

Ofcom Consultation on the Future of Radio

Response from GMG Radio

Executive Summary:

As a result of our detailed research and subsequent findings during the compilation of this response, together with considered the views of our own experienced executive team, GMG Radio seeks Ofcom consideration to:

- Complete relaxation on local programming or a maximum of 8 hours a day of local programming for all broadcasts irrespective of size.
- As an alternative and minimum concession - more relaxation in peak time programming and an immediate reduction from the newly proposed 13 down to at least 8 hours per weekday incorporating 6 hours daytime of locally made programming in order to create additional value to station audiences.
- A review within two years with consideration being given within Ofcom's powers to the withdrawal of detailed intervention and a move to self regulation in all or sectors of commercial radio.
- Recognition that analogue remains hugely important and remains over regulated – we would like the format descriptions to be aligned with digital with immediate effect and without the proposed 33% national digital threshold caveat
- The opportunity to allow our excellent management team to manage its business as appropriate with regulator trust rather than restriction.
- Help and support in allowing the industry to challenge the BBC in a commercial arena which currently prohibits growth by over zealous and out of date regulation.
- Allow and encourage the radio industry to work together with the aim of generating and sharing interesting content propositions in analogue and especially digital in order to further engage listeners, excite advertisers and build trust and rapport with the City, Politicians and Regulators.
- Keep and maintain focus on the output, it is easier to regulate and easier for station management to deliver. Do NOT focus on input.

Background

GMG Radio Holdings is wholly owned by the Guardian Media Group and currently operates 11 analogue and 23 digital radio services across the UK, with plans to launch two further analogue and digital services in the North East and Greater Manchester within the next year.

As part of its plan to grow by licence application and acquisition GMG Radio has conducted extensive research over the past few years in to radio audience requirements and more recently during Ofcom's tenure as Broadcast Regulator spoken directly through our licence application process to over 7,000 consumers of radio in the UK regions including Edinburgh, Belfast, Solent, North East England, Liverpool, Aberdeen, London, Greater Manchester and South Wales.

Prior to and after publication of Ofcom's Future of Radio consultation document we had also commissioned two separate papers by an independent media strategy and research company, with a view to specifying how Ofcom's proposals within the consultation might impact on the wider radio industry and specifically on GMG Radio.

The papers sought opinion regarding regulatory issues from radio listeners, media buyers, industry 'experts' and politicians.

We have therefore within our own response, endeavoured for simplicity, to comment directly to Ofcom specifically on the evidence gathered together with our own considered views on the impact of regulation on commercial radio and the implications specifically for GMG Radio.

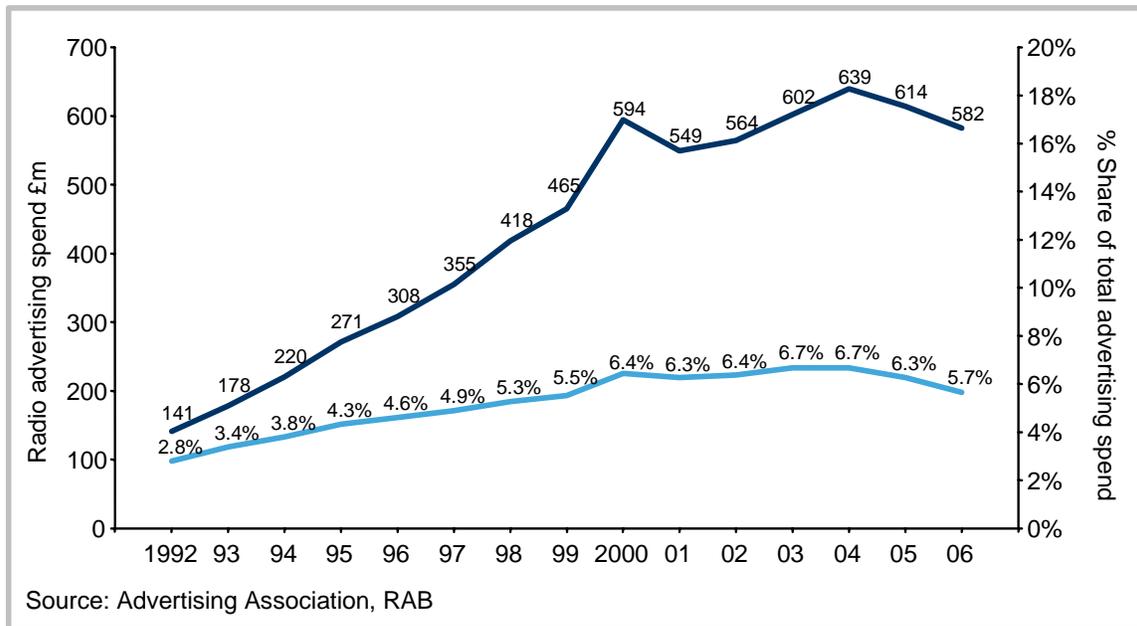
Technology and spectrum availability issues will be covered on the industry's behalf within the Radiocentre response alongside ownership issues and community radio.

Response Summary

Commercial Radio is a small industry

According to the Radio Advertising Bureau and highlighted in the following graph, all radio advertising revenues shrank from a peak in 2004 of £639m by 4% in 2005 and by 8% in 2006, the signs suggest that 2007 will again be a difficult year and in this vein, GCap recently announced a fall in revenue for 2006/07 of 9%.

Radio advertising revenue and share of total market, 1992-2006



The industry faces pressures from several directions and cannot afford any further complacency in determining its future. Environmental factors include an on-going structural shift in advertising towards the internet, a well-funded, strong BBC and new (digital) technologies that are changing patterns of media consumption and creating unregulated competition for commercial radio and now to some degree market intervention from Community Radio.

At the same time, the industry is widely perceived to be heavily regulated. There is an acceptance from Ofcom that the regulatory burden inflicted on commercial radio is perhaps unsustainable and as a result, there is obviously a willingness to ease the burden through some kind of deregulation. We welcome this as a start from Ofcom, but appreciate that there remains a considerable amount of interfacing together with a wholly constructive approach between the regulator and the industry in order to enable commercial radio operators to have confidence in investing fully in both its analogue and digital future on a number of platforms.

The Guardian Media Group to an extent is relatively young in terms of involvement in the radio industry but has already invested over £200m in acquisitions and a good deal more in marketing and investment in our products. We trust Ofcom will take comfort in the fact

that we are helping to construct healthy and committed radio operations in various formats and as such our views on the future of radio are submitted with a positive belief and a constructive approach for improvement.

The findings of our own commissioned research indicate that the general view from key industry stakeholders – including media buyers, investment bankers, industry “experts”, and politicians – perceive that overall management within commercial radio has failed to deliver in a number of respects:

- Failed to articulate a growth story – especially in digital beyond DAB;
- Failed to invest in the creation of compelling content and original formats;
- Focused far too much on cost cutting.

This, of course, may only be true in perception but as a result it does indicate that amongst the cross section of stakeholders interviewed, trust and confidence in the radio industry generally has diminished and a considerable amount of negative publicity regarding statements of cost reduction rather than investment in content has not helped alleviate the situation. This can, in our opinion perhaps give a false impression that further or full deregulation may only be seen as another opportunity to reduce overall costs. At the same time, the City who watches performance with intrinsic interest is looking for larger radio groups to create long-term value without perhaps the knowledge of current restrictions in format and content.

Consolidation within the industry is welcomed by some but seen as a danger to others. The hope is that it will bring in new ideas and can create new formats and interactive digital propositions that have the power to engage audiences and re-excite advertisers.

The principal tool used by Ofcom to deliver these outcomes is a Format, which requires analogue stations to commit to relatively detailed output specifications.

There is broad agreement from stakeholders that this system of analogue regulation places a costly burden on a relatively small industry. Ofcom itself has estimated that the opportunity cost of pursuing the current policy rather than, for instance, allowing up to 20 quasi-national networks (with no local content) could be around £135m¹. In a market worth less than £600m, with operating profits of less than £100m, this would be equivalent to more than doubling industry margins.

Compared to analogue radio, digital platforms are subject to much lighter regulation and DAB stations are required to commit to a brief statement on their core character and any localness stipulations. For stations available on digital television platforms, there is no regulation apart from minimum standards on harm and offence. Radio on the internet is not regulated at all.

¹ The Future of Radio, http://www.ofcom.org.uk/consult/condocs/radio_future/

DAB radio has experienced something of a slow birth since its launch in 1995. Currently about 16% of all radio listening takes place over digital platforms. Ofcom forecasts that figure will approximately double over the next year and will reach about 50% by 2010. As listening continues to migrate to digital platforms, the disproportionate regulatory burden on analogue is expected to become increasingly incongruous and commercially unsustainable.

Our view is that Ofcom should utilise the opportunity within this consultation, and as we move towards the next Communications Act, to express confidence in and give assurance to the radio industry by reducing as much of the regulatory burden to all operators regardless of station population and doing this as far as its powers allow as soon as possible and in as many ways as possible allow content and subsequent performance to be solely in the hands of the station.

The move to complete self regulation within the less restricted formats proposed would greatly encourage the industry to offer listeners choice, improve chances of sustainability and effectively allow for short and confident long term investment in the future of analogue and eventually on digital platforms

Ofcom proposals for further deregulation

Ofcom has in response to these considerations published its Consultation Document in which it puts forward proposals for further deregulation, seeking to balance the needs of the industry against the needs of consumers and citizens. The principal content-related proposals are set out here:

- Ofcom proposes to relax the format requirement for analogue stations with the aim of making the level of detail consistent with the DAB format – in other words, reducing the current format to the “Character of Service” element.
- On localness, Ofcom proposes to require differential minimum amounts of locally-made programming, according to the size of station:
 - FM stations with populations under 100,000 would have to broadcast at least 4 hours per day of locally-made content, all in peak;
 - FM stations with populations of 100-250,000 would have to broadcast at least 8 hours per day of locally-made content, all in daytime and at least 4 in peak;
 - FM stations with populations over 250,000 would have to broadcast at least 13 hours per day of locally-made content, including at least 10 in daytime and all peak hours.
- On timing, Ofcom suggests that these changes should come into effect once a certain threshold of digital listening as a proportion of all radio listening is reached. 33% is proposed as this threshold across all UK listening.

All of the existing and soon to be launched GMG services would fall into the category of large radio stations and would therefore be required to broadcast at least 13 hours of locally produced content per weekday with a minimum of 10 in Daytime and all peak hours. Currently all but one GMG stations are required to broadcast between 18-20 hours of local content per day.

There is a view from many in the industry that the above proposals are in reverse of what the majority of local radio was originally set up to do. It could be argued that the really local stations identified as having an under 250,000 TSA should have a requirement for more local information as this is clearly what was originally intended. It is the larger regional operators, who do not claim to fully cater for smaller local areas, who should have less local requirements, as this will have the least effect on the local community.

The proposals within the consultation document indicate that Ofcom's objective is more likely to protect the cost base for small licence operators rather than protecting local Formats. However, GMG Radio understands the need for review and we believe that Ofcom should, for all stations, regardless of size in the future, not impose any statutory quotas on local production, rather that a self regulatory system should be introduced.

We propose that Ofcom should consider and recommend this self regulatory system to be trialled for at least two years. If after this proposal Ofcom feels it to be unsatisfactory to allow continuous self regulation, then we recommend that all stations again regardless of size, should be required to broadcast at least 8 hours each weekday of local programming.

Industry stakeholders and regulation

To assist in formulating a constructive response to the consultation through our appointed media strategy and research company, we spoke to and took note of the views of representatives from the following constituencies with the aim of understanding their perspective on the industry and the way in which it is regulated:

- Media buyers
- Investment bankers
- Industry “experts”
- Politicians and ex-regulators

In addition we reviewed our own previously conducted and other available consumer research. Generally, whilst we found that these stakeholders acknowledge that the current regulation is costly, they do not believe that regulatory changes are the primary means of bringing about industry transformation. Requirements for improved and exciting programming together with innovative radio management and initiatives featured strongly in the wish lists. Ironically those perhaps most affected within the stakeholder groups – the listeners, were the most positive and happy in what they were hearing and

indeed we could find little evidence to support a need for local stations to be located in the local transmission area at all. What was of primary concern was the localness of the output rather than input.

Media buyers

We have spoken to the Heads of Radio at several of the largest media buying agencies². They believe that the current regulation is too heavy but are sceptical about the power of deregulation to generate significant uplift for the industry. This is not something with which we would wholeheartedly agree but accept there is an obvious belief from those we spoke to, that the radio industry has to set the ‘wake up call’ very quickly and consider offering more content rich and exciting programming in order to re-excite them on the benefits of commercial radio and its importance to their advertising clients within the overall media mix.

On the localness requirements, they see a case for relaxation and there is some interest in networking content. The challenge is how best to do this without losing sight of the needs of listeners and advertisers – both of whom place high value on the localness component of commercial radio.

On formats, media buyers are clear that the current diversity of radio stations is valuable as it enables them effectively to target specific audience groups. In addition, they believe that in the absence of format regulation there would be convergence on the mainstream in terms of output and audience. For these reasons they are not in favour of format freedom: the resulting decreased choice perceived to be the inevitable end result of such an action would in their general opinion be bad for listeners and advertisers alike.

Again, whilst we accept this as opinion, it is clear to us that there has to be further and extensive future educational programmes put in place aimed at the media buying fraternity in order to build trust in the future of analogue and digital radio in the UK. Until that time we accept the proposal by Ofcom that the character of performance would best suit the industry until a further review is required.

Better programmes and ideas rather than deregulation is seen to be the simple answer to media buyer’s general requirements from the industry and GMG Radio wishes to see the two areas working collectively rather than conflicting in order to help in freely achieving a platform to deliver what is required.

The City

² Mediacom, Carat, Mindshare, Initiative, Manning Gottlieb OMD, Mediavest Manchester, Zenith Optimedia

We have spoken to Heads of UK investment banking at two large City institutions³. Again, their perception is that regulation is indeed heavy and costly at present. However, as with the media buyers, they do not believe that the regulatory burden is the industry's principal problem.

They accept that networking big name talent could be interesting. However, their view is that the regulator does not trust the industry with a greater degree of deregulation. There doesn't appear to be a great deal of evidence to back up this perception but nevertheless it indicates that the industry alongside the regulator needs to work together in eliminating negatives within the investment community.

For this group, consolidation is the main reason to be optimistic. Of course there is self-interest at play here, but they also believe that consolidation may lead to improved outcomes if it results in improved commercial performance and enables cooperation across the industry.

Industry experts

The clearest theme from these interviewees is namely that the key according to those with some very positive and also negative experiences of the industry is improved management and investment rather than deregulation.

Again, the current regulations are perceived to be costly but necessary in order to keep the radio groups on the straight and narrow. Their concern is that the radio groups would use deregulation as a way to take out costs which, in turn, would fuel a negative cycle of cheap content, declining audiences and declining investment.

However the views taken though sincere are difficult to form in to a specific pattern of how the industry manages its business as subjectivity will be an issue. However it is clear that the future of radio needs expertise and has to be managed expertly and proficiently by the individual groups with or without regulation.

Politicians and the regulator

We understand that Politicians place high value on the localness of commercial radio – not least because of the platform it affords them within their constituencies. There is a concern that any attempt to dilute the local element – for instance, by networking in peak hours – would trigger a backlash of opposition from MPs. However, we already know that recently adopted local news rules set by Ofcom have been a success.

There are very few MPs (if any) who could justifiably point to a dilution in local news as a result of these new regulations. In fact the reverse is true and where local news and information is important, the introduction of new working methods by the commercial radio industry has resulted in more local information transmitted rather than less!

³ Citigroup and Lehman

There is a degree of exasperation at the radio groups and a feeling that at least some of their woes have been self-inflicted. As a perception we understand that these views are generated potentially by specific instances rather than industry generalisation. GMG Radio as previously disclosed has invested in the future of radio with vigour and commitment as have other groups and as in any industry it is virtually impossible to get it right all the time although unfortunately it tends to be the bad rather than good news that is remembered in most instances.

We would therefore ask that Ofcom makes note in its final conclusions of the numerous excellent positive initiatives implemented by commercial radio in a sometimes difficult and sustained volatile commercial environment.

Listeners

Consumer research conducted by Ofcom⁴ suggests that there is broad support for localness and diversity in commercial radio services, both of which outcomes are secured by the current regulations. This is significant since, as an “evidence-based” regulator, Ofcom attaches considerable weight to the views of listeners.

Listeners rank local news and information and a variety of musical styles and eras amongst the most important attributes of UK radio overall. They also say that local news and information and musical variety are the attributes they most expect commercial radio, in particular, to deliver. Moreover, they say that it is particularly important to be able to hear local programming at peak times of the day.

Listeners have a list of primary requirement when listening to commercial radio and by implication we believe for them that content is key. News, features and music are important and the idea of not being entertained is of primary concern. As long as enjoyment of the station is maintained, loyalty remains high and issues such as regulation are down on the ‘need to know’ list of requirements.

Generally, listener satisfaction with UK radio unlike the City, Media Buyers, Politicians and Industry experts is high and no doubt fuelled by a much simpler understanding of what they like and what they don’t. Politics does not come in to the matter and this was also borne out by the majority of the 7000 interviews conducted by GMG as stated in the background introduction to this response. In relation to local news and information and musical variety, in particular, satisfaction is also high. There is a strong correlation between satisfaction and the perceived importance of these elements.

In our view, listeners don’t mind where the local news is read and this is supported by evidence from The Big Listen as long as it is local and is sympathetic to local knowledge and pronunciation. Most also say that they would be happy to hear a mix of local

⁴ Radio – Preparing for the Future. Appendix A, Radio – Preparing for the Future. Phase 1: Developing a new framework. Appendix B

programming and other content produced from outside the local area. These findings are potentially interesting since they suggest that listeners may not be opposed to some networking as long as local news and information is included and they are entertained.

In general across the interviews conducted during GMG's licence application processes, most believed that whereas local news and information was essential, they generally believed that short and concise bulletins of 2-3 minutes throughout the day were preferable and that it was important to include national as well as local news.

GMG proposals to Ofcom

As previously identified, all of GMG's radio stations fall into the category of large stations which, under Ofcom's plans, would be required to produce at least 13 hours per weekday of locally-produced content, including at least 10 in daytime and all peak hours. Currently, all bar one of GMG's stations are obliged to produce between 18-20 hours of local content.

Under this revised option, there still appears to be no available window to achieve during peaktime, an opportunity to present and promote network flagship, content intensive and challenging style programming presented by well known presenters. Programming with star appeal and local news and content which we believe would challenge BBC dominance via networking across a range of services within our UK analogue and digital services. Being able to do so would in our opinion enable GMG Radio and the industry in general to compete more effectively with the BBC and utilise any savings by centralising production / studios and the opportunity to generate uplift in advertising revenues in order to invest in content.

As the vast majority of commercial radio listening is during daytime the shift proposed in the consultation from our current 18-20 to 10 hours of daytime and 13 hours in total locally produced content would only create additional networking opportunities generally across two presenter sessions – one three hour slot between 0900 - 1600 and one further window in the evening schedule. As such, it is highly unlikely that non peak programme opportunities would attract the calibre of recognisable talent to commercial radio which peak three or four hour expertly produced and marketed content rich quality shows would. These shows whereas networked to several stations would still include a full local news service and features containing locally relevant information and windows of opportunity within the programme together with opportunities for both local and network sponsorship and advertising opportunities.

GMG Radio believes it to be in the industry's interest for immediate complete self regulation of local and ultimately all broadcast content and recommends an initial trial period of at least two years. In the event that this may be seen as over visionary we would therefore like Ofcom to alternatively consider relaxation to allow peak network programming opportunities during daytime for all stations with a minimum local programming requirement of 8 hours each weekday. This alternative should also be

subject to review after two years with regards to allowing further reductions or ultimately allowing complete self regulation in all broadcast content.

GMG Radio has a reputation and history of believing in local content and invests heavily in marketing its brands to local and regional audiences. Our commitment to excellence in news and presentation is well documented with large newsrooms and our strong and passionate management teams ensure that our ongoing and key priority is to build brands with strong and innovative programming aimed specifically at our target audiences.

GMG Radio also enjoys great loyalty and trust from audiences and we would not seek to jeopardise this relationship in any way with diluted content. However the current and newly proposed de-regulation doesn't give enough comfort and continues in the main to stifle ideas and aspirations.

We therefore believe that a major opportunity exists to compete head on with the BBC and in particular during strategic daytime parts with new impactful programmes which at the same time deliver locally requirements. This can only be achieved by further relaxation than currently proposed from Ofcom on local content. In short, the rule regarding locally produced and presented needs to be relaxed.

Accelerated timing

Currently the estimated impact and relaxation of format described in the consultation document would kick-in once a digital UK wide listening threshold of 33% was reached.

According to Ofcom's forecasts, this is likely to be sometime next year at the earliest but we fail to understand why such a delay is necessary or believe that there should be a direct connection as stipulated in the consultation between the deregulation of local content on analogue with digital listening penetration.

However, we do agree that the current analogue published formats should be condensed in line with the less intensive character of service described in digital licences.

Overall conclusions

Please see the Executive Summary at the head of this response.

ENDS – 29th June 2007