local market because there are so many voices available in any given market: Newspapers (frequently more than one), Local magazines (often several), Websites (multiple), Local TV (BBC, ITV, Satellite, IPTV) and Radio.

New investment is necessary to fund the transition to digital. Removing all ownership restrictions will further encourage investment in radio as well as other local media encouraging stronger local media enterprise, which is important because other local media are also facing difficulties.

3. Ofcom should further relax requirements for locally produced content and locally based services. Currently the rules are woolly and clarification would be helpful. It is less important now where or how content is produced: people can work from home; they can produce relevant content from the other side of the world. Current requirements to have a journalist in each location disregard the opportunities afforded by technology to produce and distribute targeted content from one hub to multiple locations. How content is produced is not important and licensees will be required by the marketplace to maintain relevance. Further, local services will need to maintain a local presence in order to source local sales revenues.

Generally co-location should be allowable and automatic. Requirements for co-locating stations to be contiguous should be reconsidered. Allowing stations to collocate and share resource and facilities is the easiest way that radio businesses can reduce their fixed costs: as the discussion paper states radio has relatively high fixed costs –by sharing resources can they reduce these.

4. It does not seem practical to be considering the switch off of FM in the near future. Any attempt to do so while consumers still own FM receivers in significant numbers would lead to a boom in pirate FM services broadcasting to willing audiences. FM can only be switched off once consumers have migrated to other platforms and no longer own multiple FM receivers.

Given the ubiquity of FM there remains a question mark over the need for, or public value in, switching it off for radio. While it lacks the interactivity of digital services it does have near universal coverage and penetration plus it is easily integrated in other devices.

If a migration to digital is practical Ofcom should further consider how to facilitate it. The starting point has to be securing digital carriage for all existing services, this is more important than establishing new services.

The current focus on DAB is bad news for smaller services. The high cost of carriage is a significant barrier to access and the wider coverage is at odds with a “local” USP. In addition there is insufficient capacity for all local services. The launch of another national multiplex will only increase competition in local markets. DAB is not an appropriate route to digital for most small-scale services and a clear route for such services needs to be defined.

Developing a range of digital alternatives to FM seems sensible. Work on DRM should be accelerated; as should consideration of universal wifi or wimax which both offer advantages over DAB. Encouraging licensees through tax incentives to invest in a range of new broadcast platforms would help to galvanise broadcasters. Extending current license periods would give them confidence to make long-term investment into digital alternatives. This could also offer an opportunity to synchronise license periods.

Setting a cut-off date is unlikely to aid the take up of digital without already having migrated existing services and demonstrated identifiable improvements in quality and interaction.

5. Ofcom should consider involvement in rights licensing: the discussion paper refers to the desirability of multimedia services alongside broadcast platforms in a healthy radio market. However the cost and inflexibility of music licensing is proving a major barrier to new services and will be to the broader evolution of radio in coming years. There may be a case for government intervention in order to facilitate the development of new audio services on emerging platforms. This is particularly relevant while there remains a commitment to public policy goals.