The Communications Market 2012

3 Radio and audio

Contents

3.1 Key market developments in radio and audio

3.1.1 Industry metrics and summary

Figure 3.1 UK radio industry key metrics

UK radio industry	2006	2007	2008	2009	2010	2011
Weekly reach of radio (% of population)	89.8%	89.8%	89.5%	89.8%	90.6%	90.8%
Average weekly hours per head	21.2	20.6	20.1	19.8	20.1	20.4
BBC share of listening	54.7%	55.0%	55.7%	55.3%	55.2%	54.7%
Total industry revenue	£1,126m	£1,174m	£1,137m	£1,092m	£1,123m	£1,162m
Commercial revenue	£512m	£522m	£488m	£432m	£438m	£456m
BBC expenditure	£614m	£652m	£649m	£660m	£685m	£706m
Community radio revenue	-	-	£7.5m	£9m	£10m	£10.5m
Radio share of advertising spend	3.0%	2.9%	2.8%	2.8%	2.7%	2.7%
DAB digital radio take-up (households)	19.5%	27.3%%	32.1%	34.5%	38.2%	42.6%

Source: RAJAR (all adults age 15+), Ofcom calculations based on figures in BBC Annual Report and Accounts 2011/12 note 2c (www.bbc.co.uk/annualreport), AA/Warc, broadcasters. Revenue figures are nominal

This section explores some of the significant developments and trends in the UK radio market. The key findings are:

Total UK radio industry revenue was £1.16bn in 2011, up by 3.5% in a year. Recorded music revenue was £1.07bn for 2011. This compares with television industry revenue of £12.3bn for the same year.

Commercial radio revenue increased to £456m for 2011, the second consecutive year of growth. Growth was driven by national advertising revenues, which rose 4.0% to £220m.

On average, radio listeners in the UK listened to 22.5 hours of radio each week in 2011, up by 0.4 hours on 2010. Among 15-24s, despite a year on year increase of 0.7 hours between 2010 and 2011, over the past ten years time spent listening fell by 22%. In 2001, 15-24s listened to 21.8 hours of radio in the average week, in 2011 this stood at an average of 17 hours.

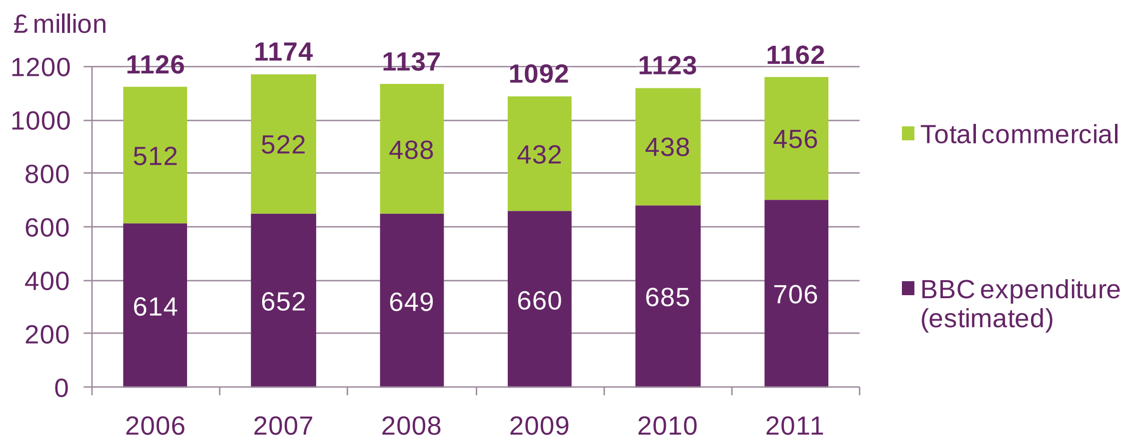
Digital listening has increased by 11pp over four years. Digital listening has increased at around 4pp each year for four years and accounted for 29.2% of listening in Q1 2012. Listening through a DAB set accounted for the largest component of digital listening, 19.1% of total hours, while digital TV and online accounted for a further 4.4% and 3.9%.

More than four in ten UK adults claim to own a DAB radio set. RAJAR figures show that 42.6% of UK adults claim to own a DAB set at home, a 4.4pp year-on-year increase.

3.1.2 Radio revenue up by 3.5% as commercial revenues increase

Radio industry income increased again in 2011, rising 3.5% to £1.16bn. This year's increase is driven by growth of 4.1% in commercial radio revenues, up from £438m to £456m. Estimated spending by the BBC on its radio services was £706m in 2011, up from £685m in 2010, a 3.1% increase. Figure 3.2 shows this increase; the second consecutive year of growth after a three-year period of falling revenues.

Figure 3.2 Radio industry revenue and spending: 2006-2011

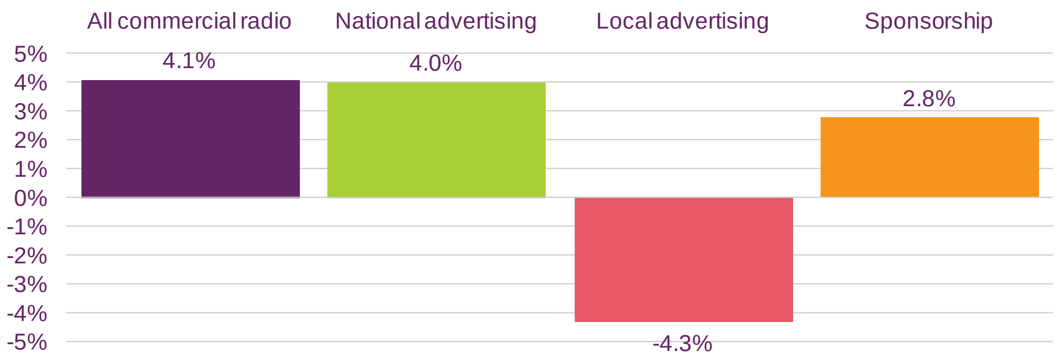


Source: Broadcasters
Note: BBC expenditure figures are estimated by Ofcom based on figures in Note 2c of the BBC Annual Report (www.bbc.co.uk/annualreport); figures in the chart are rounded and are nominal. Does not include community radio revenue.

4% increase in commercial revenue driven by national advertising and sponsorship revenues

The growth in total commercial revenue has resulted from the increase in national advertising revenues, which rose 4% to £220m. Sponsorship revenues have also risen; by £3m to £92m. Growth in these categories has more than offset the £6m drop to £130m in local advertising revenues.

Figure 3.3 Commercial revenue percentage change: 2010-2011



Source: Ofcom/operator data 2010-2011

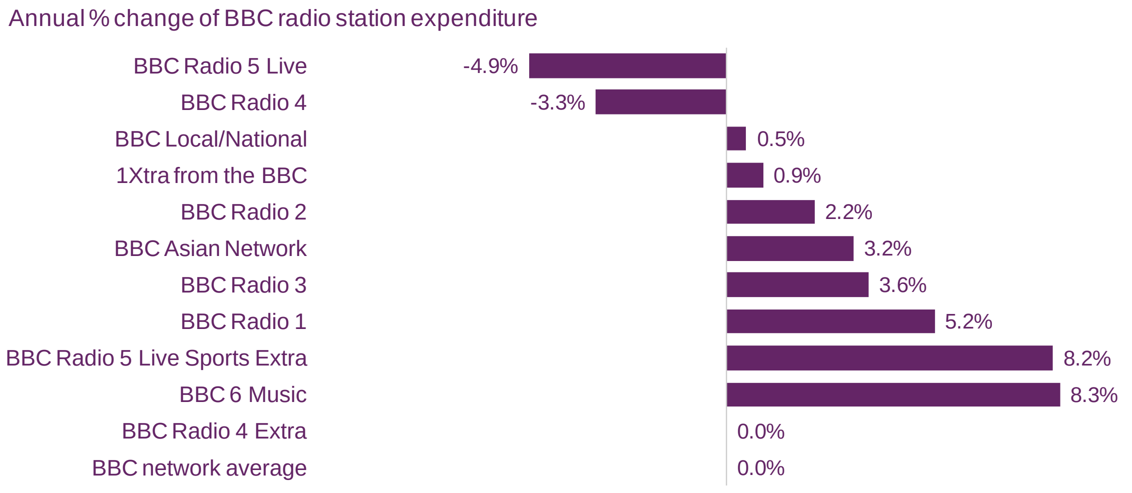
Increased expenditure on BBC digital-only stations offset by reduced spend on analogue

The BBC *Annual Report and Accounts* provides greater detail on individual station spend. Figure 3.4 shows the percentage change in operating expenditure of BBC radio services between the financial years ending in the first quarter of 2011 and 2012. As the data in Figure 3.4 are based on the financial year, they are not directly comparable to the data presented in Figure 3.2.

Excluding overheads, BBC radio spend per station as a whole was fairly static, showing a nominal year-on-year increase of £1.2m to stand at £640.1m for the year to Q1 2012. Taken as a whole, expenditure on digital-only stations rose 3.8% to £49.3m. Conversely, expenditure on the BBC's UK-wide stations was lower year on year; declining 0.5% to £348.8m.

Digital-only stations saw the largest increase, with BBC Radio 5 Live Sports Extra and BBC Music both seeing increases in expenditure above 8%. Expenditure on BBC Radio 5 Live and Radio 4 saw the largest declines, falling by 4.9% and 3.3% respectively.

Figure 3.4 BBC radio stations expenditure change: 2010-11 to 2011-12

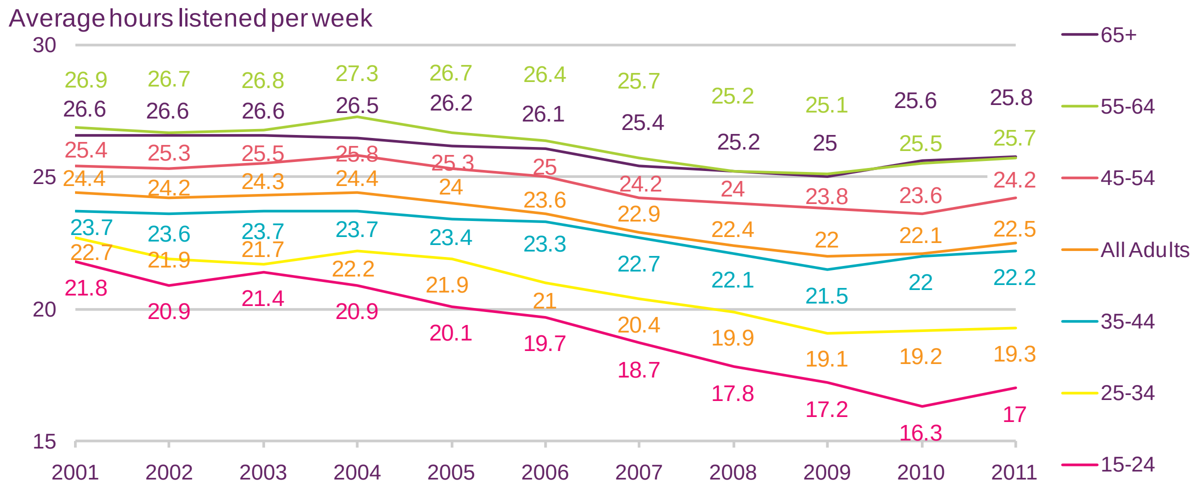


Source: BBC Annual Report 2011-12. Note that these are financial year figures, excluding BBC-wide overheads, and are therefore not directly comparable to those set out in Section 3.2.2. Figures are nominal. It should be noted that the percentage changes are based on operating expenditure for individual stations based on financial years and they do not include BBC-wide overheads; as such they are not comparable with the calendar year figures that are set out in Section 3.2.2.

3.1.3 Over ten years, the average time spent listening to the radio by 15-24s has fallen by 22%

Despite year-on-year increases among all age groups in 2011, over the past ten years the average time spent listening to the radio by all listeners has fallen by 7.8% to 22.5 hours. The decline in time spent listening is most pronounced for 15-24 year olds, dropping by 22% to stand at 17 hours in an average week in 2011. (Figure 3.5)

Figure 3.5 Listening hours, by age group: 2001-2011

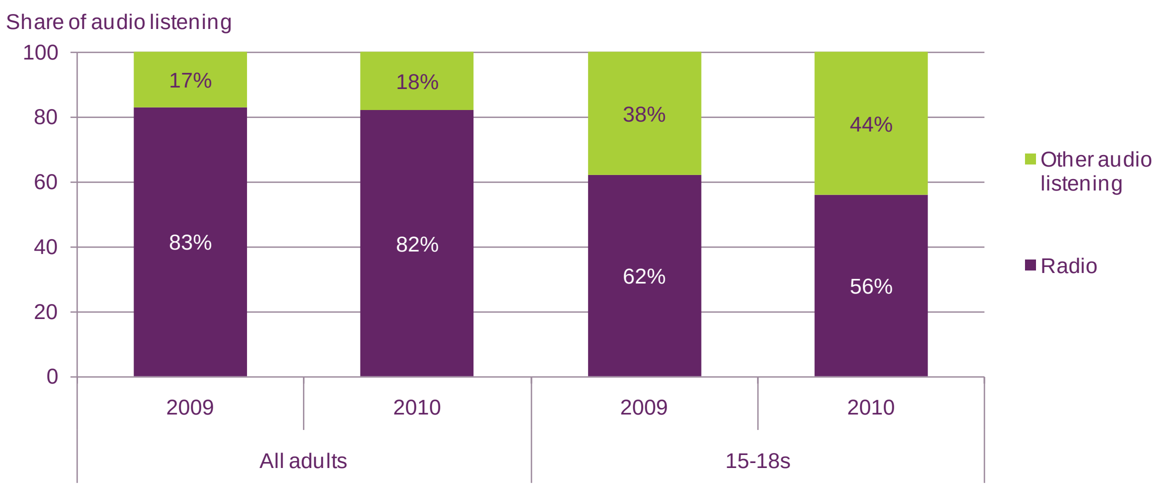


Source: RAJAR, All adults (15+), calendar years 2001-2011

The fall in time spent listening for the 15-24 age group can be explained by the multitude of other devices and services that are able to provide audio content, and their proliferation over the past ten years. Apple's iPod MP3 player was launched in 2001 and online streaming services continue to grow in popularity, particularly among the younger demographic groups. Figure 3.6 shows how much audio listening is accounted for by radio, comparing all adults and the 15-18 age group. Radio accounts for 26pp less 'share of ear' for 15-18s than for all adults.

When assessing these data, it should be noted that the study is based on data from 2009 and 2010. In 2009 'other audio' comprised only strict audio (i.e. with no video element) but in 2010 respondents were also prompted to include music which also had a video element (e.g. music on YouTube, TV music channels etc).

Figure 3.6 Radio's 'share of ear' 2009-2010, by all adults and 15-18s

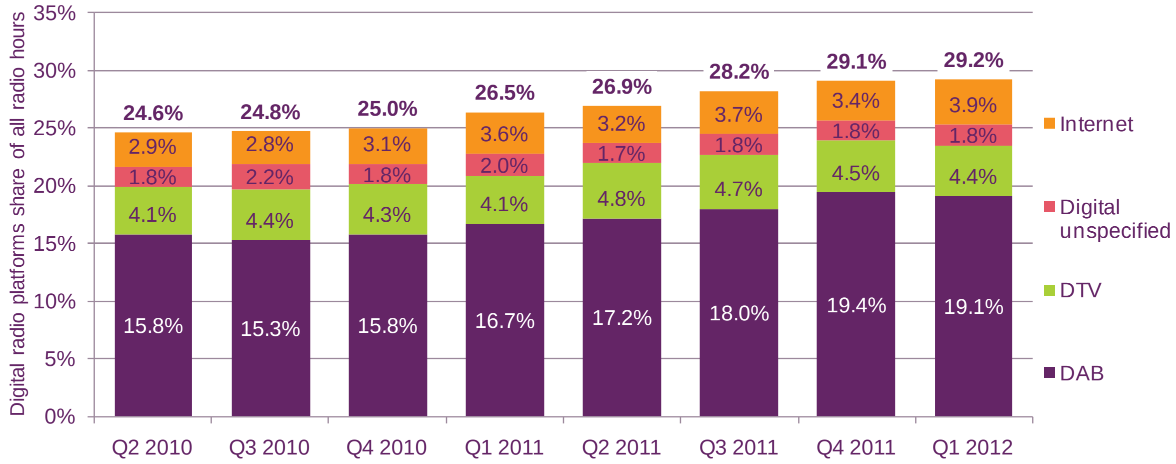


Source: BBC (A&M Audiences)/Brand Driver, Share of Ear research 2009, 2010

3.1.4 Listening though a digital platform increased by 2.7pp year on year in Q1 2012

Digital radio's share of listening hours in Q1 2012 was 2.7pp higher than the same quarter in 2011; accounting for 29.2% of all listening hours. Looking at the devices used to listen to digital radio, DAB sets were the most popular, accounting for 19.1% of all radio listening. The proportion of listening through a digital television has remained broadly stable over the past eight quarters (Figure 3.7), although listening online has increased, accounting for 3.9% of radio listening in Q1 2012.

Figure 3.7 Digital radio's share of radio listening: Q1 2012

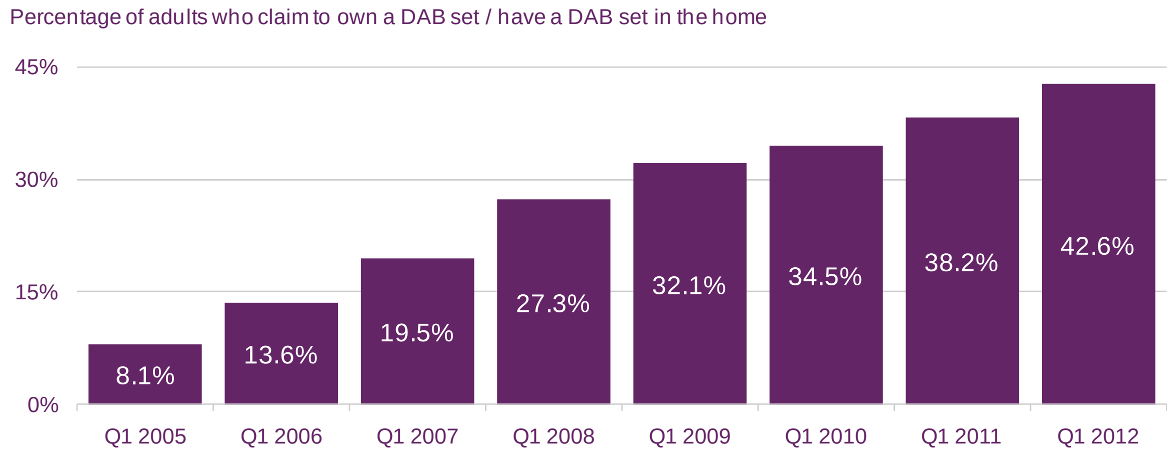


Source: RAJAR
Note: 'Digital unspecified' relates to listening to digital-only stations where the survey respondent has not specified the listening platform used. From Q1 2012 'Internet' has been reclassified as 'Online/Apps'

More than four in ten adults claim to own a DAB set

Over the year to Q1 2012, adults claiming to have access in the home to a radio set with DAB capability rose by 4.4pp to 42.6%.(Figure 3.8) DAB radio sets are not the only way that consumers can listen to digital radio, and take-up of other devices has also increased.

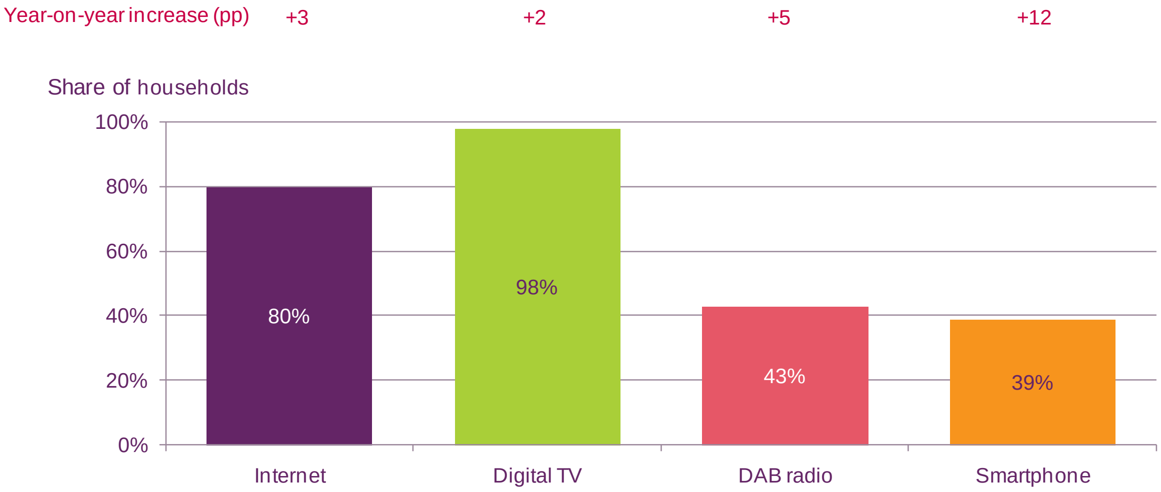
Figure 3.8 Ownership of DAB sets: Q1 2012



Source: RAJAR, Ipsos Mori, RSMB

Figure 3.9 shows the take-up of a range of platforms which consumers can use to listen to digital radio. By the end of Q1 2012, 98% of households had a digital television decoder connected to their main television set, capable of providing access to digital radio. Eighty per cent of households had an internet connection, allowing access to radio services online.

Figure 3.9 Take-up of equipment capable of receiving digital radio: Q1 2012



Source: Ofcom research, RAJAR Q1 2012

3.2 The radio and audio industries

3.2.1 Introduction

This section examines the characteristics of the UK radio and audio content industries. It focuses on commercial and community radio station revenue and BBC radio expenditure, together with the main players' audience shares.

Key points in this section include:

Total UK radio industry revenue was £1.16bn in 2011, up by 3.5% in a year. Commercial radio revenue increased to £456m for 2011, the second consecutive year of growth**.** Growth was driven by national advertising revenues, which rose 4.0% to £220m. This compares to TV industry revenue of £12.3bn for the same year.

The average income for a community radio station fell by 8.3% to £60,250. The main source of community radio income is grants (33% of average income), followed by advertising and sponsorship (26% of average income). Total revenue for the sector increased by 5% to £10.5m – driven by the increased number of community radio stations broadcasting.

Recorded music revenues fell by 4.4% in 2011. Revenues from digital music sales increased by 12%, but sales from physical music fell further than the rise from online sales. Digital sales accounted for 33% of recorded music revenue, a 7pp increase on 2010. Sales of singles increased by 10%, with almost all of these sales in digital format.

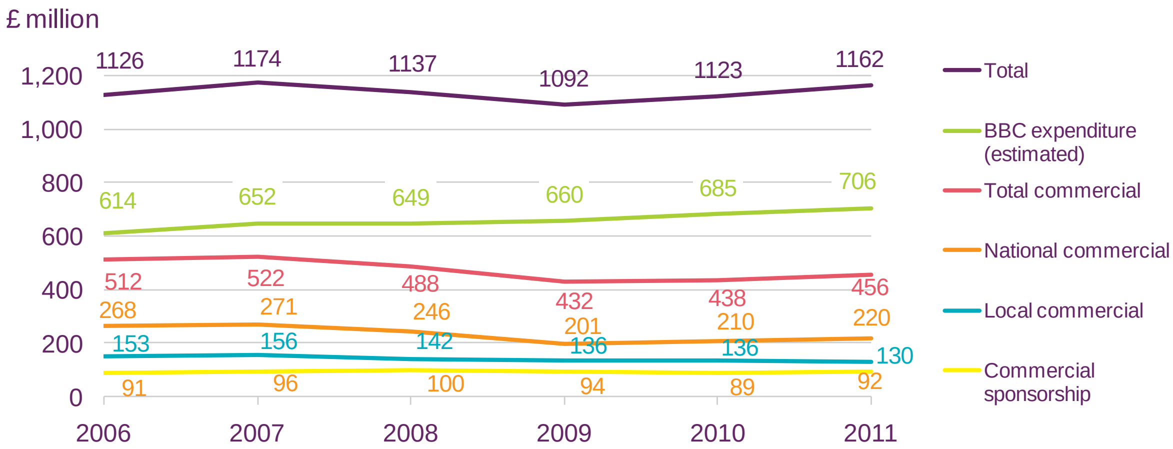
3.2.2 Radio industry revenues and expenditure

Radio revenue increased by 3.5% in 2011 to reach £1.16bn

We estimate that total radio industry income (commercial radio revenue and BBC expenditure on radio services) in 2011 stood at £1.16bn, up by 3.5% year on year, the second consecutive year of growth. Estimated spending by the BBC on its radio services was £706m in 2011, up from £685m in 2010.

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 3.10 UK commercial radio revenue and BBC radio spending



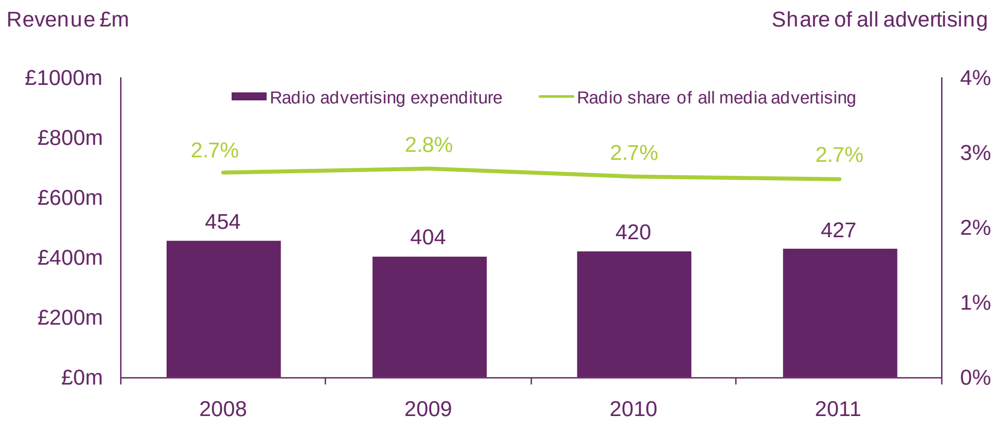
Source: Ofcom / operator data / BBC Annual Report 2006-2011
Note: BBC expenditure figures are estimated by Ofcom based on figures in Note 2c of the BBC Annual Report (www.bbc.co.uk/annualreport); figures in the chart are rounded and are nominal.

Radio advertising expenditure increased in 2011 but its share of display advertising remains stable

Radio advertising expenditure, as reported by the Advertising Association/Warc, showed a nominal increase of 1.6% to £427m in 2011. This is the second consecutive year of annual growth in radio advertising expenditure. 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%.

Note that the data set out in Figure 3.11 represent advertising expenditure sourced from the AA/Warc, whereas the advertising income data presented in Figure 3.10 are collected by Ofcom and represent advertising spend net of any production and agency fees.

Figure 3.11 UK radio advertising spend and share of display advertising: 2008-2011



Source: AA/Warc Expenditure Report. Figures are nominal.

Commercial radio revenue per listener increased by 22 pence in 2011

For the first time in three years, commercial revenue per listener has increased, rising 1.7% to £13.55. Figure 3.12 shows revenue per listener by dividing the total net broadcasting revenue by the average weekly listening reach. Commercial radio reach increased by 2.5% between 2010 and 2011, and total listening hours increased by 3.7%. Increases in listening are likely to be followed by increases in revenues as airtime sales, particularly at the national level, are based on the current number of impacts the commercial message makes on a given target audience.

Figure 3.12 Commercial radio revenue per listener

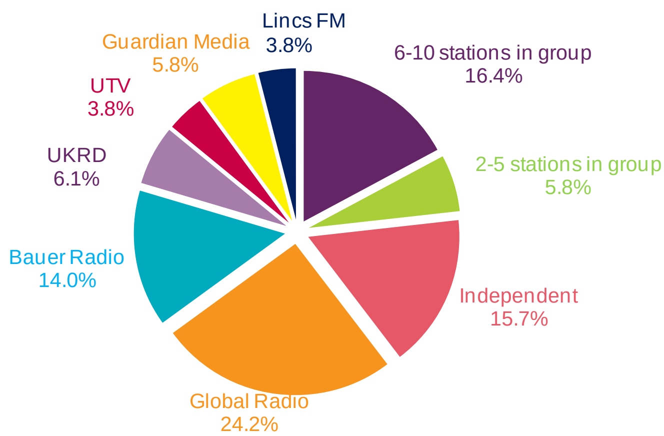
Source: Broadcasters/RAJAR 2006-2011. Figures are nominal.

3.2.3 Radio sector market shares in 2011

After the significant consolidation among commercial radio groups in recent years, there were no major ownership consolidations in 2011. In 2011, the industry focused on the development of umbrella brands among local commercial stations. Global Radio's Heart and Capital brands were rolled out to some 30 local radio stations across the UK, and GMG's Smooth Radio regional analogue stations were authorised to operate as nationally networked services. In June 2012, subject to regulatory review by the Office of Fair Trading, GMG Radio was acquired by Global Radio.

Global Radio is the largest group in the commercial radio market by number of FM and AM licences held, accounting for almost a quarter (24.2%) of all those in issue. It should be noted that the size of licences, as measured by the size of population each covers, varies considerably across the radio sector. Bauer Radio Group is the second largest, with 14% of all commercial analogue radio licences.

Figure 3.13 Number of commercial analogue licences owned, by group

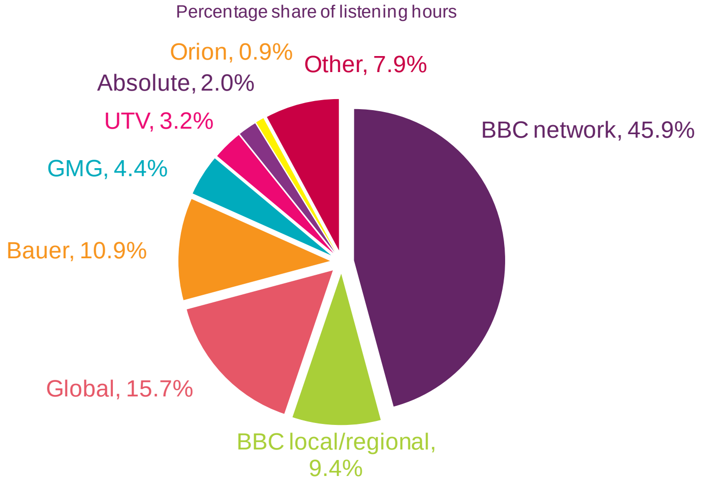


Source: Ofcom, April 2012

BBC radio services accounted for 55% of all radio listening in Q1 2012

The BBC's share of all radio listening was 55.4% in Q1 2012, in line with its share in earlier years. BBC network radio accounted for a 45.9% share, with BBC local and nations attracting a further 9.4%. Global Radio and Bauer Radio, the two largest commercial radio groups, were responsible for 26.6% of all radio listening in Q1 2012. This represents 59.5% of all commercial radio listening, a 3pp fall on Q1 2011.

Figure 3.14 Share of all radio listening hours: Q1 2012



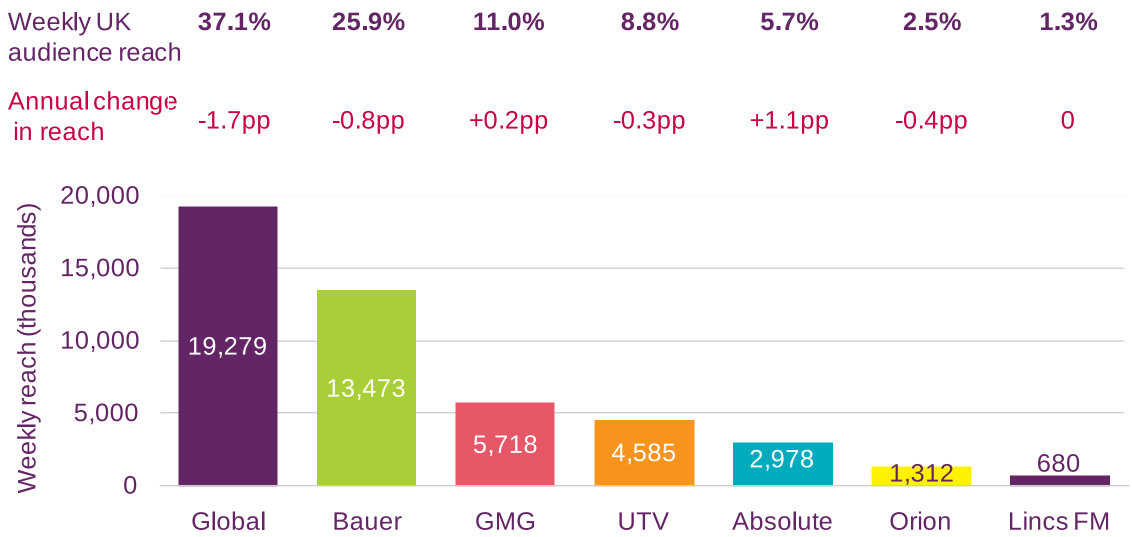
Source: RAJAR, (all adults 15+), Q1 2012, does not include community radio listening

Commercial radio reach fell by 2.1pp year on year

Commercial radio's weekly reach stood at 63.9% in Q1 2012, a 2.1pp fall from the same period in 2011. Within the commercial radio sector, national commercial stations' weekly reach rose by 3.6pp to 30.6%, and local commercial stations' weekly reach stood at 51.1%. Figure 3.15 shows that four of the seven largest commercial groups in the UK saw their reach fall in Q1 2012. The largest groups, Global Radio and Bauer, experienced the biggest falls. Global saw its reach fall 1.7pp to 37.1% (19.3 million adults) and Bauer saw a smaller percentage point difference of 0.8pp to 25.9%, (13.5 million adults).

Absolute Radio saw the largest increase of any group, experiencing a rise of 1.1pp. Absolute is now reaching almost 3 million adults on an average week. An additional 754,000 listeners tuned into an Absolute station in comparison with Q1 2011, an increase partly explained by the extension of the Absolute brand. Alongside the existing decade-themed radio stations in its portfolio, Absolute 60s and Absolute 70s were launched in the second half of 2011, together attracting 308,000 listeners in Q1 2012.

Figure 3.15 Commercial radio, by weekly audience reach: Q1 2012



Source: RAJAR, (all adults 15+), Q1 2012, does not include community radio listening

3.2.4 BBC radio services in 2011-12

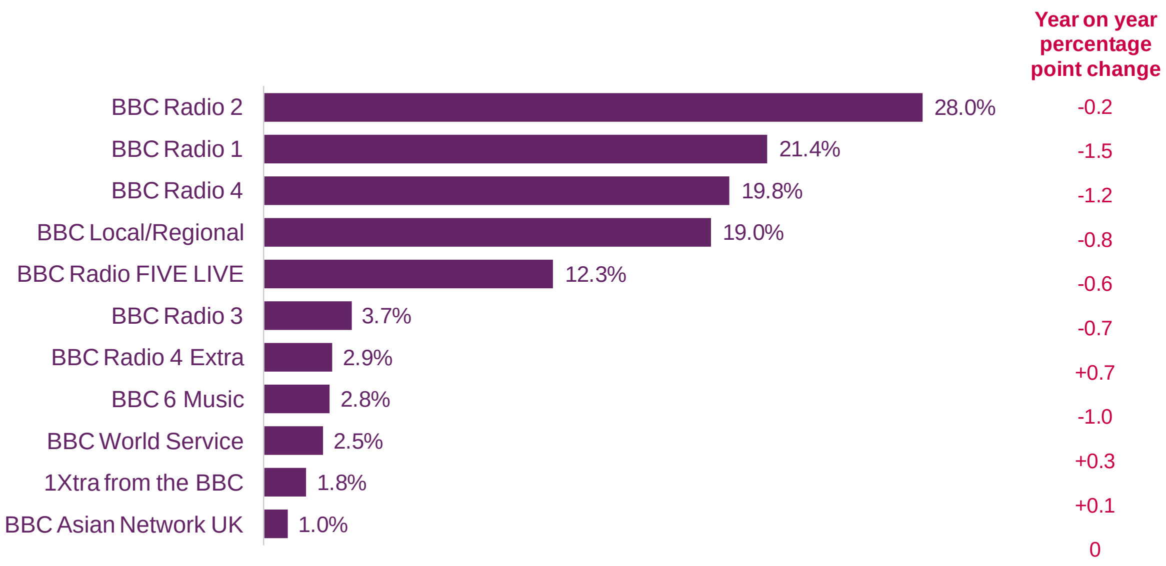
BBC Radio's 55.4% share of all radio listening in Q1 2012 was accompanied by a collective weekly reach of 66.6% of the adult population for the full year 2011. Excepting BBC-wide overheads, the services received £640.1m of funding in 2011-12. The BBC radio portfolio is made up of two components: BBC local and nations' stations, which include all BBC local and regional stations in England and Northern Ireland and the national stations for Scotland and Wales; and BBC network stations which cover the whole of the UK. Some BBC network stations are available exclusively on digital radio.

BBC Radio 2 remains the UK's most listened-to radio station

Despite a 0.2pp fall in reach, BBC Radio 2 attracted the most listeners of any station, reaching 28% of the UK population. BBC Radio 1 remains the second most popular station and also saw a decline in reach (1.5pp) to 21.4%.

The reach of digital stations BBC Radio 4 Extra and BBC 1Xtra rose year on year. BBC Radio 4 Extra, which changed its name from BBC 7 during 2011, saw the largest increase of all BBC stations (0.7pp). The collective reach of BBC local/nations stations fell by 0.8pp to 19%.

Figure 3.16 Weekly reach of BBC stations: Q1 2012



Source: RAJAR, all adults 15+, Q1 2012

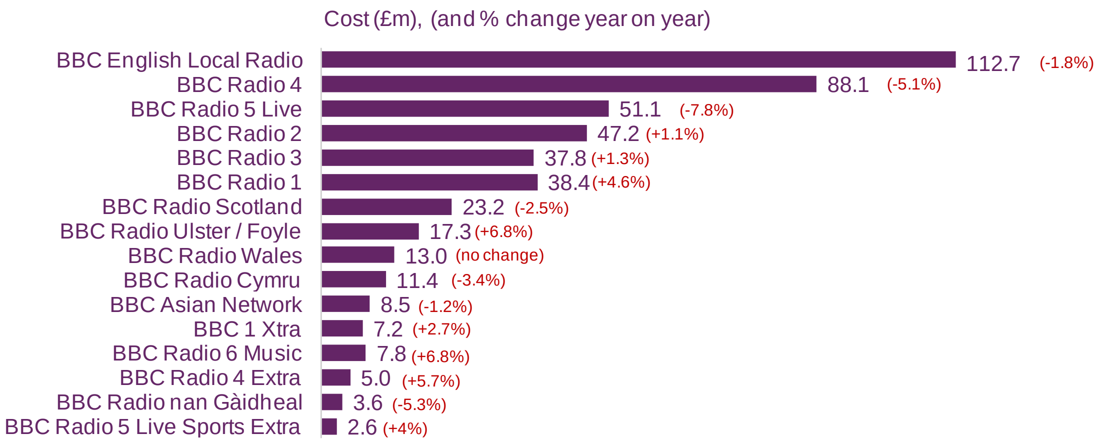
Expenditure on BBC Radio content fell 1.8% in 2011-12

BBC Radio content spend fell from £483.4m in 2010-11 to £474.9m in 2011-12, a decline of 1.8% over the period. BBC Radio 5 Live saw the largest fall in content spending with a 7.8% decrease to £51.1m. BBC 6 Music and Northern Ireland's Radio Ulster and Radio Foyle services saw the largest proportionate increases with increases of 6.8%.

As has been the case in previous years, BBC Radio 4 had the largest content spend of any individual BBC station, standing at £88.1m after a budget contraction of 5.1%. The lowest spend came from digital-only station BBC Radio 5 Live Sports Extra, at £2.6m.

Please note that the figures in Figure 3.17 cover radio content only; they exclude radio infrastructure, distribution expenditure and BBC-wide overheads.

Figure 3.17 BBC Radio stations' spend on radio content: 2011-12



Source: BBC Annual Report 2011-12

3.2.5 Radio licences

There are 296 analogue local commercial radio licences in issue (242 on FM and 54 on AM). Many of the services provided under these 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.

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.

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.

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.

There were 198 community radio stations broadcasting at the end of May 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. A total of 254 licences have been awarded over three licensing rounds (of these, 28 licences have subsequently been handed back). Ofcom's third round of community radio licensing commenced in April 2011, and 26 licences were awarded in the year to the end of May 2012. These were to applicants in the south-west of England and Wales. Applications for locations in Scotland and Northern Ireland are being considered.

Figure 3.18 UK radio stations broadcasting on analogue, May 2012

Type of station	AM	FM	AM/FM total
Local commercial	54	242	296
UK-wide commercial	2	1	3
BBC UK-wide networks	1	4	5
BBC local and nations	36	46	46
Community radio	6	192	198
TOTAL	**99**	**446**	**548**

Source: Ofcom, May 2012

3.2.6 Community radio

Community radio average income per station fell 8.3% in 2011 to £60,250

The main source of community radio income is grants from bodies including the Community Radio Fund, The Arts Council, the Ministry of Defence, local authorities and the National Lottery. Average (mean) income per station stood at £60,250 in 2011. This is 8.3% less than the estimated £65,750 per station in 2010. (Figure 3.19) The median income (the value at the mid-point in the distribution of incomes) is considerably lower than the average, as in previous years. This is because a small number of stations generate a significant proportion of the sector's income.

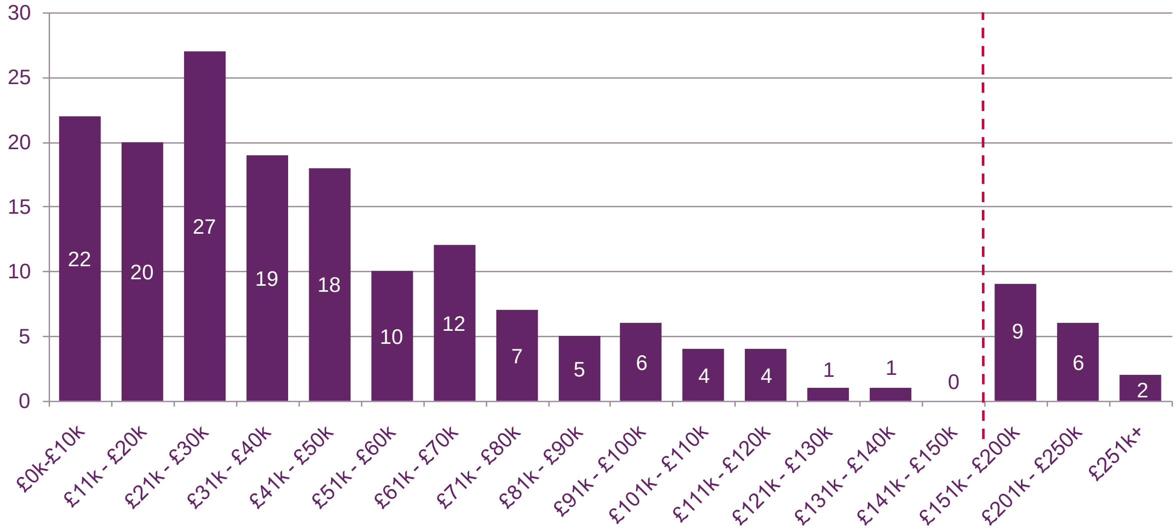
Figure 3.19 Average income for community radio stations: 2008-2011

Income	2008	2009	2010	2011
Average (mean) income	£84,000	£75,500 (-10.2%)	£65,750 (-12.9%)	£60,250 (-8.3%)
Median income	£53,750	£46,750 (-15.0%)	£42,500 (-7.14%)	£40,500 (-4.8%)

Source: Ofcom analysis of community broadcasters' returns
Note: Prior to 2011, the reported period for community radio stations covered the financial year. The reported period is now the calendar year and previous data have been adjusted to take account of this.

As Figure 3.20 shows, only two stations reported income in excess of £250,000 in 2011, although 17 stations reported income over £150,000. The majority of stations report a lower level of income, with 42 stations (24% of the 176 stations reporting in this period) reporting income of £20,000 or less. The general distribution of income levels is broadly similar to the previous reporting period, although there has been an increase in stations reporting income levels above £150,000 (17 in 2011 compared to 12 in 2010-11).

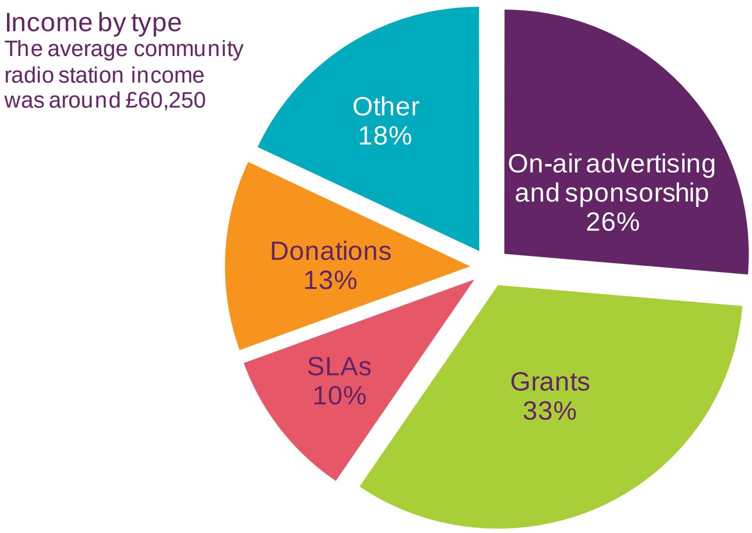
Figure 3.20 Distribution of total income levels across the community radio sector



Source: Ofcom analysis of community broadcasters' returns

Figure 3.21 shows the distribution of funding sources for the average station, although it should be noted that there can be quite a wide variation in these sources across operators. The share of total industry income originating from grants fell by 4pp year on year, accounting for 33% of all funds in 2011. The sale of on-air advertising and sponsorship accounted for 26% of income, 5pp more than in 2010 (21%). In real terms, this is a 12% increase, with income for this source rising from £14,250 to £16,000. The proportion of funding which originated from service level agreements, donations and other sources remained broadly similar year on year.[83]

Figure 3.21 Community radio income, by source



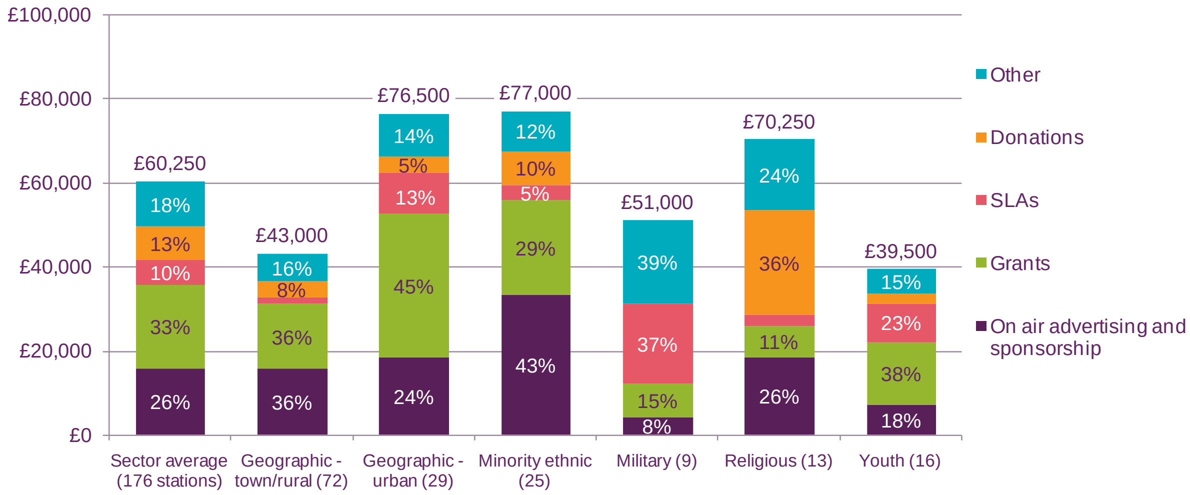
Source: Ofcom analysis of community broadcasters' returns

Looking at the average income and the sources of income by the type of community served shows how varied income levels and income sources are across the community radio sector.

[83] Service level agreements (SLAs) involve the stations broadcasting output of social benefit on behalf of other organisations, such as the local council, in return for funding.

Figure 3.22 shows that stations targeting minority ethnic communities receive most of their income (43%) from on-air advertising and sponsorship. This is a far higher proportion than the sector average of 26% for this income source. Donations feature prominently as a source of income for stations targeting their broadcasts at religious communities (36%).

Figure 3.22 Average income, by type of community served



Source: Ofcom analysis of community broadcasters' returns

Average community radio expenditure is higher than income

The average expenditure per station for the community radio sector in 2011 was higher than the average income. As is the case with the average income figures, it should be noted that there is a wide variation in the proportion of these types of expenditure across operators. Reported expenditure has been declining as income levels have fallen, indicating that stations have been cutting costs. For 2011, average expenditure declined by 4.1% to £64,250 and the median expenditure fell by 4.9%. (Figure 3.23)

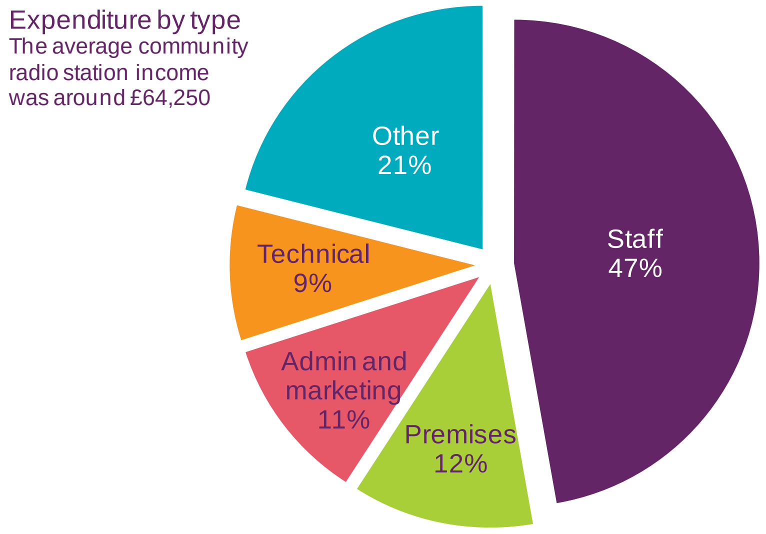
Figure 3.23 Average expenditure of community radio stations: 2008-2011

Expenditure	2008	2009	2010	2011
Average (mean) expenditure	£86,500	£76,500 (-11.4%)	£67,000 (-12.3%)	£64,250 (-4.1%)
Median expenditure	£55,000	£52,250 (-5.3%)	£43,000 (-17.5%)	£41,000 (-4.9%)

Source: Ofcom analysis of community broadcasters' returns
Note: Prior to 2011, the reported period for community radio stations covered the financial year. The reported period is now the calendar year and previous data have been adjusted to take account of this.

As in previous years, staff costs remain the most significant cost borne by community radio stations, accounting for 47% of total costs in 2011. (Figure 3.24) This is slightly lower than in 2010, where staff costs accounted for 51% of total spend. Of the 176 stations reporting in 2011, 48 did not employ any paid staff.

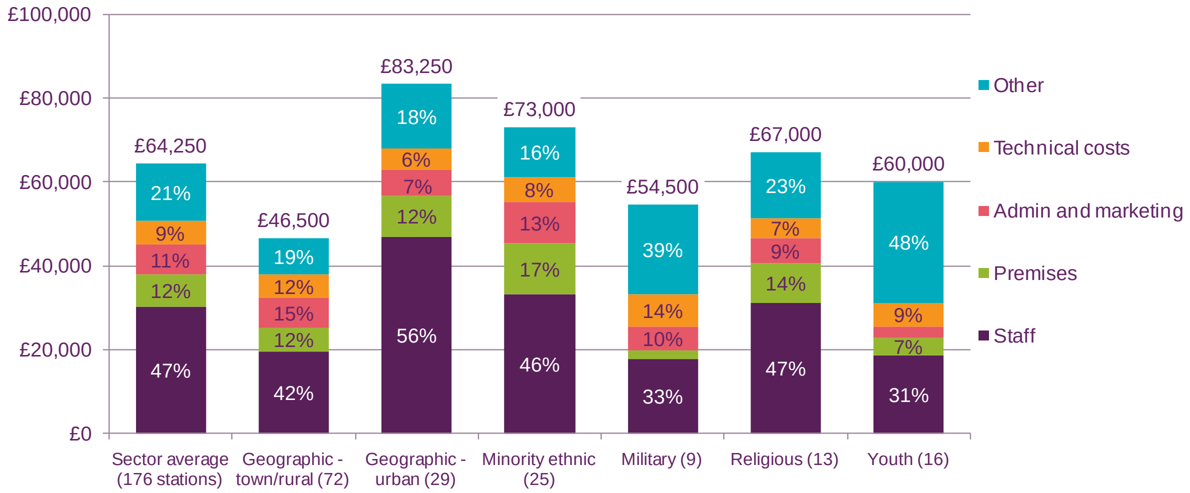
Figure 3.24 Community radio expenditure, by type



Source: Ofcom analysis of community broadcasters' returns

Station costs, like income, vary on the type of community served, as Figure 3.25 shows. However, with the exception of stations targeting military communities, staff costs account for the bulk of all stations' expenditure.

Figure 3.25 Average expenditure, by type of community served



Source: Ofcom analysis of community broadcasters' returns

On average, community radio stations broadcast live for 84 hours each week

Community radio services in general rely on volunteers. This means that few will broadcast live 24 hours a day, seven days a week. During 2011, the average across the sector was 84 hours per week. For original content, the average across the sector was 91 hours per week. (Figure 3.26)

Figure 3.26 Community radio hours and volunteers

	Sector average
Total live hours per week	84
Total original hours per week	91
Speech output as a percentage of total daytime output	31%
Number of volunteers	68

Source: Ofcom analysis of community broadcasters' returns

Please note that the reported period for community radio stations previously covered the financial year (April – March), but from 2011 the reported period is now the calendar year. Comparisons between 2011 and previous years are based on historic figures which have been adjusted to account for this change. Ofcom will publish further analysis of the returns submitted by the community radio sector in autumn 2012.

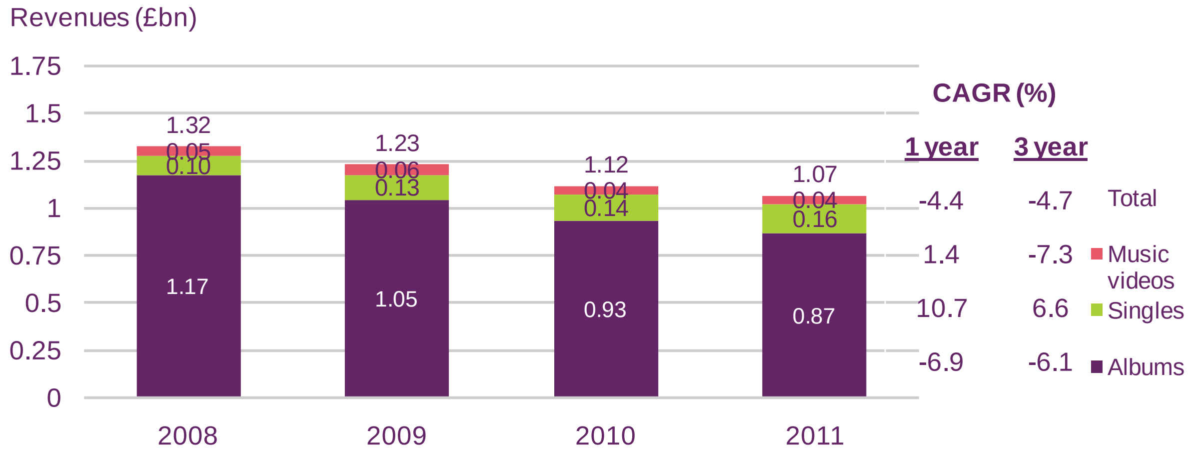
3.2.7 Recorded music revenues

Recorded music revenues continued to fall in 2011

Total recorded music revenues fell by 4.4% in 2011, according to data from the Entertainment Retailers' Association. This is lower than the 8.9% year-on-year decline in the previous year, suggesting that the revenues generated from the sale of digital music are beginning to offset the reduction in revenue from physical sales.

The value of album sales, which make up over 80% of the total recorded music revenue, fell by 6.9%. As in previous years, the value of singles sales continued to rise in 2011. This increase is driven by online retailers selling individual tracks; consumers no longer have to buy an entire album.

Figure 3.27 Recorded music retail revenues: 2008-2011

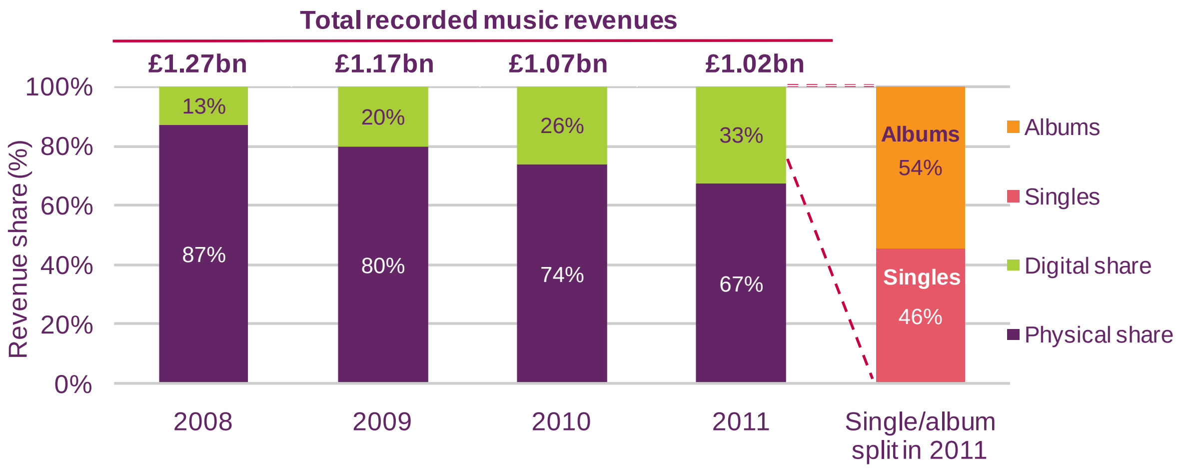


Source: Entertainment Retailers' Association yearbook, 2012. Figures are nominal

Digital sales accounted for a third of music retail revenue in 2011

Digital's share of recorded music revenues increased again in 2011 to reach 33% of the total, up 7pp year on year. Within the digital total, album sales accounted for 54% of digital revenue, up from 47% in 2010. Although physical sales still account for the bulk of recorded music revenues, its share continues to decline.

Figure 3.28 Distribution of recorded music retail revenues: 2008-2011



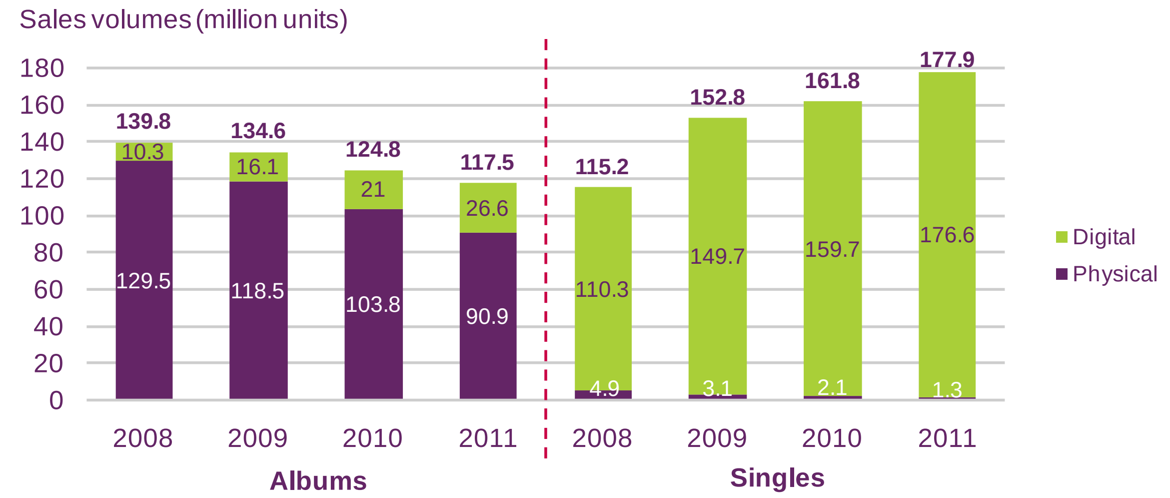
Source: Entertainment Retailers' Association yearbook, 2012
Note: This chart does not include revenues from music videos.

The volume of singles sales continued to rise as album sales fell to 118 million units

The volume of singles sales continued to rise in 2011, increasing by 10% to reach 177.9 million units. In 2011 over 99% of all singles sales were digital. As the volume of singles sales has increased, the proportion of this volume which is physical has declined.

In contrast to singles sales, the volume of album sales has fallen by 5.8% to 117.5 million units. Digital album sales increased in 2011, but this growth has not offset the continued decline in physical album sale volumes (falling 12.4%). In contrast to singles sales volumes, physical sales still account for the majority (77%) of total album sales volumes.

Figure 3.29 Recorded music sales, by volume: 2008-2011

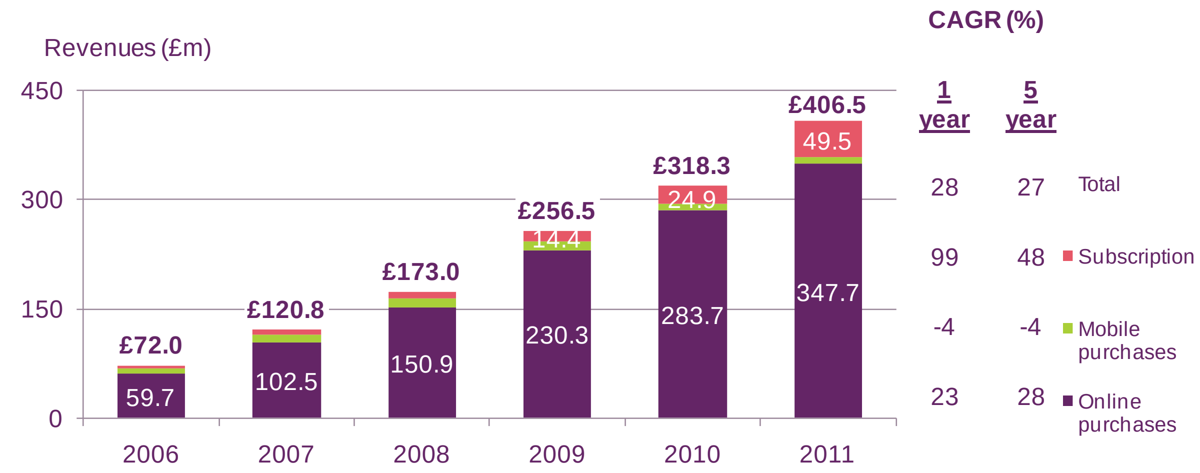


Source: Entertainment Retailers' Association yearbook, 2012. Figures are nominal.

Digital music revenues continue to rise, driven by a 23% increase in online transactional revenues

With the exception of mobile purchases, where revenues fell by 4% year on year, digital music revenues increased across the board. Online purchases, which includes downloads of albums and single tracks, generated the most income, accounting for 85.5% of all consumer spending on digital music. Digital music sales on mobile platforms have a smaller share of digital music revenues, accounting for 2.3% of the total. Subscriptions to streaming services (such as Spotify) have grown in popularity in recent years and revenues from these services almost doubled in 2011, rising 99% from £24.9m to £49.5m.

Figure 3.30 UK consumer spending on digital music: 2006-2011



Source: Screen Digest. Subscription revenues relate to access subscriptions. Services which offer a permanent right of use to content are classified as 'purchases'.
Note: Due to different data sources this chart is not directly compatible with previous charts. Figures are nominal.

3.3 The radio and audio listener

3.3.1 Introduction

The following section examines how patterns of radio and audio listening have changed in the UK, both in the past year and over the longer term. It uses audience data to analyse listening by sector and by age group, as well as drawing on consumer research.

Key points in this section include:

On average, 89.8% of the UK population tuned in to the radio each week in the twelve months to Q1 2012. This is a year-on-year decrease of 1.8pp from the record weekly reach figure recorded by RAJAR for the same period in 2011.

On average, radio listeners in the UK listened to 22.6 hours of radio each week in the year to Q1 2012. Time spent listening has increased year on year by 0.2 hours. Adults aged 75+ listen to the most radio each week, with 15-24s listening to the least. Over the past ten years, time spent listening fell by 22% among the 15-24s and now stands at an average of 17 hours each week.

BBC network stations account for 46% of listening hours while national commercial stations share of listening continued to grow. The national commercial sector has seen consecutive increases in its share of listening since 2009, rising to 11.8% in 2011.

The popularity of BBC local/nations stations has fallen over the past five years. BBC local/nations stations share of listening dropped by 1.2pp to 8.7% between 2007 and 2011.

BBC Radio 4 Extra attracted the most listeners of any digital-only station. Formerly BBC Radio 7, BBC 4 Extra's average weekly reach increased by 29.6% to 1.5 million adult listeners in Q1 2012, making it the UK's most popular digital-only station.

3.3.2 Weekly radio reach in the UK

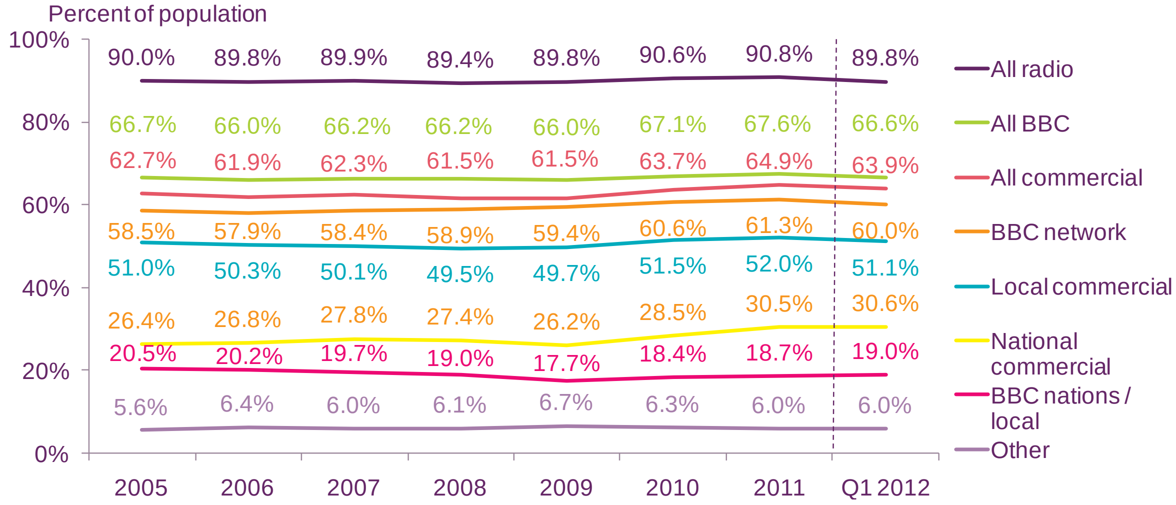
Weekly radio reach increased from 2010 to 2011, but has fallen slightly in Q1 2012

In the twelve months to Q1 2012, average weekly reach for all radio stood at 89.8%, a decrease of 1.8pp 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.

Reach for national commercial stations continued to rise, up 2pp year on year to 30.5% in 2011. Local commercial stations have a significantly higher reach than national stations, being heard by over 50% of UK adults, although comparing Q1 2012 to the same period last year reveals a drop of 1.8pp. The commercial sector overall reached 63.9% of the population in Q1 2012, attracting 33.2 million UK adults on an average week.

All BBC reached 66.6% of the adult population in an average week in this period, with BBC network stations reaching 60% of UK adults.

Figure 3.31 Reach of radio, by sector



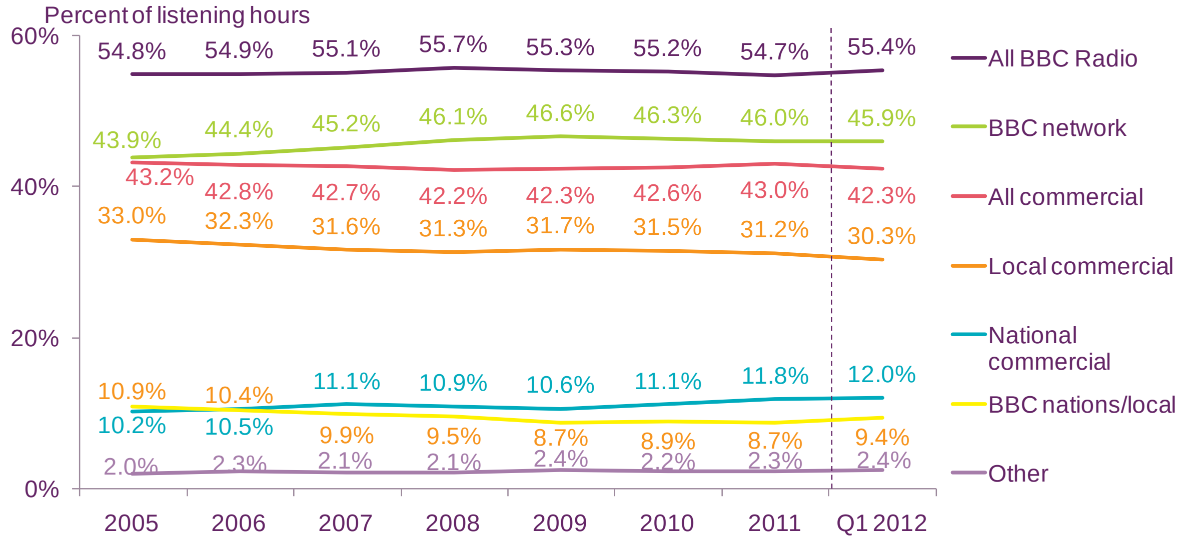
Source: RAJAR, All adults (15+), calendar years 2005-2011, Q1 2012

3.3.3 Listening hours

The BBC's share of listening remains stable at 55.4% while national commercial's share continues to rise

The share of listening hours for each sector has remained broadly similar year on year, with the BBC accounting for 55.4% of listening in Q1 2012 (up 0.4pp from Q1 2011) and commercial stations claiming 42.3% of all radio listening (down 0.3pp from Q1 2011). The national commercial sector has seen consecutive increases in its share of listening since 2009, rising to 12% in Q1 2012.

Figure 3.32 Share of listening hours, by sector

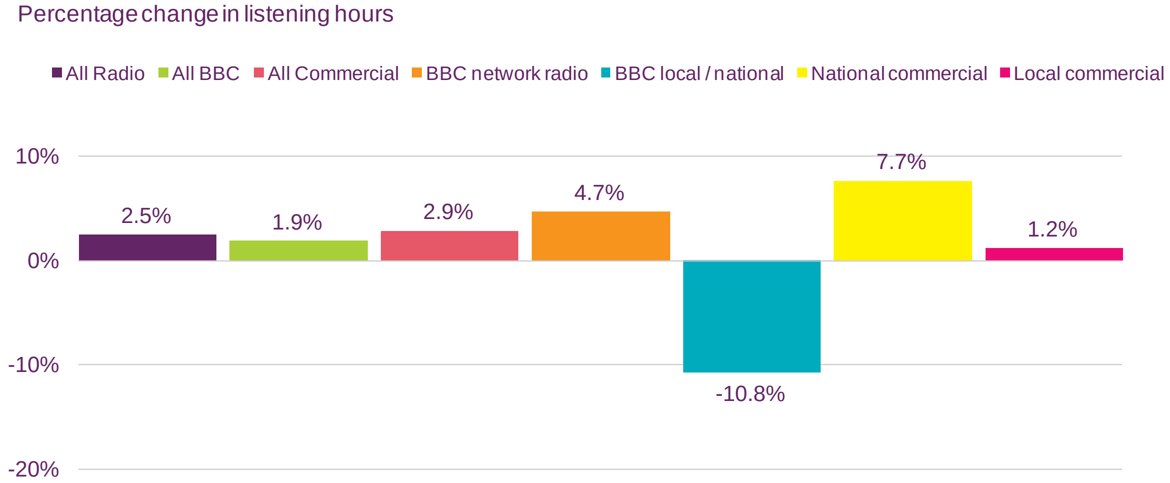


Source: RAJAR, All adults (15+)

The popularity of BBC local/national stations has fallen over the past five years while total radio listening has increased

Looking at the five-year trend, the overall number of total listening hours has increased. With the exception of BBC local/national, which has fallen by 10.8%, all sectors have seen increases in listening from 2007 to 2011. Listening to national commercial radio increased the most (by 7.7%), most likely due to the greater choice of national stations available on digital radio.

Figure 3.33 Change in total listening hours, by sector: 2007-2011

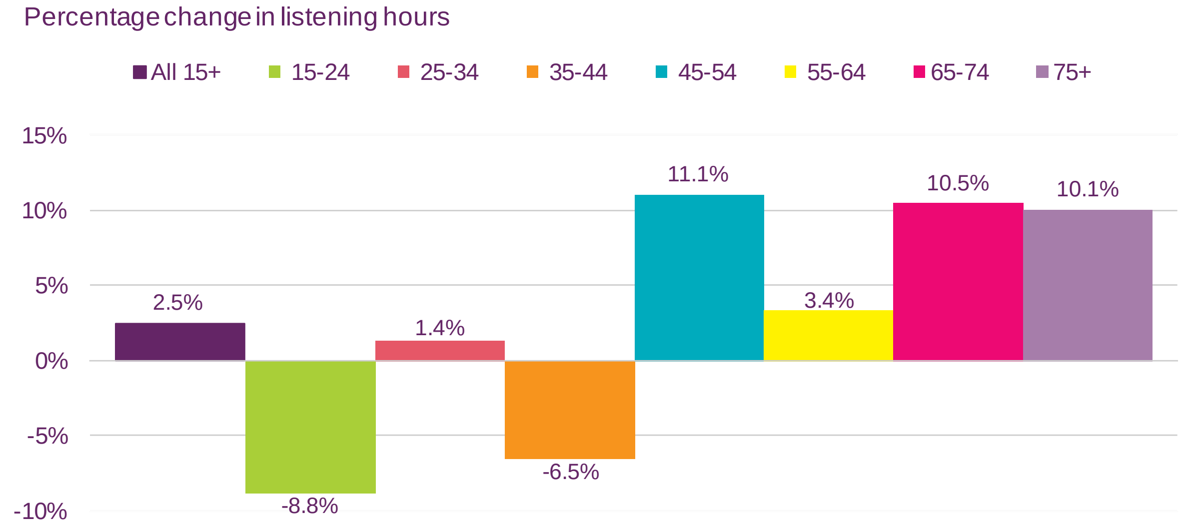


Source: RAJAR, All adults (15+), calendar years 2007 and 2011, total listening hours

Increase in listening hours is driven by the over-44s

As Figure 3.34 shows, growth in listening hours from 2007-2011 is driven by listeners aged 45 and over. The largest increase comes from those aged 45-54 (11.1%), but ages 64-74 and 75+ have also shown increases of over 10%. The largest decline is evident in the 15-24s (8.8%). A small increase in listening is evident in the 25-34s, (1.4%), the only age group below 44 showing an increase in listener hours.

Figure 3.34 Change in total listening hours, by age: 2007-2011

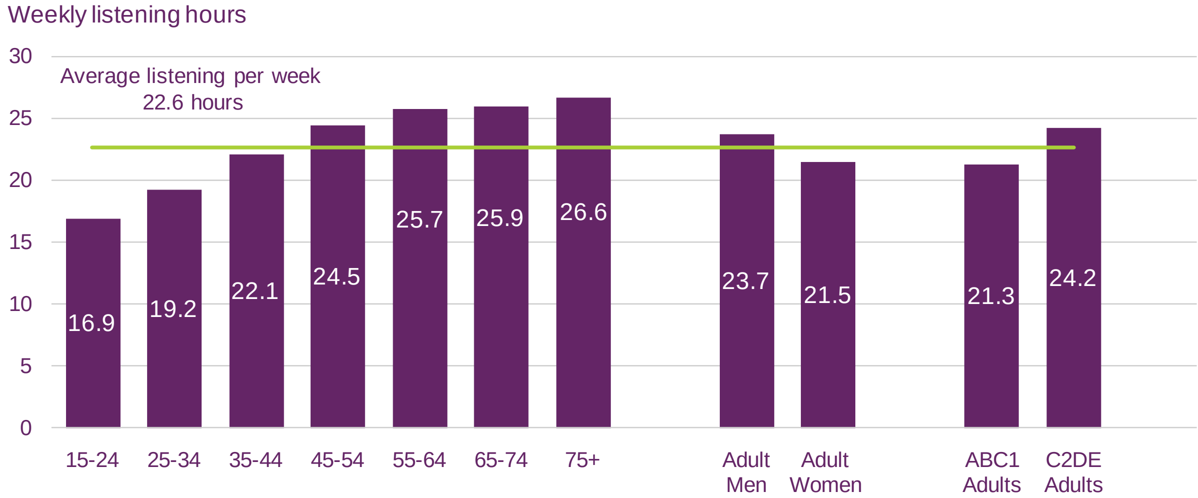


Source: RAJAR, All adults (15+), calendar years 2007 and 2011, total listening hours

Average time spent listening to the radio increases with age

The demographic profile of average weekly listening hours for radio listeners in the UK (Figure 3.35) shows that the average time spent listening to radio increases with age, with radio listeners aged 75+ listening to an average of 26.6 hours of radio each week. It is higher among men than women, with men listening to 2.2 more hours per week than women. Those in the ABC1 socio-economic group listen to 2.9 fewer hours than those in the C2DE category. The average listening per week has increased by 0.2 hours. Looking at radio listening for the UK population as a whole, listening increased year on year by 0.1 hours to 20.4 hours in an average week.

Figure 3.35 Average weekly listening, by demographic: year ending Q1 2012



Source: RAJAR, all adults (15+), year ending Q1 2012, average weekly listening hours per listener

3.3.4 Most popular radio stations

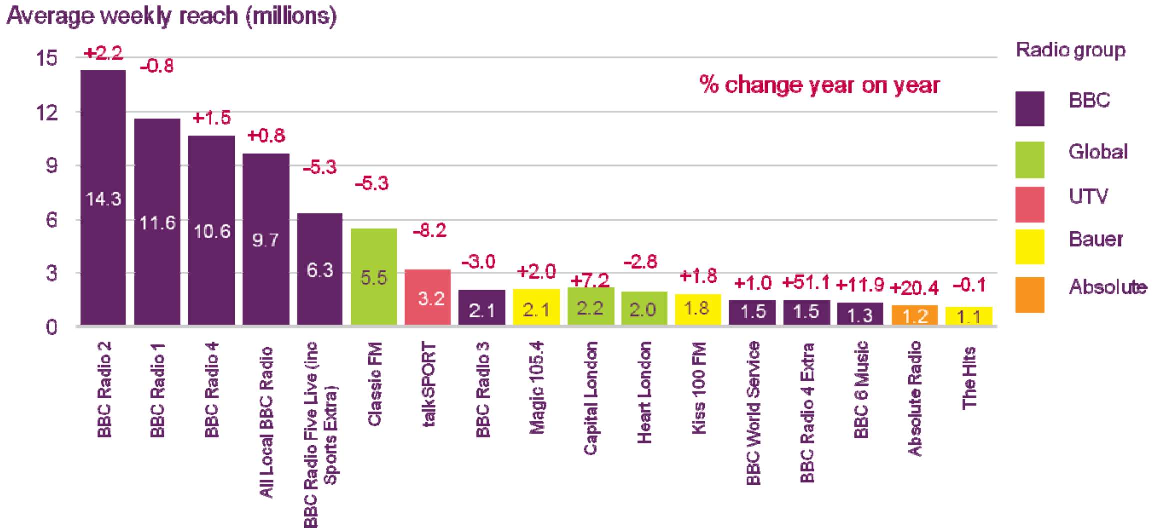
Many stations' weekly reach rose in 2011, with BBC network stations remaining the most popular

BBC Radio 2, BBC Radio 1, BBC Radio 4 and BBC Radio 5 are still the UK's most listened-to radio stations; according to RAJAR average weekly reach figures.

National commercial stations Classic FM and talkSPORT experienced losses during the year to Q1 2012 (5.3% and 8.2% respectively). They had higher listening than BBC Radio 3, but were less popular than other BBC analogue network stations. Absolute Radio, broadcasting nationally on analogue as well as on digital platforms, was the 16th most popular station, experiencing a 20.4% increase in listeners.

BBC Radio 4 Extra, formerly BBC 7, attracted the most listeners of any digital-only station, increasing its listeners by 51.1% to reach 1.5 million UK adults in an average week. BBC 6 Music, previously the most popular digital-only station, also experienced an increase in listeners, rising 11.9% to 1.3 million adults in an average week. Average weekly reach for The Hits, the UK's most popular digital-only commercial station, fell by 0.1%, making it the 17th most popular station.

Figure 3.36 Most popular radio stations: year ending Q1 2012



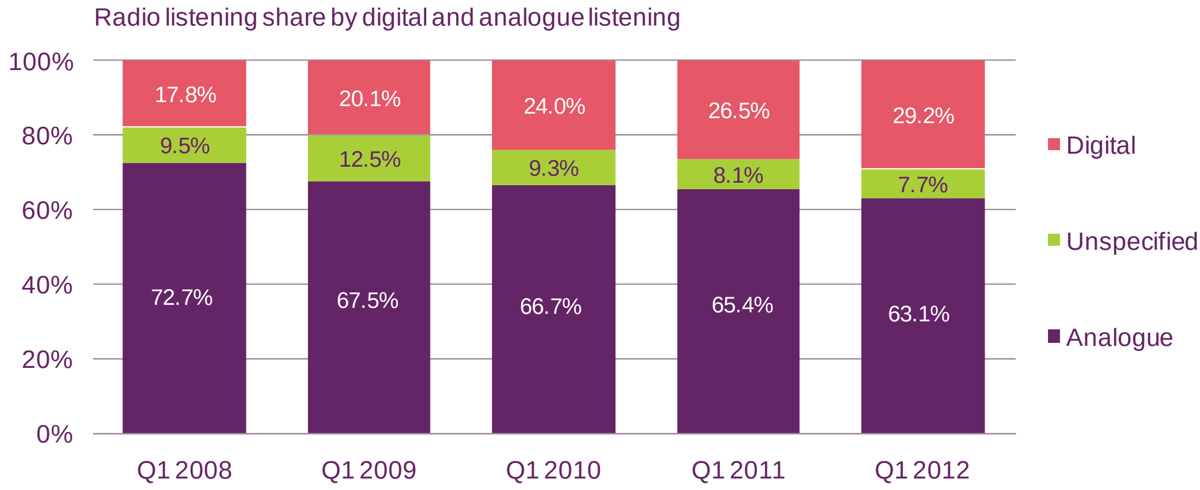
Source: RAJAR, all adults (15+), year ending Q1 2012

3.3.5 Digital radio listening trends

Digital listening increases by 11.4 percentage points over four years

Looking at Q1 figures for the previous five years, digital radio listening has risen at around 4pp each year and accounted for 29.2% of all listening in Q1 2012. Comparing Q1 2008 and Q1 2012, the proportion of listening through a digital platform has increased by 11.4pp. This figure includes listening through online and digital TV platforms, as well as DAB radio sets.

Figure 3.37 Share of listening hours across analogue and digital platforms

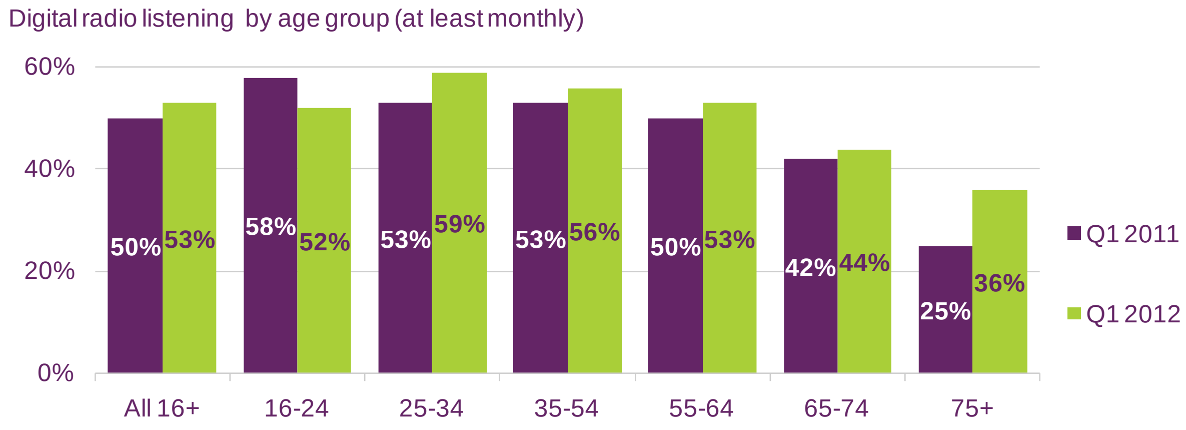


Source: RAJAR, All adults (15+),data relate to Q1 results as shown

25-34s more likely than other ages to listen to digital radio

Older listeners are less likely to listen to radio through a digital platform, as Figure 3.38 shows. For listeners under 65, at least half claim to listen to digital radio on a monthly basis. Although this figure falls to 36% among the 75+ age group, this is a 13pp increase on the 25% of those aged 75+ who claimed to listen to digital radio in 2010.

Figure 3.38 Digital radio listening, by age group: monthly



Source: Ofcom research, Base: All who listen to the radio, Q1 2012 (n=2963), Q1 2011 (n=2811)
Q:Use digital radio at least monthly (includes digital listening via DTV, DAB set and online)

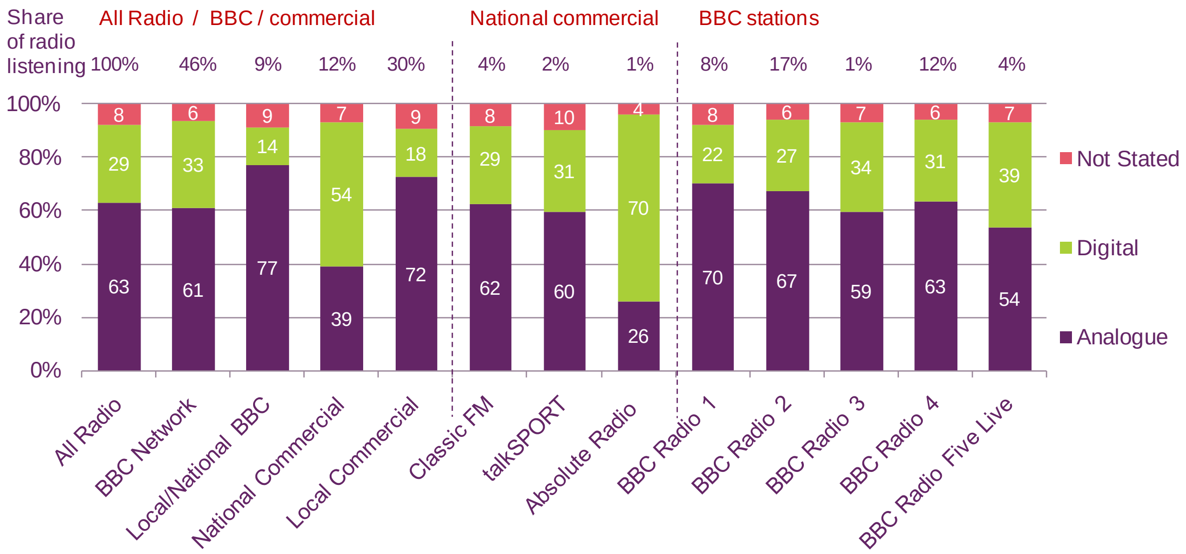
3.3.6 Digital radio share, by sector

UK-wide stations have the highest proportion of digital listening

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.

Of the three national commercial stations available on analogue, Absolute Radio has the highest share of listening through a digital platform, with over two-thirds of its listening (70%) taking place on a digital receiver. This is a 15pp increase on the proportion of digital listening for Absolute for the year ending Q1 2011. Furthermore, this is significantly higher than the 29% and 31% share of listening through digital platforms for Classic FM and talkSPORT. This may be due to Absolute Radio's focus on recorded music content and limited FM availability, as music listening on AM is generally considered to be poorer quality.

Figure 3.39 Audience profiles and platform split, by sector and station: year ending Q1 2012



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

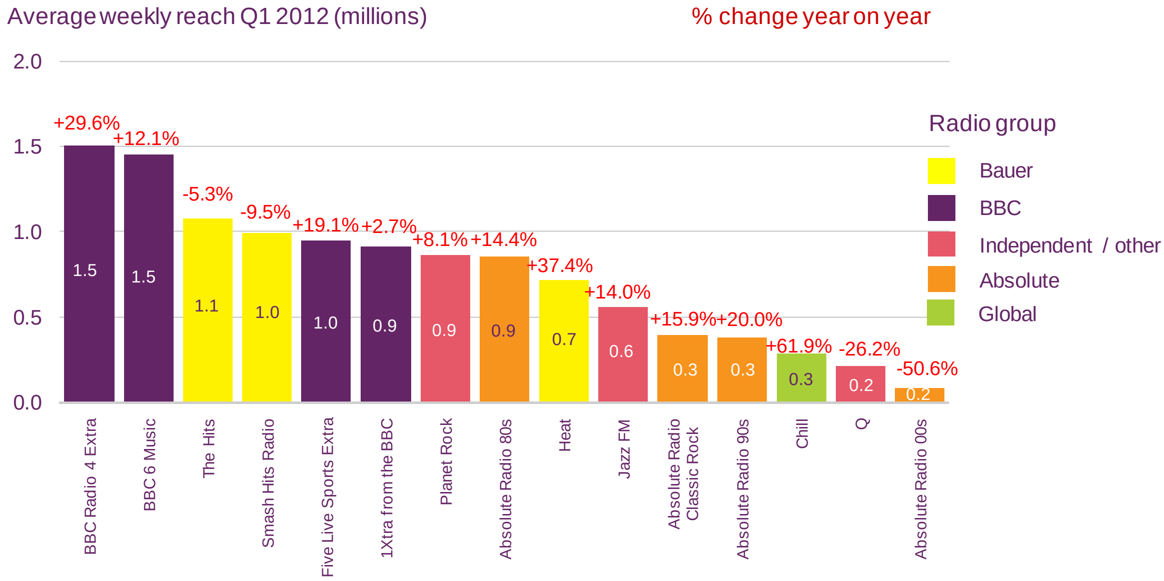
BBC Radio 4 Extra is the most popular digital-only station

Formerly BBC Radio 7, BBC 4 Extra's average weekly reach increased 29.6% to 1.5 million adult listeners in Q1 2012, making it the UK's most popular digital-only station. The rebranding of the station has also involved a change in content; although most of the content broadcast on BBC Radio 4 Extra is drawn from the BBC sound archive, it also provides content based on current BBC Radio 4 shows.

BBC 6 Music, last year's most listened-to digital-only station, also increased its average weekly reach, rising 12.1% to 1.45 million adult listeners. Although 4 Extra has more listeners than BBC 6 Music, it is not the most listened-to digital-only service. 6 Music listeners tune in for longer, giving it a weekly average of 11.7 million listening hours while 4 Extra's stand at 8.4 million.

Commercial stations The Hits, Smash Hits Radio, Q and Absolute Radio 00s all saw losses in their average weekly reach. Absolute Radio 00s experienced the largest decline, losing 50.6% of its average weekly reach. It is possible that Absolute has retained this listening within its brand, however, as its other popular digital-only stations, Absolute 80s, Absolute Radio Classic Rock and Absolute 90s have all experienced significant increases in reach.

Figure 3.40 Most popular digital-only stations: Q1 2012



Source: RAJAR, Q1 2012, adults 15+

3.3.7 Listening patterns across the UK nations

The shares of listening hours for the different sectors of radio have remained broadly similar in the UK for 2011. There are, however, significant variations in listening-hour share between the UK nations, as outlined below:

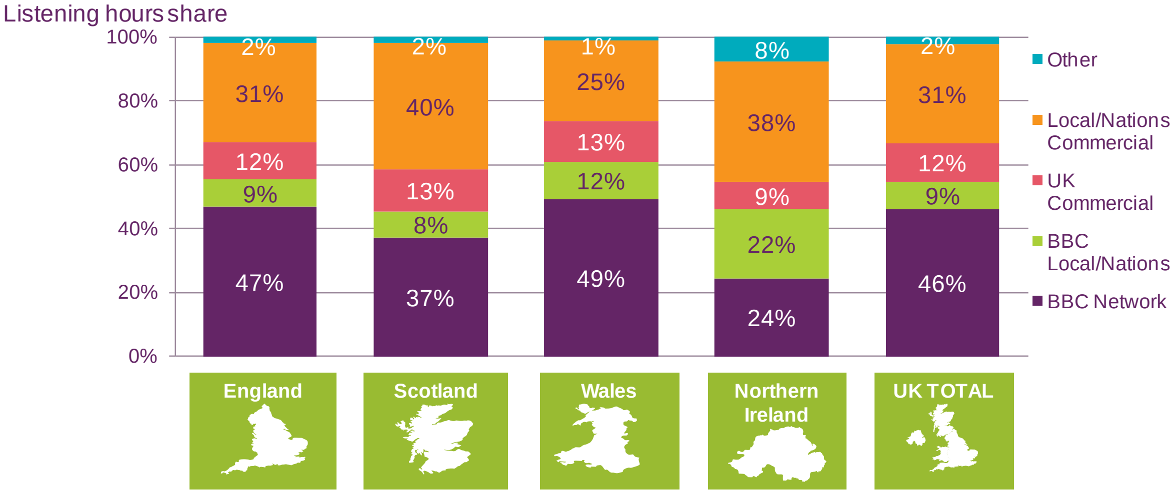
- In **Scotland**, local commercial stations accounted for 40% of total radio listening hours – a higher share than any of the other UK nations. The listening share of national commercial stations stood at 13%, again higher than the UK average, meaning that Scotland has a high share of commercial radio listening compared to all other parts of the UK. But adults in Scotland listen to less radio overall than any other nation, with the lowest average weekly listening of 21.4 hours and the lowest reach of 87.3%

- In **Wales**, average weekly listening stood at 23.2 hours, the highest across all UK nations. Radio services reached 93.2% of the adult population, again the highest across all of the UK nations. Adults in Wales listen to the highest proportion of BBC stations, accounting for 61% of total listening hours in 2011.

- In **Northern Ireland**, regional BBC stations Radio Ulster and Radio Foyle have the highest proportion of listening hours for BBC local/national stations across the UK, with a share of 22%. Northern Ireland also has the highest share of listening to other stations, which includes small community and commercial stations, at 8%.This is likely to include cross-border listening to the Republic of Ireland's national broadcaster RTE.

- In **England**, listening shares have stayed the same year on year, despite an increase in overall listening and reach. BBC network stations attract the largest collective share, at 56% of total hours.

Figure 3.41 Share of listening hours, by nation



	England	Scotland	Wales	Northern Ireland	UK TOTAL
Average weekly listening	22.5 hours	21.4 hours	23.2 hours	22.0 hours	22.5 hours
Reach	91.1%	87.3%	93.2%	90.1%	91.0%

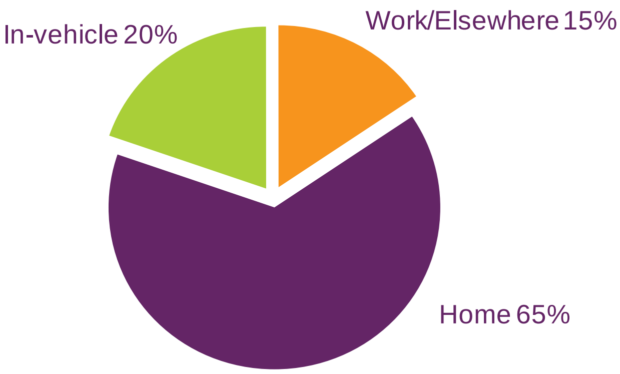
Source: RAJAR, All adults (15+), calendar year 2011

3.3.8 Location of radio listening

65% of radio listening takes place in the home

The locations where radio listening takes place have remained relatively unchanged over the past five years. In-vehicle listening accounted for a fifth of all radio consumption in Q1 2012, according to RAJAR. A further 15% of listening takes place at work or away from the home.

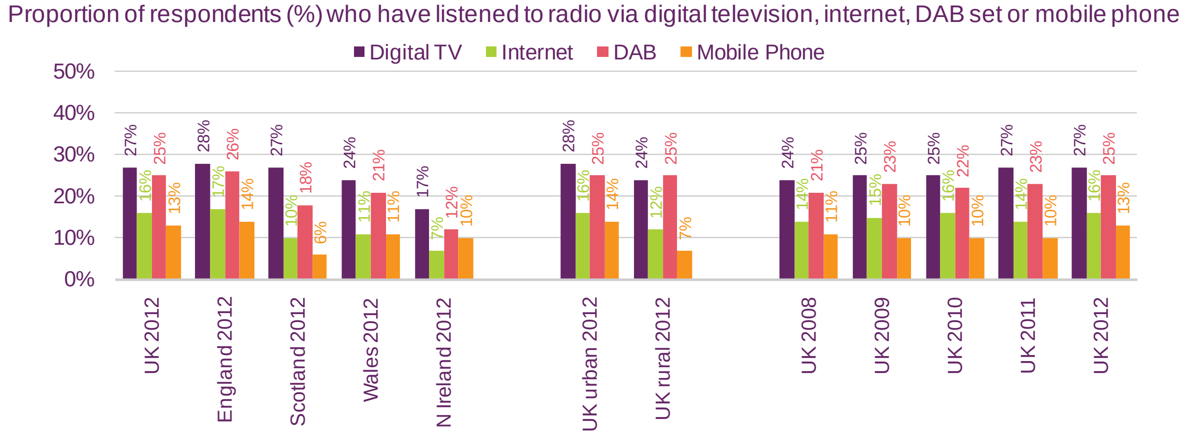
Figure 3.42 Location of listening, year to Q1 2012



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

Adults in the UK are slightly more likely (at 27%) to listen to radio through their digital television than through a DAB radio (25%). Fewer UK adults listen to radio via the internet (16%) or a mobile phone, although listening via a mobile phone has increased by 3pp to 13% in 2012.

Figure 3.43 Listening to radio via internet, digital television, mobile phone and DAB radio set



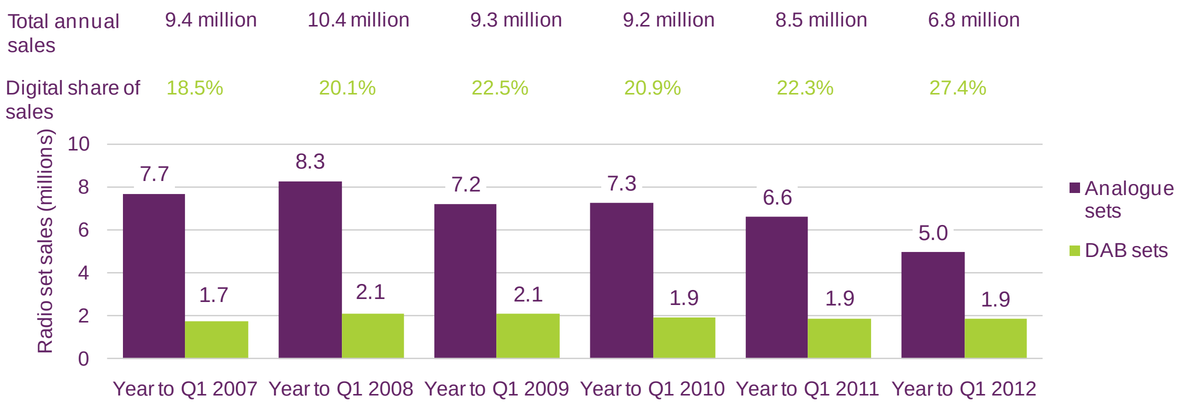
Source: Ofcom research, Q1 2012, Q1 2011, Q1 2010, Q1 2009, Q1 2008
Base: All adults aged 16+ (n = 3772 UK, 2251 England, 500 Scotland, 513 Wales, 508 Northern Ireland, 2731 UK urban, 1041 UK rural, 5812 UK 2008, 6090 UK 2009, 9013 UK 2010, 3474 UK 2011, 3772 UK 2012) QP3. How often, if at all, do you access the radio via – Digital radio via: TV, Internet, DAB radio, mobile phone?

3.3.9 Retail sales of radio sets

DAB sets account for 27.4% of all radio sales

Sales of DAB sets remained stable at 1.9 million in the year to Q1 2012. Although sales of analogue sets still account for the majority of radio sets sold (72.6%), the proportion of DAB sets sold increased by 5.1pp to 27.4%. This was due to a year-on-year fall of 24% (1.6 million units) in the number of analogue sets sold in the year to Q1 2012. As a result, total radio set sales were down by 19.6% year on year. (Figure 3.44)

Figure 3.44 Number of analogue and digital radio sets sold

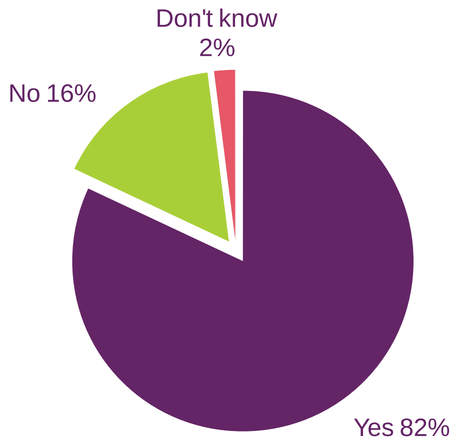


Source: GfK sales data, 2006-2012. Note: Figures cover GB only, GfK Panelmarket data represent over 90% of the market. Categories of device included are: portable radios, personal media players, car audio systems, home audio systems, clock radios, radio recorders, headphone stereos, tuners and receivers.

82% of consumers are aware of the term 'digital radio' or 'DAB'

Consumers in the UK have a high level of awareness of the terms 'DAB' and 'digital radio', with 82% recognising at least one of the terms. As Figure 3.45 shows, 16% of consumers had heard of neither term and 2% answered 'don't know'.

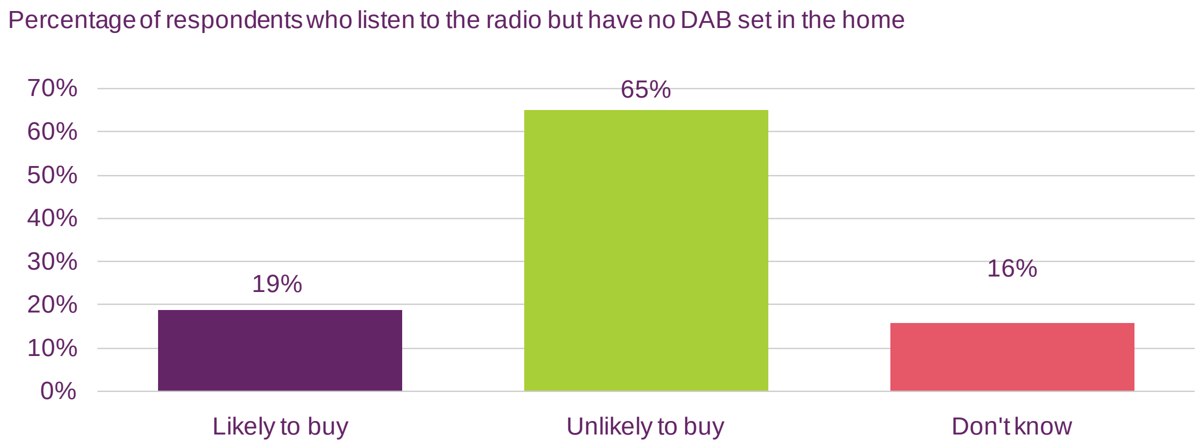
Figure 3.45 Have you heard of the term 'DAB' digital radio?



Source: Ofcom research 2012

In Q1 2012, Ofcom research found that 19% of listeners without a DAB radio stated that they intended to buy one within the next 12 months. Almost two-thirds (65%) of radio listeners without a DAB set said that they were not planning to purchase one in the coming year, a 14pp increase on 2011.

Figure 3.46 Likelihood to buy a DAB radio in the next 12 months



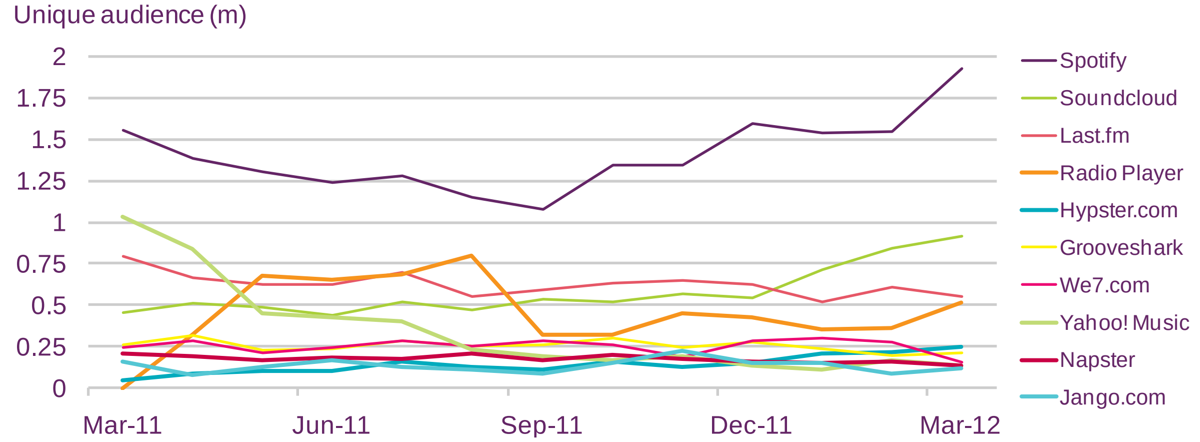
Source: Ofcom research, Q1 2012
Base: Those who listen to the radio but have no DAB sets in the home (n=1855)
QP12: How likely is it that your household will get a DAB radio in the next 12 months?

3.3.10 Online music streaming services

Spotify remains the most popular online streaming service, while unique audiences grow for multiple sites

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 reached a peak of 806,000 in August and in March 2012 Radioplayer attracted a unique audience of 516,000.

Figure 3.47 Unique audiences of selected music streaming sites

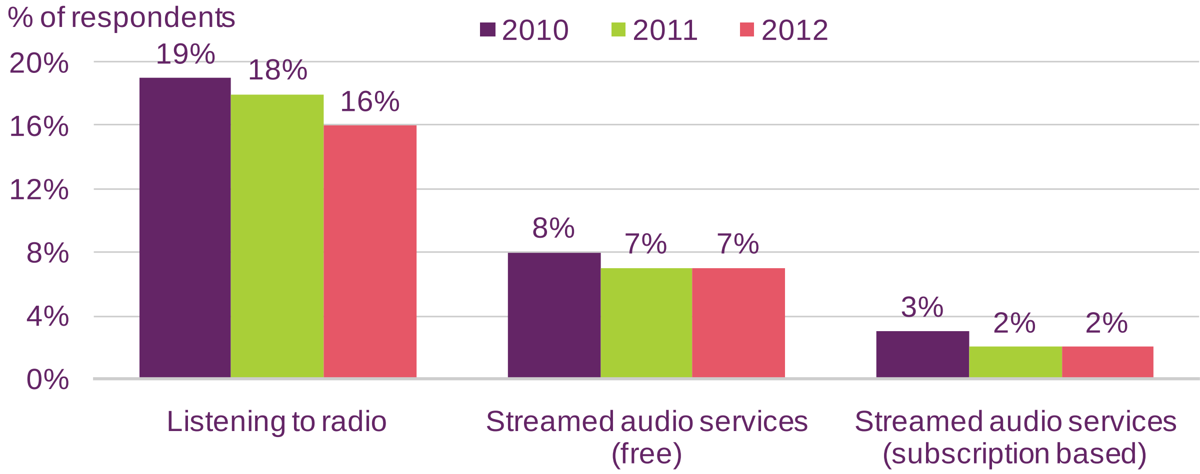


Source: UKOM/Nielsen, April 2012 home and work panel. Applications included. Radioplayer data start April 2011

Listening to the radio online is more popular than streaming services

According to Ofcom's own consumer research, 16% of households use the internet to listen to the radio. Seven per cent used free streaming services, such as Spotify and Last.fm, while 2% used subscription-based streaming services such as Spotify Premium.

Figure 3.48 Audio internet use

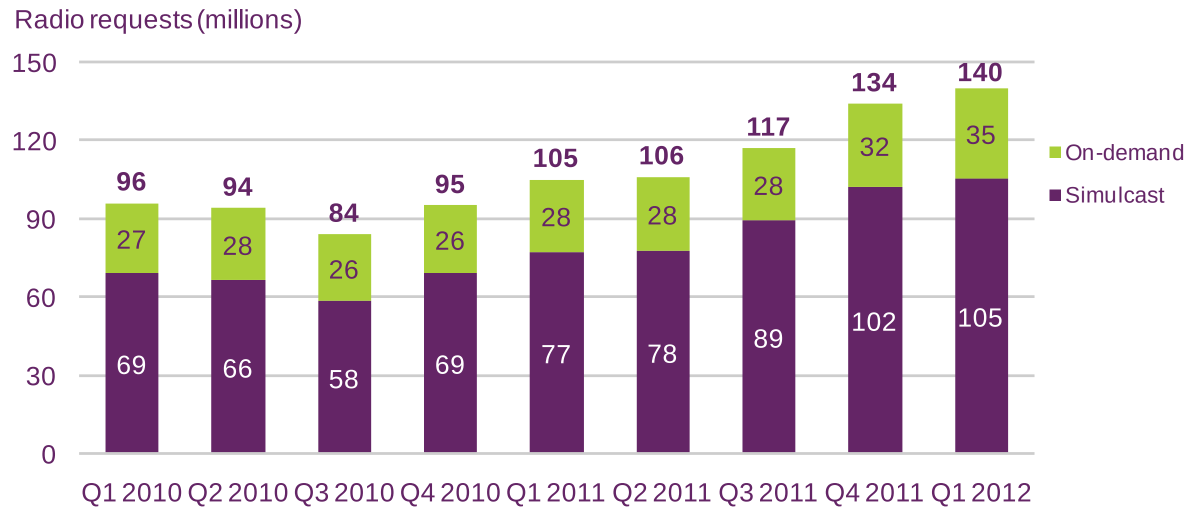


Source: Ofcom research, Q1 2012
Base: Those with access to the internet at home (n= 2823)
QE5A. Which, if any, of these do you or members of your household use the internet for whilst at home?

The number of requests to listen to radio programmes through BBC iPlayer has increased by 32% year on year

Radio listening through the BBC's iPlayer increased by 32% between Q1 2011 and Q1 2012, with live listening most popular. Figure 3.49 shows the number of requests consumers made through the platform to listen to radio content, split by simulcast and on-demand. In Q1 2012, 75% of requests were to listen to radio programmes through the iPlayer at the same time that they were broadcast.

Figure 3.49 BBC iPlayer quarterly radio requests



Source: Ofcom calculations based on BBC iStats

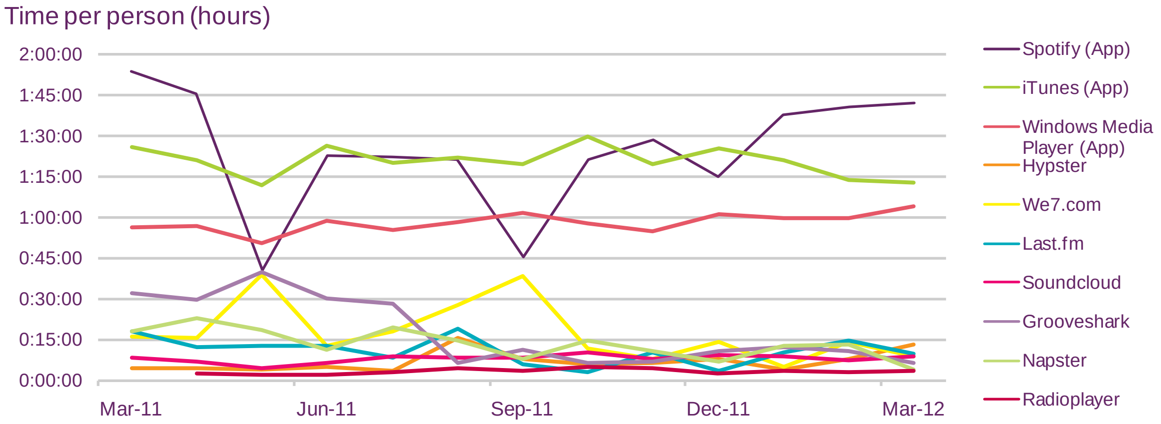
3.3.11 Use of digital music services and devices

Spotify, iTunes and Windows Media Player are the most popular digital music services in the UK. However, the time spent using Spotify has proved to be more variable on a month-by-month basis than the time spent using iTunes and the Windows Media Player, as Figure 3.50 shows.

It is important to note that the methodology used to collect the UKOM data counts time spent on an application only when it is 'in focus'. This refers to the application to which keyboard and mouse activity is directed; only one application can be in focus at any time. Furthermore, if the user remains inactive for 30 minutes or more, the time accrued to the application 'in focus' is discounted to one minute after the last-recorded activity.

As listening can occur while an application is 'out of focus' and because prolonged periods of inactive 'in-focus' activity are discounted, the time spent on the media applications and music streaming websites, shown in Figure 3.50, does not represent actual time spent listening to music; it is likely to underestimate it. However, these data do show the time spent browsing, searching and compiling music playlists. The figures show the number of people who opened and ran these applications on their computers, and do not necessarily represent a connection to the internet.

Figure 3.50 Time spent using selected music services and media players



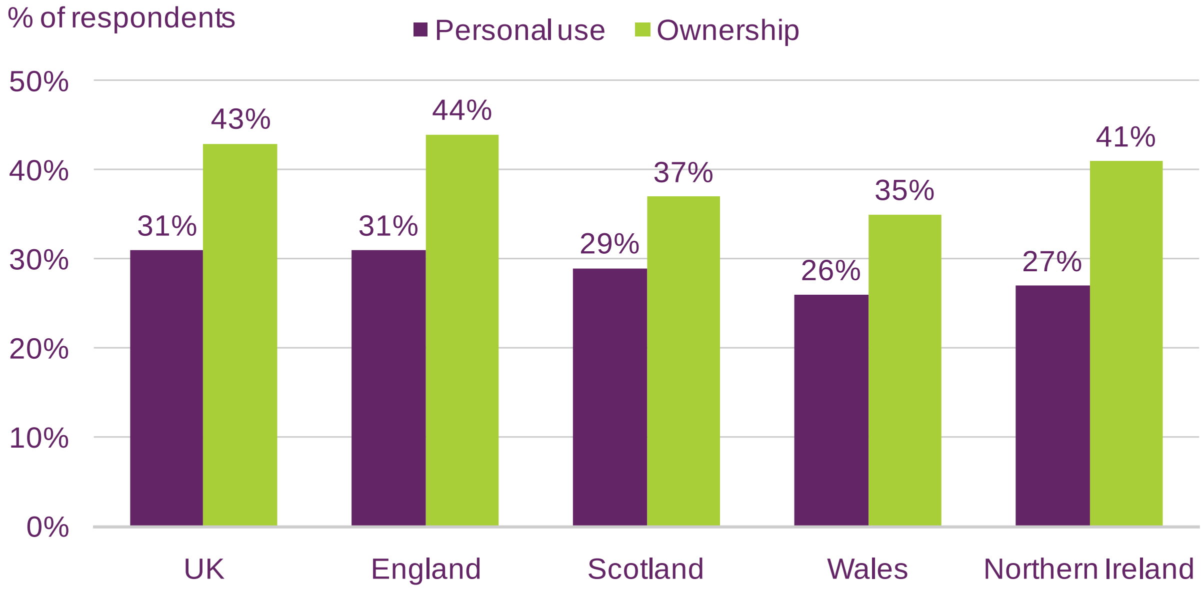
Source: UKOM/Nielsen, April 2012. Home and work panel. Applications included. No radio player data for March 2011

More people own MP3 players and iPods in the UK than actually use them

Figure 3.51 shows a clear gap between the personal use and ownership of MP3 players. This is broadly similar to findings reported in the *Communications Market Report 2011* and may be due to the increase in use of smartphones as music players, leading to fewer consumers using their MP3 players and iPods for this purpose.

Around three in ten (31%) consumers in the UK personally use their MP3 player or iPod, although 43% claim to own one. Ownership and use were both lowest in Wales, and consumers in Northern Ireland showed the largest discrepancy between ownership and use (14%).

Figure 3.51 MP3 player/iPod ownership and personal use



Source: Ofcom research, Quarter 1 2012
Base: All adults aged 16+ (n = 3772 UK, 2251 England, 500 Scotland, 513 Wales, 508 Northern Ireland) QB1: Which of the following do you, or does anyone in your household, have in your home at the moment? QB2. Do you personally use: MP3 player/ iPod?
Please note data not comparable to 2010 figures