

Independent Radio: The first 30 years



# 30 years

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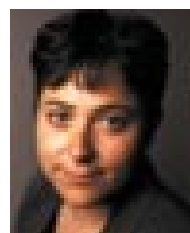
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# Contents

Independent Radio: The First 30 Years	4
Legislative and Regulatory Landmarks	14
Commercial Radio Station Development	20
The Digital Age	28
Trends in Ownership	38
Commercial Radio Listening	44
Commercial Radio Advertising	52
The Battle for Bandwidth	60
'Access Radio'	66
Epilogue	72



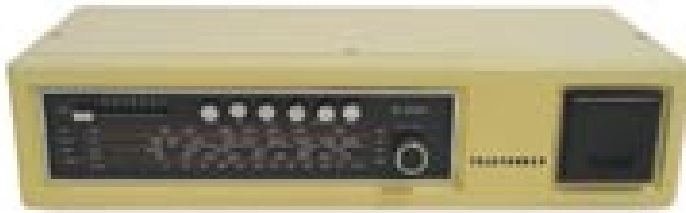
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# Independent Radio: The First 30 Years

Commercial radio may now be the UK's fastest growing medium – no mean feat in the light of the tough economic conditions that have hit all media since the late Nineties – but it was not always so. Despite the industry's current success, development throughout most of its first 30 years has been, at times, a decidedly 'stop-start' affair.

The early years of what was then known as Independent Local Radio (ILR) were characterised by bursts of growth then stagnation punctuated by periods of severe economic recession. The Eighties saw steadier growth but frequent economic uncertainty culminating in a flurry of licensing by the then regulator, the Independent Broadcasting Authority (IBA), which, at the end of the decade, significantly increased the number of independent radio services in a matter of months.



Further growth, mergers, acquisitions and ownership consolidation became features of the industry under the regulatory and licensing regime of the Radio Authority (RAu) in the

Nineties – the decade when commercial radio finally came of age with the arrival of regional and national commercial stations, and the future possibilities promised by digital broadcasting.

Another advertising recession has had a major impact. Digital audio broadcasting (DAB), meanwhile, has started to make its mark. And, at the time of writing, independent radio stands poised on the brink of a new legislative era heralded by the Communications Act which was given its Royal Assent in July 2003.

## In the beginning...

Independent radio's evolution occurred in a number of phases.

The process began with the 1972 Broadcasting Act which sanctioned the advertisement of the first five ILR contracts to provide local, general entertainment services in London, Glasgow, Birmingham and Manchester; a second London contract was to provide a specialist news and speech service allied with a national news service for ILR, Independent Radio News (IRN). ILR stations were originally conceived more as public services supported by advertising than the truly commercial services we are familiar with today. They were originally designed to complement rather than compete with BBC local radio and, true to the spirit of old-style interventionism, they were subject to stringent regulation.

## The early years: 1973 – 1988

The first of these stations, LBC, went on air in London on October 8, 1973. IRN's news service for ILR began on the same day while Capital Radio launched eight days later. They were followed within a few months by Radio Clyde, BRMB and Piccadilly Radio. The early development of the industry under the IBA was dictated by the Home Office. But neither Government nor the Authority could protect the fledgling independent stations from the mid-Seventies' economic crisis and the three-day week. Small wonder, then, that ILR did not flourish straight away.

Although the IBA implemented a steady roll out of new contracts to meet the 1972 Act's requirements, the first wave of new commercial stations launched into severe recession. For Capital Radio and LBC, early advertising revenues which had exceeded expectations soon plummeted. The situation was made worse for LBC by its innovative (and costly) all-speech, news format. Carving out a clear local identity and cultivating audience loyalty were major problems. Within months, many of the newcomers were forced to introduce greater cost control and raise new investment.

Initial plans to launch 60 ILR stations – expected to achieve coverage of around 65% of the total UK population – were hampered by Government, however. In 1974, the then Home Secretary announced plans for a major review of the future of UK broadcasting and put plans for issuing further ILR contracts on hold. An investigation, to be conducted by the Annan Committee, would report in early 1977. For the time being, ILR would be limited to 19 stations – roughly equivalent to the BBC's 20 local stations at the time.

The fledgling industry struggled on. The eventual publication of the Annan Report in March 1977, however, did little to end uncertainty over independent radio's future. The ground was laid for a new broadcasting act but for the time being it was unclear even whether the system would exist after 1981. It was with relief, then, that the industry greeted the Home Secretary's go ahead in

1978 for further ILR contracts to be advertised. The plan would take the total number of services to be broadcast by 1980 from 19 to 44 with a target coverage of 80-90% of the UK population.

However it was not until two years later, when the 1980 Broadcasting Act came into force, that firm plans for the longer term expansion of UK independent radio were confirmed. The network would be increased to 69 local radio licences, the new legislation decreed. Meanwhile, further local contracts were advertised, new stations launched on air and the industry's advertising revenue rose.

### The 'second generation'

The early Eighties saw independent radio's second wave of expansion – and another recession. The decline in national advertising suffered by many stations pushed a new emphasis onto developing a strong local revenue base. Commercial radio audiences continued to rise despite the arrival of two new TV services competing for breakfast viewing – TV-am and Channel 4. When ILR celebrated its tenth birthday in October 1983, revenue increases were ahead of inflation, new services were coming on air and the audience was continuing to rise.

By the mid-Eighties, local stations again suffered uncertainty about the future long term prospects for their businesses without any clear indication of what would happen beyond 1990. Speculation surrounding the outcome of the Peacock Committee's deliberations on the future of British broadcasting was intense. As the industry awaited the outcome, details of two major developments emerged.

First, the Home Office confirmed further new licensing plans – for 21 'incremental' local radio stations which were eventually advertised by the IBA in 1989. These were unlike previous contracts as they were specifically designed to allow new community, ethnic and special interest stations to be developed in existing ILR areas. The first four were awarded in April 1989: two of these were in London and went to Spectrum and Jazz FM. This rapid expansion in the number of stations available stimulated further interest amongst advertisers. Radio began to shed its reputation as a '2% medium' – for years it accounted for just 2% of total UK display advertising revenue. By the mid-Nineties, it was to be the fastest growing advertising medium.

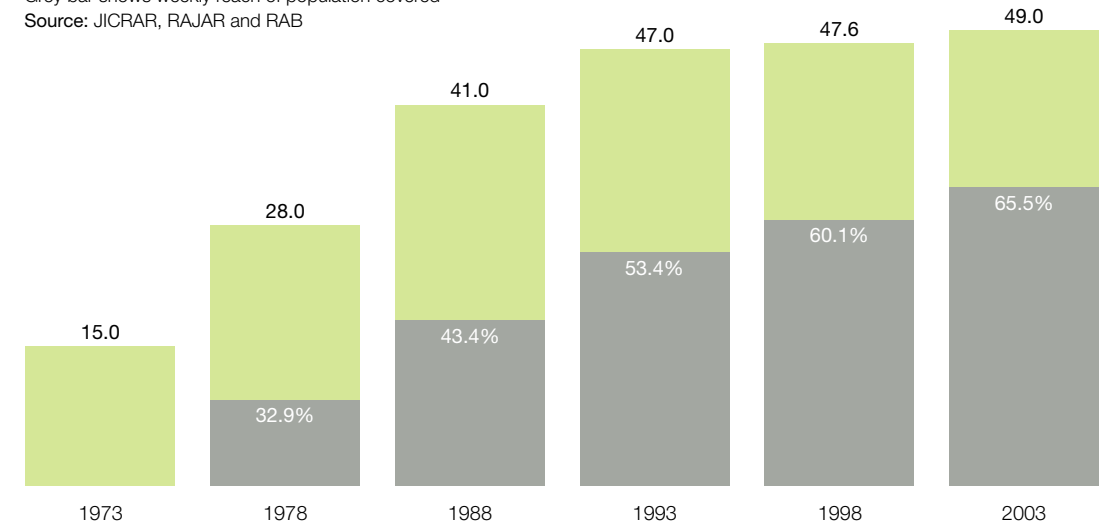
Second, in February 1987 Government published a Green Paper proposing the gradual eradication of simulcasting. Initially, each independent radio station contract comprised an AM and FM frequency and all stations were required to broadcast the same programmes simultaneously on both. Now, stations were able to develop different services and test alternative formats on their local FM and AM frequencies. By March 1990, 19 local radio operators had split their services in this way – soon, most of the rest followed suit.

## Growth in Independent Radio Audience

### Population Covered (millions)

Grey bar shows weekly reach of population covered

Source: JICRAR, RAJAR and RAB



The 1990 Broadcasting Act provided a major catalyst for the industry's growth throughout the decade. The old style approach to overseeing the industry – based on the principles of TV regulation – was replaced with a lighter touch legislative policy and the arrival of a new industry regulator. Now the RAU rather than a Government department decided where new-style commercial radio licences should be advertised and when. The new body also took over responsibility for co-ordinating special event licences, from then on known as Restricted Service Licences (RSLs).

## The 'Radio Authority years'

In the early Nineties, the industry saw ownership consolidate with mergers between neighbouring station owners and acquisitions leading to the development of dominant independent radio groups, such as Capital Radio Group, GWR and Emap Radio. A new phase of expansion was confirmed with the advertisement in January 1991 for the award by auction of the first independent national radio station to join the 74 ILR services already on air. Revised plans unveiled a further list of 27 new ILR licences to be issued.

Ownership restrictions already relaxed in the 1990 Broadcasting Act were further relaxed in 1996 to attract newcomers to the industry and stimulate growth and profitability. Growth also came from new ILR services; three national stations – Classic FM, Virgin Radio and Talk Radio – and the development of regional commercial services. This expansion further fuelled audience interest in the medium and advertisers' understanding of the benefits of commercial radio has been significantly enhanced following the launch of the Radio Advertising Bureau (RAB) in 1992.

In 1994, the RAU published a consultation document on the best use of the bandwidth between 105 and 108 MHz. This part of the spectrum had not previously been used for broadcasting. Its availability increased the amount of FM bandwidth available for UK commercial radio by about 60% – the existing sub-bands had been all but exhausted by this point. Following industry consultation it was decided that initially two new types of service should be licensed: a new generation of smaller, local stations at the upper end of the spectrum; and a batch of regional licences enabling more specialist formats at the lower end. Use of the middle part of the spectrum was to be planned a little later – typically, mixing these two types and adding some services of intermediate size.

Licensing to fill the 105 to 108 spectrum began in 1995 and one new licence was issued each month for the next eight years. The licensing process was speeded up with the introduction of a new category of service called Small-scale Alternative Location Local Licences. These were introduced to deal with the large number of applicants eager to provide local radio services in certain areas, such as parts of Sussex, the Midlands and Somerset. The new small-scale licences accelerated the licensing process as winning applicants' proposals included a definition of which particular part of that wider area would receive the new service. Between 1996 and 1997, an additional 30 new stations went on air having been licensed in this way.

## The copyright issue

An important factor which has shaped the development of the fledgling industry is copyright. When independent radio launched in 1973, it was the regulator not the individual radio companies which agreed the terms under which stations could play music. Since no franchises had been awarded at that stage, it fell to the IBA to negotiate royalty rates with the music industry's two copyright collecting societies – the Performing Rights Society (PRS) and Phonographic Performance Limited (PPL). However, stations soon sought to re-negotiate because of the level of the royalties and the restrictions placed on how many records they could play – the so-called 'needle time restriction' of no more than nine hours a day.



As the first copyright licences ran for five years, stations were unable to do anything until 1978 when the Association of Independent Radio Companies (AIRC, although it is now known as the Commercial Radio Companies Association, or CRCA) challenged PRS and PPL by referring the licences to the Copyright Tribunal in 1978. This review process took eight years.

In 1988, AIRC negotiated its first licence with PPL providing for unlimited use of PPL recordings at royalty rates similar to those under 'needle time restriction'. Changes to the Copyright Act, however, led to further negotiations continuing into the Nineties. By early 1993, a new flat rate had been agreed (although with lower rates for smaller stations) and royalties were levied on a higher revenue base – based on net advertising revenue and revenue from broadcast sponsorship which was, by then, a fast growing source of income for stations.

## The future beckons

The 1996 Broadcasting Act further relaxed ownership rules and introduced a framework for the introduction of digital broadcasting. In March 1998, the RAU invited applications for commercial radio's first national digital multiplex licence which was subsequently awarded to Digital One. By July 2003, national commercial digital radio was accessible to 85% of the population of Great Britain – more than 47 million people. This, along with 44 local multiplexes – soon to be 46 – was providing well in excess of 300 commercial digital radio services to UK listeners.

## Key Developments in Independent Radio's First 30 years

- 1972 Sound Broadcasting Act published.  
First five ILR contracts advertised.
- 1973 IBA Created.  
LBC and Capital Radio launch.  
First IR commercial on LBC: 60 seconds for Bird's Eye fish fingers.
- 1974 Annan Committee starts to review future of UK broadcasting.  
JICRAR established.
- 1976 19 ILR stations now on air.
- 1977 Recommendations of the Annan Committee published.
- 1978 Government White paper rejected the Annan Committee's recommendations.  
First report of Home Office Local Radio Working Party: recommended a further 9 ILR stations.
- 1979 Second report of Home Office Local Radio Working Party: recommended 15 more ILR stations.
- 1980 Broadcasting Act receives Royal Assent.  
Third report of Home Office Local Radio Working Party: recommended 25 more ILR stations
- 1981 26 ILR stations now on air.  
Home Secretary, William Whitelaw, announces approval in principle for a further 25 ILR stations.
- 1982 Channel 4 launches.  
First ILR franchise re-advertisement: London (News and Information) station.
- 1983 TVam launches.  
IR's tenth anniversary – 38 ILR stations now on air.
- 1984 First Network programme – The Network Chart Show.
- 1986 Home Office launches low power special event radio licences, initially for two years. These were the predecessors of the short term restricted service licences.
- 1988 Home Office plans new Radio Authority.  
Home Office sanctions ILR 'split frequencies'.
- 1989 21 'incremental' radio licences advertised.  
Peacock Report published.
- 1990 Jazz FM, the first 'incremental', launched.  
Broadcasting Act gets Royal Assent.  
Shadow Radio Authority established – 79 ILR stations now on air.
- 1991 Radio Authority established.  
'INR 1' licence awarded to Classic FM.  
130 commercial radio licences in issue.
- 1992 RAB launched.  
Plans confirmed for 5 regional licences.  
'INR 2' awarded to Virgin Radio.  
Green Paper on the BBC's future published.
- 1993 Virgin Radio launched.
- 1994 'INR 3' awarded to Talk Radio UK.  
Government announces spectrum between 105-106 MHz will be available for IR from 1996.
- 1995 Talk Radio launches.  
Relaxation of the 1990 Broadcasting Act confirmed.  
IR Audience share exceeds 50% of all listening for the first time.
- 1996 Freely radiating, low powered AM experiments for student and hospital radio.  
Broadcasting Act gets Royal Assent.  
DNH announces 225 kHz to be reassigned to IR from the BBC.
- 1998 First national digital commercial multiplex licence advertised.  
226 ILR licences in issue.  
2000th RSL licence issued.
- 2000 Publication of the Communications White Paper on the future of broadcasting and telecommunications.
- 2001 The Radio Authority sets up Access Radio pilot project.
- 2002 Publication of the Radio Authority's AM Strategy for Independent Radio.  
Government publishes proposed new rules on radio ownership.  
Publication of the new Communications Bill.
- 2003 The Radio Authority publishes New Voices, Professor Anthony Everitt's evaluation of the Access Radio pilot scheme.  
272 ILR licences in issue, plus 3 national licences.  
The 4,000th short-term RSL is licensed.  
The Communications Bill receives Royal Assent in July to be implemented by 29 December 2003.  
Ofcom scheduled to officially take over from the Radio Authority by 29 December 2003 when relevant parts of the Act come into effect.



# Legislative and Regulatory Landmarks

During its first 30 years, commercial radio – independent radio services previously known as Independent Local Radio (ILR) and Independent National Radio (INR) – has witnessed a number of shifts in approach by the legislators and, as a direct result, industry regulation.

There has been a shift in perception from viewing commercial radio as a ‘quasi-public service’ system which just happened to carry advertising to a fully commercial, highly competitive and increasingly profitable business. This corresponded with a shift from an interventionist approach to regulation to a ‘light touch’, self-regulatory environment. As a result, the approach to developing the industry altered quite fundamentally, too. While in the early days the focus was on issuing contracts for services in areas without BBC local radio and growing commercial radio coverage of the population, today’s licensing process is driven by the mission to broaden listener choice.

Four key pieces of legislation shaped the development of the UK commercial radio industry and the regulatory environment in which it evolved between 1972 and 2003. A fifth, the Communications Act, which received Royal Assent in July 2003 and at the time of writing was due to come into effect by that year’s end, heralds the new legislative era which will shape the industry’s further growth.

**A public service** The 1972 Broadcasting Act laid down the foundations for today’s independent radio industry. It also dictated the early approach to the sector taken by the IBA. The first ILR stations had to be firmly local – serving their local communities by providing all things to all listeners with a broad-based mix of general entertainment programming and news. All programme schedules had to be pre-vetted by the regulator which also had final say on a station’s transmission times and any proposed changes to it. Studio standards were set by the regulator. Transmission facilities were owned and operated by the regulator. Local newspapers were directly encouraged to take a 15% interest in their local stations to ensure ILR’s local credentials – and a station’s owners were expected to be and remain local.

At this stage in the industry’s development, growth in the number of services available was Government-led. Even so, the decade was dominated by the deliberations and eventual outcome of the Annan Committee which, ironically, had only a limited direct impact on the future of ILR – although it caused future planning for the industry’s expansion to be put on hold for a number of years.

## A Seventies system in an Eighties market

The 1981 Broadcasting Act moved forward the initial plans laid down back in 1972, rationalising and facilitating the system although not changing the original basis on which the independent radio industry was established. This was a mixed blessing. Growth while slow was steady. Yet the industry moved through the Eighties with a system established for the decade before.

Even so, the IBA’s radio division made a number of significant innovations which provided an early indication of future liberalisation. For example, the 1981 Act stipulated a commercial radio programme could only be sponsored if it was based on an event that would have existed without the broadcaster’s involvement. The IBA’s then radio division advocated that the increasingly successful Network Chart Show should be available for sponsorship, or ‘co-funding’, since compilation of the chart on which it was based was an existing event.

Another precursor of future liberalisation came in the late Eighties when the IBA re-interpreted the 1981 Act to allow the advertisement of a new generation of ‘incremental’ ILR licences.

## A ‘lighter touch’ approach

The 1990 Broadcasting Act proved a watershed for independent radio, finally translating a Seventies system implemented by an old-style, interventionist regulator into a lighter touch, Nineties system of regulation overseen by the Radio Authority (RAu). For the first time, the industry regulator could have a free hand in deciding where new licences should be issued independent of Government control. And from this point much of independent radio could truly be described as ‘commercial radio’.

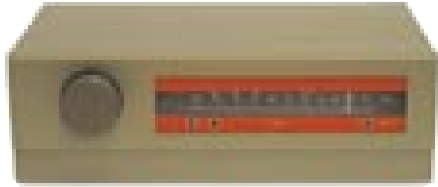
While the IBA was responsible for providing the industry’s transmission facilities, the RAu was not. While the IBA once pre-vetted all programme schedules, the RAu did not. While the IBA decreed stations could carry no more than nine minutes of advertising on-air an hour, the RAu allowed each station to decide for itself.

Ownership rules were liberated and the groundwork for national commercial radio laid. A points system was introduced which restricted the number of stations in one of four bands (based on station size) that a single owner could control. Stations in each band-type were allocated a number of points. No owner could control more than 15% of the total number of points in the IR system at any time.

Since the 1990 Act, when a licence is advertised applicants apply with proposals of the service they would provide – which form the basis of every licensee’s promise of performance to which they must adhere. Stations could impose their own programme requirements within the applications they submitted for their licences, they could contract their own transmission facilities and studio standards; there would be no schedule pre-vetting. It is therefore a business and programme plan written by the licensee, rather than the regulator, that the RAu oversees.

### Further liberalisation

The 1996 Broadcasting Act introduced further liberalisation of the ownership rules. It removed the ceiling of 35 licences leaving as the overall limit 15% of total points in the independent radio system. It eased restrictions on the number of licences an individual could own in a single area and allowed newspapers to own local stations in their local catchment areas but only after proposals for each passed a 'public interest test'. The 1996 Act also laid the foundations for the development of digital radio.



As a result of the legislative evolution over the past 25 years, industry regulation has steadily become 'lighter touch'. It has become motivated by the goal of increasing the provision of commercial radio services and broadening listener choice through the development of a broader range of commercial radio formats. Where once the dominant priority was to fill

the geographical gaps in the ILR map, more than one local commercial service can now be found in many parts of the country and a priority is issuing new local licences which most efficiently use the commercial radio spectrum available to enhance listener choice.

As a result of the 1996 Act, independent radio comprised two distinct parts – the commercial sector (ILR, regional and national commercial stations) and the independent sector (short-term licences, student and hospital radio, cable and satellite services). Commercial radio became acknowledged as just that: a commercial business. Even so, it still adhered to its early mission to provide a service to the public. The difference, however, was that its interest in this was closely related to its advertisers' and investors' interests, and the newer stations tended to target niche audiences.



### The 2003 Communications Act

The 2003 Communications Act, which received Royal Assent in July 2003 and was due to come into effect by the end of December 2003, introduced a number of changes likely to have a significant impact on commercial radio's structure.

The legislation placed a clear emphasis on deregulation of ownership, while at the same time setting out to protect the localness and diversity of UK radio. New legislation replaced the former national points-based system of ownership regulation for analogue radio with a local system based on the policy that in any local area there should be at least two commercial radio operators plus a BBC local radio service. This new scheme introduced a revised points system which, in practice, would prevent a single local radio operator controlling more than 55% of a market. A rule introduced for digital radio prevented any operator providing more than 55% of the local digital programme services to any local multiplex (or four services, whichever is the greater). Meanwhile, a stricter points limit was imposed for cross-media owners in any market with more than two radio stations. In such areas, neither the regional ITV licence-holder nor any company that controlled more than 50% of the local press in a radio station's coverage area would be allowed more than 45% of the points.

At the time of writing, those changes relating to the local analogue points system, the cross-media ownership points system and the local DSPS limits, were all still proposed changes as detailed ownership rules have not been included in the Act. They will instead be set out in a separate Order due to be made in late 2003.

In addition to the new legislation relating to ownership, another provision within the 2003 Act enabled the extension of all local analogue licences from eight to 12 years. Religious bodies – already able to hold analogue radio licences – would be able to hold digital sound programme service licences for the first time. Local authorities would be allowed to own radio licences for the first time, subject to certain statutory restrictions. And foreign ownership of all types of UK commercial radio licence was sanctioned.

Another significant change related to the way radio would be regulated post-2003. From late 2003, a single new communications regulator, Ofcom, was due to take over responsibility for the regulation of UK commercial radio from the RAU. To reinforce the commitment to protecting local radio's 'localness', the Act also contained a 'localness clause' giving Ofcom a specific duty to protect localness – a commitment to be used as a counterbalance to deregulating ownership.

In essence, the 2003 legislation marked a natural evolution of the legislation that preceded it: introducing greater deregulation. Localness would remain a priority. There would be a strong commitment to plurality of ownership. And the legislation would underline a long term desire to open up commercial radio via 'community radio'.



# Commercial Radio Station Development

The evolution of independent radio from an initial batch of just 19 services in the Seventies to today's 'network' of hundreds of services generating advertising revenue in excess of £513 million (in the year to March 2003) was, at times, a 'stop-start' affair. And no wonder. Throughout the early years, Government indecision concerning the future structure and anticipated size of the commercial radio sector and shifting perceptions of exactly what the role of independent radio should be created an atmosphere of uncertainty that dogged the fledgling industry well into the Eighties.

## IR's early mission: to complement the BBC

When the IBA issued the first ILR contracts, the idea was to complement rather than compete with BBC local radio. Contracts were issued first in a number of areas where BBC local radio services were not yet available, which meant a number of potentially lucrative local markets – including Bristol and Leeds – were not served by independent radio until the late Seventies and early Eighties.

From the outset, interest in running a commercial station outstripped supply of available frequencies – eight companies applied for the first two London contracts eventually awarded to LBC and Capital Radio, four applied for the first in Birmingham, six applied for Glasgow and three for Manchester. The initial plan was to license services in 60 localities across the UK. It was hoped that different stations would eventually carve out clearly defined identities. And it was predicted that of future contracts, few would serve communities with populations of less than 200,000.

## All things to all listeners

The first ILR contracts were for the provision of broad-based, local entertainment services; they were designed to provide all things for all listeners in their local catchment area. The emphasis was on a mixed programme format blending speech, music, information and news in a continuous stream rather than in traditional, clearly defined half hour slots. Advertising revenue was to be a primary source of funding, although these stations would not be 'commercial' in the sense they are today. Sponsorship was not allowed and there would be a ceiling of nine minutes of advertising per broadcasting hour.

## By the late Seventies – a 'patchy presence'

Within little more than a year, five self-financing companies were broadcasting commercial radio to a potential audience of 15 million. By late 1974, contracts had also been awarded for Liverpool, Edinburgh, Plymouth and Sheffield and applications were invited for Teesside and Nottingham. Six more went on air by late 1975. However, early growth soon hit a plateau when government suspended the advertisement of further contracts after the first 19.

As the broadcasting industry awaited the outcome of the Annan Committee's report, independent radio sought to consolidate its achievements so far. The combined potential adult reach of the first 19 stations was 25 million people. Station research showed 12 million of the total population covered listened to IR each week. However, without truly national coverage, ILR's patchy presence was a reason used by many national advertisers not to take the medium seriously at the time.

During this period, it was the Home Office not the IBA which dictated where further ILR and BBC local radio stations could be. The industry had to wait until the Government White Paper in 1978 before getting the green light for the second phase of expansion which was eventually enshrined in law by the 1980 Broadcasting Act.

The 1980 Act included a number of key changes affecting independent radio – principally, the need to re-advertise contracts and gauge public opinion of services launched so far. All services contracted before January 1, 1980 would be re-advertised by December 1986 at the latest. The Act also introduced a levy and cancelled the prescriptive right of local newspapers to be invited to take a stake in their ILR services. By the time the twenty seventh ILR station went on air an estimated 60% of the total UK population was covered.

## Growth gets underway once more

In July 1981, the Home Secretary approved a further batch of 25 locations for ILR stations; the total already on air stood at 61. By the end of 1983, ILR was available to an estimated 80% of the UK population. Listening was growing steadily. Independent radio programming was also praised for its diversity and increasing innovation. Programme-sharing became a feature of many stations' output which at that time included documentaries and drama as well as music and chat output.

It was not all plain sailing, however. The early Eighties brought another fit of economic depression. Although independent radio stations' total revenue increases were significantly ahead of inflation by 1984, this statistic masked difficulties faced by a number of stations – Centre Radio, Leicester ceased trading the same year.

The ILR network reached 44 services in the mid-Eighties by which time the industry was starting to feel the grip of the legislators loosening. Closer co-operation was allowed between operators of adjoining franchises to reduce overheads and costs. The IBA began considering proposed merger plans in a number of areas. Radio Trent, for example, became a major investor in a new station for Leicester. Hereward Radio in Peterborough was contracted to operate the Northampton station.



With the late Eighties, however, came renewed uncertainty about the future of the industry and a question mark hung over the continuation of the IBA beyond 1990. As the issuing of new contracts again slowed, Government stepped in to announce two plans which would have a significant impact on the future shape of independent radio: it allowed existing stations to develop alternative services on one of their two existing wavebands; and it confirmed plans to license 21 new incremental stations.

### Groundwork laid for further growth

The 'split frequency' initiative proved a great success but it also had long term implications for the structure of the industry as a whole. Stations were advised to provide different services on both their frequencies or lose them. From 1990 onwards, new licences would be issued for AM or FM – not both.

Stations developed a range of formats to launch alongside their existing services. Leicester Sound, for example, introduced an Asian service alongside its existing output. Radio City in Liverpool developed a speech service, City Talk. Piccadilly Radio experimented with classical music. Viking Radio in Humberside piloted a country music service on FM. Guildford's County Sound was the first to provide week-long, split frequency services with the launch of County Sound Gold and County Sound Premier in June 1988. The initiative gave listeners a fresh incentive to tune into FM.

By the time most of the remaining stations split their services formally in the early Nineties, almost all adopted the same strategy – targeting younger listeners with chart-based pop on FM and older listeners with classic pops and 'golden oldies' on AM.

### The arrival of 'niche' services

The 'incrementals' initiative allowed 21 new local community licences to be issued for a range of niche services serving particular target interest groups. It was a rapid process with all contracts advertised and awarded in a matter of months. It set a new blueprint, however, for how future licences would be issued in the Nineties. Written applications were followed up with additional questioning by IBA staff rather than face to face board presentations made to Authority members. Of these 21, half a dozen went to ethnic services. Others introduced specialist formats such as jazz and dance music.

Licensing entered a new phase with the 1990 Broadcasting Act. Radio stations were to be run under new Radio Authority (RAU) licences which replaced the old IBA contracts. New licensing would be dictated by the desire to broaden choice. Stations with existing old-style contracts were encouraged to move to the new licensing system with promise of extensions to their licence period and the chance to buy their transmission facilities from the IBA at a nominal fee. Licensees became free to choose their own supplier of transmission facilities from sources including National Transcommunications Ltd, the old IBA's engineering division which is now an independent company (NTL) with a variety of media interests including providing independent transmission services.

### Commercial radio spreads its wings

Nineties licensing saw a dramatic expansion of the industry. The total number of commercial radio licences had risen to more than 250 by the end of the decade. Additional services were licensed in existing ILR areas. Regional licences were developed and three national commercial stations planned. Small-scale licences were issued in between existing larger licences. Meanwhile, a new breed of larger, regional licences was issued to span others.

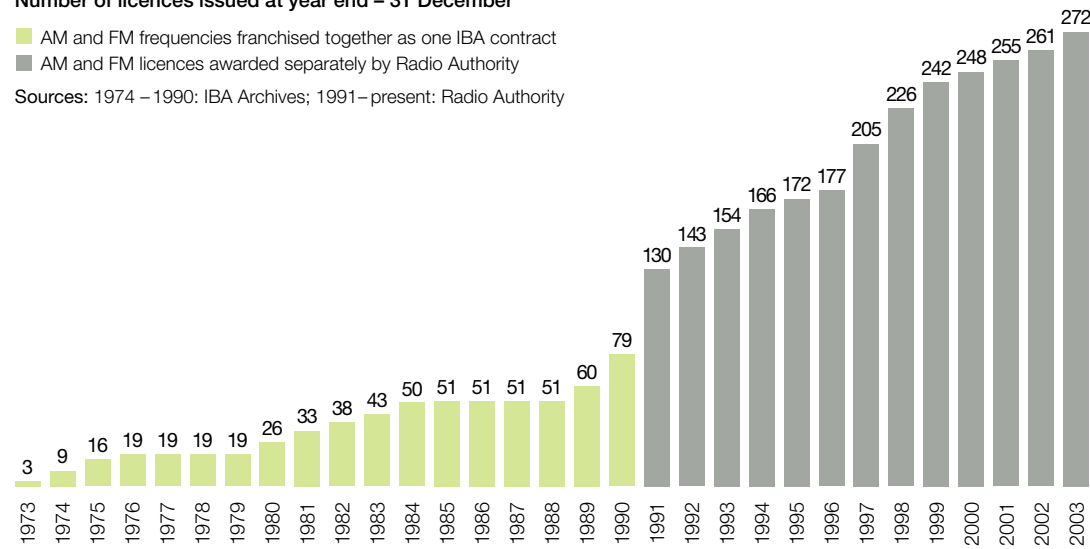
By September 1998, the RAU had awarded three national commercial radio licences – Classic FM, Virgin 1215 and Talk Radio – and 109 new local radio licences (including ten regionals). The RAU also awarded a number of other types of licences including one additional service licence – a type of licence making use of spare capacity in an existing channel not already used by the programme service, and over 2,000 Restricted Service Licences (RSLs).

There are two types of RSL – short-term RSLs issued for coverage of a specified area to cover a special event or to trial new formats for a maximum period of 28 days; and long-term RSLs issued for five years for coverage of a non-commercial establishment, such as a hospital or a university. The first RSL was issued to Ski FM which broadcast, from December 1990, in the Highlands of Scotland. In the early years some 170 licences were issued a year; subsequently this has risen to more than 400. By June 2003 when it published its final RSL Annual Report, the RAU had overseen some 4,000 short-term RSLs and was overseeing a further 100 long-term RSLs. In June 2003 some 50 short-term RSLs were broadcasting, including Radio Avalon at the

## Independent Local Radio Licences in Issue

Number of licences issued at year end – 31 December

■ AM and FM frequencies franchised together as one IBA contract  
 ■ AM and FM licences awarded separately by Radio Authority  
 Sources: 1974 – 1990: IBA Archives; 1991 – present: Radio Authority



Glastonbury Festival in Shepton Mallett; Bonnet FM in Stewarton to promote the Bonnet Guide Festival; and Castle FM in Carrickfergus to promote the town's annual Waterfront Festival.

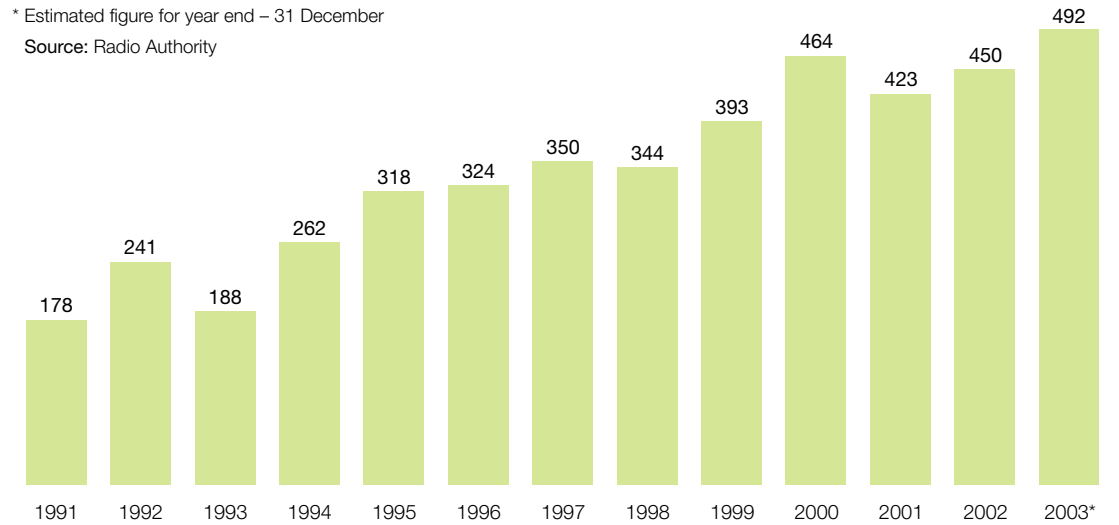
Meanwhile, other licences also available and issued virtually on demand were Licensable Sound Programme Services – provided by a cable system; satellite licences; digital sound programme service licences; and digital additional service licences.

In November 1996, the RAu confirmed plans to test freely radiating low powered AM services for hospital and student radio. These tests began in the first half of 1997. In July 1998, the RAu confirmed plans to make these low-powered AM licences available nationwide (except in London) for non-commercial services covering just a single site, as long-term RSLs. This initiative was intended to offer a new lease of life for those stations relying on public institutions to maintain expensive and out-dated equipment without inhibiting any plans to develop further local radio on AM in the future. By the summer of 2003, the RAu was responsible for licensing 42 student radio services and 52 hospital radio services.

## Short-term Restricted Service Licences 1991–2003

Number of licences issued at year end – 31 December

\* Estimated figure for year end – 31 December  
 Source: Radio Authority



### The dawning of the 'digital age'

Then, in March 1998, the RAu advertised the first and only national commercial digital multiplex licence. This national multiplex would carry about eight programme services with some of the multiplex's capacity to be used for data services. The three national commercial stations previously broadcast only on analogue were guaranteed a place on the national digital multiplex. One consortium, Digital One, applied and won the licence.

A period of local digital licensing then followed. Local licences were typically advertised in batches of three at a time to facilitate a brisk start for local digital radio around the UK with an emphasis on licensing in the main population centres first. By the summer of 2003, 85% of the UK population – an estimated 47 million people – could receive national commercial digital radio services. And some 44 – soon to be 46 – local and regional multiplexes plus the national commercial multiplex were broadcasting a total of 320 digital radio services in the UK.

The 'digital age' had well and truly dawned.



# The Digital Age

Following lobbying in the early Nineties, the 1996 Broadcasting Act detailed plans to allocate spectrum for the development of commercial digital radio in the UK. Digital technology made the multiplex concept possible: several different programme services may be ‘multiplexed’ together and transmitted simultaneously. The aim was for digital audio broadcasting (DAB) to start to overcome the shortage of analogue bandwidth spectrum and offer a new way of delivering to listeners additional programming choice, together with a more robust and consistent signal of good quality.

## Station licensing

In March 1998, the Radio Authority (RAu) invited applications to run UK commercial radio’s national digital radio multiplex – a second national digital radio multiplex was to be run by the BBC. This commercial licence was won by Digital One with backing from GWR and NTL. Digital One launched the UK’s first national commercial digital radio service a year later. By July 2003, it had achieved 85% coverage of the UK population – accessible to more than 47 million people.

Soon after licensing the national digital multiplex the RAu’s attention turned to the potential for local digital radio services. A period of industry consultation sought to ensure the continued development of digital radio. The fear was that DAB might stagnate due to a cycle of inactivity. Manufacturers were reluctant to produce digital radio receivers without digital radio services for listeners to use. Digital radio providers, meanwhile, were reluctant to launch the new services needed to grow audiences without sufficient digital sets on the market to make their investment worthwhile.

The industry agreed on the need for a ‘big bang’ approach to kick-start a ‘digital radio revolution’. Through the incentive placed in the Broadcasting Act of 1996, existing analogue licence holders were offered automatic analogue licence renewal for ‘going digital’. Meanwhile, an intensive programme of local digital licensing got underway in November 1998. These licences were offered in areas with populations of 200,000+ adults. By the end of the RAu’s tenure in December 2003, 46 licences were due to have been awarded.

## The digital framework

An additional tier of regional digital multiplexes was also introduced during this period in five of the country’s most densely populated areas: the North West; the North East; Yorkshire; the West Midlands and Central Scotland. Meanwhile, three London local digital multiplexes would provide digital radio listeners in the capital with up to 30 local digital commercial radio services, plus the 20 national commercial and BBC services.

By Summer 2003, some 44 – at time of writing, soon to be 46 – local and regional multiplexes plus two national multiplexes were broadcasting more than 320 digital radio services in the UK. These comprised 141 different radio brands – 104 of these were commercial.

The RAu first set out its interest and vision for digital radio in a position statement in 1992. This envisaged that DAB could improve and eventually replace the major part of the analogue system in line with public expectations on quality and choice which the 1990 Act had been intended to address. Government was successfully lobbied in the early Nineties to allocate enough spectrum to get the first stage of a future digital system established, based on the market structures established and proven for analogue radio.

It was agreed that digital radio would be developed using VHF Band III. This plan was devised within a European framework, agreed in 1995 and 1996 (under the Wiesbaden and Bonn agreements) in an attempt to enable and harmonise the development of digital radio within Europe. The harmonisation enables receivers to be sold to a suitably-sized market, as well as to continue to fulfil public expectations that radios would also work in neighbouring countries (and, preferably, worldwide). In other parts of Europe, where the availability of Band III was more restricted due to other uses, an additional high frequency L-Band (1.5 GHz) was also to be part of DAB frequency allocation from day one.

The 1996 Broadcasting Act set up a legislative framework for licensing digital radio. It tackled the challenge of getting different, potentially competing broadcasters on a common multiplex by requiring the RAu to choose an entire multiplex bouquet as proposed by a prospective multiplex operator. This, together with some features of the technology, would shift the balance for planning and decision-making even further from regulator to industry.

In spite of this, the intention was that the industry regulator would still have an essential role to play in running the system – not least in some of the technical planning work needed to ensure that different multiplexes could reuse the same frequency in different parts of the country, or adjacent frequencies in the same place.

The RAU established a 'local plan' for frequencies within the UK's allocation and in 1997/8 agreed this with the BBC and Radiocommunications Agency. This offered the potential for the two national multiplexes (one commercial, one BBC) to be complemented by a system of local multiplexes in which up to 80% of the population might receive at least one local multiplex service; 50% might receive two; and in London, three. By late 2003 this plan had been realised – except for areas where the population covered would be below 200,000. The outstanding 20% of the UK population not served by digital radio were in areas requiring more frequencies to be allocated to digital radio for any digital service to be received.

Despite the considerable progress made in the roll-out of digital radio in the UK, interest continues in securing more frequencies for digital radio. At time of writing, one possibility which may emerge is in Band III, adjacent to the existing allocation, where bandwidth is allocated for business-to-business use. Another possibility is in the L-Band where existing users are due to vacate the band no later than the end of 2007.

Such matters will be dealt with from December 2003 onwards by Ofcom which will also consider the 2003 Communications Act's provision for the introduction of digital radio technology for 'general multiplexes' which could carry any mix of audio, video or data content.



### Programme diversity

The RAU's policy of automatic analogue licence renewal for any existing licence holder agreeing to 'go digital' resulted in many simulcasts of existing services on digital. But today's commercial digital radio programmes cover a range of services, some familiar, others brand new. These roughly fall into four camps: local digital simulcasts of existing analogue services; non-local digital simulcast of local analogue services from other parts of the UK; digital-only brands developed by existing players – such as children's station Capital Disney, Chrysalis' The Arrow and GWR's The Storm; and digital-only brands developed by industry newcomers – such as Passion for the Planet, Abracadabra, and Gaydar Radio.

Champions of digital radio have long claimed that greater choice of radio service will grow radio listening. This appeared to be born out when, in June 2003, the Digital Radio Development Bureau (DRDB) – which is funded and supported by backers including the BBC, Digital One, EMAP Digital and Capital Digital – published research showing that nearly 80% of purchasers bought their DAB digital radio in order to listen to new, digital-only stations. Stations influencing the switch to digital included BBC 7, BBC Radio Five Live, Classic FM, talkSPORT, Planet Rock, Jazz FM and the World Service, the research showed.



### Digital radio penetration

The number of digital radio listeners in the UK is dictated by the number of digital radio receivers available in British high streets. Some 15,000 digital radios were sold in 2000 – a figure which doubled in 2001 and almost trebled in 2002 when annual sales hit 85,000, DRDB figures show. Estimated sales for 2003 are in the region of 350,000 with projected estimates for 2004 of one million.

Initially, DAB digital radio receivers were limited to the top end of the market targeting aficionados willing to pay hundreds of pounds for the highest spec receiver equipment. A major breakthrough came in 2002, however, with the pre-Christmas launch of the Pure Evoke 1, a transistor-style digital radio priced at £99. Other manufacturers are moving in with similarly-conceived products, and the arrival on this scene of the giant Sony in 2004 will be another major stage in DAB digital radio's move into the mainstream, particularly given their ability to supply in volume.

The development of in-car digital radio receivers is widely expected to drive the next phase of growth with Ford amongst the first major car manufacturers to announce that it would fit digital radios into new models on request. Meanwhile, a variety of plug-in receivers for personal computers and other small hand-held devices are arriving on the high street.

For the time being, however, most digital radio listeners are listening in fixed locations using alternative technology by tuning in via their digital TV sets – either through Sky, cable or Freeview. The use of multiple platforms seems to be a feature of contemporary broadcasting. Since 2000, RAJAR has asked whether listeners ever listen via the TV set. In September 2001 the answer was 12%; September 2002 14.6%; December 2002 16% and by March 2003 the figure was 18.6% – a 50% rise in just 18 months.



### Digital radio listening

Accurate overall digital radio audience figures are not yet available. However in May 2003, digital radio stations reporting for the first time in RAJAR returned strong listening figures across all digital platforms:

Kiss FM – the Emap-owned London analogue station also broadcast on 20 local digital multiplexes around the UK as well as on Freeview, Telewest and NTL – reported 961,000 digital listeners. Smash Hits – an Emap-owned digital-only station broadcast on 12 local digital multiplexes, Freeview and NTL – reported 759,000 digital listeners. And Oneword – the UBC Media/GMG/Ceritech Holdings-owned national speech service broadcast on Digital One, Freeview and Sky – reported 50,000 digital listeners.

RAJAR also reported that of the 18.6% of the adult population that had listened to radio via the TV, some 61% of these tuned in once a week.

### Setting the standard

A key factor dictating the rate of DAB's growth in the UK has been the lack of a worldwide DAB standard. For much of the Nineties, three rival digital broadcast standards were in development. By 2003, the Eureka 147 standard adopted throughout Europe, Asia, the Far East and Canada was – in effect – the worldwide DAB standard. However, it has not been adopted by broadcasters in the US or Japan – where many of the leading hi-fi manufacturers are based.

Many believe that the real 'breakthrough' in establishing digital radio will only come with the mass market availability of lower priced digital receivers from companies such as Sony, Panasonic and JVC. Digital radio players in the UK – now widely acknowledged as the world's leading DAB market – are now lobbying Japanese manufacturers to secure this goal, and Sony's scheduled arrival in 2004 is a major step forward. In the meantime, hopes are high that the European standard alone will be enough to create a commercially viable international DAB business.

### Where next?

Since the BBC launched its first digital radio transmissions in 1995 there's been no going back on plans to establish DAB in the UK and, in subsequent years, there has been unprecedented co-operation between the BBC and commercial radio industry to achieve this goal.

Commercial radio and the BBC remain committed to promoting the benefits of digital radio to persuade more listeners to 'go digital'. In June 2003 a major publicity campaign was launched by the DRDB. A radio advertising campaign posed the question: 'Does it Do Digital?' At the same time, the BBC ran a summer promotional campaign for DAB digital radio on BBC TV and its radio networks. Latest Omnibus Tracker research conducted by the DRDB at this time showed awareness of DAB digital radio before these summer promotions stood at 30% of the population – around 17.2 million people.

Aside from on-going promotion, a final decision by Government on the date for turning off all analogue broadcast services and switching fully to digital will also be needed to secure the long-term success of digital. At the time of writing, however, this decision was yet to be made. And some industry opinion with memories long enough to remember the vociferous campaign to 'save' BBC Radio 4's long wave service began to wonder whether it ever would be.

Meanwhile, the prospect of securing more frequencies for digital radio will be further explored in coming months. Greater investment is still needed to fuel further DAB growth – to increase coverage from the 85% of the UK population currently covered by DAB broadcasts; to fill current gaps in the map of DAB services; and to meet plans outlined in the 2003 Communications Act for a new generation of digital multiplexes that are neither radio nor TV-specific. (The legislation proposed a sound/video plus data hybrid multiplex, called a 'general multiplex', which could be licensed should additional frequency become available in the future.)

With the possibility of a further five blocks of new VHF bandwidth being made available for DAB and on-going discussions about L-Band, digital radio's future – if not future shape – appears assured.





# Trends in Ownership

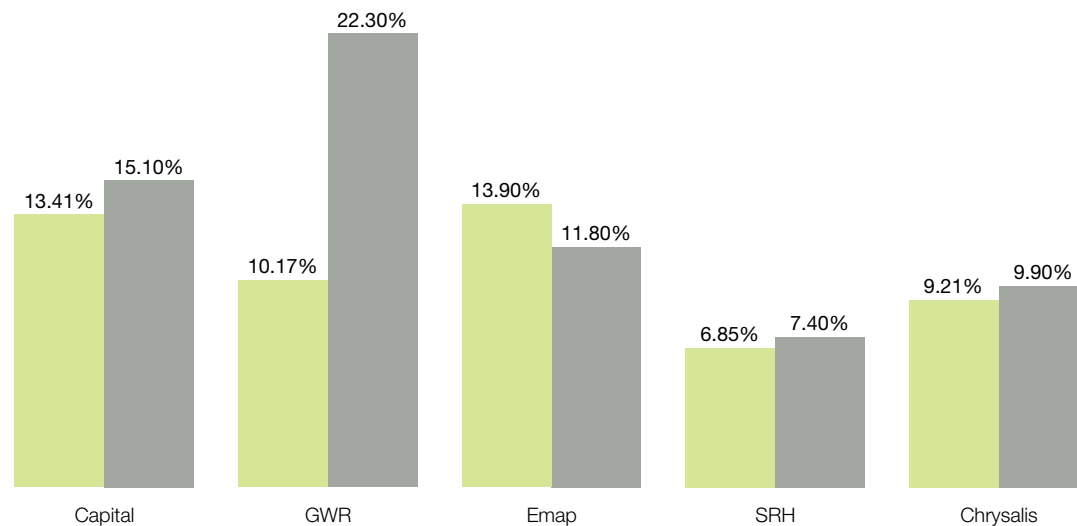
Independent radio was conceived as a network of local independent radio stations specifically serving the needs of their local communities. As a result, Independent Local Radio (ILR) stations were expected to be locally-run and locally-owned. This expectation was not formally reviewed until the 1990 Broadcasting Act officially paved the way for consolidation of ownership within the industry.

## Ownership Points and Analogue Audience Share Distribution

### Percentage

■ Points  
■ Commercial Audience Share (including INR)

Source: Radio Authority, RAJAR Q2, 2003



### Local services, locally run and locally owned

When ILR began in 1973, legislation carefully controlled who was eligible to own what, where. Local newspapers, for example, were given the right to take a stake in their local independent radio company – station owners were obliged to invite them to join. The balance of ownership of stations – between individuals and local businesses – varied considerably by area although efforts were taken to ensure no single interest had the upper hand. Under the 1973 Broadcasting Act, the Independent Broadcasting Authority (IBA) was obliged to prohibit significant accumulation of shareholdings in more than one radio company which might prejudice “proper performance”.

Commercial necessity, however, precipitated the eventual shift from an industry run by a network of local fiefdoms through the emergence of regional groupings in the late Eighties to a Nineties industry dominated by half a dozen or so major ownership groupings.

### Early attempts at consolidation

The first steps towards consolidation came as early as the late Seventies when economic adversity and the initially slow development of independent radio advertising revenue forced a number of ILR newcomers out of business. In an attempt to tackle this problem head on, the IBA worked closely with the owners of struggling stations to re-formulate business plans. In a few cases, this resulted in pooling of resources between neighbouring operators.

### Legislative liberalisation confirmed

In 1981, local newspapers’ automatic right to an interest in their local radio station was dropped. In spite of this, the IBA still paid close attention to any signs of impending aggregated ownership – until the mid-Eighties, that is, when the 1990 broadcast legislation was being drafted and a new regulatory framework outlined. By this time, economic recession was once more pushing a number of smaller stations to the brink.

As early as 1984, a report for the then Association of Independent Radio Companies (independent radio’s trade body, now known as the Commercial Radio Companies Association, or CRCA) by The Economist’s Econometrics Unit proposed a freeing up of ownership rules to encourage new competition. By the late Eighties, outside investors – notably, from Australian-owned Darling Downs TV which eventually became Crown Communications and took over LBC – started to take an interest in UK independent radio. Meanwhile, the first regional radio grouping was emerging in the north of England.

### The emergence of regional groupings

Red Rose Radio in Preston was one of the first stations to extend its interests beyond neighbouring contract areas. In the late Eighties, Red Rose stepped in to bail out struggling Welsh stations Cardiff Broadcasting Company and Gwent Area Broadcasting to form Red Dragon Radio. Red Rose then bought the Miss World contest and formed a new holding company, Trans World Communications. TWC went on to make further acquisitions, notably Piccadilly Radio in Manchester.

Meanwhile, Capital Radio in London became the first UK radio company to float on the London Stock Exchange in 1987. Following the 1990 Act, Capital was the first UK radio company to be included in the FTSE mid-250 index.

### 'Commercial radio' finally arrives

The 1990 Act introduced the concept of tradable ILR licences. It created a market for larger stations to acquire licences elsewhere – through application to run additional services and through acquisition. A points system was introduced to control dominance of the market. This divided stations by size into four different bands. Stations were allocated points according to their size – larger stations more, smaller less. Limits were decreed on how many stations of each band a single owner could control and on how many points in the total IR system a single owner could hold. No owner could control more than 20 licences – a limit subsequently raised to 35 through secondary legislation and finally dispensed with altogether in 1996.

The 1990 Act encouraged a number of newcomers to the radio market, notably publishing giant Emap which bought Kiss FM and the Trans World stations. It also resulted in the emergence of clear radio ownership groupings. Growth came through application for the growing number of new licences now available and acquisition.

The early years of the decade saw rapid activity with GWR and Emap Radio reaching the maximum share of the market then allowed. Capital Radio, meanwhile, acquired Midlands Radio in 1993 and Southern Radio in 1994. This industry shift also saw the emergence of specialist smaller players whose interest focused on smaller local licensees. The Local Radio Company, for example, began building interests in a portfolio of smaller, local players.

### The City takes note

By the Nineties, rapid growth in the number of independent radio licensees – including the arrival of national commercial stations – and soaring advertising revenues were attracting considerable interest amongst City investors. Shares in listed radio companies began changing hands at premium prices as new investors discovered the medium. Discussions to buy Talk Radio during the summer of 1998 valued the national speech service at around ten times its historic earnings.

In the 1996 Broadcasting Act, further relaxation in the industry's ownership regulation were confirmed. The 1990 points system was loosened by removing the ceiling on the absolute number of stations, although still retaining the 15% of points limit on what could be controlled by any single owner; the numerical ceiling on the maximum number of licences one owner could hold was removed altogether. Cross-media ownership rules were also relaxed (with a public interest test introduced) and a simpler licence renewal system established. As radio groups such as GWR and Emap Radio neared their ownership limit others, such as Capital Radio Group and Scottish Radio Holdings, still had room for further growth. But as discussions within the industry focused on what further liberalisation of ownership restrictions would be desirable another advertising recession was looming which soon made expansion plans academic – for a while, at least.

By the decade's end the prices paid for radio stations had risen sharply – Chris Evans' Ginger Media paid £85 million for Virgin Radio in 1997; three years later Scottish Media Group acquired the station when it bought Ginger for £225 million. As economic slowdown and advertising recession hit, however, radio advertising revenue fell off sharply and interest in acquisitions declined as commercial radio became less profitable. Key industry players soon found they lacked the cash to fund their expansion plans. Others on the acquisition trail, meanwhile, found there was a dearth of target stations or else the need to dispose of certain stations before buying new ones was not financially viable as the economy slowed.

### 2003 – and beyond

However as the RAU neared the end of its tenure, new legislation within the 2003 Communications Act heralded a new wave of ownership changes. The removal of the national points system was widely expected to result in a major change in the dynamics of the industry, at some point. For with no-one yet sure of whether the market would continue to decline or bottom out, the only certainty appeared to be that change would come, but not yet. 'Wait and see' was widely regarded as the safest strategic tactic.



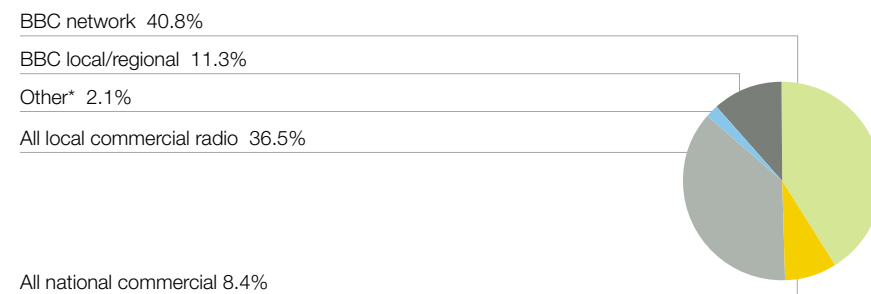
# Commercial Radio Listening

The independent radio audience grew quickly in areas where the first stations were launched. What took longer to establish, however, was a network of local stations capable of delivering national coverage of the UK population.

Listening levels for the first ILR stations varied quite significantly depending on location. For example Radio Clyde, which launched on December 31, 1973, quickly established a solid audience and was able to claim earlier than many of its contemporaries that more of its local population listened to it than any other station in Scotland.

For the first few years, the size of the industry was gauged by local stations' own estimates and IBA attitudinal research. The first industry survey, JICRAR, was launched in 1976. This was succeeded by the present RAJAR survey which began in autumn 1992. Initially, independent radio audience research followed the ITV pattern measuring audience size. Meanwhile, the IBA periodically commissioned qualitative studies to understand listener attitudes.

## Listening Share According to Station Type



\* Other comprises foreign stations, BBC World Service, pirate stations, Restricted Service Licences, Cable, Satellite and associated similar types **Source:** RAJAR Quarter 2, 2003

### Early growth confirmed

The first JICRAR survey in 1975/6 showed that 12 million adults a week listened to one of 18 ILR stations on air for an average of ten to twelve and a half hours a week. These listeners' demographic profile was closer to the demographic profile of the local area and younger than the BBC radio's. Early on, ILR listeners showed a strong preference for local news and content over national, IBA studies revealed.

1977/8 may have been a year of uncertainty for the industry – with little known about the future pattern for contract issuing or even whether the IBA would still exist beyond 1981 – but it was a good year for audience growth. Results of the first national and simultaneous JICRAR survey conducted in May 1977 showed ILR was listened to by 13.5 million adults a week.

By spring 1980, ILR's weekly reach was 52% in ILR areas – ahead of Radio 1 whose reach was 47% where people were also able to hear ILR. Weekly audiences rose to 14.5 million and weekly listening hours 13 hours, 45 minutes. Independent radio's audience was a broad cross-section of society – 53% were aged 35 plus and 52% were male. Attempts to measure radio audiences on a regional basis proved unsuccessful with uncertainty about the effectiveness of a revised research methodology and questions concerning the reliability of the findings. The good news, however, was that by 1985/6, 22.5 million UK adults were regularly tuning into ILR.

### Growth fed by choice

Audience growth enjoyed a further and significant boost by the development of new station formats. Until the late Eighties, output was dominated by broad appeal, music-based entertainment. The split frequencies initiative introduced the concept of new formats targeting specific demographic groups. The arrival of the incrementals took this a step further with the first 'niche' services, such as Jazz FM, ethnic station Choice and dance station Kiss.

Throughout the Nineties, independent radio audiences continued to grow as additional listening choices provided new reasons to tune in. The first national commercial station, Classic FM, secured an audience of 4.2 million within months of launch. Virgin 1215, meanwhile, attracted three million listeners by the time of its first RAJAR research.

Between 1992 and 1998, commercial radio significantly increased its share of all radio listening in the UK. Commercial radio listening accounted for around 38% of all radio listening back in 1992; this had increased by 25% by the late Nineties. In 1995, commercial radio overtook BBC radio for the first time accounting for more than 50% of radio listening. In 1997, commercial radio led the BBC throughout the year and in the second quarter of 1998, commercial radio's audience share again hit a new record – 51.1%.

### Interrupted uninterrupted growth

Then, in 1999, RAJAR altered the methodology used to calculate UK radio audiences. A new-look diary was introduced. The way diaries were distributed and who filled them in was also changed. The result was a sharp increase in recorded listening figures. Up until the change, RAJAR had tracked an average 800 million listening hours each week. Afterwards this increased to one billion listening hours a week. The idea was that RAJAR was now able to include listening previously unrecorded by the old method.

Another by-product of the change, however, was that listening to BBC stations rose ahead of listening to commercial radio. Commercial radio's overall share of listening – which for the previous five years had risen rapidly to eventually overtake the BBC – slumped back. By 2003, BBC radio accounted for 52.1% of radio listening while commercial stations accounted for 44.9% (RAJAR Q2, 2003).

Views differ on the causes of this. Some suggest it is a direct result of the methodology change, others that it is a reflection of BBC radio's stronger branding and the benefits of cross-promoting stations on BBC TV services. Another theory is that commercial stations have ceded too readily older listeners – those aged 35+ and, in particular those aged 55+ – to BBC radio, notably, BBC Radio 2 thanks to commercial radio's preference for pop formats.

Whatever the cause, however, it is worth noting that over the past five years total radio listening – in other words, the total number of people listening to radio in the UK – and the length of time people listen to radio continues to rise. Commercial radio's share of listening may have declined, but in absolute numbers it is still accounting for a growing number of radio listening hours. One theory is that listening to radio is getting more popular at certain times of the day – notably, weekday daytime as radio at work becomes more acceptable, and weekday evenings.

Meanwhile, commercial radio continues to dominate listening among the target markets most often targeted by advertisers – notably, 15 to 24 year-old listening. According to RAJAR data from Q2 2003, four in five 15-24s tune into commercial radio on a weekly basis, taking a strong 64.4% share of total listening within this age group. The number of children listening had also reached record levels – 6.6 million, and share of listening for this age group was up 5% to 75.6%.

### How we listen has also changed

While audiences have grown, they have also become more sophisticated. Listening patterns have also evolved.

As early as the mid-Seventies it became clear that independent radio audiences were particularly high at breakfast time, between 7am and 9am, peaking between 8am and 8.30am, then declining towards lunchtime. Afternoon audiences initially remained level before building significantly at drive time and declining to relatively low levels during the evening. However, the evolving spectrum of commercial radio station formats has had an effect on this. By the late Nineties much local FM station output had shifted – away from the traditional music: speech mix that characterised local station output in the Seventies – in favour of a subtler range of formats for different target groups. As a result, audiences became more discerning.



There is now widespread acceptance of the one-to-one relationship between a listener and their favourite radio station and the role radio plays in people's lives. It is an accompaniment to a lifestyle – more so than any other medium. According to 'Listening

2000', a report published jointly by the RAU and the Broadcast Standards Commission in 2000, radio continues to play an important role in people's lives acting as company or as a background to other events.

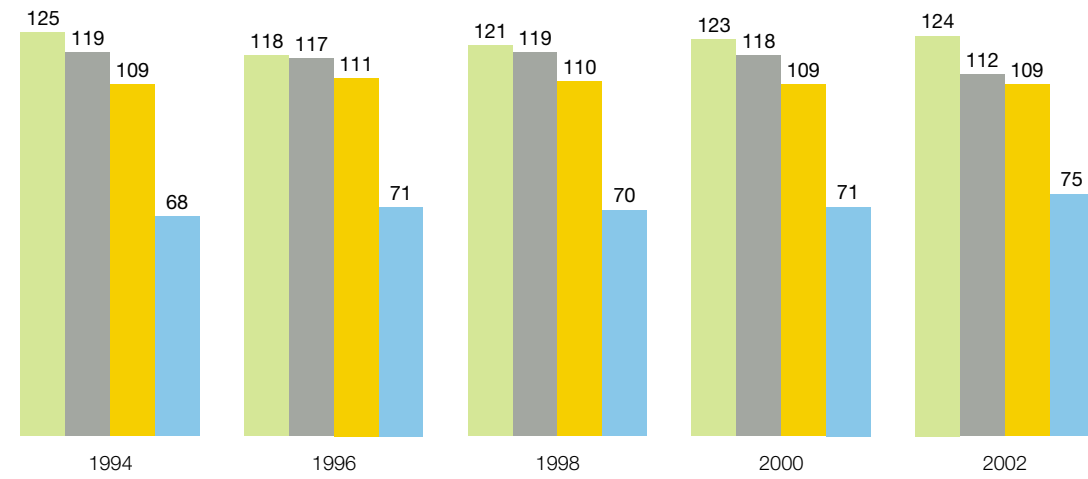
The profile of radio listening remains evenly split between men and women, according to 'Sex Appeal', a study based on findings by Stimulating World Research presented to the Radio Festival in 2002. But women are less likely to listen to the radio for as long as men; men are more likely to listen to speech stations; and more men listen to the radio during the day and on Saturday afternoons, the same study found – suggesting that both genders could be better serviced if the differences in their radio consumption are better understood.

## Independent Radio Audience Profile

Weekly reach profile index

- Ages 15 – 24
- Ages 25 – 34
- Ages 35 – 54
- Ages 55+

Source: RAJAR





# Commercial Radio Advertising

Commercial radio has become the fastest growing advertising medium. It was not always so. Advertiser interest was slow to take off in the Seventies – only once the Independent Local Radio (ILR) network provided national coverage did commercial radio's share of display advertising revenue really start to rise. Growth was further accelerated in the Nineties with the licensing of three national commercial stations, a new generation of regional stations and further local and niche format services.



## Growth punctuated by 'economic crisis'

In the early weeks following independent radio's birth in 1973, advertising revenue exceeded expectations. The early flush was soon tempered by economic crisis – by December 1973, the first ILR stations were struggling as revenue crashed by 80%. LBC was hit hardest because of its costly all-speech format. The IBA worked closely with the London broadcaster to restructure the business and attract new finances. By March 1974, LBC was on a steadier keel although there was only a slight improvement in ILR station advertising revenues.

Advertisers first began to take to the fledgling medium with the establishment of the first radio industry audience research system, JICRAR. At this time, much of what was known about radio listeners and their listening habits was anecdotal or through IBA-commissioned studies. It was therefore estimated that 40% of the population was being reached in primary ILR areas (the franchise areas as distinct from the Total Survey Areas, or TSAs) and that the audience was predominantly male.

IBA research findings shaped much understanding of the medium at the time: not only did the Authority monitor contract-holders' performance, it also operated local advisory committees to monitor local station activity and compiled regular reports on station performance. Early IBA studies identified that British households typically contain a greater number of radio sets than people. JICRAR, which was jointly funded by the ILR companies and the BBC, provided the first clear understanding of how many people listened to which stations and how their listening varied throughout the day. It was an essential tool for advertisers.

Gradual loosening of early advertising regulations encouraged gradual growth during the recessionary Seventies. For example in 1976, rules were amended to allow the transfer of commercial airtime from one clock hour to another when desirable for programme presentation up to a maximum of 12 minutes of advertising per hour. A year later, ILR's net advertising revenue for the 12 months to March 31, 1977 was estimated to be worth £14.5 million. Further inroads were made when ITV technicians went on strike in 1979 and ILR companies cashed in. By the time 19 ILR stations were on air in 1979/80, all were operating profitably and total net advertising revenue was £33 million.

Recession in the early Eighties once more slowed independent radio revenue growth. However, stations responded positively – with renewed attempts to control costs and target local advertisers. The net effect of this stood ILR in good stead when, in 1983, breakfast TV launched. National sales were further boosted in the mid-Eighties by the grouping together of a number of ILR sales departments to form regional airtime sales points. Experiments to run regional JICRAR sweeps – to enable stations and advertisers to make direct comparisons with regional ITV companies' audiences – were less successful, however.

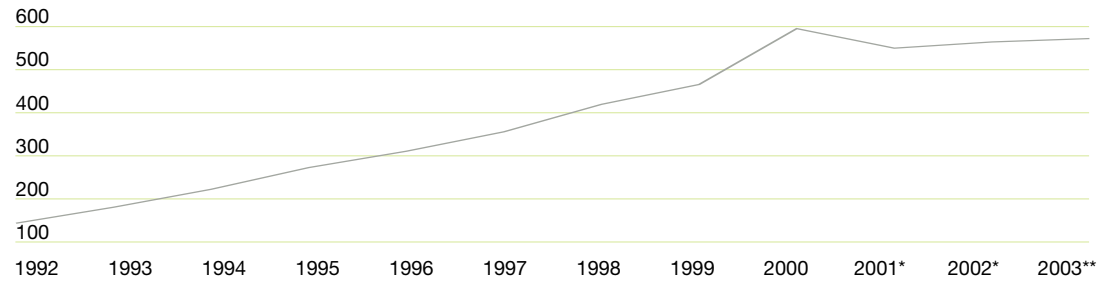
## Total Revenue Growth

### Revenue (£ Millions)

\* Total revenue figures calculated by RAB include sponsorship and promotions revenue from 2001 onwards.

\*\* 2003 figure calculated on moving annual total for 12 months to June 2003

Source: RAB



### Emergence of the 'network sell'

In 1984, ILR's first significant collaborative network venture – the Network Chart Show – enjoyed impressive audience growth and became a focus for advertisers. The IBA soon allowed it to be sponsored in a move which encouraged national advertisers to the medium. By the late Eighties, most stations bar Capital Radio were sold nationally by sales houses. The larger stations relied more heavily on national revenue.

Record revenue levels were achieved in 1987/8 when total independent radio revenue topped £93 million. Revenue growth continued, fuelled by the split frequency initiative and dramatic increase in new contracts issued in the final months of the IBA's existence. By 1989/90, radio was officially designated the 'fastest growing UK medium' – for the second year running.

1992 was a pivotal year for the medium. It began with more than 130 commercial stations in the marketplace, a share of just over one third of all radio listening and a reputation as the '2% medium'. The launch that year of a unified marketing strategy under the auspices of the Radio Advertising Bureau (RAB), the launch of the first national commercial station – Classic FM – and the launch of a new audience research system, RAJAR, contributed to a quantum leap in the industry's fortunes.

Many advertisers subsequently reappraised the medium and revenue rose sharply. Between 1991 and 1996, IR revenue increased by a staggering 139%. In 1996, annual investment by advertisers in commercial radio broke through £300 million for the first time. By the end of the year, commercial radio revenue was up 14% year on year to £308.8 million.

### From 2% to 5% medium

Commercial radio revenue the year to June 1998 totalled £389.9 million, according to the RAB. RAB analysis also showed that national advertising revenue was driving rapid growth. Revenue from national advertisers in the second quarter of 1998 ran at 37.2% ahead of the same period in 1997 with national campaigns accounting for an estimated 56% of total commercial radio revenue – the comparative figure in 1991 was 49%. Meanwhile, the number of new brands on IR stations in Quarter 2 was up 28%, year on year.

The type of advertisers using commercial radio had also evolved. New brands were moving into commercial radio and existing advertisers continue to raise their spend. The highest spenders in the second quarter of 1998 were BT with £2.4 million – up 55% on the same quarter the previous year; the Central Office of Information with £2.1 million and Ford with £1.8 million. Renault spend over £520,000 on radio for the launch of the new Clio and Blockbuster Entertainment was back in the 'top 10' having returned to radio after switching much of its media budget to other media.

Retail and mail order remain the biggest categories spending on radio. Amongst the faster-growing product category spenders are household appliances, food, pharmaceutical & toiletries, telecoms and cosmetics.

By 1998, commercial radio's share of display advertising revenue was rising faster than the total display advertising market was growing each year. The industry that endured the '2% medium' tag for more than a decade had achieved around 5% of total display advertising. The industry's increased share of advertising expenditure was matched by increased demand amongst advertiser for radio airtime and increased confidence in the medium. A RAB benchmarking survey examining advertiser attitudes revealed growing interest amongst brand owners in using the medium for strategic advertising solutions.

**Five years on...** Despite the tough economic conditions all media have suffered in recent years, commercial radio's share of UK advertising expenditure continues to grow. Commercial radio advertising revenue in 2002 was £511.2 million – a 6% increase year on year: quite an achievement in the light of the troubled fortunes of other media since the late Nineties.

A number of recent developments encouraged this. A re-structuring of commercial radio airtime sales following Capital Radio's unsuccessful attempt to buy Virgin Radio back in 1997 led to the demise of the old-style airtime sales agencies with different radio groups setting up their own dedicated sales units to sell airtime only on their own stations. This dramatically boosted the customer service available to media buyers purchasing radio airtime. According to research conducted by the RAB, commercial radio ranked fourth in terms of customer service by media buyers asked to rate the best medium to deal with in 1997. By 1999 commercial radio had risen to second position and by 2001 first – ahead of TV, newspapers, magazines and outdoor.

Other boosts to radio's credibility as an advertising medium came with the growing body of research into how radio works as a medium, including The Radio Multiplier Study published by RAB/Millward Brown in 2000, and the introduction of J-ET, an e-trading system developed to make radio advertising more accountable.

By 2003, radio accounted for 6.6% of total UK display advertising (for the year ending March 2003, according to the RAB). And commercial radio advertising revenue for that same 12 month period was estimated to be £513.3 million. After a sharp decline in 2001, expenditure had begun to creep back upwards driven by sponsorship (boosted by high profile deals with brands such as Kellogg's and Woolworth's attracted by the medium's flexibility); national advertising revenue was still down and local revenue flat, RAB reported. Yet radio was widely regarded to have 'held its own' during the advertising recession and in the light of this its importance as an advertising medium had grown rather than diminished.

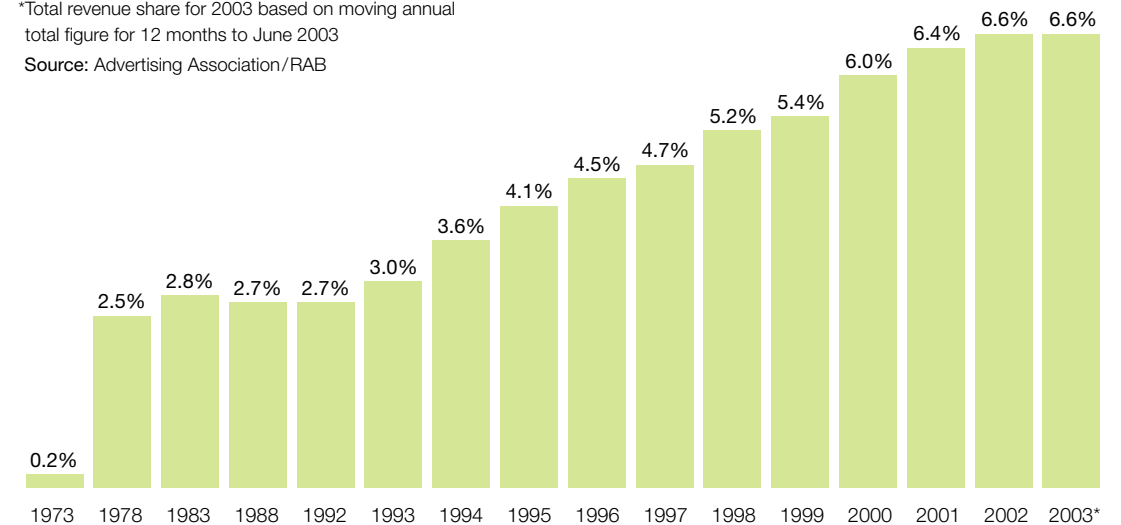


## Share of UK Advertising

Proportion of total UK display advertising

\*Total revenue share for 2003 based on moving annual total figure for 12 months to June 2003

Source: Advertising Association/RAB





## The Battle for Bandwidth

The development of commercial radio has often been influenced and constrained by the available broadcast bandwidth – or spectrum – in which commercial radio services can be broadcast. This spectrum is allocated to the industry regulator by Government. The relative emphasis on spectrum allocation, however, has changed as the commercial radio industry's ambitions have evolved.

When the first Independent Local Radio (ILR) stations launched, all contracts issued automatically included two frequencies – on mono AM medium wave and on stereo FM. For many years, stations simulcast the same programme service on each. As more stations came on air, the spectrum initially offered to Independent Radio (IR) was soon filled. There followed a process of negotiations between commercial radio, the BBC and Government over spectrum allocation which continues today.



### When AM was king

Back in 1973, initial plans were for independent services to be provided in 60 localities providing coverage of around 65% of UK population covered on high frequency VHF (FM) by day and night supported by a medium frequency MW service reaching up to 70% by day and 25% by night. Spectrum resources available to IR were limited, but the first 19 ILR stations benefited from good quality frequencies used as intensively as possible.

At the time, FM was relatively undeveloped and AM medium wave was the dominant listening medium. Stations were marketed heavily on their AM frequencies – in Capital Radio's case: 'Capital 194'. FM frequencies were generally only available to ILR between 96.1 and 97.6 MHz. However, MW frequencies were becoming severely congested. Frequency allocation throughout Europe was reviewed in 1974/5 by the International Telecommunications Union, and this allowed for many more transmitters in Europe – and thus, more interference at night.

Independent radio stations were launched into frequency spectrum previously used by the BBC. BBC local radio, conceived in the late Sixties, was initially broadcast on FM only. Early consumer response, however, was below expectations so the BBC extended local radio broadcasting to MW. Many of the frequencies used by the first ILR stations and BBC local radio had previously been used by the old regional BBC Home Service which was replaced by BBC Radio 4 in 1967. Since then, the BBC has gradually relinquished some frequencies which have been passed to the commercial sector.

### The shift to FM

A number of important developments came in the 1980s. First, the re-shuffling of a number of commercial and BBC local radio services to refocus and better organise existing frequency allocation. Also at this time, nearly all ILR stations were moved into two 1.5 MHz sections of the spectrum, including the new band between 102 and 103.5 MHz. Third, commercial stations were allowed to start broadcasting different services on their AM and FM frequencies for the first time in 1988.

The BBC moved Radio 1 onto FM in 1988 when it began simulcasting. This decision, taken by Government and the BBC in the late Eighties, focused provision of FM coverage on Radios 1 and 4. It allowed Government to free two national AM frequency packages for the new Radio Authority (RAu) to license – which in due course were used by Virgin Radio and Talk Radio as well as a new BBC service, Radio 5. A further new sub-band of spectrum (100 – 102 MHz) was released by Government. This was used by the RAu for the licence now held by Classic FM. However, by using the frequencies in a different way from the BBC – that is, by not insisting on near 100% coverage –

the spectrum has also been used for many further services (mainly regional) which together cover more than 50% of the UK population. Even so, all of this left the BBC with four national FM networks compared with IR's one.

Throughout the Eighties, the IBA lobbied hard for more FM spectrum to be allocated to independent stations. By the decade's end, FM allocation of local frequencies was split 50:50 between BBC and IR. Under the RAu, the great majority of new IR station development was on FM and it was the licensing of stations such as Jazz, Kiss and Melody that finally established FM listening in the UK in the Nineties.

### New spectrum, new stations

The development of national commercial radio in the early Nineties was driven by Government-approved allocation of one national FM and two national AM frequencies. In 1996, spectrum between 105 and 108 MHz was also made available to commercial radio. Later that year, the Government re-assigned to the RAu 225 kHz – possibly for a further national commercial station. A wide consultation process followed, although tentative plans for a proposed fourth national commercial station using the frequency were dropped following detailed technical investigations.

By the late Nineties, the FM spectrum was still loosely 'sub-banded' into different portions which are then made available for different types of service. The effective management of these 'sub-bands' was – and still is – critical to ensure the best use of available spectrum. Planning of new services must be done with careful consideration paid to existing commercial and BBC radio services, and the flexibility to develop future plans. For this reason, a centralised approach to radio spectrum planning continues with commercial radio planning co-ordinated by a single body, until late 2003 – the RAu, and through national and international co-ordination.

Planning must also take into account the varying potential of different frequencies and the potential dangers posed by interference with other transmissions. Not all frequencies are the same quality – when considering new services, licensees and licensor must carefully consider the trade-off between frequency and investment: poorer frequencies will cover less area of a given power, but can offer an opportunity otherwise would not in practice exist at all.

With the large number of licensees and applicants and the ever present pressure on spectrum it has become increasingly important for the licensing body to explain the limitations and potential of any given frequency and quantify interference levels and offer clear advice for applicants, who have to take responsibility for preparing realistic business plans.

### Digital's dawning – and beyond

The framework for the introduction and regulation of digital audio broadcasting (DAB) was set in the 1996 Broadcasting Act. The BBC had already begun to build an initial 27 transmitter national network in preparation for the arrival of domestic digital radio receivers. Commercial radio companies were also involved in experimental DAB transmissions and services. Then the 1996 Act provided for the RAu to issue local commercial radio multiplex licences, and a single national commercial radio multiplex licence to operate alongside a BBC national multiplex. The national commercial multiplex licence was awarded in March 1998 to the Digital One consortium; the first local multiplex licence was awarded to CE Digital in Birmingham a year later. At the time of writing, the RAu was due to have awarded 46 local multiplex licences by the end of its existence in late 2003.

The 2003 Communications Act included additional provisions for a new generation of digital multiplexes that were neither radio nor TV specific. It proposed sound/video plus data hybrid multiplexes which could be introduced should additional spectrum become available. The possible use of re-allocated L-Band Spectrum and/or some additional VHF bandwidth previously set aside for business-to-business services was under discussion in the closing months of 2003. The RAu and the Radiocommunications Agency jointly issued a consultation document, but decisions as to how and when to use any additional spectrum would become matters for Ofcom to decide.





## 'Access Radio'

Access radio (now termed Community Radio under the Communications Act 2003) has long had its grassroots champions. Yet for many years, lobbyists such as the Community Radio Association (now Community Media Association, or CMA) and the Radio Authority (RAu) could not agree on a way forward. The RAu believed its RSL licensing strategy had provided a significant contribution to community radio, and pointed out that ILR stations – some of them very small and very local – already served their communities. The question was: how much further could community-level licensing go?

### 'Not for profit radio'

The RAu championed the setting up of an 'Access Radio' pilot scheme. The aim was to give ordinary members of the public access to radio. The ethos behind this was that this should be achieved by licensing stations in a new sector: 'not-for profit radio'. In other words, this would be a new style of radio service for which audience response rather than audience size mattered most. The aim was not to create new competition for existing Independent Local Radio (ILR) stations but to provide audiences with something different. Such radio services should be easily accessible, cheap, iconoclastic, challenging and enable the ordinary members of the public listening to and involved in their running social gains that public service or commercial radio could not provide.

The RAu made its proposal to Government in the form of a submission to the DCMS and DTI in June 2000. This was followed by a period of industry consultation. The Government sanctioned the setting up of pilot schemes; the RAu went on to license 16 services – 15 for one year, one for three months.

### Licensing commences

In May 2001 the RAu invited letters of intent from parties interested in running an Access Radio station: it received 200. In August 2001, 15 groups were selected to take part in its Access Radio Pilot Project (altogether there would be 16 stations, one group operated two stations). The following November Professor Anthony Everitt, former secretary-general of the Arts Council, was appointed to evaluate the scheme. He set out to assess to what extent each group was able to deliver on the promises made in its licence as well as consider how Access Radio might be licensed, regulated, funded, promoted and organised on a permanent basis in the future. The evaluation received financial backing from the Calouste Gulbenkian Foundation.

The agreed definition for an Access Radio station under the pilot scheme was a station run as a small neighbourhood project of local community initiative, or serving a community of interest. It would have to deliver some form of social gain to participants or demonstrate a public service aim and, ideally, incorporate some form of training initiative. It could only be funded partially from commercial sources with funding from public sources such as from a local council, lottery funding, European grant or regeneration fund also allowed. And it could not have shared ownership or operational input with any commercial, ILR station.

The 15 groups chosen spanned all four of the home nations, rural and urban areas, services for ethnic minorities in the Asian and Afro-Caribbean communities, a wide range of age groups from children to older people, religious sections, and a range of financial models. Almost all had previously held RSL licences. Some groups had a pre-existing infrastructure, some did not. Some were run in partnership by more than one organisation.

The first three radio stations to go 'live' under the scheme went on air in March 2002: Cross Rhythms City Radio, a Christian station for Stoke on Trent; Angel Community Radio in Havant targeting over-60s and Bradford Community Broadcasting, an inner city initiative targeting disadvantaged communities, were each awarded a licence to broadcast for one year. In August 2002, 15 stations were on air and licensed for a one year period, with one short (3 month) project to follow in September.

While some groups suffered funding problems and others battled with technical difficulties, Professor Everitt concluded that the pilot projects gave hundreds of local volunteers the chance to become broadcasters, and produced real social gains for their communities as well as some lively radio. He added: "I have little doubt that, if it is introduced, Access Radio will be one of the most important cultural developments in this country for many years."

### Access Radio: the way ahead

The main findings of Professor Everitt's evaluation included recommendations that Access Radio should be introduced as a 'third tier' of radio within the UK; that such stations should have access to professional expertise in administration, fund-raising and community liaison; and that an Access Radio station should normally be permitted to receive up to half of its income from advertising and sales and sponsorship. Professor Everitt also made clear his view that safeguards should be introduced to ensure that Access Radio did not compete directly against local commercial stations – either in terms of programming or commercially. And he advised that close controls would be needed to oversee funding and fund-raising.

Despite this endorsement, however, many issues remained unresolved. Some local commercial stations feared it as a threat. CMA campaigners who had lobbied for community radio for more than 20 years questioned just where the funding for these new stations would come from – annual grants were one suggestion made by Professor Everitt; European social fund, national lottery or regeneration budgets were another possible source. At the time of writing, despite culture secretary Tessa Jowell's enthusiastic backing, no access radio fund existed and the next Treasury spending review was not now due until July 2004. Meanwhile, residual fears remained of allowing ordinary people simply to go live, on radio.

The RAu openly acknowledged core funding was one of the biggest problems faced by those participating in its pilot scheme. Those who tried to raise commercial funding struggled while others didn't want it at all. Yet despite all of this, in its final weeks the RAu was confident it was handing over to Ofcom a convincing case for the further development of Access Radio on a permanent basis. Whether Ofcom would share this enthusiasm remained to be seen.





# Epilogue

In autumn 2003 the Radio Authority (RAu) was preparing to hand over responsibility to Ofcom for an industry even the most far-sighted could never have envisaged at independent radio's inception just 30 years before.

When it took over from the IBA 13 years earlier, the RAu became responsible for an industry made up of just 80 UK Independent Radio franchises. In late 2003 it handed over responsibility for three national and 272 local analogue services – the final one of which was due to have been licensed by November 2003; one national digital commercial radio multiplex and 45 – soon to be 46 – local digital multiplexes carrying more than 300 commercial digital radio services. And that's not to mention an RSL licensing programme which had issued over 4,400 short-term RSLs – the predicted figure for 2003 alone was 492 – and around 100 long-term RSLs which at that time were on air.

Over the same period commercial radio grew from a 'less than 2%' medium to one accounting for 6.6% of national UK display advertising revenue. By mid-2003, 31.4 million adults were tuning into commercial radio each week (RAJAR Q2, 2003). Meanwhile, commercial stations were on track to achieve their highest ever annual revenue from advertising – in excess of £513 million.

Meanwhile, the RAu had overseen the creation of a whole new, proposed third tier of 'not-for-profit radio stations' which Professor Anthony Everitt in his March 2003 Access Radio evaluation described as: "potentially the most exciting cultural development of the decade". It also handed over to Ofcom policy recommendations on future AM licensing; recommendations on frequency planning for future FM licensing; recommendations on dealing with inconsistencies in existing FM coverage; and recommendations on future plans for digital radio.

By any measure, outgoing members of the RAu would hope, the regulator had fulfilled its remit.

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