



# Supporting growth in the radio (audio) sector

Response to Department for Culture, Media and  
Sport discussion paper

October 2012



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## Section 1

# Introduction

- 1.1 Ofcom welcomes the publication by the Department for Culture, Media and Sport (DCMS) of the discussion paper to accompany its seminar on the radio sector on 14 September 2012. We were also happy to contribute to and participate in that seminar.
- 1.2 In this response to the discussion paper, we set out some of the issues which we believe warrant consideration in the Communications Review. We do this with reference to possible market developments and possible associated regulatory changes.
- 1.3 This response does not attempt to suggest answers, but is intended as an aid to framing issues based on our research and experience of regulating the radio sector.
- 1.4 Radio continues to play an important part in many people's lives, reaching over 90% of the UK population every week. Despite operating in a changing environment – with a rise in alternative delivery methods and shifts in consumer expectation – it still delivers unique purposes and characteristics which people value.
- 1.5 Our duties in regard to this sector are set out in the Communications Act 2003<sup>1</sup>, and include:
  - our principal duty under section 3(1) to further the interests of citizens in relation to communications matters and to further the interests of consumers in relevant markets, where appropriate by promoting competition;
  - a duty under section 3(2) to secure the availability throughout the UK of a wide range of television and radio services which (taken as a whole) are both of high quality and calculated to appeal to a variety of tastes and interests;
- 1.6 Encouraging investment in the UK's creative sectors to support growth and innovation will bring benefits to consumers, making maximum use of the UK's creative strength.

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<sup>1</sup> <http://www.legislation.gov.uk/ukpga/2003/21/contents>

## Section 2

# The market context

2.1 In this section we briefly outline some key market metrics and trends as context for any discussion around growth in the radio and audio industries.

### There are more radio stations than ever before

2.2 There are 281 analogue local commercial radio stations operating (228 on FM and 53 on AM). Many of the services provided under separate licences share programming; for example, all of the 23 Gold services on AM carry the same programming. Shared programming across licences has increased in 2011 as the large groups have focused on the development of their brands. Global Radio's Heart and Capital brands have been rolled out to 30 local radio stations across the UK, while three Kiss FM and five Smooth Radio regional analogue stations were authorised by Ofcom to operate as nationally networked services, provided that the programming was made available via DAB nationally.

2.3 On analogue, there are three national commercial stations available (talkSPORT and Absolute Radio on AM, and Classic FM). These stations are also available on the Digital One DAB multiplex, which covers England, Scotland and Wales. In Northern Ireland, talkSPORT and Classic FM are available on the local DAB multiplex, alongside seven other services.

2.4 The number of digital-only services has grown over the past year, although the number of digital commercial stations available nationally has remained at 13. Absolute Radio has extended its brand in recent years, broadcasting on DAB as its primary platform. Absolute 60s and Absolute 70s launched during the second half of 2011, added to the number of Absolute stations which are available across much of the UK on local DAB multiplexes.

2.5 As well as the Digital One national multiplex, there are 46 local digital multiplexes. Services available on these tend to be simulcasts of local stations, quasi-national services (which are available on some multiplexes but not all) and digital-only services.

2.6 In addition, there were 201 community radio stations broadcasting at the start of September 2012. Community radio licences are awarded to small-scale operators working on a not-for-profit basis to serve local areas or specific communities. Stations offer a range of benefits to their target communities, including training, and volunteering opportunities.

**Figure 2.1 UK radio stations broadcasting on analogue, September 2012**

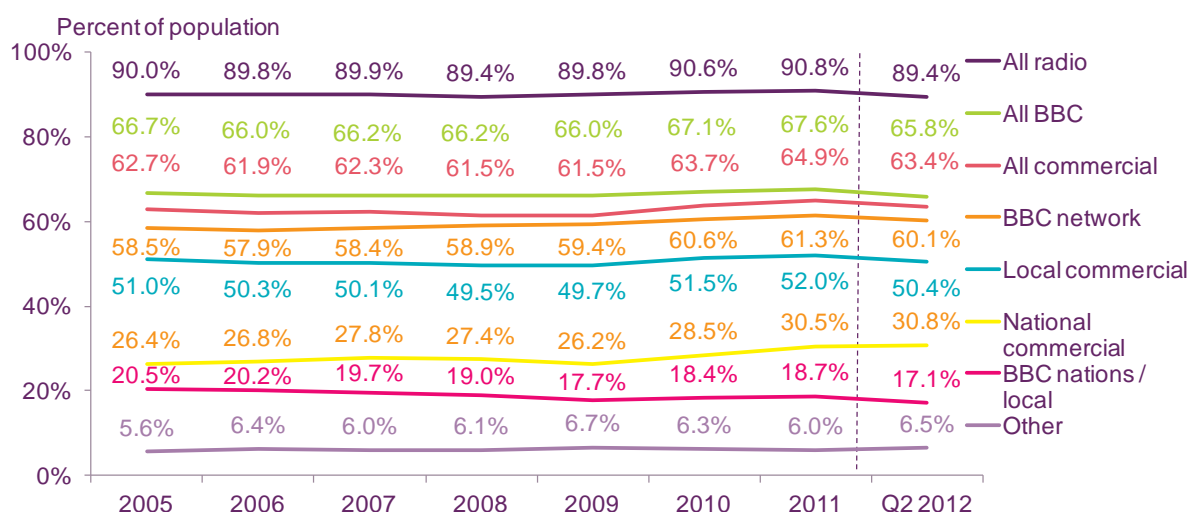
Type of station	AM	FM	AM/FM total
Local commercial	53	228	281
UK-wide commercial	2	1	3
BBC UK-wide networks	1	4	5
BBC local and nations	36	46	46
Community radio	6	195	201
<b>TOTAL</b>	<b>98</b>	<b>474</b>	<b>536</b>

Source: Ofcom, May 2012

### Radio listening remains at a very high level

- 2.7 In the twelve months to Q2 2012, average weekly reach for all radio stood at 89.4%, a decrease of 2.2pp on the record 91.6% of adults reached in the twelve months to Q1 2011. Radio reached 90.8% of the adult population in an average week in 2011, up 0.2pp on 2010.
- 2.8 The market has been relatively steady in terms of population reach in the past few years. One notable exception to this has been national commercial stations, which have continued to rise, up 2pp year on year to 30.5% in 2011.

**Figure 2.2 Reach of radio, by sector**

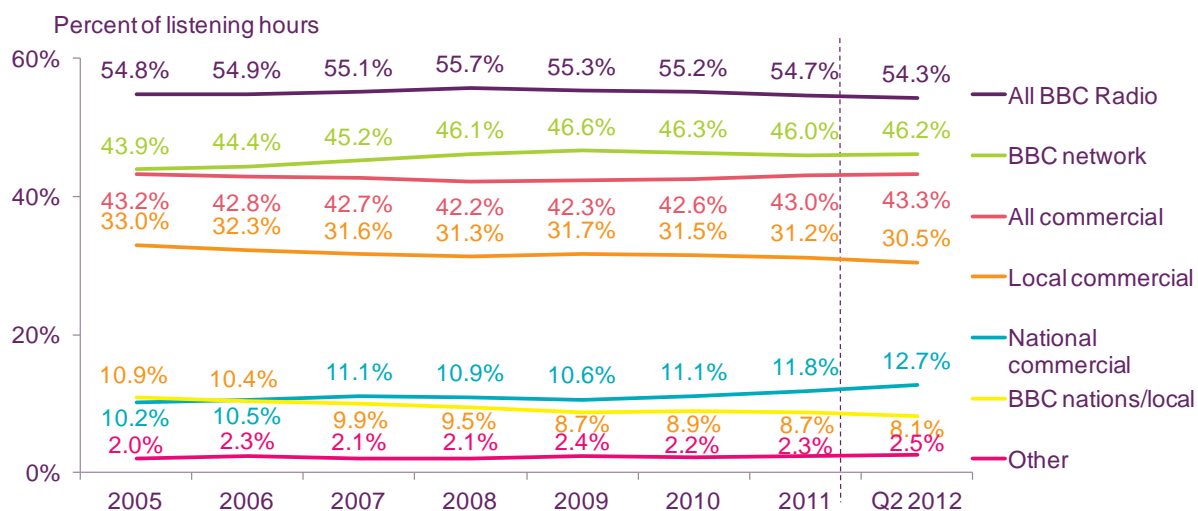


Source: RAJAR, All adults (15+), calendar years 2005-2011, Q2 2012

- 2.9 The share of listening hours for each sector has also remained broadly similar year on year, with the BBC accounting for 54.3% of listening in Q2 2012 and commercial stations claiming 43.3% of all radio listening. The national commercial sector has

seen consecutive increases in its share of listening since 2009, rising to 12.7% in Q2 2012

**Figure 2.3 Share of listening hours, by sector**

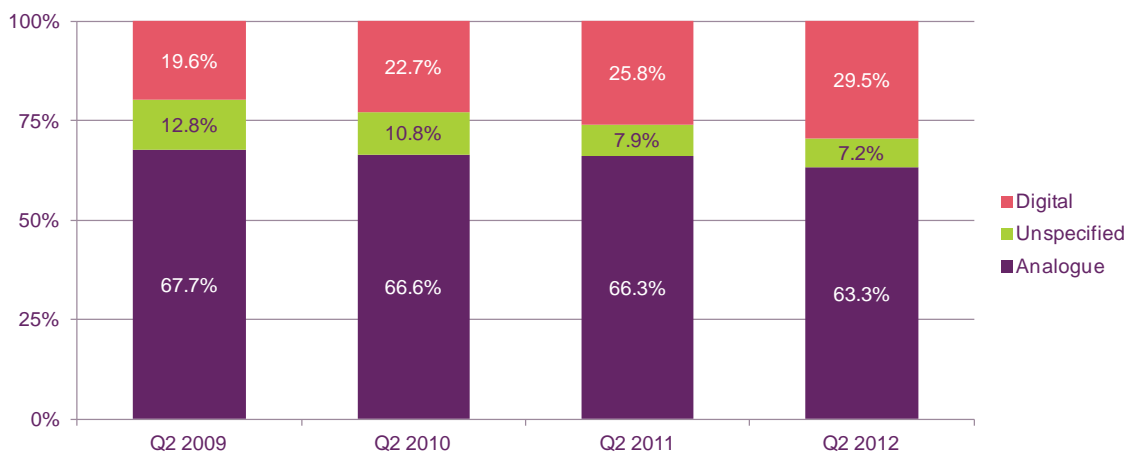


Source: RAJAR, All adults (15+), calendar years 2005-2011, Q2 2012

**Digital listening is increasing**

2.10 Listening to services on digital radio platforms (DAB, DTV and via the internet) accounted for three in ten (29.5%) of all radio hours in the twelve months to Q2 2012. For Q2 2012 alone, digital listening accounted for a slightly higher share of total listening hours (31.5%). Over the last four years, the proportion of digital listening has increased 10pp. Over the same period, analogue listening has fallen 4.4pp to 63.3%.

**Figure 2.4 Distribution of listening hours across analogue and digital platforms, the twelve months to Q2: 2009-2012**

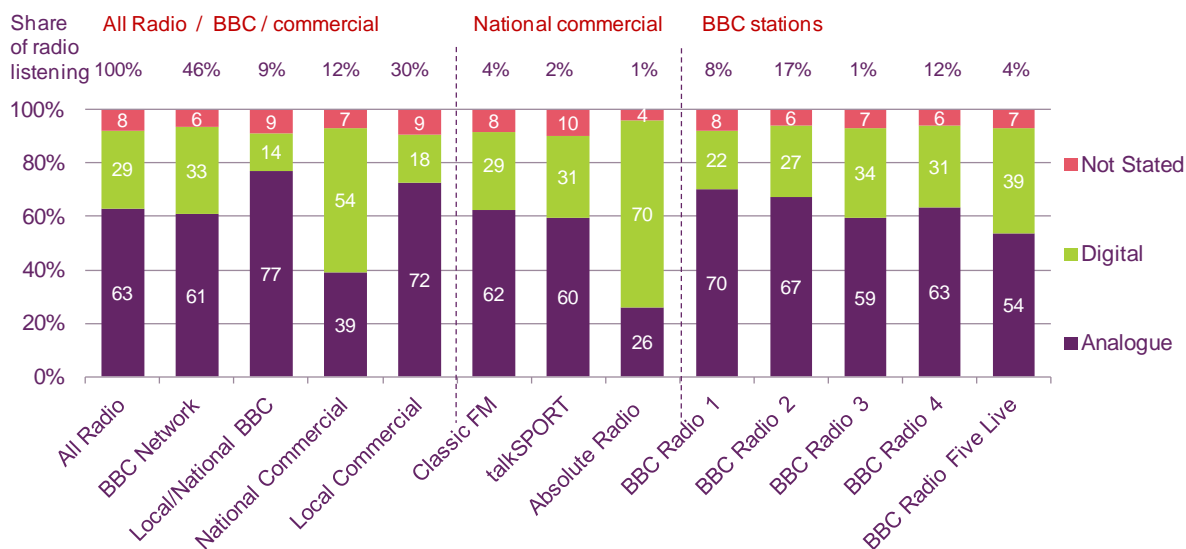


Source: RAJAR/ Ipsos MORI / RSMB. All adults (15+) Note: data relates to corresponding year ending each date shown. "Unspecified" relates to listening where the radio platform was not confirmed by the listener.

2.11 UK-wide BBC network stations and national commercial stations have the highest level of digital listening compared to other station types. National commercial

listening is aided by the many digital-only commercial services available. BBC local and national stations have the lowest level of digital listening (14%), with digital listening accounting for 18% of listening to local commercial stations.

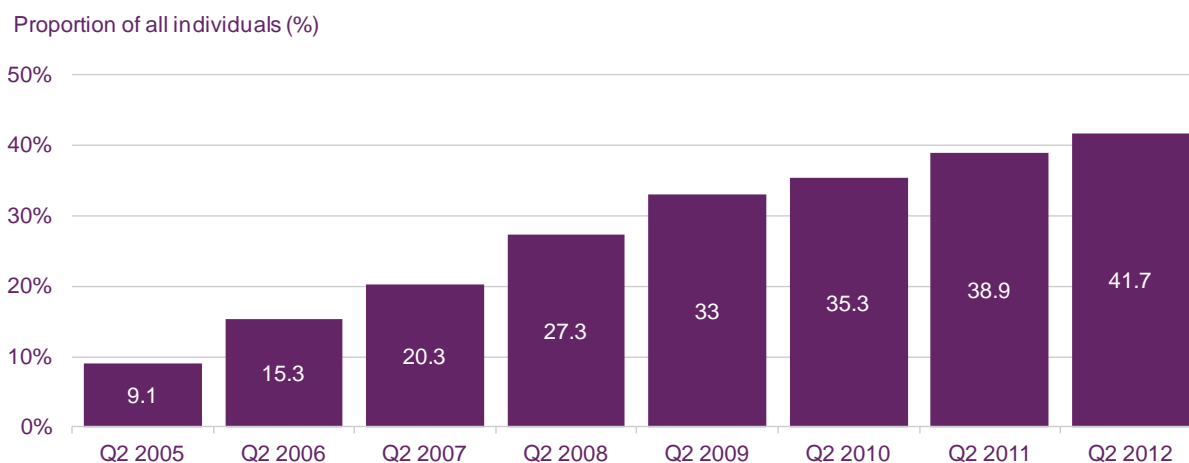
**Figure 2.5 Audience profiles and platform split, by sector and station: year ending Q1 2012**



Source: RAJAR, year ending Q1 2012, adults 15+

2.12 More than four in ten adults now claim to own a DAB set. Over the year to Q2 2012, adults claiming to have access in the home to a radio set with DAB capability rose to 41.7%. DAB radio sets are not the only way that consumers can listen to digital radio, and take-up of other devices has also increased.

**Figure 2.6 Ownership of DAB sets: Q2 2012**



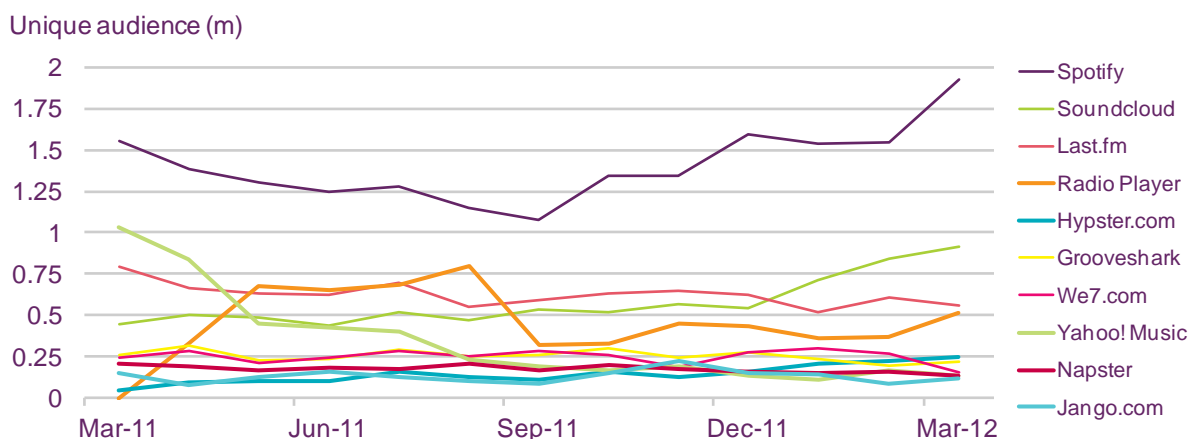
Source: RAJAR, Ipsos Mori, RSMB



## Audiences for online music streaming services are growing

2.13 Spotify, a free advertising-supported and paid subscription-based music streaming service, continues to command the highest unique audience of online streaming services, with year-on-year growth of 24%. Soundcloud also attracted more users between March 2011 and March 2012, increasing its unique audience by 105% to 918,000. Radioplayer, an online listening platform for radio which hosts BBC radio stations, commercial stations and community radio broadcasters, was launched in March 2011. Visits to the site peaked in August 2011 and in March 2012 Radioplayer attracted a unique audience of over 500,000.

**Figure 2.7 Unique audience of selected music streaming sites**

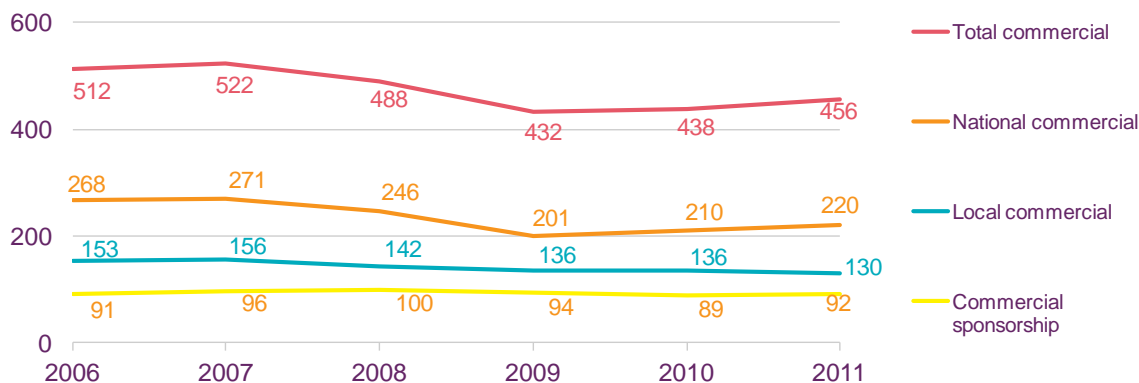


Source: UKOM / Nielsen. Month of April 2012, home and work panel. Applications included. Radio player data starts April 11

## Commercial radio revenues have recovered and stabilised following the 2008 – 2009 recession

2.14 Commercial radio revenues have increased in 2011, rising from £438m to £456m – growth of 4% year on year. National advertising sales and sponsorship are responsible for this increase, rising 4% to £220m and 2.8% to £92m respectively. Local advertising sales fell by 4.3% to £130m.

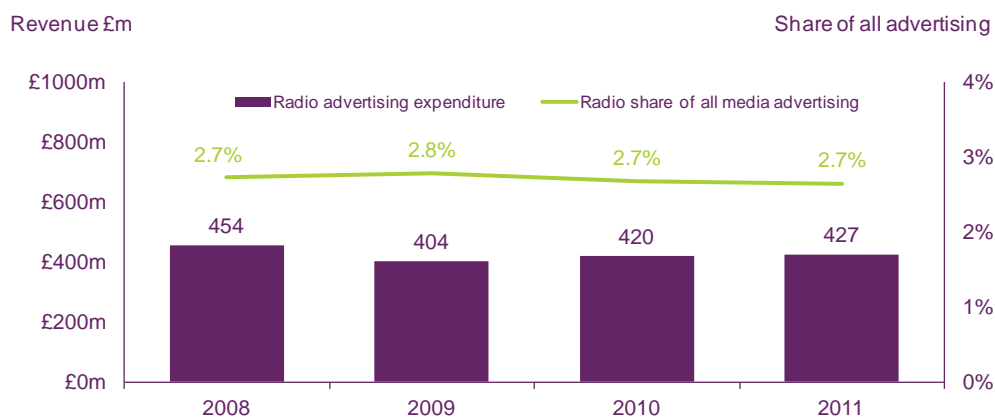
**Figure 2.8 UK commercial radio revenue**



Source: Ofcom / operator data 2006-2011

2.15 Radio advertising expenditure increased in 2011 but its share of display advertising remains stable. A nominal increase in radio advertising of 1.6% to £427m in 2011 represented the second consecutive year of annual growth. Total advertising expenditure in the UK also increased (by £418.7m to £16.1bn) and radio's share of this advertising spend in 2011 was stable at 2.7%.

**Figure 2.9 UK radio advertising spend and share of display advertising, 2008 – 2011**



Source: AA/Warc Expenditure Report. Figures are nominal.  
[www.warc.com/expenditurereport](http://www.warc.com/expenditurereport)

## Section 3

# Issues for consideration

- 3.1 In this section we give consideration as to whether the legislative and regulatory framework in place at present presents opportunities for growth in the sector, whilst continuing to deliver the public purposes which listeners value.
- 3.2 We have had particular regard to the issues that the DCMS discussion paper invited comment on, including the radio licensing regime, the regulation of formats and localness, the future of the community radio sector and digital switchover.

## Radio is still valued by listeners

- 3.3 As the discussion document notes, radio continues to be highly valued by listeners. This is supported not only by the continued levels of high listening to radio, but also by a significant body of previous research undertaken on behalf of Ofcom.
- 3.4 Audience research conducted for Ofcom in 2004 by MORI found that over 66% of respondents rated local news, local traffic & local travel and local weather as attributes that were important or very important in their decision to listen to a particular station. A separate study conducted on behalf of Ofcom by Knowledge Agency in 2005 found that 68% of radio listeners interviewed felt that the existence of radio stations that reflect the needs of local and regional communities was important<sup>2</sup>. And in 2007, qualitative research undertaken on behalf of Ofcom concluded that radio was perceived to be ideally suited to delivering time-critical local content<sup>3</sup>.
- 3.5 More recent studies have confirmed the importance of radio. Radio remains an important local medium even in the context of the wider media ecology. Research conducted in 2009 found that 69% of weekly listeners who were interviewed stated that local radio was important or very important to them (figure 3.1). A 2012 study found that although by far the most important source of local media is regional TV, local radio is the second most important source, with 14% (figure 3.2).

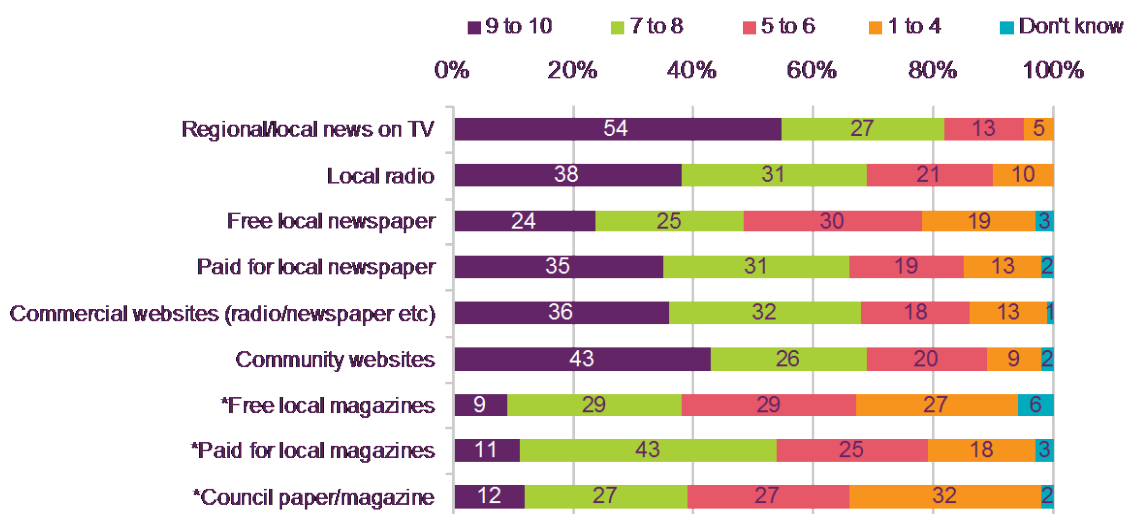
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<sup>2</sup> Radio – Preparing for the Future: Appendix A, produced for Ofcom by Knowledge Agency, 19 October 2005, available at

[http://stakeholders.ofcom.org.uk/binaries/consultations/radio\\_reviewp2/annexes/appendix\\_a.pdf](http://stakeholders.ofcom.org.uk/binaries/consultations/radio_reviewp2/annexes/appendix_a.pdf)

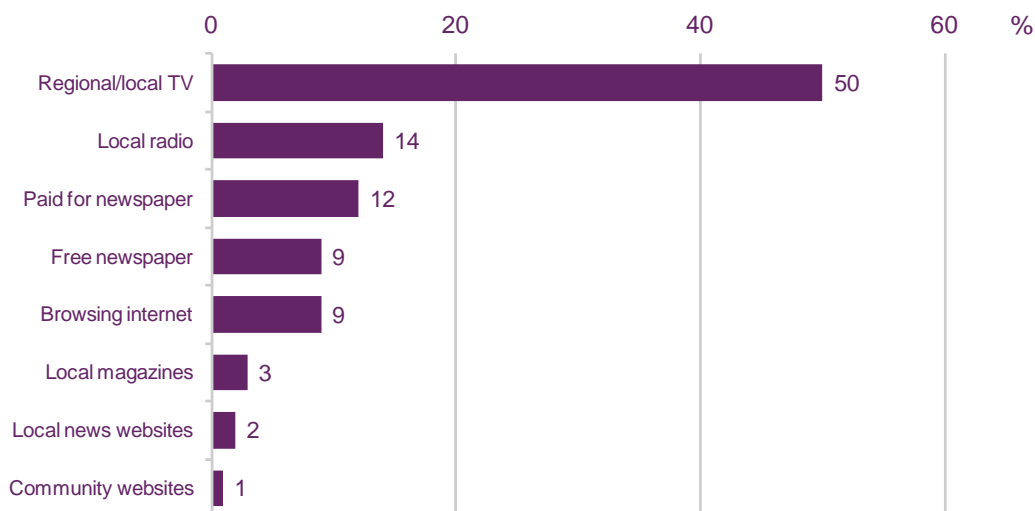
<sup>3</sup> Future of Radio: localness, 2007

**Figure 3.1 Importance of local and regional media, 2009**



Source: Ofcom local media research, April-May 2009

**Figure 3.2 Most important local media source, 2012**



Source: Ofcom local media survey, 2012

3.6 Any changes adopted as part of this process must therefore be made with due consideration to the key public purposes of local radio that listeners continue to value.

**Further analogue deregulation would suggest a move to auctioning licences**

3.7 The DCMS discussion document asks whether the Government should consider putting in place mechanisms such as auctions or PQR systems if there is further deregulation.

3.8 The current broadcasting regulatory framework requires licences to be awarded via a 'beauty contest' process. Local analogue commercial radio applications are judged against statutory criteria including catering for local tastes and interests and broadening choice.

- 3.9 Following changes brought about by the Digital Economy Act 2010, Ofcom adopted a series of deregulatory policies in its approach to commercial radio regulation. This included a significant reduction in the minimum number of local hours that stations have to produce. The new requirement (10 hours of local content, or 7 hours if enhanced local news is provided) has placed pressure on the beauty contest approach, removing a level of differentiation between applicants.
- 3.10 DCMS advances the argument that if further deregulation was to occur, the existing licensing regime based on beauty contests may have limited value, with no grounds to differentiate between applicants during the awards process.
- 3.11 An alternative in such a situation could be to auction licences (possibly within a minimum level of local programming required). Many of the other licences which Ofcom administers are awarded on this basis (for example the spectrum licences awarded to mobile operators). Moreover, auctioning should, in theory, reveal the market value of the spectrum in question, with the successful bidder being able to make effective commercial use of the licence. However, we sense that there is little appetite for this within the radio industry. This is an issue that Government may wish to explore further.

### **The analogue sector is unlikely to provide further growth**

- 3.12 The DCMS discussion document asks about barriers to future growth.
- 3.13 The traditional FM broadcasting band is practically full and has been for some time; there is no room for any more commercial stations and very little for community stations, despite ongoing demand from potential operators.
- 3.14 So while consolidation in the analogue sector may allow individual operators to save costs and present a stronger case to national advertisers, it is unlikely to lead to growth in jobs or improved services for listeners.
- 3.15 Analogue radio is also relatively limited in terms of additional functionality. The technology does not offer the added benefits that consumers are coming to expect from media in a digital world, such as text, graphics and cross-platform operability to enhance their listening experience.

### **A growth strategy for radio**

- 3.16 The aim of Government is to find ways to support growth in the radio (audio) sector. If this is to be achieved, then the radio industry needs room to innovate and grow. New platforms offer that growth opportunity, whether via IP – to bespoke internet radio devices, to apps on smartphones or to traditional computers – or via a digital broadcast platform. If the economic case can be made and the listening and coverage criteria are met, digital switchover offers the best opportunity for possible growth in a number of senses:
- DAB currently offers around twice the number of stations available on analogue in any area. This allows existing operators to offer new stations and brand extensions and for new entrants to offer increased choice to listeners. Digital stations such as BBC 6 Music, Absolute 80s or Jazz FM are becoming increasingly popular and switchover would ensure that all listeners have access to them.

- The statutory regulatory regime for digital radio is significantly lighter than for analogue radio. A switchover policy would therefore automatically result in significant deregulation (although some protection for localness provision may be required – see below).
- Ofcom will advertise a second national multiplex at the appropriate time, which will provide the opportunity for a further 10 to 12 stations across the UK.
- The inclusion of DAB+ in the minimum specification for receivers provides the opportunity for a migration path to enhanced technology and for the launch of further services as more capacity is released and costs reduced.
- Freed-up FM spectrum can be used for a wide range of new, small-scale innovative radio services, and there is no lack of demand from people wishing to operate such services. The increased availability of FM spectrum means that the barriers to entry could be lowered, allowing room for those who want to operate not for profit community services alongside those offering commercial services. While in the short-term these services will be on FM, we will continue to explore the options for digital migration of these services too.
- There may be other uses too for vacated FM spectrum, such as use for white-space technology devices, which could help to maximise the value of the spectrum and provide a growth opportunity for the UK economy.