

Response to “Radio Preparing for the future”

From David Nelson,

Sirs,

I read your document with interest and I wish to tender my response as attached. Would you please note that while I am a broadcaster with more than 20 year’s experience in live TV news, the response is in a purely personal capacity.

However, I believe I raise issues which are fundamental to the future economic stability of an ageing population.

I have structured these brief comments:

- Section 1. Analysis and impact of digital broadcasting
- Section 2. Diversity and innovation
- Section 3. Market failure – a case study.
- Section 4. Public policy and the role of Ofcom
- Section 5. Meeting public purpose: the defining criteria
- Section 6. The economic case for policy intervention.

Section 1: Analysis and impact of digital broadcasting.

At the core of my response to the discussion paper lie certain assumptions. They are:

1. That the commercial radio industry in the UK has been allowed to grow in an environment which has assumed that the more “difficult” public service obligations of radio broadcasting are defaulted to the BBC. For difficult, read expensive. In other words, speech based radio, which costs more per hour than music based output.
2. The current high costs of digital transmissions, are leading the industry inexorably to more consolidation (Capital/GWR being the prime example). These twin drivers – high cost and industry consolidation - are raising the barriers to entry for all but those with the deepest pockets.
3. Commercial radio, as you rightly note, has been almost completely advertising funded, in a model derived from commercial television circa 1985. The revenue model depends almost exclusively on audience share. There has been no parallel in Digital radio of the growth and developments of interactivity and subscription-based revenue models which have grown up in television since 1989. Nor has radio in any way attempted to explore in any great depth the revenue opportunities from sponsored programming, which is ironic from the industry that invented the concept of soap opera – sponsored audio programming.

Section2: Diversity and Innovation

I begin with selected quotations from the published document.

Section 1.3 (p5)

“With respect to radio, Ofcom has a specific duty as required by legislation, to ensure the availability throughout the UK of a wide range of television and radio services which (taken as a whole) are both of high quality and calculated to appeal to a variety of tastes and interests.”

(p6)

“Ofcom aims to follow regulatory principles which state that we will.....intervene where there is a specific statutory duty to work towards a public policy goal which markets alone cannot achieve.”

Section 2.6 (p19)

“One of our proposed key strategic aims is to enhance choice diversity and innovation for consumers”

Unfortunately, the reality is that there is little innovation in the commercial radio sector. The vast majority of the output is music-based, and with little of the diversity apparent when looking at the United States. Ofcom’s survey of comparable markets points to the richness and depth of choice available in the USA. Unfortunately, this is not the case in the UK. Once again, the reasons are cost, and the constant pressure from advertising sales departments to pursue numbers of listeners rather than pursuing audience segments. And innovation is markedly absent, with commercial radio formats practically the same from Aberdeen to Cornwall: disc jockeys, news weather travel sport at regular intervals (usually hourly) and music of varying sorts. The last real innovation was the launch of

Classic FM (which proved there was a commercially viable audience for traditional BBC material). Even Classic conforms to the stereotypical format of other music stations. In speech based radio, cost has driven stations to rely on phone-ins to fill vast tracts of air time. It is extremely rare to find a speech based station which has taken the idea of live broadcasting to the height of development exhibited by the 24-hour TV news stations. News is not the only subject matter which lends itself to live broadcasting. Even at a local level there are always events which lend themselves to live radio broadcasting. Unfortunately, commercial radio, especially national commercial radio, has failed to rise to this challenge.

Section 3: Market Failure – a case study.

When Digital One received its licence to operate, one of the terms of the licence was that the commercial multiplex should carry, on one of its channels, a speech-based station which was devoted to financial and business affairs – covering personal finance, City and economics news. Digital One fulfilled this remit by approaching Bloomberg TV and contracting to re-transmit the audio signal from Bloomberg's UK TV output.

Unsurprisingly, this proved exceedingly dull as an audio experience, and listeners never materialized. Not least of the causes of listener negation were the failure to promote the channel, and the few DAB sets in circulation at the start of digital radio broadcasting. But the real killer for the channel was the cost of transmission levied by Digital One. Even at the lowest possible bit rate for speech based channels, Digital One proposes to levy a monthly transmission fee at a level which makes it uneconomic to broadcast. (* see Annex 1).

In due course (November 2002) the channel was terminated. The then regulator, the Radio Authority, allowed Digital One to carry on operating with no sanction for renegeing on this licence term. In due course, just after Ofcom took over responsibility for the functions of the Radio Authority, a licence variation was made allowing Digital One to use the spectrum for other functions.

At the same time, both the Sandler and Pickering reports pointed towards the British public's clear and dangerous ignorance regarding personal finance, and particularly pensions. There is a clear public policy goal to educate the public about the issues they need to understand and address for their retirement. The concrete reflection of this policy goal is the establishment of PFEG, the Personal Finance Education Group.

It seems quite clear that there was a market failure in as far as Digital One was unable or unwilling to promulgate a sufficiently interesting product to attract listeners. One has to ask why this is so. It is my firm belief that neither partner in Digital One had the experience in speech based radio which gave them the skills to produce, at low cost, an adequate product. This is hardly surprising as the majority of the output from both partners is music. A format that is cheap and easy to produce, with little or no need for expensive research and production.

Section 4: public policy and the role of Ofcom.

It surely is the duty of the regulator to recognise and define public policy goals and for those goals to inform the exercise of its functions. I believe the decision to allow Digital

One to walk away from a key commitment, at time when exactly that sort of radio programming was even more necessary than ever, represents a substantial failure by the regulator in the exercise of that duty.

But where do we go from here? Surely the answer to this lies in two areas – the regulator itself, and the public at large.

First the regulator. I believe the regulator Ofcom must take a much firmer line with the commercial radio industry, especially in defining and enforcing the public service remit. I would like to see Ofcom ensure Digital One ring fences spectrum for speech based output, with a broad public service remit for that output. The type of programming should be strictly defined and should resurrect the case for a personal finance/city/economics channel.

I believe part of the answer to the so-called “uneconomic” nature of this sort of broadcasting lies in the small take-up of DAB sets. This will change – and quickly. But a bigger part of the answer is to look at what is happening in television. There is much discussion about making part of the TV licence fee available to producers outside the BBC so that they can make public service programming funded by this percentage of the licence fee. (The “PSP”). Why not make some of the PSP funding available to Radio producers? Even if the PSP were to operate on a matched finance basis with venture capital funding, I believe it would result in a much higher quality of speech-based, commercially funded radio programming which would meet the public service obligations, and allow commercial radio to break out of its self-imposed music only limits.

As far as the public is concerned, the regulator Ofcom could take a leaf out of the Bank of England’s book. The Bank conducts quarterly surveys of inflation expectations as part of it’s statutory brief to combat inflation. These surveys both inform the MPC’s policy decisions and give a useful indication of whether the public believes the Bank is doing a good job. Ofcom could well learn from the Bank.

Section 5: Meeting public purpose - the defining criteria.

You invite views on:

“how much of what commercial radio does could be classified as meeting public purposes?”

and:

“how well does the current market structure help fulfil public purposes in radio?”

To start with some basic assumptions about public purpose.

In the event of a national emergency, radio broadcasts would play a key role informing the public. No one in the industry has any doubt about that, and planning is already in place to fulfil that role.

But public purpose goes beyond that: certainly news broadcasts – national & local, plus weather, travel and sport are generally accepted as part of it. After that, where does commercial radio meet any public purpose criteria outside entertainment? Admittedly, as Charles Dickens wrote more than 100 years ago: “people must be entertained, squire”,

but entertainment is now so widely available elsewhere that there seems little public purpose justification left for it.

Radio is the most flexible and easily responsive medium available to us – digital technology enables radio to be promulgated in dozens of different ways, on varying platforms. And yet it remains firmly anchored to music as its predominant content. With music now widely available to consumers through legal internet downloads and personal hard drive storage (e.g. I-Pod), it seems that the entertainment function of radio is largely met by other channels.

Therefore, it is my belief that very little of what commercial radio does can be classified as meeting public purposes. To take a contrarian view, with 3G mobile telephony about to take off, how many people consider the mobile phone as the primary communication device, and how many the radio? Music will be delivered individually with no intervention from disc jockeys. Music based radio has not woken up to this challenge, which will destroy any vestige of public purpose.

So where does that leave a definition of public purpose? Perhaps the best place to start is to look at what the public is. And the answer here is that the public is changing demographically in a way that commercial radio seems to be oblivious to. The baby boomers want more from their radio than just music – and will soon get that from their mobile phones. But what baby boomers desperately need is trustworthy voices on issues they seek to comprehend. Principally, these issues centre round retirement, ageing, savings, investment, health, property, and lifestyle. Surely the definition of public policy broadcasting is the need to reflect the issues that people are concerned about, and to offer well researched, well presented, informed, interactive and interesting content which engages with the listeners' concerns. With that as a definition of public purpose, it is undeniable that the market – outside of the BBC - is not meeting it. Whether the BBC is meeting that need is a moot point: when one organisation has a virtual monopoly of a remit, as BBC radio does in speech based broadcasting, complacency invariably follows.

Section 6: the economic case for policy intervention.

As I am sure is apparent from the foregoing, I believe there has been a failure by regulation to formulate a clear set of public policy aims for the radio industry. This has allowed a proliferation across the UK of a large number of almost identical stations. These stations are failing to innovate, and failing to meet the challenges posed by other platforms. At the same time, these stations have been part of a consolidation which is leading to even more homogenized output. The imminent danger is that homogenized radio will cease to be a medium that attracts listeners in any measurable numbers, leading to a downward spiral in revenues and thus spending on programme content.

This presents a clear case for policy intervention. The policy should be designed to create more diversity and to address the need for a public forum for the one policy issue which is facing all of us: how does a generation facing an old age 20 years longer than its parents manage its affairs?

Saga radio stations have proved there is a discernable audience over 70, but there is a huge audience (the baby boomers) coming into their 50's for whom there is little acceptable radio output. This is not an uneconomic audience – their spending power is huge and advertisers admit difficulty targeting them.

So there is an economic case for policy intervention: to create a new market and a new channel to that market for advertisers/sponsors. There is also a technical argument: digital radio can promulgate and develop interactive services which have been so beneficial to digital TV. Policy intervention needs to look long and hard at relaxing the rules around sponsorship. Commercial radio cannot abrogate the responsibility for quality speech-based programming to the BBC. This is especially the case in the reporting of business, economics and City matters, where the BBC has, by the nature of its funding structure, an inbuilt bias against profit. So for the future of the industry, and for the future of the country, Ofcom cannot abrogate its responsibility to innovate through regulation. In my view it has abrogated this responsibility once: a repetition of the failure to enforce Digital One's licence conditions will undermine the regulator's role in the radio industry; will leave any real public policy broadcasting solely under the control of the BBC; will give the green light to further homogenization of commercial radio output; and will leave the public worse off.

David Nelson, January 2005.