The Communications Market 2010

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	2004	2005	2006	2007	2008	2009
Weekly reach of radio (% of population)	90.3%	90.0%	89.8%	89.8%	89.5%	89.8%
Average weekly hours per head	21.9	21.6	21.2	20.6	20.1	19.8
BBC share of listening	55.5%	54.5%	54.7%	55.0%	55.7%	55.3%
Total industry revenue (£m)	1,158	1,156	1,126	1,175	1,131	1,092
Commercial revenue (£m)	551	530	512	522	488	432
BBC expenditure (£m)	607	626	614	653	643	660
Radio share of advertising spend	3.5%	3.3%	3.0%	2.9%	2.7%	2.8%
DAB digital radio take-up (households)	5%	10%	16%	22%	30%	33%

Source: Ofcom, RAJAR (all individuals age 15+), BBC, WARC, radio operators 2009

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

- **BBC expenditure on radio increased by 26% over the five years to 2009, while commercial revenues fell by 22%** over the same period. Total radio industry income increased slightly in nominal terms as a result, up 1.5% (page 193).

- **By Q2 2010, digital radio platforms accounted for almost a quarter (24.6%) of all radio listening hours** according to RAJAR. This was up by 3.5 percentage points from 21.1% in Q2 2009. The majority (64%) of digital listening was through a DAB digital radio set, which accounted for 15.8% of all radio listening. Digital television accounted for a further 4.1% and the internet 2.9% (page 190).

- **The number of radio listeners reached a new high of 90.6%** (46.8 million adults) in Q2 2010 - the highest weekly reach recorded since the new RAJAR research methodology was introduced in January 1999. This figure was up by almost half a million in the year (90.3% of adults in Q2 2009) and was also up by 300,000 listeners on the previous quarter. The combined BBC stations reach was 67.0% in Q2 2010, compared to 63.7% for commercial radio (page 214).

- Despite more people listening, **the time spent listening to the radio has fallen over the past five years.** Listening hours were down by 5.3% in the five years to 2009, and by 0.4% on 2008. Total listening hours to all the BBC's radio stations were down by down 2.2% over five years and by 1.2% during 2009. By contrast, all commercial radio listener hours were stable over the year, but down 10.1% over five years (page 216).

3.1.2 Patterns of listening over digital platforms

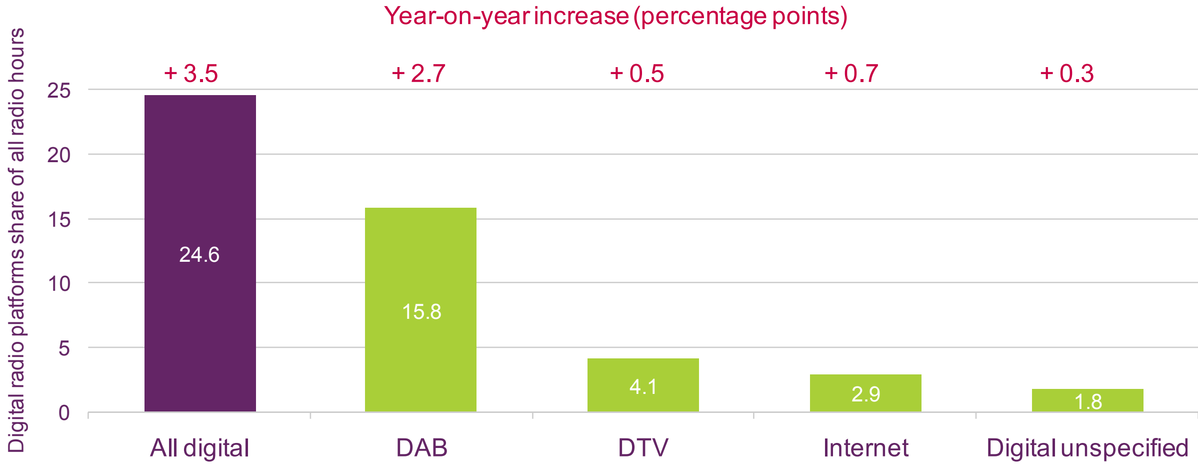
Almost a quarter of all radio hours are now through a digital platform

A growing number of households have access to the digital media platforms that support digital radio services. Digital television (DTV) take-up had reached 92% by Q1 2010 (up by three percentage points (pp) in a year), while DAB ownership stood at 35.3% by June 2010 (up by 2.3 pp in a year. Furthermore, 73% of homes now have access to the internet at home (broadband connections now account for the vast majority of these at 71%, up by 3pp).

This may have helped to drive up digital's share of listening hours. It reached almost a quarter of all hours (24.6%) by Q2 2010 and was up by 3.5pp from around a fifth of hours (21.1%) in Q2 2009.

DAB digital radio accounted for almost two-thirds of all digital listening, up by 2.7pp on Q2 2009 to 15.8%. Digital television was the second most commonly-used digital platform, making up a further 4.1% of all listener hours, up by 0.5pp in the year. Listening online took a further 2.9% share, up 0.7pp, with an element of 'non-defined' digital listening making up the remaining 1.8% of the digital share (Figure 3.2).

Figure 3.2 Digital radio's share of total radio audience, Q2 2010



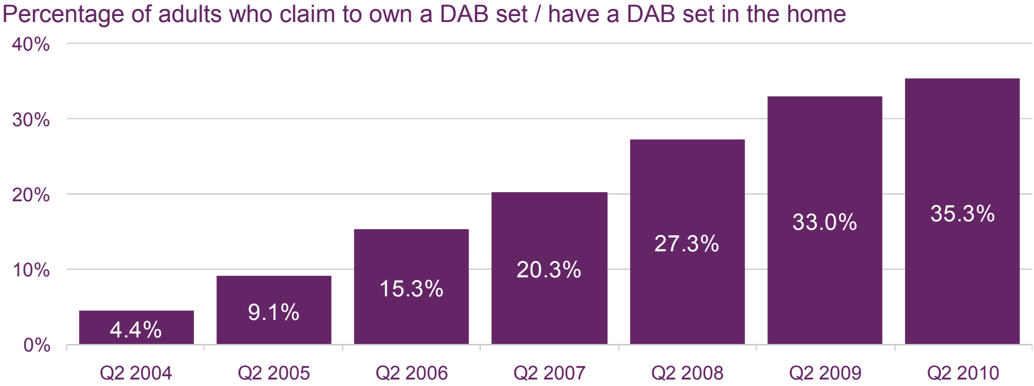
Source: RAJAR (adult listeners 15+), Q2 2010

Over a third of adults now have access to DAB radio at home

Cumulative sales of DAB digital radio sets passed the 11 million mark in June 2010, with RAJAR estimating that over a third of UK households (35.3%) owned a DAB radio set by Q2 2010 (Figure 3.3). This grew from only 4.4% of homes six years ago and was up by 2.3 pp over the past year. DAB sales accounted for over a fifth (21%) of radio sets sold, and 65% of all portable radios sold in the past year. Seventeen per cent of adults said they were likely to purchase a DAB set over the coming year, according to Ofcom research carried out in Q1 2010; 50% said they did not intend to acquire a DAB radio in the year.

There are over 100 million radio sets in the UK (both in-home and in vehicles). This estimate is based on figures from Ofcom research and retail sales data. Between 10% and 11% of these sets are estimated to be digital[50].

Figure 3.3 Ownership of DAB sets

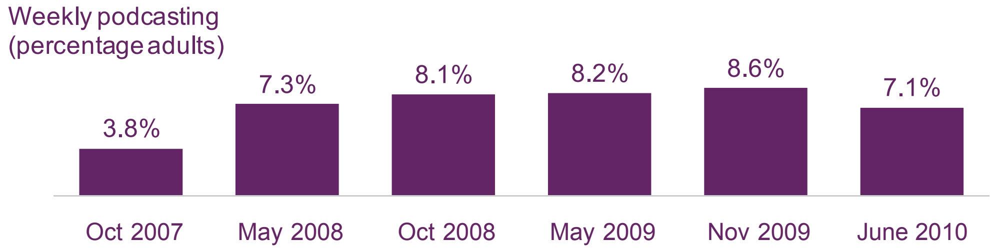


Source: RAJAR / Ipsos MORI / RSMB Q2 2010

Seven percent of adults listen to podcasts every week

Podcasting was a weekly activity for 7.1% of adults in June 2010, down from 8.6% in 2009, but up from 3.8% under three years ago in October 2007 (Figure 3.4). The RAJAR survey also found that, on average, listeners subscribed to around five podcasts per week, and spent around one hour a week listening to them. Comedy and music remain the most-downloaded genres. Almost three-quarters (74%) of respondents claimed that listening to podcasts had not reduced their listening to live radio stations, and over a third (36%) said they now listened to more radio programmes as a result of podcasting. Over three-quarters (77%) of users said they listened at home, with almost half (45%) said they listened to podcasts while on the move.

Figure 3.4 Listening to podcasts



Source: RAJAR / Ipsos MORI, 'Measurement of Internet Delivered Audio Services (MIDAS 6)', June 2010 survey based on interviews with 1,083 respondents from the RAJAR survey, previous surveys 2007-2009.

Radio apps becoming more widely-used by mobile phone listeners

There are a wide range of devices through which consumers can access radio services and other audio content such as digital music files, including mobile handsets and MP3 players.

Around one in eight adults (13%) had at some time used their mobile handset to listen to radio, by June 2010. This was stable year on year, but more than double the figure five years ago (6%). Of those listening via mobile, 54% selected a station by using a specific FM

[50] See Ofcom's recently-published report *The Communications Market: Digital Radio Report*, which can be found at: http://stakeholders.ofcom.org.uk/market-data-research/radio-research/digital-radio-reports/digital-radio-report01/

preset, while 14% ran an app for a specific radio station. Of smartphone owners, 20%, said they had downloaded a radio app, with over half (53%) using radio apps at least once a week. Separately, commercial radio group Global Radio announced that mobile phone listeners had downloaded one million of its radio station apps by January 2010, following the launch of these services in November 2008.

Younger adults (aged 16-24) more likely to download audio content and use hand-held devices

The amount of time spent consuming audio content (radio and music) varies by age group, depending on the type of content and by the device being used, according to Ofcom research carried out in June 2010.

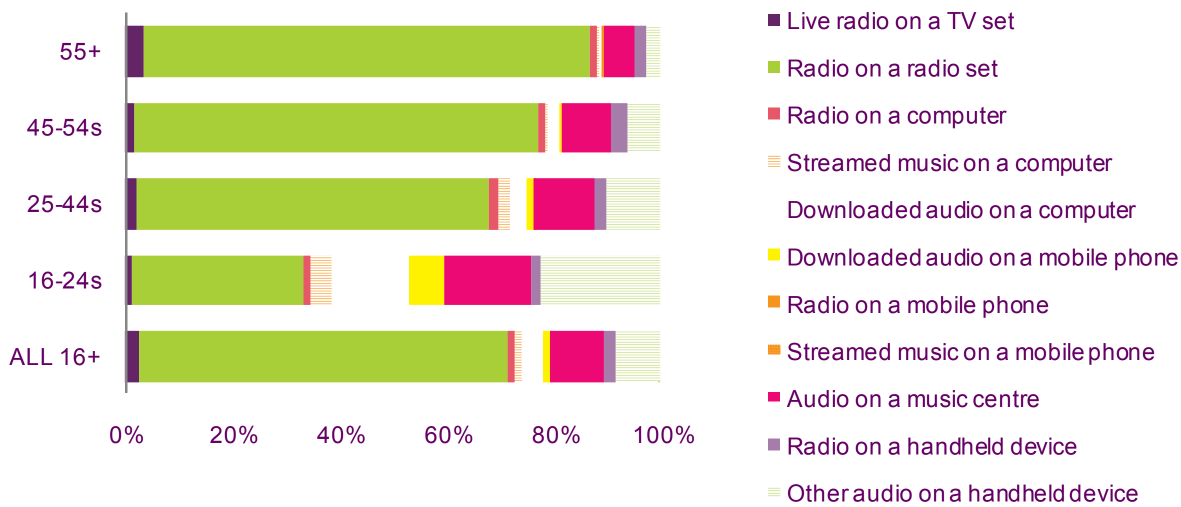
Among all age groups, listening to live radio on a radio set accounted for a substantial proportion of all audio consumption. But younger listeners (16-24) were also much more likely to use hand-held devices to listen to audio. It accounted for almost a quarter (24%) of all time spent listening to audio for this group. Of this time a vast majority (22%) was to other audio (such as MP3 tracks) with 2% was to radio services. By comparison 25-44s spent only half as much of their audio listening time (12%) using hand held devices. The figure fell further by age; among over-55s, hand held listening to audio content fell to just 5% of all audio consumption.

Downloading audio through a computer was also most prevalent among the 16-24 age group, at 15%, compared to the 4% average across all age groups. Downloading audio through a mobile accounted for 7% of audio consumption among 16-24s, compared to 1% on average. Similarly, listening to audio on a music centre was most popular among younger adults (16-24) at 16% compared to 10% across all age ranges.

Listening through a radio set was still the most widely used form of audio listening for all age groups. However this was much lower among 16-24s, where it accounted for almost a third (32%) of audio consumption. For the older age groups radio sets accounted for a majority of their listening time; for the over 55s, the ratio was 83%; for those aged 45 to 54, it was three-quarters of audio time and for 25-44s the figure was two-thirds of all listening time (Figure 3.5). For further analysis on media usage patterns see Section 1.3, The Consumer's Digital Day.

Figure 3.5 Proportion of listening time, by age and activity

Time spent listening to audio /radio by device / activity



Source: Ofcom research June 2010

3.1.3 The listening share of BBC and commercial radio services

BBC Radio's share of listening down but share of income up

The BBC's share of total radio listening was down slightly in 2009, while its share of total industry income rose. This came about as a result of higher BBC spending on radio services during 2009, and a corresponding fall in commercial revenues over the same period.

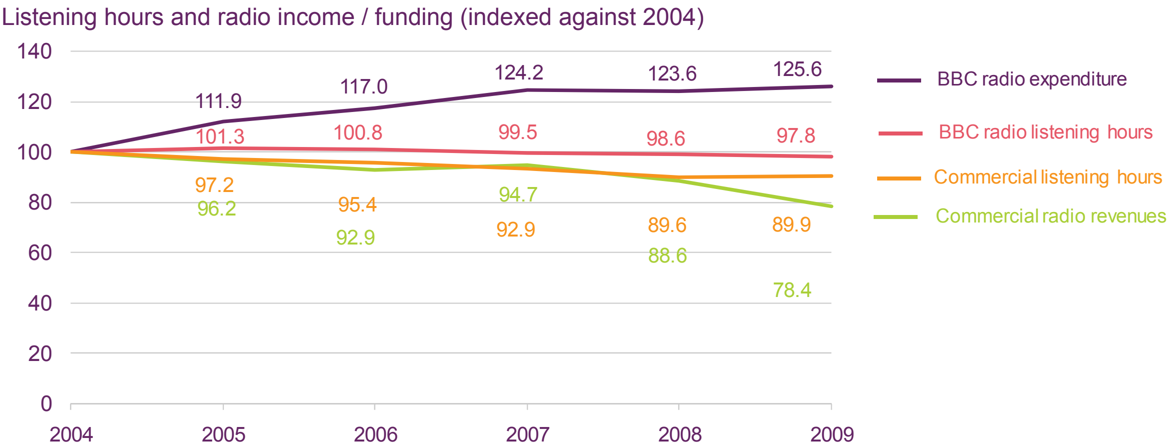
The BBC's total share of listening was down by 0.4 percentage points (pp) to 55.3% in 2009, while commercial radio accounted for 42.3% (up 0.1pp). The remainder was made up by 'other' listening (including; community radio, RSLs, and other categories such as unmetered listening), which was up by 0.3pp to a 2.4% share. The BBC's share of hours was also up over a five-year period, by 1.8pp from 53.5% in 2004. Over the same period, commercial radio's listening share fell by 2.3pp to 42.3% (Figure 3.6).

Commercial radio revenues fell by around 11.5% (£56m) to £432m during 2009. The BBC's expenditure on radio increased in the year; we estimate it spent £660m in 2009, up by 1.6% (£11m) on the previous year.

As a result of these annual changes in revenue and income, the BBC's share of industry income rose by 3.4pp to 60.4% (above its audience share of 55.3%) in the same year. The commercial sector's share of income was down to 39.6%, lower than its share of listening at 42.3%.

Indexing revenue data against the 2004 figures illustrates that BBC expenditure on its radio services has risen by more than 25% in five years; commercial radio revenues fell by just under 22% over the same period. At the same time, BBC listening hours fell slightly (by 2.2%), while commercial hours were down by 11.1% (Figure 3.6).

Figure 3.6 BBC and commercial listening / income, indexed against 2004 figures

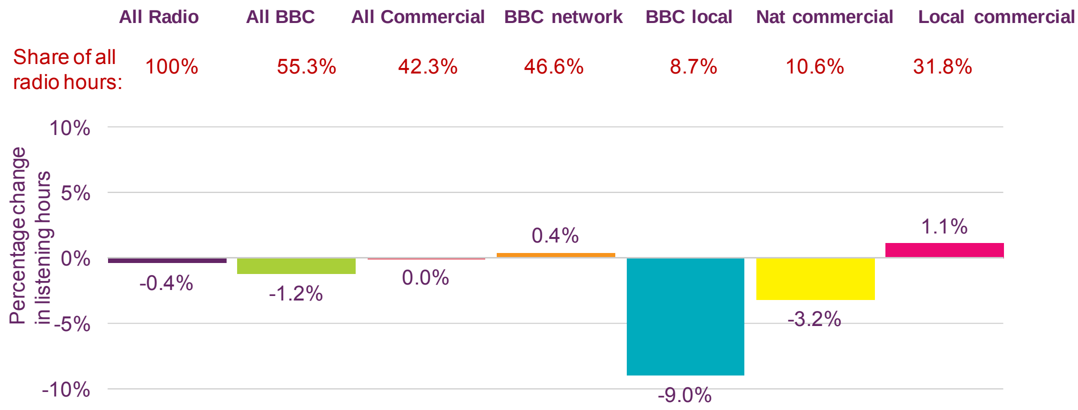


Source: Listening data based on RAJAR (Adults 15+). Funding share data based on commercial radio revenues and estimated BBC expenditure on radio for 2004-2009.

Local commercial sector listener hours up in 2009, as many other sectors fall

Total radio listening fell by 0.4% over the calendar year 2009, with BBC stations losing 1.2% of listener hours year on year. Over the same period commercial radio maintained its hours. Local commercial showed the best performance over the year, with listening hours up by 1.1%, while the BBC network hours were also up (by 0.4%). The BBC local / nations' services experienced the largest reduction in 2009, down by 9%. The national commercial stations' listening hours were down by 3.2%.

Figure 3.7 Change in listening hours 2008-2009, by sector



Source: RAJAR, (all listeners aged 15+). Data based on calendar year 2009 against 2008

3.1.4 Listening patterns, by age group

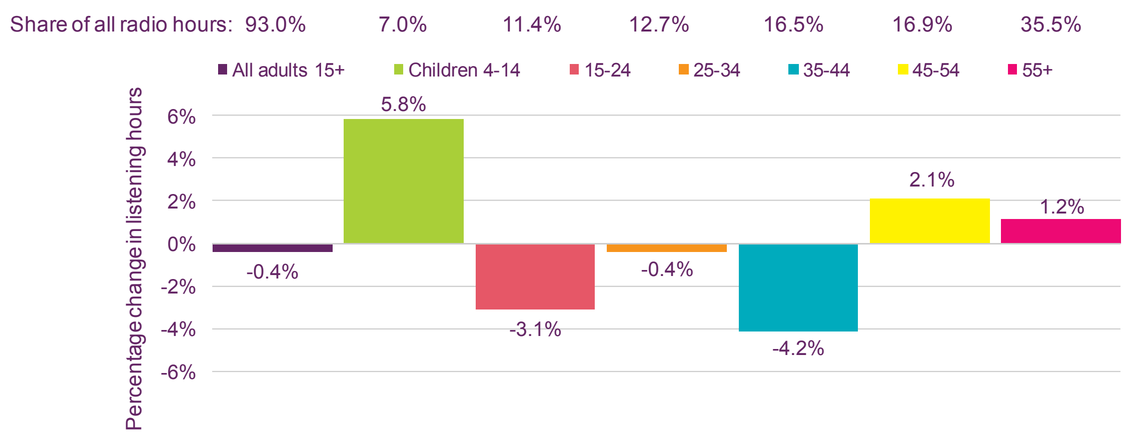
Listener hours among youngest and oldest age groups rose in 2009, while 15-44s' hours fell

During 2009, listening trends across age groups were mixed, as children aged 4-14 and listeners over 45 increased their time spent listening to radio services, while adults aged 15-44 spent less time listening to radio.

Overall listening among adults was down 0.4% year on year to 19.8 hours/week in 2009 and down by 2.1 hours in five years. By comparison, television viewing rose during 2009, with average viewing at 26.3 hours per week, up by over two hours from 24.2 in 2008 and up from 23.9 hours five years before in 2004 (see page 97 for TV metrics).

The largest increase in radio listener hours was among children, up by 5.8% in the year. Hours among 45-54s also increased, by 2.1% with over-55s up by 1.2%. The largest falls in listener hours were among adults aged 35-44 (down 4.2%) and 15-24s (down 3.1%).

Figure 3.8 Changes in listening hours, 2008 - 2009, by age group



Source: RAJAR, data based on calendar years 2008 – 2009. Note: 4-15 age group data based on smaller sample size.

3.1.5 Key policy developments during 2009/10

In 2009/10 a number of radio-related initiatives were announced.

Department for Culture Media and Sport announces Digital Radio Action Plan, July 2010

In July 2010, the Department for Culture, Media and Sport (DCMS) announced its Digital Radio Action Plan. It sets out a process to assess the potential for switching the majority of radio services in the UK to digital formats. The report emphasised that a digital switchover process should be primarily consumer-led. It also included milestones which would need to be achieved before the government could begin to implement a transition from analogue to digital radio:

- 50% of all radio listening is via digital platforms; and
- national DAB coverage comparable to FM, and local DAB reaching 90% of the population and all major roads.

The Action Plan supported a target switchover date of 2015 for the industry to work towards, but emphasised that the criteria outlined above would need to be met before a migration process could begin.

The Digital Economy Act and its implications for radio services, June 2010

The Digital Economy Act 2010 received Royal Assent on 8 June 2010, and contains several provisions relevant to the radio sector.

It includes clauses to enable digital switchover of national and local stations, under which they would stop broadcasting on the analogue platforms of FM and AM and broadcast only on digital platforms. These clauses give Ofcom the power to terminate analogue licences, if switchover is triggered by the Secretary of State.

The Act also increased Ofcom's discretion with respect to commercial radio regulation, allowing it to reduce the constraints on analogue stations, following a consultation and statement (described below).

Developments in radio regulation, 2010:

Ofcom concluded a consultation relating to commercial radio localness during the year, with a consultation on commercial referencing in radio programming still open until September 2010.

1. Ofcom statement on commercial radio localness regulation (published 15 April 2010)

This statement set out Ofcom's policy decisions on regulating for localness, following the proposals made in the July 2009 consultation, the responses we received to that consultation and the changes introduced by the Digital Economy Act 2010.

The changes in regulation included:

- Regional FM stations may ask to stop local programming, allowing them to share their programming across a number of regions if they broadcast a national version of the service on DAB.

- Local stations may ask to co-locate and share programmes within approved areas, this effectively allows larger stations in order to aid in commercial viability. Ofcom will need to be satisfied that the stations involved will continue to provide local material relevant to the listeners in the licensed areas.

- Local stations may reduce local programming hours in return for more local news.

- Local AM stations may ask to drop all local programming - but must broadcast at least ten hours a day of daytime programming (including breakfast) on weekdays from within their home nation.

- The local multiplex map may be redrawn - Local and regional multiplexes may ask to carry the same set of stations as adjacent multiplexes within each approved area.

2. Broadcasting Code consultation: commercial references in radio programming[51]

In 2010, Ofcom consulted on four options in relation to commercial communications on radio. These ranged from retaining the regulatory status quo to providing much greater liberalisation, including allowing commercial communications to be integrated within editorial content.

Commercial communications on radio are, generally, paid-for broadcast references to products and services. They currently comprise:

1. spot advertisements, which are broadcast in commercial breaks; and

2. sponsorship credits, which identify programming (or station) sponsorship and are broadcast around (and sometimes in the course of) the sponsored programming.

Currently, spot advertisements must be kept separate from radio programming (sometimes referred to as 'editorial') and feature only in commercial breaks. The only paid-for commercial communications in the course of radio programming that are currently permitted are therefore sponsorship credits.

This consultation closes on 17 September 2010.

[51] http://stakeholders.ofcom.org.uk/consultations/bcrradio2010/

3.2 The radio and audio industries

This section examines the characteristics of the UK radio industry, focusing on financial data (including commercial revenue and BBC expenditure) and the audience shares of the main players by sector. It includes a review of the main market developments during 2009/10 and a round-up of the licences awarded by Ofcom during 2009/10.

Key points in this section include:

- **Total UK radio industry income stood at £1.1bn in 2009, down by 4.0% on 2008**. This compares to £11.1bn of revenue in the TV industry for 2009, down 0.4% on the year (page 198).

- **Total commercial radio revenue was down by 11.5% (£56m) to £432m in 2009** (a fifth (22%) smaller in 2004). This means that the commercial share of industry income (40%) is now lower than its listening share (42%). We estimate that the BBC spend on radio rose by £11m (1.6%) to £660m (accounting for a 60% share of all radio income/spend) (page 198).

- **Expenditure on radio advertising was up by 5.3% year on year in Q1 2010.** Latest figures from WARC show that expenditure on radio advertising had reached almost £114m in Q1 2010; this was up by 5.3% in real terms year on year, following a decline in spend in previous quarters. (page 199).

- **The commercial radio stations' share of all radio listening stood at 43.2% by Q2 2010** (42.7% in Q2 2009), of which local commercial licensees accounted for just under a third of listening (32.2%) and national commercial stations for 11.0%. Of the commercial groups, Global Radio attracted a share of 16.6% of all radio hours by Q2 2010 (17.2% in Q2 2009); Bauer Radio group's market share stood at 10.7% (10.7% Q2 2009). Among the shares of other leading groups were GMG (4.3%), UTV (2.7%), Absolute (1.1%), and Orion (1.0%) (page 203).

- In the music industry, 19% of all recorded music revenues were generated by digital products in 2009. The decline in overall recorded music revenues slowed to just 0.8% in 2009. The declining rate of reduction was helped by a 27% increase in singles sales alongside the growing contribution of digital sales (Page 201).

3.2.1 Radio industry revenues and expenditure

UK radio income down 4% to £1.1bn in 2009

Ofcom estimates that total radio income in 2009 stood at almost £1.1bn, down by 4.0% (£45m) on 2008. This compares to 2009 TV industry income of £11.1bn, down 0.4% in the year (see page 98 for further information on TV revenues). The radio revenue figure comprises all reported commercial radio revenue, together with our estimate of the BBC's spend on radio services.

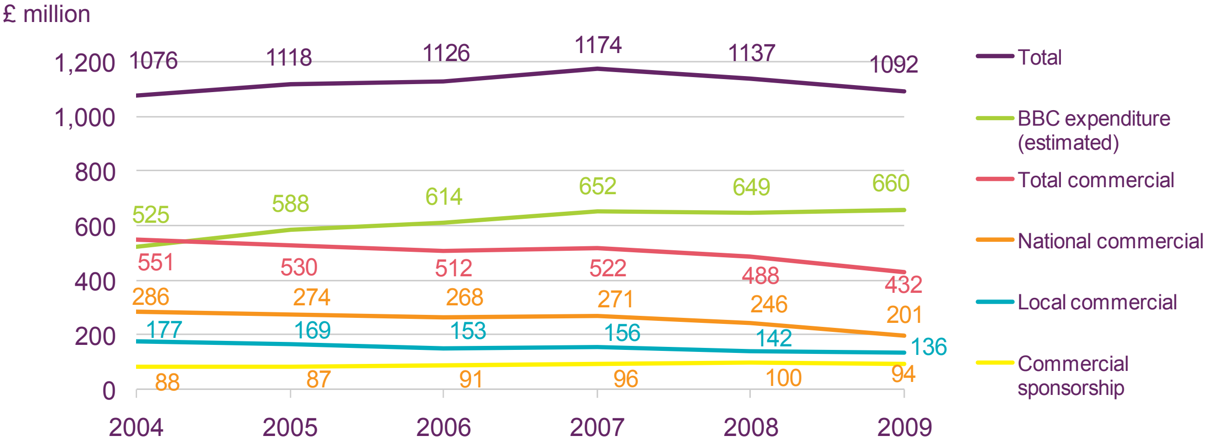
We estimate that BBC spend on radio in the calendar year 2009 increased by almost £11m (1.6%) year on year to £660m. By comparison, BBC expenditure on TV increased by 1.5% (£40.6m) to almost £2.7bn while BBC spend on online services was up by 8.1% (£15.6m) to £209.3m.

Total commercial radio revenues were down in 2009, with income of £432m, falling by £56m (-11.5%) on 2008. Revenues in 2009 were also lower than five years ago; down by a fifth

(22% or £119m). However, the latest quarterly results for Q1 2010 show signs of stabilisation, with revenues up 5% on the corresponding quarter in 2009, but still down 11% on two years ago.

Of the £432m generated in 2009, national advertising sales accounted for £201m, down by almost £45m (-18.1%) on the year. Local commercial sales reached £136m, down by £6m (-4.4%) on 2008. Sponsorship revenue was down by almost £6m (5.7%) to £94m in 2009. Sponsorship has become a growing component of commercial revenues in recent years and accounted for over a fifth (22%) of all commercial revenues in 2009. This has been partly as a result of newer digital revenues from station websites and other areas such as competition sponsorship (Figure 3.9).

Figure 3.9 UK commercial radio revenue and BBC radio spending



Source: Ofcom / operator data / BBC
Notes: BBC expenditure figures are estimated by Ofcom based on figures in the BBC's annual report; figures in the chart are rounded

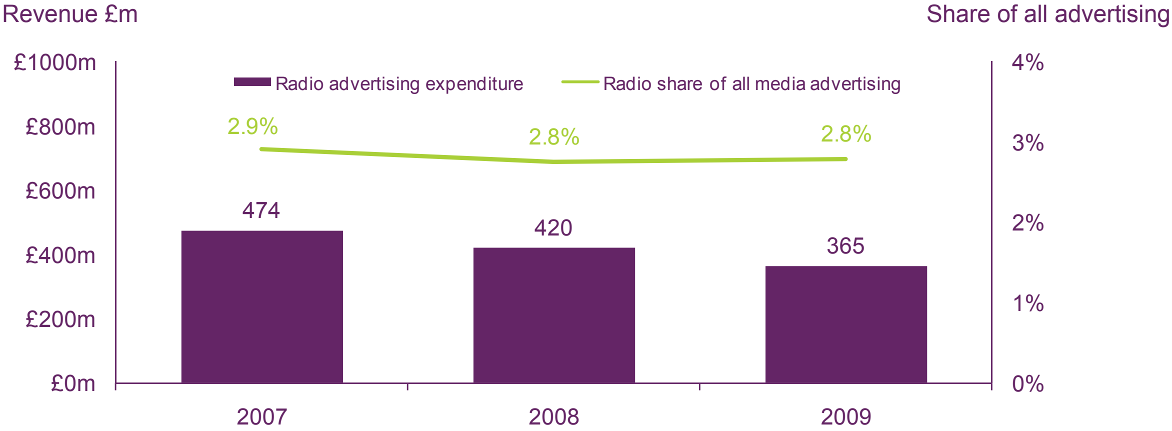
Expenditure on radio advertising down in 2009, but share of display market increases

The total UK advertising market was worth £14.5bn across all sectors in 2009, this represented a 14.4% fall in real terms on 2008 (though this relates to advertising spend – including production costs and agency fees - rather than revenues).

Expenditure on radio advertising fell by 13.1% in real terms in 2009, according to the World Advertising Research Council (WARC), but despite this fall, radio's share of the advertising spend increased to 2.8%, up by 0.1 percentage points in the year. By comparison, Ofcom's own industry revenue data suggests that that TV net advertising revenues were down by 29.6% in 2009 to £3.1bn.

For the first quarter of 2010, WARC data showed that expenditure on radio advertising had reached almost £114m and was up by 5.3% in real terms over the year, as the market showed some possible signs of stabilising.

Figure 3.10 UK radio advertising spend and share of display advertising, 2007 – 2009, (based on 2005 prices)



Source: The Advertising Forecast, WARC
Note: Chart data based on constant 2005 prices.

Commercial radio revenue per listener fell by 12.7% in 2009

By dividing the total net broadcasting revenues generated by the commercial radio sector by the average weekly listener reach, it is possible to derive estimates of revenue per listener. This stood at £13.71 in 2009, down by £1.99 (12.7%) on the previous year's figure (£15.70). It was down by £3.90 (22.1%) in five years, as a result of falling radio advertising expenditure over the period. The reduction in 2009 was proportionally much higher than it had been for each of the last five years, at 13%, compared to an annualised average over the period of 5%.

Figure 3.11 Commercial radio revenue per listener

Source: Operator data and RAJAR

3.2.2 Audio content: popularity of digital formats growing as recorded music revenues begin to stabilise

Audio content was one of the first content types to feel the effects of the new opportunities for content distribution and consumption that arrived with the internet. Ofcom regulates the networks over which digital audio content flows in the UK, and as part of our online copyright infringement duties we take an interest in the markets for content delivered in this way. As part of these duties we will have to produce regular reports which will include data on developments in the UK's content industries, including the music industry.

In recent years the music industry (including the recorded music industry, the collecting and licensing societies, and music venues and promoters) has experienced a number of potentially disruptive trends, partly as a result of the emergence of the internet as a major distribution channel. These trends include:

- **disaggregation** – a-la-carte download services such as iTunes, 7Digital and the Amazon MP3 *store* allow consumers to buy individual music tracks for under £1, rather than having to buy an album 'bundle' of around 10 tracks;

- **falling prices** – data published by the British Phonographic Industry (BPI), a recorded music industry trade body, in May 2010 revealed that the average price of a CD album has now fallen to £7.99. This is a drop of around £3 or 26% over the past decade. During the same period prices rose by 28% as a result of inflation (as measured by the retail price index (RPI);

- **the growth of live music revenues** – PRS for Music (which collects royalties for artists when their music is played in public) data suggest that revenues from live music revenues grew to £1.5bn in 2009, up from £1.2bn in 2007;

- **the entrance of new players into the value chain** – the success of new entrants and retailers like Apple, with little previous involvement in the music value chain, has changed the market structure, with the net effect remaining uncertain. iTunes now accounts for 66% of singles expenditure by value, and 72% by volume, and takes a cut on every sale;

- **online copyright infringement** – it has been argued that the emergence of widespread online copyright infringement over peer-to-peer and other file-sharing networks can have an impact on music industry revenues; and

- **falling average music spend** – BPI data show that the average amount of music spent per person fell from £63 in 2008 to under £60 in 2009.

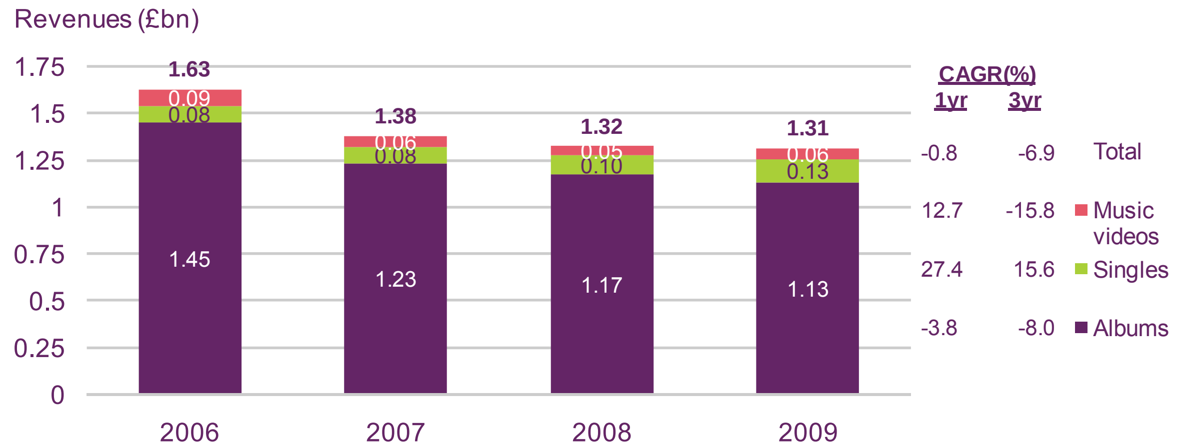
The rest of this section considers recent trends relating to the market for recorded music, as it forms an adjacent market to broadcast radio and is illustrative of the changing patterns of consumer behaviour as a result of digital distribution techniques.

The decline in recorded music retail revenues levelled off in 2009…

Despite these pressures, the decline in retail recorded music revenues slowed almost to a halt in 2009, according to data from the Entertainment Retailers' Association (Figure 3.12). Total revenues declined by just 0.8% in 2009, compared to a compound annual decline of 6.9% over the past three years. It is worth noting that this relative improvement in performance took place during a recession, when disposable incomes may well be squeezed. Total revenues stood at £1.31bn in 2009, compared to £1.32bn in 2008 and £1.63bn in 2006.

While album revenues continued to decline (albeit more slowly than in previous years), revenues from singles and music videos actually grew in 2009, by 27.4% and 12.7% respectively. The growth in singles revenue is likely to reflect the disaggregating effect of online download stores.

Figure 3.12 Recorded music retail revenues, 2006-2009

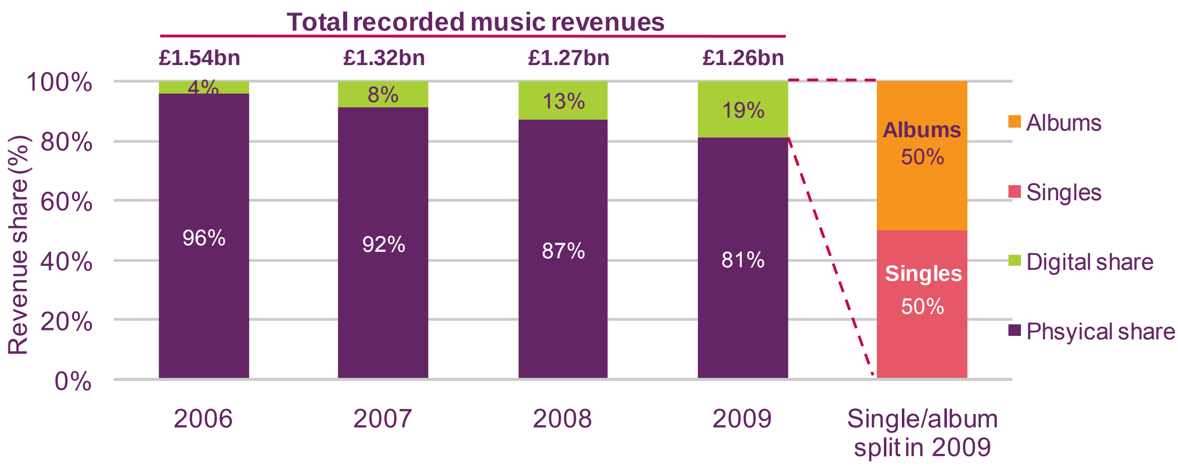


Source: Entertainment Retailers' Association yearbook, 2010.

…as digital continued to increase its overall share of revenues…

Digital music's share of overall recorded music revenues continued to rise in 2009. The Entertainment Retailers Association's data show that digital now accounts for just under a fifth (19%) of total recorded music revenue, and this is split evenly between album and singles formats (Figure 3.13). This figure has grown steadily from just 4% of total revenues in 2006.

Figure 3.13 Distribution of recorded music retail revenues, 2006-2009



Source: Entertainment Retailers' Association yearbook, 2010.
Note: This chart does not include data for music videos.

…and the decline in volumes of album sales slows

Consumers display contrasting habits in terms of the format of the music they purchase (Figure 3.14). Almost all singles tracks (98%) are now purchased via digital means. And overall singles volumes have grown rapidly: in 2006 consumers purchased a combined 66.9 million physical and digital singles, but by 2009 this figure had more than doubled to 152.8 million. It is likely that a large part of this is due to the increased availability of tracks to download as singles on music download services, and the removal of the need to buy tracks 'bundled' as albums.

For albums, by contrast, the digital and physical proportions are nearly reversed. In 2009, digital albums comprised only 12% of total album volumes, or 16.1 million units. But digital album growth is accelerating. In 2009, digital album volumes increased by 5.8 million units, compared to an increase of 4.1 million units in 2008. This growth in digital album sales went some way towards replacing the decline in physical albums, whose volume sales fell by 7.2% in 2008 and 8.5% in 2009 to reach 118.5 million units.

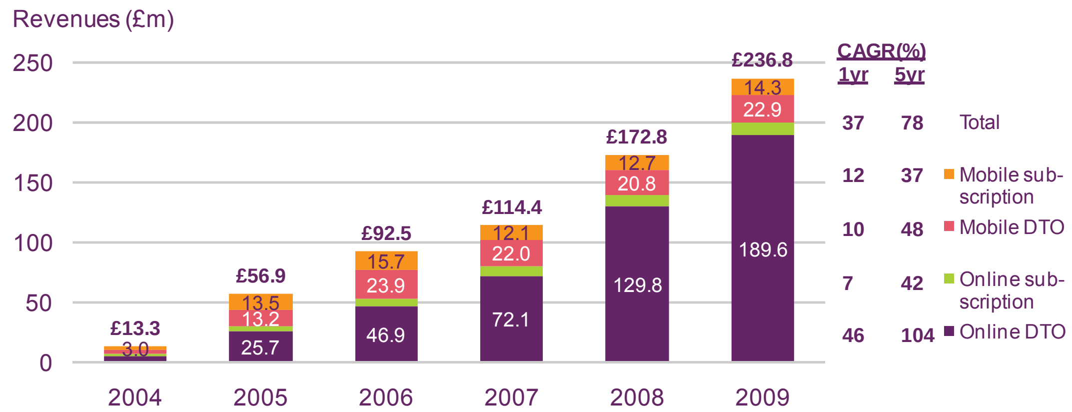
Figure 3.14 Recorded music sales by volume, 2006-2009

Source: Entertainment Retailers' Association yearbook, 2010.

Download-to-own is driving much of the increase in digital music revenues…

Data from Screen Digest show that the download-to-own (DTO) business model (i.e. sales of digital album and single downloads) is responsible for the majority of digital music revenues and is contributing much of the growth (Figure 3.15). Since 2006 DTO revenue has been responsible for more than half of all digital music revenue, and in 2009 this figure reached 80%. DTO has grown at a compound annual growth rate of 104% over the past five years, while total revenue has grown at a rate of 78%. According to Screen Digest, mobile digital music revenue (whether derived from DTO or subscription services) has experienced no significant growth since 2006, despite relatively high-profile launches of services.

Figure 3.15 Digital music revenues, by business model, 2004-2009



Source: Screen Digest.
Note: excludes revenue from ad-supported services. Due to different data sources this chart is not directly comparable with previous charts.

…and new business models continue to emerge

There has been increasing discussion in recent months about what impact new technological developments and business models might have on recorded music revenues, and whether they will add to, or alternatively, cannibalise existing digital revenues. Examples include:

- Advertising-supported streaming services such as We7, and hybrid services such as Spotify, which have sought to focus on ‘access’ rather than ‘ownership’ models of music consumption.
- Apple, the leading DTO provider, acquired music streaming service Lala in December 2009. Lala’s cloud-based streaming model contrasts with Apple’s DTO model, iTunes.

We consider music streaming services further in Section 3.3.12, page 226.

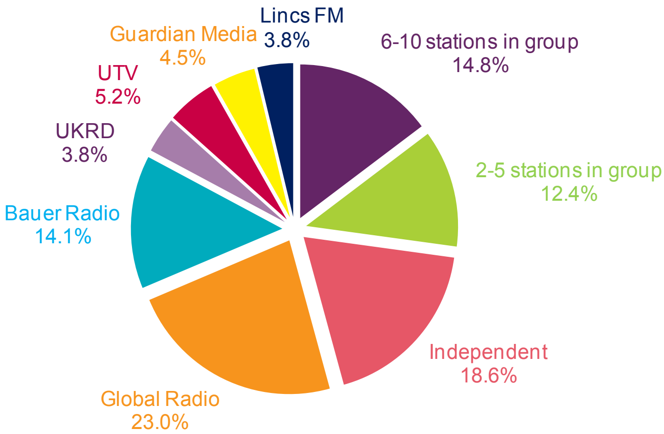
3.2.3 Radio sector market shares in 2009/10 - commercial radio groups

Five commercial groups own half of all the UK’s commercial radio licences

Global Radio is the largest group in the commercial radio sector in terms of licences held, owning 66 analogue licences (a 23.0% share). It is followed by the Bauer Radio group with 41 analogue licences (14.1%). Other groups include UTV with 5.2%, GMG (4.5%), UKRD (3.8%), and Lincs FM (3.8%). Together these six radio groups account for over half (54%) of all UK commercial radio licences, while almost a fifth of UK stations (19%) are held by independent owners (Figure 3.16).

Figure 3.16 Number of commercial analogue stations owned, by group

Percentage share of analogue licences



Source: Ofcom, July 2010

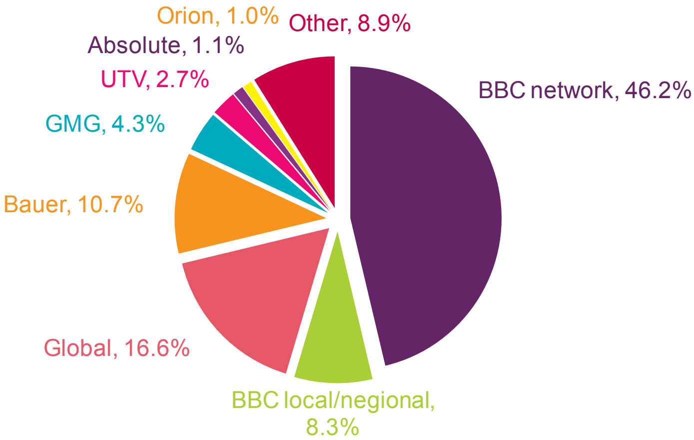
Commercial groups and BBC share of listening

The commercial radio stations’ share of all radio listening stood at 43.2% by Q2 2010 (42.7% in Q2 2009), of which local commercial licensees accounted for just under a third of listening (32.2%) and national commercial stations for 11.0%. Of the commercial groups, Global Radio attracted a share of 16.6% of all radio hours by Q2 2010 (17.2% in Q2 2009), while Bauer Radio group’s market share stood at 10.7% (10.7% Q2 2009). The shares of other leading groups included GMG at 4.3% (4.4% Q2 2009), UTV 2.7% (2.9% Q2 2009), Absolute 1.1% (1.1% Q2 2009), and Orion with a 1.0% share of hours in Q2 2010.

The BBC's radio share reached 54.6% by Q2 2010 this was stable on a year ago in Q2 2009. BBC network radio accounted for 46.2%, with BBC local/nations radio generating the remaining 8.3%.

Figure 3.17 Share of all radio listening hours, Q2 2010

Percentage of listening hours



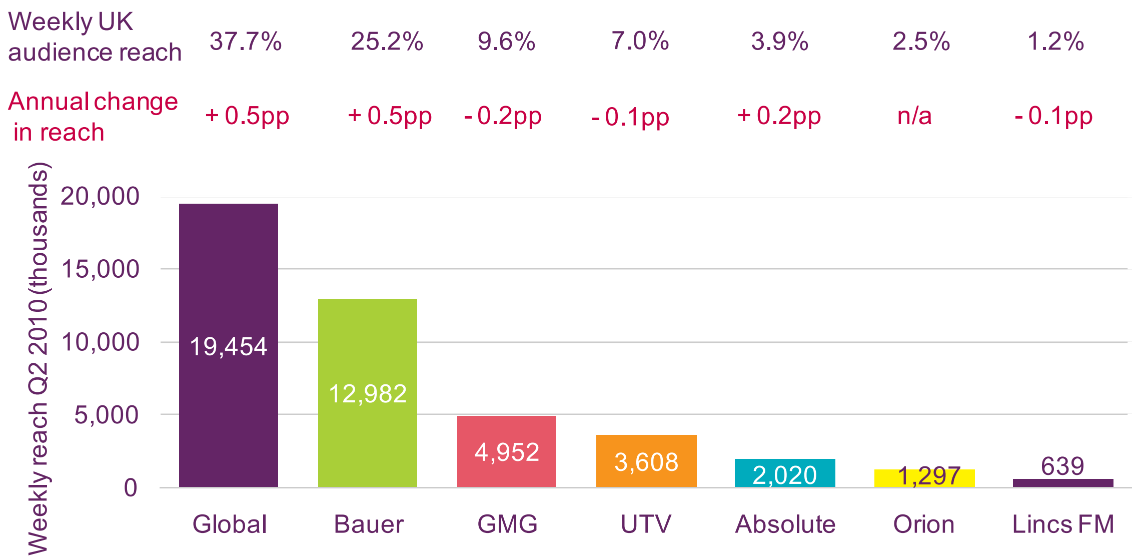
Source: RAJAR, (adults 15+), Q2 2010

Commercial groups' weekly audience reach

Just under two-thirds (64%) of the UK adult population listened to commercial radio on a weekly basis in Q2 2010. The largest commercial group, Global Radio, attracted a weekly audience of over a third of all adults (almost 38% or 19.5 million) to its network. Reach was up year on year (+0.5 percentage points).

The second largest group, Bauer Radio, attracted a weekly audience of just over a quarter (25%) of adults (13.0 million) during Q2 2010. Of the other commercial groups, GMG's stations drew an audience of almost 5 million a week (almost 10% of adults) in Q2, while the UTV group reached 3.6 million (7% of adults) and Absolute Radio just over 2.0 million, while Orion secured almost 1.3 million adult listeners a week in Q2 2010.

Figure 3.18 Commercial radio: weekly audience reach, Q2 2010



Source: RAJAR Q2 2010, (adults 15+)
Note: PP = percentage points increase

3.2.4 The BBC's radio services in 2009/10

The BBC radio stations were listened to by over two-thirds (67%) of UK adults every week in Q2 2010. The share of all BBC station listening hours equated to well over half (54.6%) of all radio listening in Q2 2010; stable on Q2 2009. The network stations' share accounted for 46.2% of all radio hours in Q2 2010 (45.9% in Q2 2009), while BBC local / nations radio attracted 8.3% of listening (8.7% in Q2 2009).

Weekly percentage reach of BBC stations

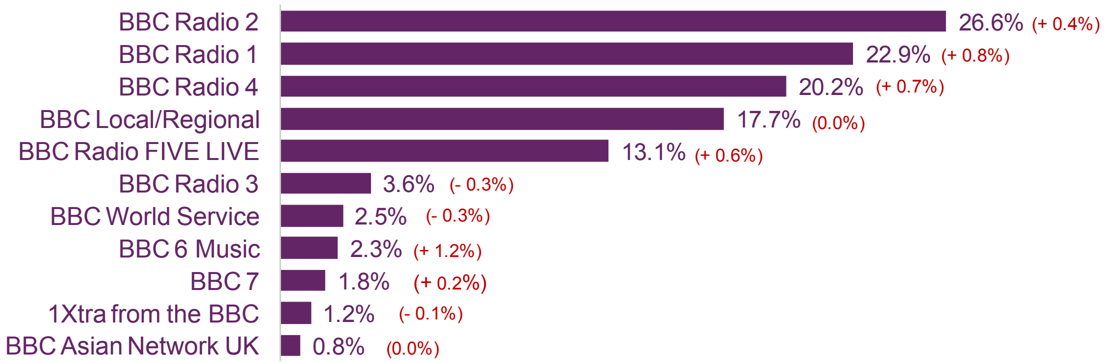
Of the individual stations in the BBC portfolio, BBC Radio 2 still enjoys the highest reach, with over a quarter (26.6%) of adult listeners tuning in every week in Q2 2010. This was equivalent to 13.7 million adult listeners in Q2 2010, up from 13.4 million in Q2 2009. Radio 2's share of listening hours equated to 15.9% of all radio hours in Q2 2010. The second largest station, Radio 1, reached 11.8 million of adults (up from 11.3 million in Q2 2009), equivalent to more than a fifth (22.9%) of adults per week. In terms of share, Radio 1 secured almost a tenth of all radio hours (9.3%) in Q2 2010.

In Q1 2010, the new host of the Radio 2 breakfast show, Chris Evans, attracted a new high of 9.5 million weekly listeners, compared to an audience of 8.1 million a year before when Terry Wogan had hosted the show. This was also the largest average audience for any radio show over the past ten years. By Q2 2010 the show's audience had fallen back to 8.5 million but was still up on 8.3 million a year before. The Chris Moyles morning show on Radio 1 reached 7.7 million listeners a week in Q2 2010, stable year on year.

Radio 4 reached just over one in five adults (20.2%) or 10.4 million weekly, with almost 7.0 million listeners tuning into the breakfast time *Today* programme, up from 6.5 million a year before. Just over nine million listeners tuned in to the BBC local/nations' services in Q2 2010, the average reach of 17.7% was stable year on year. BBC 6 Music's weekly audience doubled year on year up to 1.2 million in Q2 2010, up by 600,000 year on year. The BBC Asian Network was listened to by 437,000 people in Q2 2010 up from 421,000 in Q2 2009.

Figure 3.19 Weekly reach of BBC stations, Q2 2010

Average weekly listening audience (% UK adults), and year on year change



Source: RAJAR Q2 2010, (adults 15+)

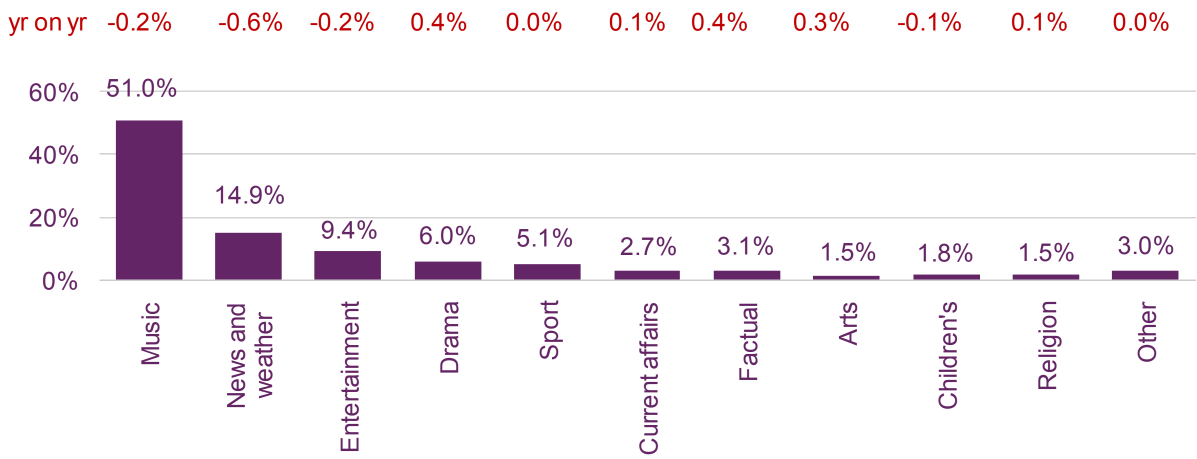
BBC network radio hours by genre

Music accounted for over half (51.0%) of all hours broadcast by BBC network radio in 2009/10; this ratio was down slightly on the year before (51.2% in 2008/09). The next-largest category was News and Weather, which accounted for 14.9% of broadcast hours (down 0.6% on the year). Entertainment had a 9.4% share of hours (9.6% in 2008/09), followed by Drama (6.0% up from 5.7%), Sports (5.1% down from 5.2%), and Current Affairs (2.7% up from 2.6%). Factual programme hours were up to 3.1% from 2.7% the year before, with Arts programming up 0.3pp to 1.5% of all hours.

The BBC has made a voluntary pledge that at least 10% of eligible hours on its national services will be made by independent producers. In 2009/10 just over 14% of BBC network eligible radio hours were independently produced; up from 12% the year before.

Figure 3.20 BBC network radio broadcast hours, by genre: 2009/10

Share of output (%)



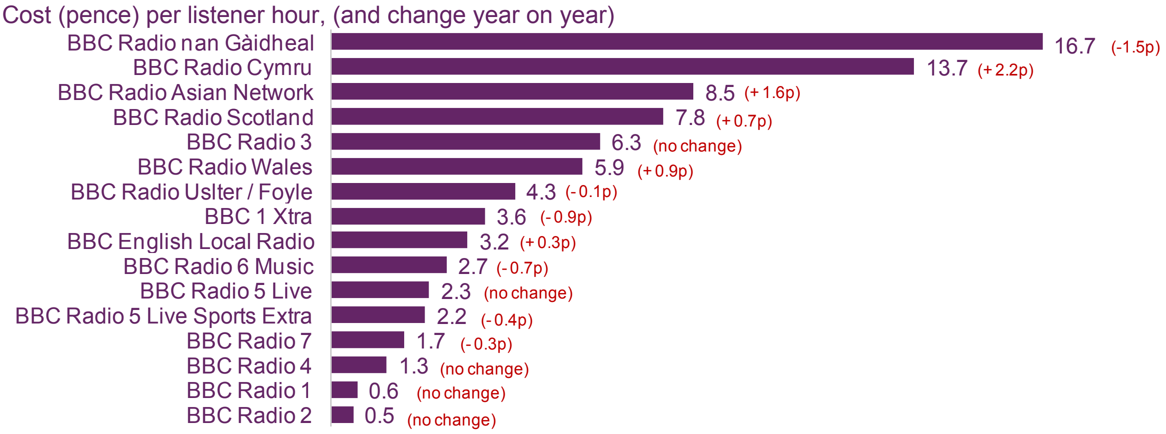
Source: BBC Annual Report and Accounts 2009/2010

BBC expenditure by station: BBC nations services have highest cost per listener hour in 2009/10

In 2009/10 national stations in Scotland and Wales incurred the highest cost per listener hour. BBC Radio nan Gàidheal cost around 16.7 pence per listener hour in 2009/10, although this was down by 1.5p on the previous year. BBC Radio Cymru cost 13.7 pence per listener hour, up 2.2p in the year. The third most expensive station was the BBC Radio Asian Network, at 8.5p per listener hour, higher by 1.6p than the year before.

In July 2010 the BBC Trust said it would consider a formal proposal for the closure of the Asian Network, although this must include a proposition for meeting the needs of the station's audience in different ways; for example, through providing regional services.

Figure 3.21 BBC radio stations: cost per listener hour of programmes, 2009/10



Source: BBC Annual Report and Accounts 2009/2010

3.2.5 Radio licences

By July 2010, 334 radio stations were broadcasting on AM, FM or digital audio broadcasting (DAB) platforms (including local, regional and national services). There were 510 stations broadcasting across the UK when including community radio. Several new national stations also launched in 2010, with four added to the national commercial multiplex, including; Absolute 80s, UCB UK, Premier Christian Radio, and more recently Smooth Radio, launching in August 2010.

Figure 3.22 UK radio stations broadcasting on analogue, DAB digital radio, and community radio, July 2010

Type of station	AM	FM	AM/FM total	DAB	Total
Local commercial	31	203	234	139	267
UK-wide commercial	2	1	3	10*	10
BBC UK-wide networks	1	4	5	11	11
BBC local and nations	36	46	46	32	46
Community radio	4	172	176	0	176
TOTAL	**74**	**426**	**464**	**192**	**510**

Note 1: In total there are 288 individual analogue services on AM/FM as 36 simulcast over both AM/FM wavebands. Of the 288 analogue stations and 191 DAB stations, there are 334 unique stations, as 46 stations are digital-only brands.

**The existing Digital One national DAB radio multiplex does not offer coverage of Northern Ireland.*

Note 2: A single radio brand may broadcast to many different parts of the country, using different technologies. For each area/technology combination, Ofcom issues a distinct broadcast licence (where it is licensable). The conditions of each licence will determine the amount of programming that may be shared between these licensed services. Here we have taken the view that a service providing at least four hours a day of separate programming (even if the same brand has other services) equals one service.

In addition to the services on AM, FM and DAB, over 75 stations were broadcasting on digital satellite in July 2010; 24 on Freeview and 35 on cable. Many of these are simulcasts of AM/FM/DAB services.

Community stations increasing, with 176 now on air

Community radio licences are awarded to small-scale operators working on a not-for-profit basis to serve local areas or particular communities.

By July 2010, 228 community radio licences had been awarded across the UK, with 176 of these already broadcasting, up from 141 a year ago. Ofcom estimates that approaching 10 million people, or almost 17% of the total population, can now receive a community radio station.

Of the 176 station currently on-air, 138 were in England, 18 in Scotland, 11 in Northern Ireland and nine in Wales. The majority of community stations serve a general audience, either in an urban area (17%) or a town / rural location (44%). However, many others serve defined communities of interest including those aimed at minority ethnic groups (14%), young people (9%) and religious groups (7%).

Based on information received from operators' annual returns, the average community radio station broadcasts live for around 77 hours a week, and typically transmits a further ten hours per week of original pre-recorded material. Almost a third (32%) of stations' daytime output is speech, featuring a diverse range of local organisations and community members. Music output is also varied: some stations focus on particular genres that are not commonly heard on the radio, while others take a more mainstream approach during the daytime but branch out into specialist genres in the evening.

The average station has around 75 volunteers, although there is a wide variation in volunteer staffing, ranging from one to 287. On average, a community radio station will attract about 222 volunteer-hours per week.

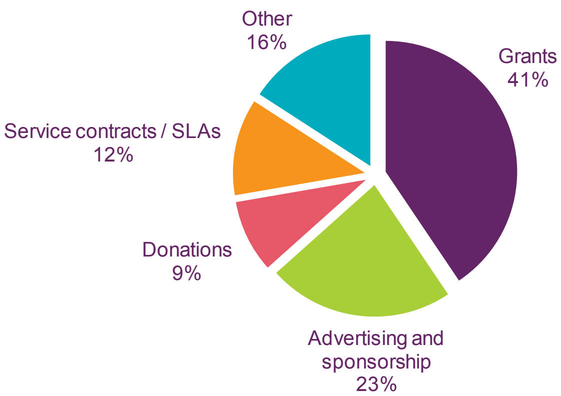
Financial information provided by almost 100 community stations reveals that the average station's income in 2008/09 was around £79,000, although actual incomes ranged from £3,000 to over £415,000. This was down by around 20% on the previous year's reported figures (the average for 2007-2008 was £101,000). Many community stations reported that they believed the recession had impacted not just on advertising but also on grant income.

The main source of income in 2008/09 came from grants, accounting for 41% of all funds, (although down from 45% in the previous year). These included awards from the community radio fund (administered by Ofcom on behalf of the DCMS) and from other central government bodies such as the Arts Council and the Ministry of Defence (in the case of some military-based stations).

Local authorities were also an important source of funding, as were the funding bodies supported by the National Lottery. On-air advertising and sponsorship accounted for almost a quarter (23%) of funding, (up from 20% a year ago). While service level agreements (SLAs) or service contracts (12%, similar to 11% a year previously), and donations (9% down from 12% in a year), and other sources (16%) made up the rest, SLAs involve the stations broadcasting output of social benefit on behalf of other organisations, in return for funding.

Figure 3.23 Community radio income, by source

Community radio stations' income 2008/09



Source: Ofcom, community radio station revenues 2008/09, based on 99 station annual returns

Community radio licences awarded for South East of England

In 2010, licences were awarded for stations which will serve communities in the following areas of South East England (Figure 3.24).

Licences are awarded for a five-year period and demand for them continues to be strong. Since community radio licensing started in September 2004, a total of 228 licences have been awarded, although 17 of these have been handed back to Ofcom.

Figure 3.24 Community radio licence awards in 2009/10

Community station	Location	Award date
Betar Bangla	Stratford, east London	June 2010
Generation Radio	Clapham Park, south London	June 2010
Greenwich Kasapah	Greenwich, south east London	June 2010
Reprezent FM	South London	June 2010
Rinse FM	Inner London	June 2010
Streetlife Radio	Waltham Forest, north east London	June 2010
Susy Radio	Redhill and Reigate, Surrey	June 2010
SAFE Radio	Grays, Essex	March 2010
SFM	Sittingbourne, Kent	February 2010
Gateway FM	Basildon, Essex	February 2010
Insanity	Egham, Surrey	February 2010
Kane FM	Guildford, Surrey	February 2010
The Vibe	Watford	February 2010
Ox FM	Oxford	December 2009
Ummah FM	Reading	October 2009
Marlow FM	Marlow, Bucks	September 2009
Bradio BGWS	Farnborough, Aldershot, Camberley and Fleet	September 2009
Seahaven FM	Newhaven, Seaford and Peacehaven, East Sussex	September 2009
The Park	Brockenhurst, Hampshire	September 2009
Voice FM	Southampton	September 2009

Source: Ofcom

3.2.6 DAB station choice

There are currently 21 national DAB services available; 11 from the BBC and 10 from Digital One, in addition to local services. The BBC multiplex carries all the BBC's UK-based radio services, Radio 1, 2, 3, 4, 5 Live, 6 Music, BBC Radio 7, BBC World Service, BBC Asian Network, 1Xtra and 5 Live Sports Extra. The Digital One network currently provides ten national stations across Wales, Scotland, and England, including Classic FM, talkSPORT, Absolute Radio, Planet Rock, BFBS, UCB UK, Absolute 80s, Amazing Radio, Premier and Smooth Radio.

Figure 3.25 illustrates the availability of national DAB services by nation/region, along with the typical number of local stations.

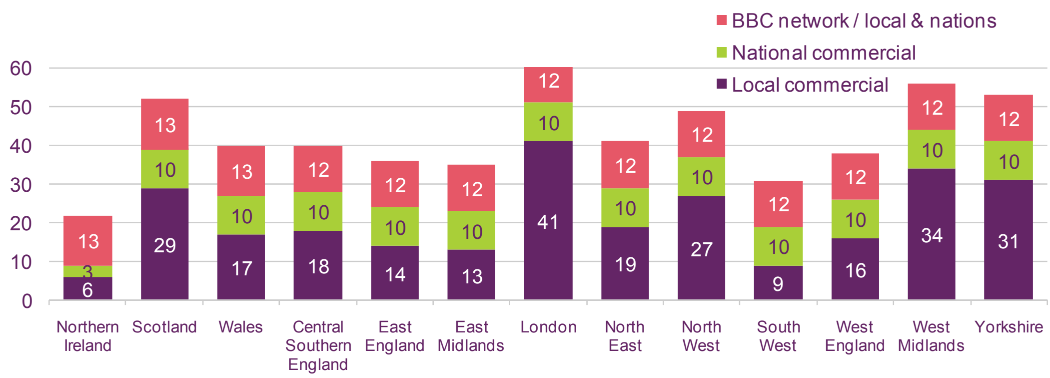
- Listeners in Northern Ireland can access up to 20 DAB stations, including the 11 national BBC stations plus BBC Radio Ulster / Foyle, and three of the UK's national commercial stations (Classic FM, talkSPORT and UCB). An additional six stations are available through the local DAB multiplex in Northern Ireland, including simulcasts of local commercial stations: Downtown Radio, Cool FM, Q102.9 FM, and City Beat 96.7, as well as two music-based stations, Magic and Heat.

- In Scotland, digital radio listeners in the Glasgow area have the greatest DAB choice with 38 stations, including the 21 national services, plus BBC Radio Scotland / BBC nan Gàidheal, and 15 commercial stations available through local or regional multiplexes. Listeners in Edinburgh and Central Scotland have access to a similar number, with 37 DAB stations available. Station choice was lowest in Inverness at 26, with three local commercial stations available on DAB.

- In Wales, people living in the larger conurbations of Cardiff, Swansea, and Newport can access up to 36 DAB stations, including the 21 UK-wide BBC and commercial stations, along with BBC Radio Wales / BBC Radio Cymru, with an additional 12-13 local services available through the local and regional multiplexes in each area. The areas in North and Mid / West Wales are currently served only by the national stations from the BBC and Digital One; a local commercial DAB multiplex for North Wales is due to launch in autumn 2010.

- In England, the choice of DAB stations across the English regions ranges from over 60 in the London area to 29 in areas such as Plymouth and Cornwall. Larger cities including Birmingham, Liverpool and Manchester have access to up to 42 DAB services, including the 21 national stations. Medium-sized cities such as Leicester, Nottingham, and Stoke have access to 30-31 DAB stations.

Figure 3.25 Availability of DAB stations, by area



Source: Ofcom. Note: This chart shows the maximum number of stations available in each area; local variations along with reception issues mean that listeners may not be able to access all of these.

3.3 The radio and audio listener

The following section examines how patterns of radio listening have changed in the UK over the past five years. It uses audience data to analyse listening by sector and by age group and draws on consumer research.

Key points in this section include:

- **The number of radio listeners reached a new high of 90.6%** (46.8 million adults) by Q2 2010 - the highest weekly reach recorded since the new RAJAR research methodology was introduced in January 1999. This figure was up by almost half a million on Q2 2009 (90.3% of adults) and was also up by 300,000 listeners since Q1 2010. The combined BBC stations' reach was 67.0% in Q2 2010, compared to 63.7% for commercial radio (page 214).

- Despite more people listening, the **time spent listening to radio services was down by 5.3% in five years,** and by 0.4% year on year. BBC Radio hours were down by 1.2% during 2009 and down 2.2% since 2004. By contrast, all commercial radio listener hours were stable over the year, but down 10.1% over five years (page 216).

- **Radio hours were down, particularly among younger listeners**, with the fall generally reducing in line with age. Among younger adults (15-24), hours fell by 13%; while among 25-34s they were down 11%. Listening among older age groups was more stable; down by 2% among listeners aged 65+, while among 45-54 year olds, hours were up by more than 1% (page 216).

- **Listening to national stations has increased, while local radio hours have continued to fall**. BBC network radio hours have risen by 3.7% in five years and national commercial hours are up by 1.3%. By comparison, local BBC station listening fell by 25.1% and local commercial by 13.4% (page 216).

- **By Q2 2010, digital radio platforms accounted for almost a quarter (24.6%) of all radio listening hours**, according to RAJAR. This was up by 3.5 percentage points from 21.1% in Q2 2009. The majority (64%) of digital listening was through a DAB digital radio set, which accounted for 15.8% of all radio listening. Digital television listening accounted for a further 4.1% and the internet 2.9% (page 217).

- **Cumulative sales of DAB digital radio sets reached 11 million by June 2010** (up from almost 9 million a year ago). RAJAR estimates that over a third (35.3%) of UK adults owned a DAB set by the end of Q2 2010, up by 2.3 percentage points on the previous year (page 222).

- **Four digital-only stations drew in over a million listeners per week in Q2 2010.** 'The Hits' was the most popular digital-only station, with a weekly audience of 1.4 million listeners over the quarter, although down by 25% year on year. BBC 6 Music's reach grew fastest over the past 12 months, reaching almost 1.3 million listeners in Q2 2010 (up by 87% year on year) (page 220).

3.3.1 Radio reach

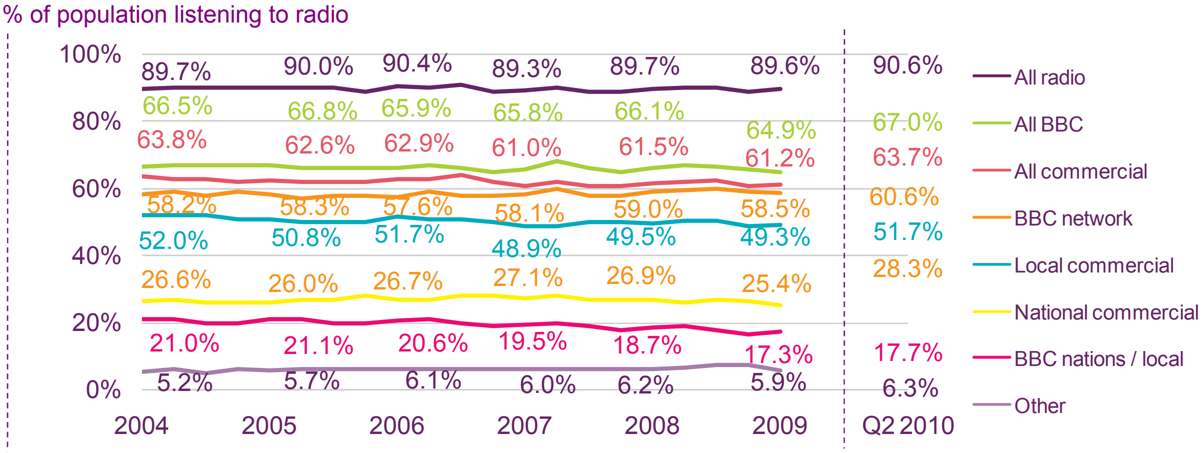
Radio audience reaches new high in Q2 2010

By Q2 2010 radio listening had reached a new high of 90.6% (46.8 million adults) listening on a weekly basis. This figure was up by almost half a million listeners on Q2 2009 (90.3% of adults). This was the highest weekly reach recorded since the new RAJAR research methodology was introduced in January 1999.

Compared to five years ago, the BBC's radio audience was up by 0.4 percentage points to 67.0% in Q2 2010. Commercial radio reach was also up by a similar amount (0.5pp) over the same period to 63.7% in Q2 2010.

BBC network radio reach rose the most, up by 2.3pp over five years to 60.6% in Q2 2010. BBC nations'/local audiences, however, were down by 2.7pp over the same period to 17.7%. Among commercial radio stations, the audience for the national services was up by 2.1% in five years to 28.3% in Q2 2010, while local commercial was stable at 51.7% in Q2 2010 (Figure 3.26).

Figure 3.26 Reach of radio, by sector



Source: RAJAR, (adult listeners 15+).
Note: Other listening includes listening to alternative radio categories such as; community radio, RSL stations, overseas radio, or other un-metered radio listening.
Q2 2010 reach figures have been included in this chart to provide the latest pattern of radio listening figures. The annual figures included here relate to the end of the calendar year in each case.

3.3.2 Listening hours

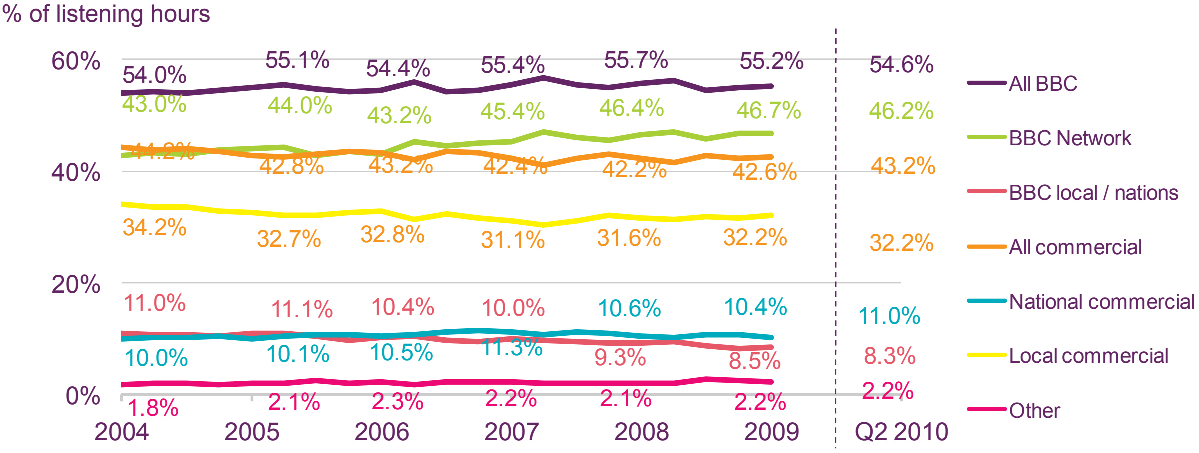
BBC stations attracted over half of all listener hours (54.6%) in Q2 2010 but commercial radio share was up on the year.

The BBC stations' combined share was well over half (54.6%) of all radio listening hours in Q2 2010. This was up by 0.6 percentage points in five years, but stable year on year. Commercial radio accounted for a 43.2% share in Q2 2010; this was down by 0.8pp in five years, but up by 0.5pp year on year.

BBC network radio share, at 46.2%, was 3.0pp higher than all commercial radio share of 43.2% in Q2 2010. BBC network share was up 3.1pp in five years. The local / nations BBC services attracted a 8.3% share of listening hours, down by 2.6pp in five years.

Local commercial radio share accounted for just under a third of all radio hours (at 32.2%) in Q2 2010, down 1.6 percentage points in five years but up 0.3pp in a year. National commercial stations held over a tenth of radio hours (11.0%) in Q2 2010; up 0.8pp over five years (Figure 3.27).

Figure 3.27 Share of listening hours, by sector

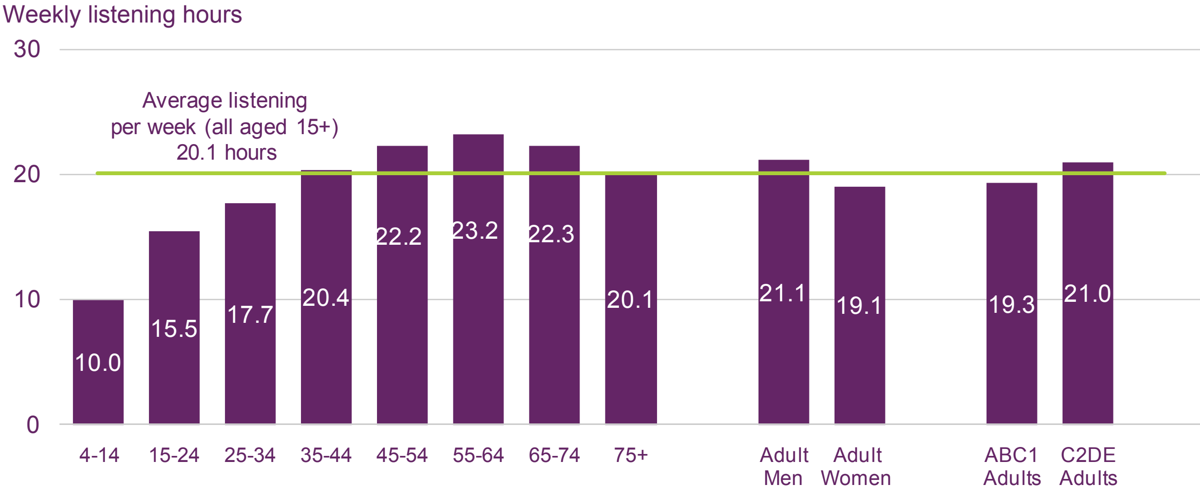


Source: RAJAR, (adult listeners 15+).
Note: Q2 2010 share figures have been included in this chart to provide the latest pattern of radio listening ; the annual figures included here relate to the end of the calendar year in each case.

Average time spent listening to radio increases with age

The average time spent listening to the radio was 20.1 hours per week in Q2 2010, stable on a year before but down by an hour and a half from five years ago. Listening times generally increases with age; for 15-24s it averaged 15.5 hours per week, compared to 23.2 hours for those aged 55-64. On average, men listened for 2.0 hours more than women, and people in the C2DE socio-economic group listened for almost three-quarters of an hour more per week than ABC1s (Figure 3.28).

Figure 3.28 Demographic profile of overall listening



Source: RAJAR Q2 2010, (average weekly listening hours per head of population)

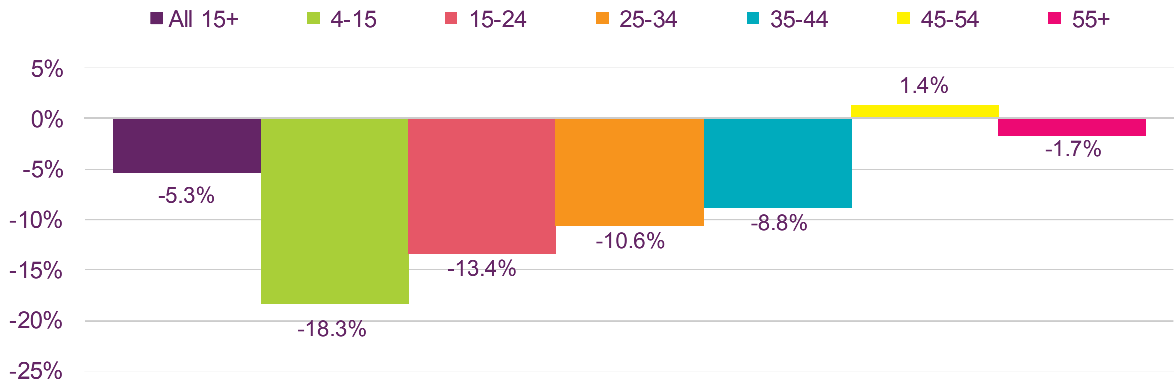
Younger age groups (under-45s) spending less time on radio

Over the past five years, levels of radio listening have fallen among most age groups, with all adults' (15+) listening down by 5.3% between 2004 and 2009. The fall was more pronounced among younger listeners, generally reducing by age group.

For young adults aged 15-24 and 25-34, listening hours were down (by 13.4% and 10.6% respectively). They fell less among 35-44s and over-55s (by 8.8% and 1.7% respectively), while listening time among 45 to 55 year-olds actually increased over the five years, by 1.4%.

Figure 3.29 Changes in listening hours by age, 2004 - 2009

Percentage change in listening hours



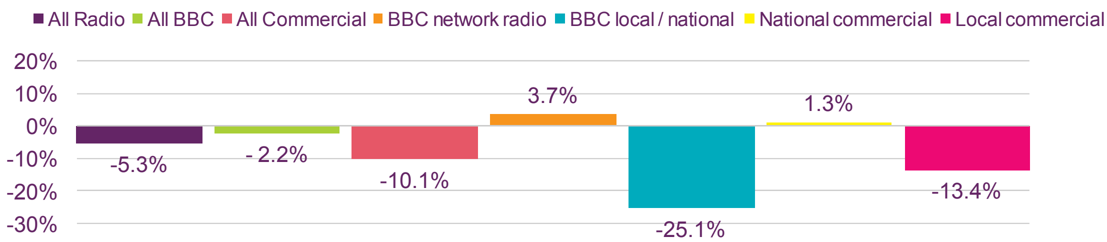
Source: RAJAR, data based on calendar years 2004 versus 2009. Please note 4-15 age group data is based on a smaller sample size.

National radio stations' hours rose in the last five years while local stations' fall

Total hours of radio listening fell by over 5% in the five years to 2009. Total BBC hours were down 2%, and the combined hours of listening to commercial radio fell by 10% between 2004 and 2009. This was driven by reductions in listening to local radio stations, with BBC nations/local radio hours down by 25%, and local commercial down by 13%. However, the national radio stations (BBC and commercial radio) attracted a larger number of listener hours over the period (up by 3.7% and 1.3% respectively).

Figure 3.30 Change in listening hours 2004-2009, by sector

Percentage change in listening hours



Source: RAJAR: data based on calendar years 2004 versus 2009.

3.3.3 Most listened-to radio stations

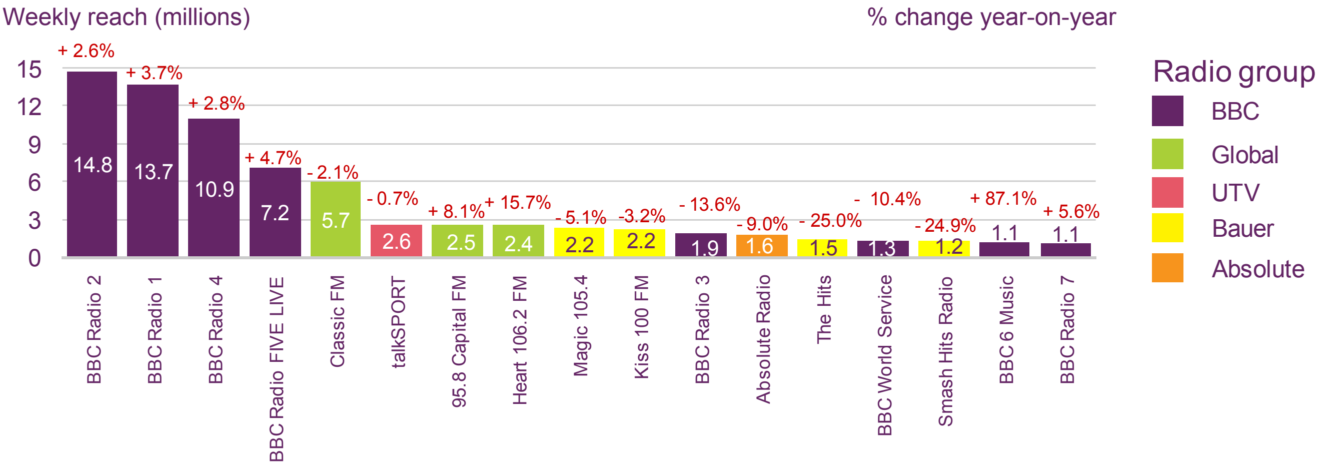
BBC Radio 1, 2, 4 and Five Live increase weekly audiences in Q2 2010

The number of people accessing radio services reached a new high according to Q2 2010 RAJAR results, with 90.0% of all individuals aged 4+ (equivalent to almost 53.5 million) listening every week. Audiences for the four most listened-to stations; BBC Radio 1,2,4 and Five Live, all increased year on year. Radio 2 reached a weekly audience of 14.8 million listeners (24.9%); this was up 375,000 on Q2 2009. This overall increase was aided by additional listeners to the Chris Evans breakfast show on Radio 2. BBC Radio 1 reach was up by 485,000 listeners in the year, to 13.7 million listeners in Q2 2010.

Altogether the BBC accounted for almost half of the top 17 stations. BBC 6 Music's audience grew fastest, by 87% (580,000), to 1.25 million listeners a week. This followed earlier proposals to close the station, sparking a campaign to save it by supporters.

Of the commercial radio services in London, 95.8 Capital FM's had the highest reach in Q2 2010 at 2.5 million, (up 8.1% year on year), making it the seventh largest station in the UK. This was just ahead of the audience for Heart 106.2, whose audience grew fastest of the London stations, up 15.7% to reach 2.5 million in Q2 2010. BBC Radio 3 saw its audience fall by 14% (300,000) to 1.9 million listeners. Bauer-owned digital music stations Smash Hits and The Hits also saw their weekly audiences fall by around a quarter year on year, down by 422,000 (24.9%) and 461,000 (25.0%) respectively.

Figure 3.31 Most listened-to radio stations, Q2 2010



Source: RAJAR, Q2 2010 (all listeners 4+), figures are rounded.

3.3.4 Digital radio listening trends

Take-up of devices offering digital radio has continued to increase. Over nine in ten homes (92%) had access to digital radio services on their main set by Q1 2010 (up from 89% on the year). Households with the internet had increased to 73% (broadband or dial-up), providing access to live digital radio, as well as listen-again and downloadable radio content. This was up from 70% in Q1 2009. DAB radio ownership rose to over a third of adults (35.3%) by Q2 2010, up 2.3 percentage points in the year.

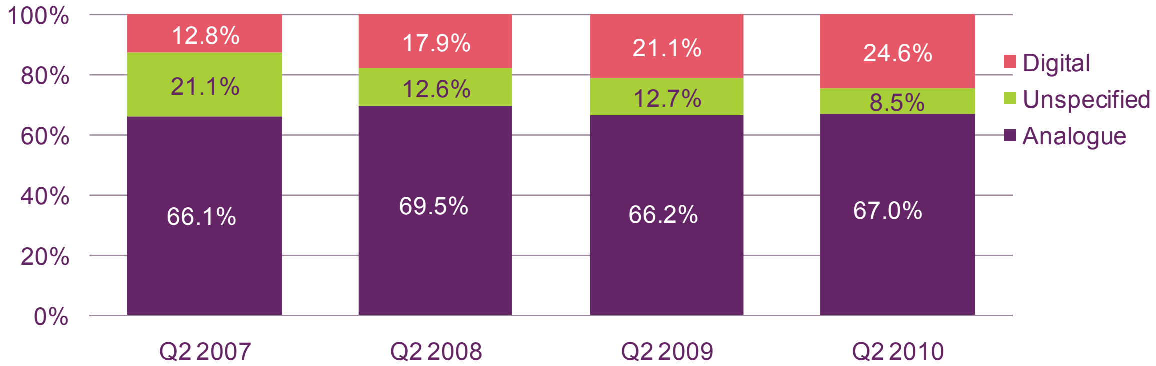
Digital listening has nearly doubled in three years to 24.6% by Q2 2010

In July 2010, Ofcom published its first *Digital Radio Report*, detailing consumers' access to, and use of, digital radio services. This report was published in accordance with the government's Digital Radio Action Plan. This section provides a summary of some of the report's main findings, updated where applicable for Q2 RAJAR listening figures[52].

Listening through a digital platform accounted for almost a quarter of all radio listening hours in Q2 2010. The combined listening share of radio services through DAB, DTV and online reached 24.6% in Q2 2010. This was up by 3.5 percentage points in a year and by 11.8 percentage points from a 12.8% share in Q2 2007.

Figure 3.32 Share of listening hours across analogue and digital platforms

Radio listening share by digital and analogue listening

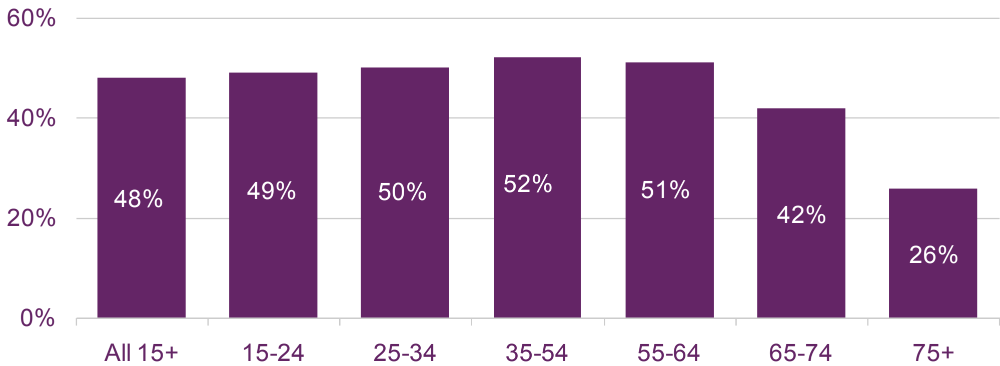


Source: RAJAR Ipsos MORI/ RSMB, Q2 2010
Note: Unspecified relates to listening where the radio platform was not confirmed by the listener.

Almost half (48%) of radio listeners claimed to be using one of the digital radio platforms (DAB, internet, or DTV), on a monthly basis by Q1 2010. The 35-54 age group was the most likely to listen monthly at 52% of the total. A smaller proportion of people in older age groups were digital radio listeners; the figure fell to less than half (42%) of the over-65s. The fall was most pronounced for the over-75s, where just over a quarter (26%) used a digital platform on a monthly basis.

Figure 3.33 Listening to digital radio, by age group

Digital radio listening by age group (at least monthly)



Source: Ofcom research, Q1 2010
Base: All who listen to the radio (n=7017)
Q: Use digital radio at least monthly

Of the individual digital radio platforms, 27% of respondents said that they listened via a DAB digital radio set on a monthly basis, of which 25% listened every week via DAB.

[52] The full Ofcom 'Digital Radio' report can be found here: http://stakeholders.ofcom.org.uk/market-data-research/radio-research/digital-radio-reports/digital-radio-report01/

Listening to radio via the internet was a monthly activity for 15% of respondents with 9% listening online on a weekly basis. Listening via digital TV was undertaken monthly by 25% of radio listeners with 15% listening to radio channels through a TV set every week.

3.3.5 Digital radio share, by sector

National stations benefit from increased exposure on digital formats

The UK-wide services from the BBC and the national commercial stations attracted proportionally more share from digital platforms than local services (possibly connected to the availability of additional nation-wide services in both of these categories).

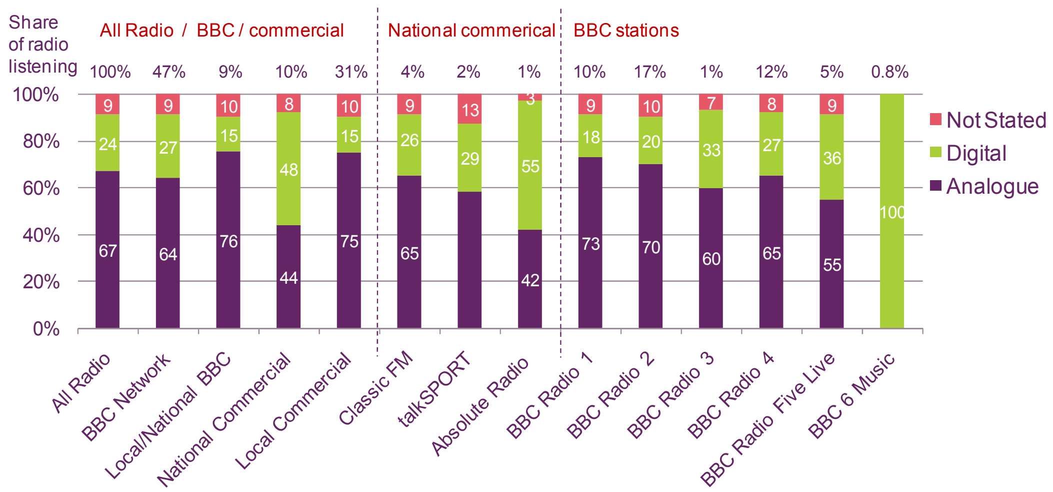
Of the 24 percentage points of digital listening, over half (54%) were to BBC network services; this was higher than the comparative BBC network share of all radio hours (47%) in Q1 2010. By comparison, BBC nations / local radio attracted a 4% share of digital hours, compared to a 9% share across all radio platforms.

National commercial services accounted for just over a fifth (21%) of digital listening hours. Again, this was higher than the overall 10% share of national commercial listening overall. This might be explained by the wider number of national stations available on digital formats. Local commercial drew a 21% share of digital listening, but this was lower than its 31% share of all radio hours in Q1 2010.

Stations which have lower availability on analogue frequencies, or are carried on AM, may attract new audiences as a result of being distributed over digital radio platforms. Examples include Absolute Radio, which is available nationally only on AM on analogue radio, and on FM in the London area. Over half (55%) of the station's listener hours came from through digital platforms in Q1 2010. This compares with FM national music station Classic FM, whose digital audience generated a quarter of listener hours. The other national AM commercial station, talkSPORT, attracted a similar proportion of digital hours, at just over a quarter (26%).

Of the national BBC stations available on analogue frequencies, the AM station BBC Five Live drew the largest ratio of digital listening, at over a third (36%) of all hours; the pattern for BBC Radio 3 was similar.

Figure 3.34 Audience profiles and platform split, by sector and station, Q1 2010



Source: RAJAR Octagon (adult listeners 15+), Q1 2010

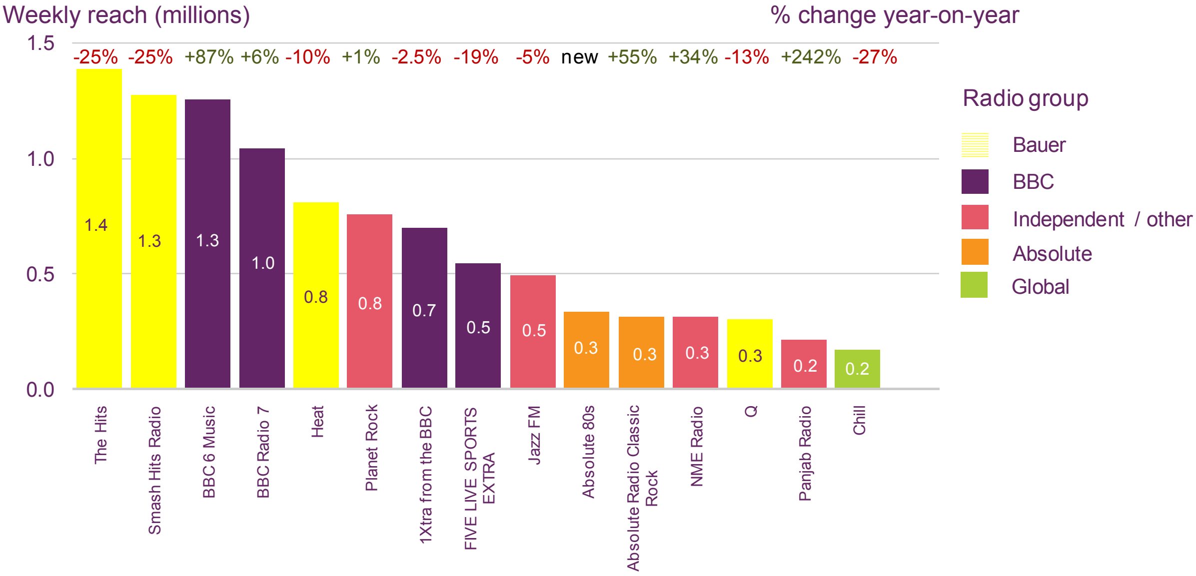
BBC 6 Music leads increases in listening to digital-only stations

The audiences to several digital-only stations have continued to grow over the past 12 months. Four of the most listened-to digital-only stations drew weekly audiences (aged 4+) of over a million by Q1 2010.

Among the ten most popular digital-only stations, four belonged to the BBC; with a further three being owned by the Bauer Radio group, with three of the top five being Bauer stations (The Hits, Smash Hits and Heat). While four of the top fifteen digital stations are independently owned, (Planet Rock, Jazz FM, NME, and Panjab).

BBC 6 Music's reach grew fastest in the year to Q2 2010, gaining almost 600,000 weekly listeners in 12 months, an increase of 87% to reach an audience of 1.25 million in Q2 2010. This increase followed earlier proposals by the BBC to close the station, which attracted a campaign by supporters to save it. The BBC Trust subsequently announced in the 2009/10 BBC Annual Report that the case for closure had not been proved. Among the newer stations, Jazz FM gained a weekly audience of around half a million (493,000) by Q2 2010. While another new station, Absolute 80s, built an audience of well over a quarter of a million (334,000) by Q2 2010, in May 2010 the station launched nationally on the Digital One multiplex. Audiences to another Absolute station, Classic Rock, were up 55% in the year to 312,000 by Q2 2010. Independent station Panjab Radio saw its audience rise by 242% to reach over 212,000 people.

Figure 3.35 Most listened-to digital-only stations, Q2 2010



Source: RAJAR, Q2 2010, (all listeners 4+), figures are rounded.

3.3.6 Listening patterns across the UK nations

Listening patterns vary across the UK's nations

Listeners show greater preference for local radio content in Scotland and Northern Ireland, while BBC network services are more popular in Wales and England.

- In **Scotland** the most popular category is local commercial radio, which attracted a 41% share of all radio listening in the year to Q1 2010. This was nine percentage points higher than the UK average of 32%. National commercial share stood at 13%

(above the UK average). The share of BBC network listening in Scotland was nine percentage points lower than the UK average, at 35%.

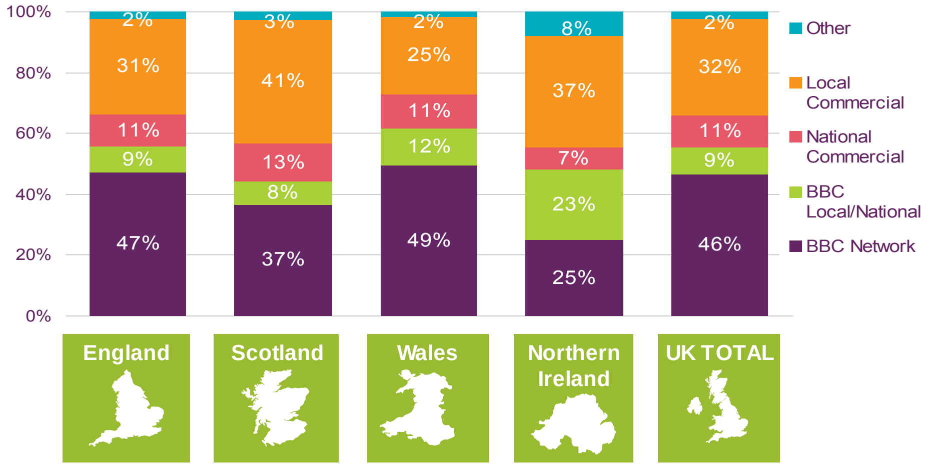
- In **Northern Ireland**, the BBC networks' share of listening is lower than the UK average. It accounted for a quarter of radio hours in the year to Q1 2010, 21 percentage points below the UK average of 46%. However, listening share for BBC local and nations' services (Radio Ulster and Radio Foyle) was 14 percentage points higher than the UK average, at 23%. Overall, combined BBC share in Northern Ireland was 48%, 7pp below the UK average of 55%. Local commercial listening increased by 5pp in the year to reach 37%; 5pp higher than the UK average.

- Listening patterns in **Wales** show some variations from the UK average. The main differences include higher levels of listening to the national BBC services for Wales (BBC Radio Wales / BBC Radio Cymru), which attracted a share of 12%, three percentage points higher than the UK average. Local commercial listening was seven percentage points lower than the UK average, at 25%. Overall, BBC stations accounted for 61% of listening in Wales, compared to 55% for the whole of the UK.

- In **England**, the BBC network stations are the most popular station category, with a 47% share of all listening in the year to Q1 2010, similar to share in Wales but higher than in Scotland and Northern Ireland. BBC local services attracted a 9% share, while local commercial radio secured almost a third (31%) of all listener hours.

Figure 3.36 Share of listening hours, by nation

% of listening hours



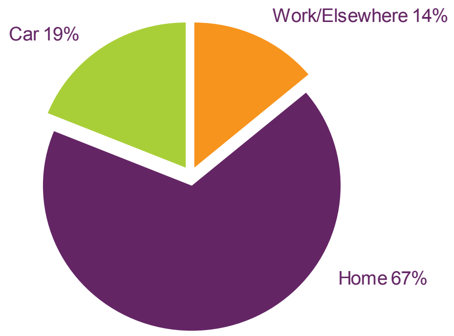
	England	Scotland	Wales	Northern Ireland	UK TOTAL
Average weekly listening	21.9 hours	21.0 hours	22.7 hours	22 hours	21.9 hours
Reach	90.1%	87.3%	90.5%	89.6%	89.9%

Source: RAJAR / Octagon, year to Q1 2010, (all listeners 15+).

3.3.7 Location of radio listening

Around two-thirds (67%) of radio listening still takes place in the home, slightly lower than five years ago (69%). Car listening was up to almost a fifth of all radio listening (19%) in the year to Q1 2010, up from 16% five years ago. Listening at work / elsewhere (including outdoors) accounted for around a seventh (14%) of all radio listening up slightly from 13% in five years. Access to outdoor listening may have been influenced by the growth in listening to podcasts or to radio services on mobile phones while on the move.

Figure 3.37 Location of listening



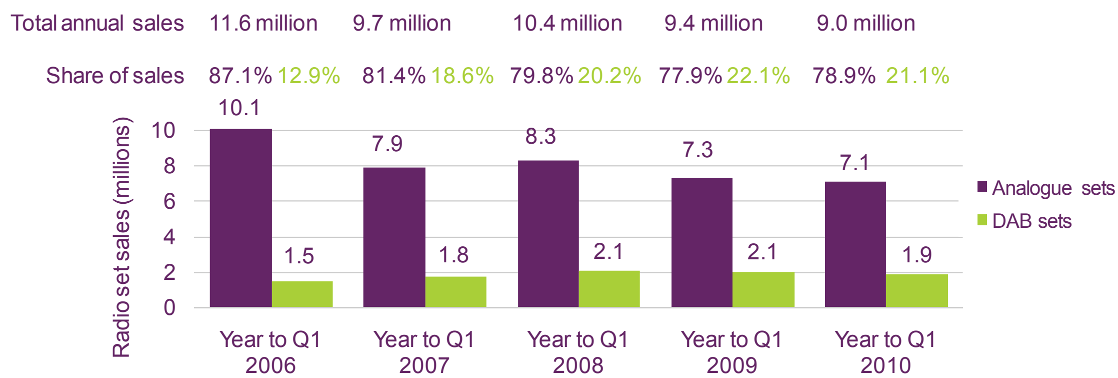
Source: RAJAR / Octagon, all listeners, year to Q1 2010

3.3.8 Retail sales of radio sets

DAB sets account for a fifth of all radio sales

DAB digital radio sets made up over a fifth (21%) of all radio hardware sales by volume, with around 1.9 million units sold in the year to Q1 2010 (Figure 3.38). This was up from a 13% share four years ago. In the portable market, DAB sets accounted for 65% of sales. Total radio set sales (analogue and digital) were down by 400,000 to 9.0 million in the year and down by 1.4 million on the year before.

Figure 3.38 Number of analogue and digital radio sets sold



Source: GfK sales data, Q1 2010

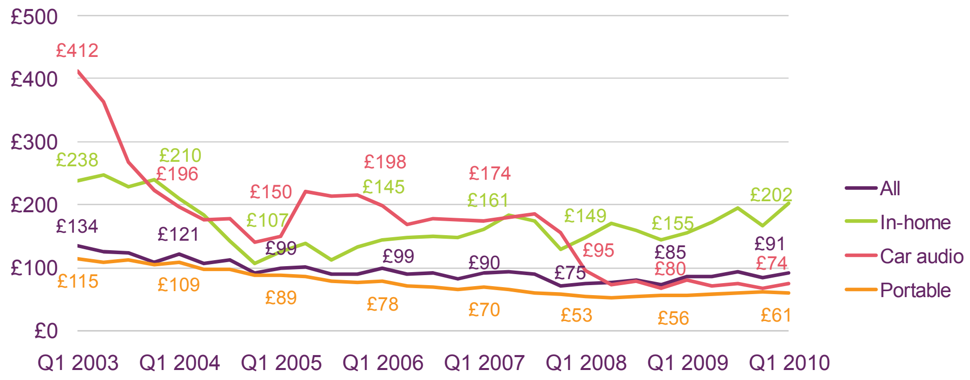
Well over 100 million active radio devices in UK homes and cars

Cumulative sales of DAB digital radio sets were 11 million by June 2010 (up from almost 9 million a year before). Separately, RAJAR estimated that over a third (35.3%) of UK adults owned a DAB set by the end of Q2 2010, up by 2.3 percentage points on the previous year.

Ofcom consumer research and retail sales data suggest that for the three main types of radio device in the home (portable radios, hi-fi, and clock radios) there are at least 70-80 million devices in active use. Of these, we estimate that around 14-16% were able to receive digital radio services in Q1 2010. There are also 34 million radios in vehicles on the road, of which only around 1% are able to receive digital radio services. Consumer research also indicated that there may be an additional 30 million radio receivers in the home built into other media and communications devices such as mobile handsets and MP3 players.

The average price paid for DAB sets followed a generally downward trend between 2003 and 2008. Over the past two years, however, the average price has risen, from £75 in 2008 to £91 in 2010 (Figure 3.39). The portable category followed a similar pattern, with average prices up from £53 to £61 over two years. Similarly, the in-home category (including DAB sets incorporated as part of hi-fi units), saw average prices increase from £149 to £202 over the same period. But the average price paid for a car DAB digital radio set fell from almost £200 in 2006 to £74 by Q1 2010, as cheaper models have become available.

Figure 3.39 Average price of DAB digital radio receivers

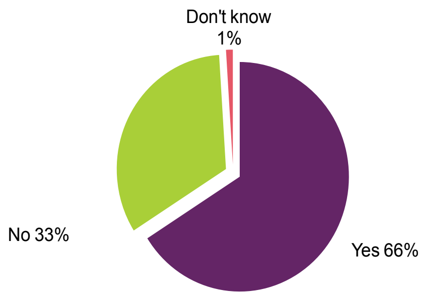


Source: GfK sales data Q1 2010

Attitudes towards, and awareness of, DAB digital radio services

The term ‘DAB digital radio’ now commands relatively high levels of awareness, with around two-thirds of consumers recognising the term or the DAB branding.

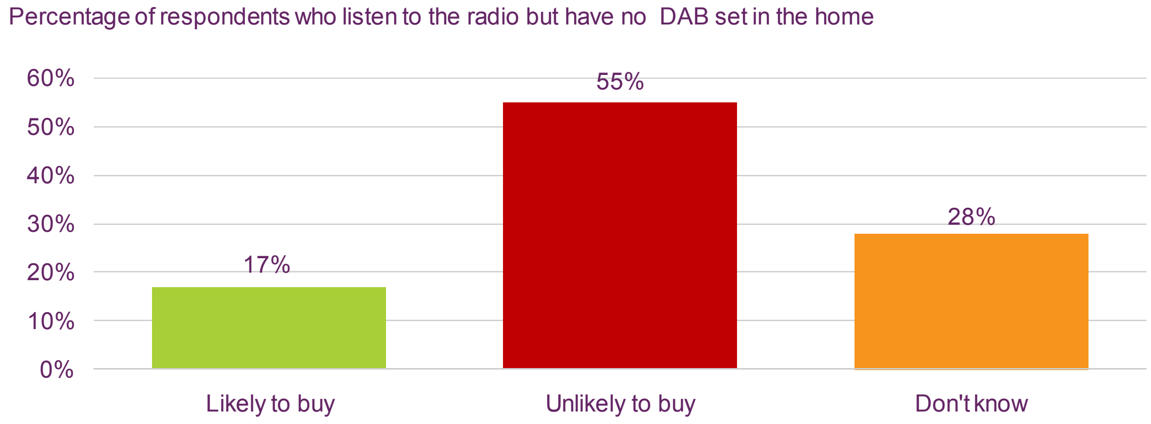
Figure 3.40 Have you heard of the term ‘DAB digital radio’?



Source: Ofcom research May 2010
Have you ever heard of the term ‘DAB. digital radio’ or seen this logo before today?
Base: 1075 UK adults

By Q1 2010 around 17% of those respondents without a DAB set said that they intended to buy one within the next 12 months (up by 1pp on 2009). Of this 17%, 2% claimed they were certain to buy, while 5% said they were ‘very likely’ to buy. However, 55% of radio listeners without DAB said they did not plan to purchase a set over the next year.

Figure 3.41 Likelihood to purchase a DAB set

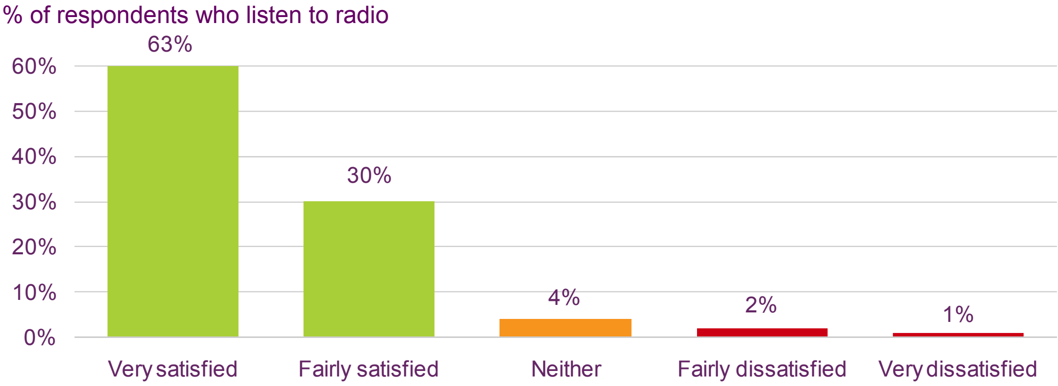


Source: Ofcom research, Q1 2010
Base: Those who listen to the radio but have no DAB sets in the home (4445 UK adults)
Q: How likely is it that your household will get a DAB radio in the next 12 months?

3.3.9 Satisfaction with radio services

Consumer satisfaction with radio choice is high and growing; 93% of respondents said they were 'very' or 'fairly' satisfied with the choice and range of radio stations, up from 91% last year and up from 89% four years ago. The number of people who were 'very satisfied' was 63%, up from 40% from four years ago, while 3% said they were dissatisfied with station choice (4% a year ago).

Figure 3.42 Satisfaction with choice of radio stations

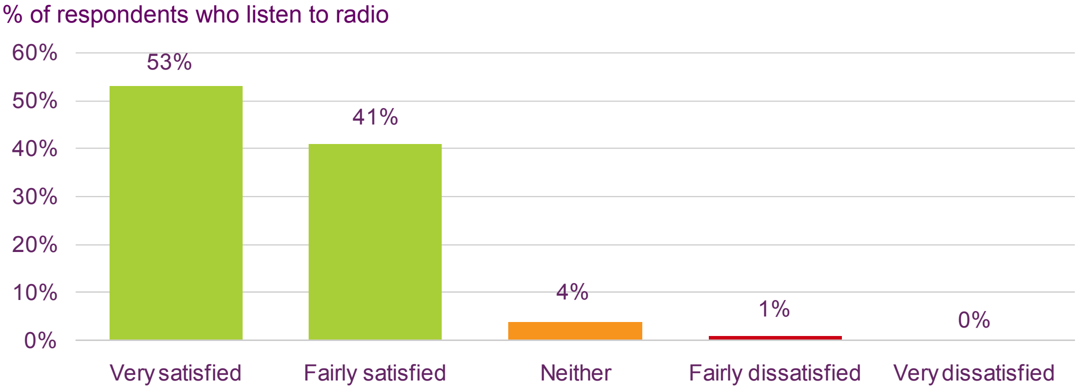


Source: Ofcom research, Q1 2009 Base: All who listen to the radio (n=2483)
Q: How satisfied are you with the choice of radio stations available in your area?

Satisfaction with radio content is also high, with 94% claiming to be very, or fairly, satisfied with the overall quality of radio programming. By contrast, only 1% were 'fairly dissatisfied' and almost none 'very dissatisfied'. These results were stable on last year, and similar to the comparable figures from four years ago (93%), although the proportion of radio listeners 'very satisfied' with content has risen from 45% to 53% over four years.

Figure 3.43 Satisfaction with radio content

How satisfied are you with the content of what you listen to on the radio?

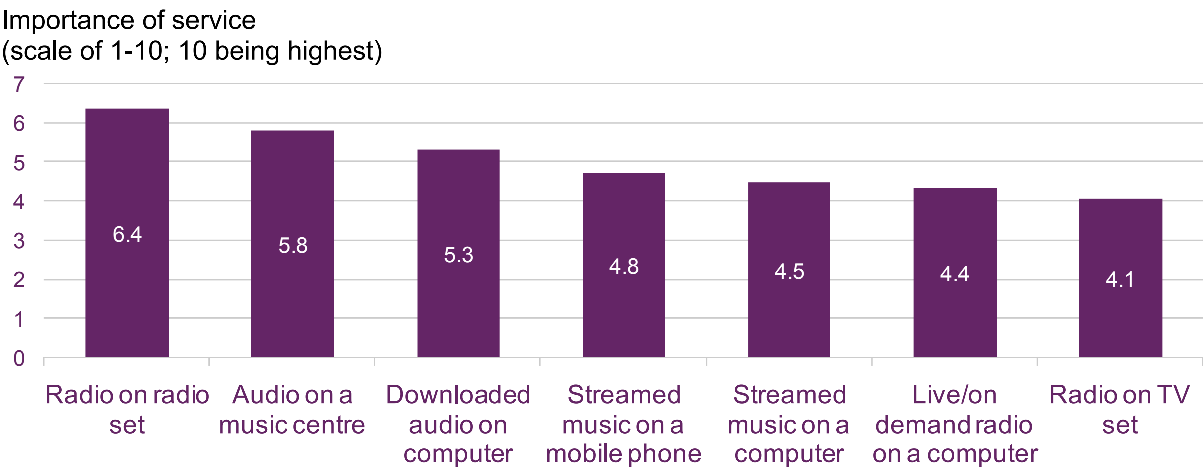


Source: Ofcom research, Q1 2010
Base: All who listen to the radio (n=900)
Q: How satisfied are you with the content of what you listen to on the radio?

3.3.10 Audio and radio: importance of audio / radio activities to user

With audio content now available on a wide range of devices, the importance that the user attaches to each method of audio access varies. The most-valued activity was listening to radio via a traditional radio set, whose importance was rated by consumers as 6.4 out of 10. Listening to audio via a music centre was also valued more highly, at 5.8 out of 10. Other activities attracted lower scores; listening to radio via TV at 4.1 out of 10, and streamed (4.4) or live radio (4.5) via a PC.

Figure 3.44 Importance of audio activities to users



Source: Ofcom research, June 2010

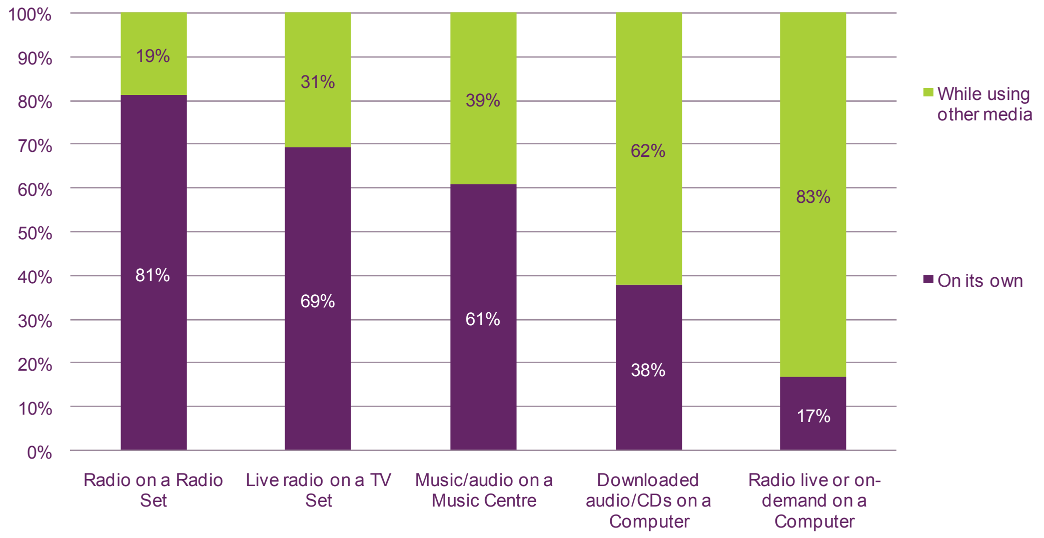
3.3.11 Listening to audio on its own versus listening concurrent with other activities

The vast majority (81%) of time spent listening via a radio set was done as a 'solus' media activity, while just under a fifth (19%) was concurrent with other communications activity, such as talking on the phone or surfing the internet.

By contrast, listening to radio (either live or on demand) via a computer was usually done while accessing other media (83%) such as accessing web pages. Similarly, around two-thirds of time spent downloading audio was conducted while accessing other media (62%).

Figure 3.45 Proportion of time spent listening to audio, solus vs. simultaneous

Proportion of time spent listening



Source: Ofcom research, June 2010

3.3.12 Online streaming services

The number of people using online streaming services is small, though audiences to some are growing

Online streaming applications have continued to grow in popularity during 2009. Ofcom analysis, based on Nielsen audience data, reveals that Spotify's user base has risen over the year and has overtaken the more established service Last.fm as the most popular free-to-listen music streaming service in the UK.

While Spotify has seen its unique audience rise by 78% in the last 12 months, browser-based service Last.fm experienced a decrease of 19%, after moving away from streaming songs on its own site[53]. We7, despite strong growth, attracts only a quarter of the unique audience attributed to Spotify and Last.fm[54]. US-based streaming service Grooveshark has also experienced a swift increase in users, expanding its unique audience by over 300% in the past 12 months to surpass that of MySpace Music.

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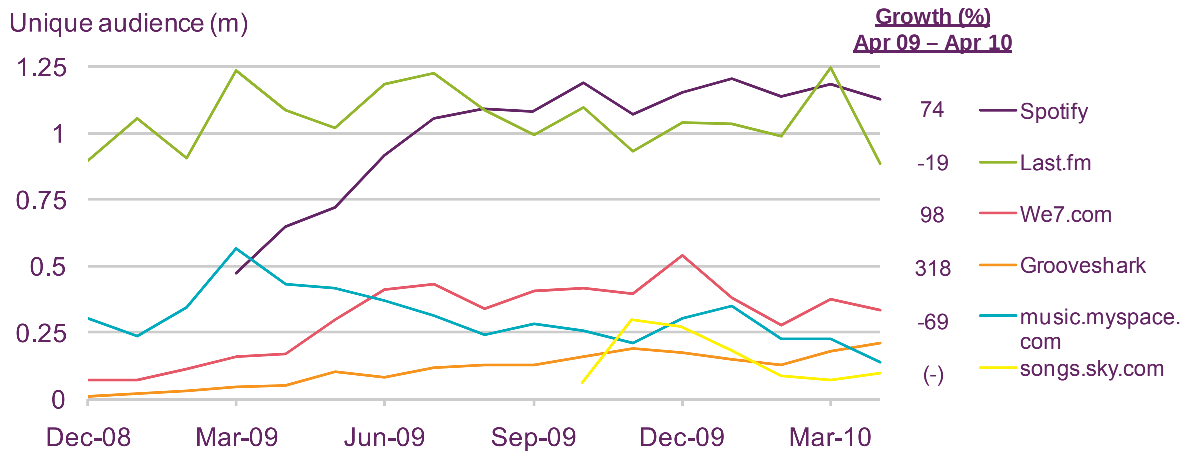
[53] In April 2010, Last.fm announced that it is aborting on-demand streaming and instead directing listeners to new music partners MOG, Spotify, The Hype Machine, We7 and VEVO.
[54] We7 have publicly stated they have 3 million monthly unique users in the UK: http://www.guardian.co.uk/media/2010/apr/28/we7-online-music-service

Figure 3.46 Unique audience to selected streaming sites



Source: UKOM / Nielsen. Month of April 2010, home and work panel. Applications included.

The number of users engaging with music streaming services is still relatively small in comparison to offline digital music platforms. Windows Media Player remains the default application for PC users, attracting a unique audience of 12.9 million in May 2009, while Apple's iTunes software, required for iPod and iPhone users, had 7.4 million users in the same period. These 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.

A year of online streaming services

Since the free, advertising-supported version of Spotify was launched in February 2009, the Swedish start-up has placed itself in the centre of the online streaming market. In September 2009 Spotify launched iPhone and Android mobile apps, enabling its users to stream music over a 3G or WiFi connection in return for a premium monthly subscription of £9.99. In October 2010, an 'offline' mode was also introduced as part of this premium service, allowing users to store a limited amount of songs as a playlist on their computer, to facilitate access when not connected to the internet. A further update was added in April 2010, which integrated social networking sites such as Facebook and Twitter, allowing users to share tracks through these websites. More recently, Spotify has amended its pricing structure, removing the 99p 'day pass' and introducing two tiers of premium subscription[55].

The advent of premium services such as Spotify and We7 demonstrate that a range of business models are being deployed to exploit online music delivery. Another recent example is the entry of pay-TV operator BSkyB into the online streaming market, with the launch of access-based music service Sky Songs in October 2009. Monthly subscriptions to Sky Songs start from £4.99, which includes unlimited streaming and access to a set number of downloads, depending on the package taken. Cable operator Virgin Media has also announced plans to launch a similar subscription-based service later in 2010, in partnership with Universal Music[56].

More recently, other business models have also begun to emerge, such as UK-based streaming and download service mflow, which launched in April 2010. Described as a cross between iTunes and Twitter, mflow is a downloadable application that allows users to search a catalogue of music, stream song previews and buy downloads. Twenty per cent of the download fee goes to the user who recommended or 'flowed' the track, and as with Twitter, users can 'follow' (or be followed by) other users.

In April 2010 UK-based streaming service We7 announced that for the first time all of its monthly on-demand music costs had been covered by display or broadcast advertising. The service estimated that 1 million plays of a song using We7 could generate payments to the music industry of between £2,000 and £4,000[57].

[55] http://www.spotify.com/uk/get-spotify/overview/
[56] http://pressoffice.virginmedia.com/phoenix.zhtml?c=205406&p=irol-newsArticle&ID=1298879
[57] http://www.we7.com/#/about/press/stories/we7-shows-ad-funded-music

Figure 3.47 Selected online streaming services

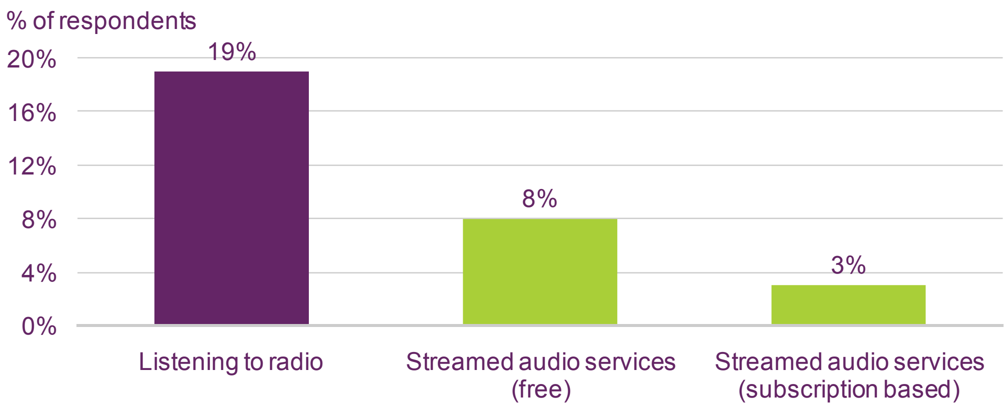
Service	Business Model	Catalogue	Launch date
Spotify	Free ad-supported streaming application Premium monthly subscription for extra features, also available via mobile apps	8 million tracks	February 2009
Last.fm	Free ad-supported 'radio-based' streaming service Premium monthly subscription for extra features	6.5 million tracks	2002
Sky Songs	Subscription based only, paid each month for access to unlimited streaming and 5 downloads	5 million tracks	October 2009
Grooveshark	Ad-funded music streaming and recommendation service	7 million tracks	2007
We7	Ad-funded online streaming service, browser based and available via iPhone app	4 million tracks	October 2008
mflow	Free limited online streaming and pay per download	2 million tracks	April 2010

Source: Operators, June 2010

Online radio still accounts for the majority of audio internet use in the UK

Ofcom's research indicates that one in five people listen to the radio online (19%) – a high proportion of all audio-online listening activity and similar to the corresponding figure in 2009 (17%). One in ten people claimed to listen to streamed music online (8%) using free applications. Only 3% of respondents claimed that they subscribed to an internet-based audio service.

Figure 3.48 Audio internet use



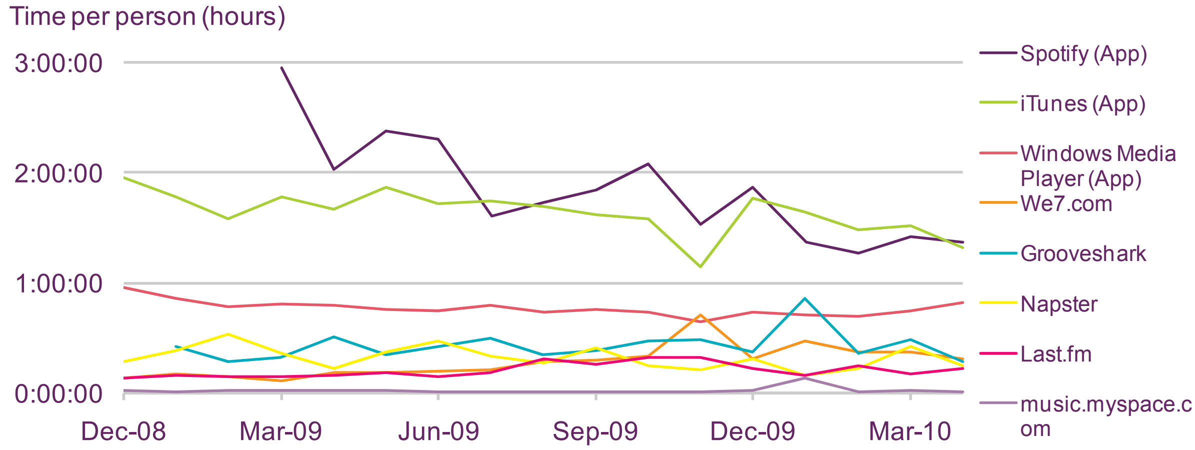
Source: Ofcom research, Q1 2010
Base: Those with access to the internet at home (n= 6163)
QE10A. Which, if any, of these do you or members of your household use the internet for while at home?

3.3.13 Use of digital music services and devices

UK listeners now spend the same amount time using Spotify as iTunes

As Figure 3.49 illustrates, the average time spent by users on Spotify now resembles that of iTunes, whose average usage time has stabilised at around 1.5 hours per month. This may mean that Spotify's audience is using the service more like iTunes, as users can now manage their music via Spotify as well as listen to streamed songs. Users of both iTunes and Spotify continue to use these applications for longer than users of Windows Media Player (WMP), who spend less than one hour per month using the application.

Figure 3.49 Time spent using selected music services and media players



Source: UKOM / Nielsen. April 2010, home and work panel. Applications included.

It is important to note that Nielsen Online's methodology only counts time spent on an application 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.

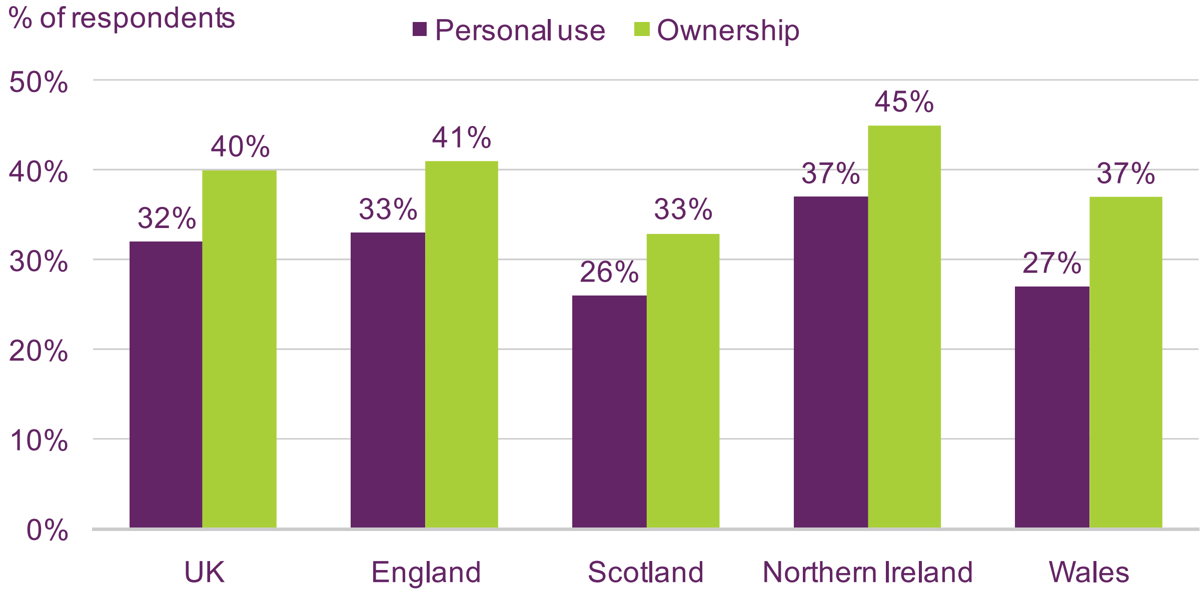
As listening can occur while an application is 'out of focus' and because prolonged periods of inactive 'in-focus' activity are discounted, the time spent on the media applications and music streaming websites, shown in Figure 3.50, does not represent actual time spent listening to music; it is likely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

A third of UK consumers now use an MP3 player/iPod, with personal use highest in Northern Ireland

In Q1 2010, almost a third (32%) of consumers across the UK claimed to use an MP3 player or iPod themselves, similar to the proportion in 2009 (34%). However, there appears to be variation between the UK's nations, with the highest take-up of these devices found in Northern Ireland (37%) and the lowest in Scotland and Wales (26% and 27% respectively).

There appears to be a distinction between those who claim to own an MP3 player/iPod and those who actively use these devices to listen to music. Across the UK, a higher proportion of respondents (40%) claimed to own an MP3 player/iPod than those who claimed to be an active user (32%). This gap was largest in Wales (37% vs 27%). Overall, ownership across the UK remained steady year on year, as 41% claimed to own an MP3 player/iPod in 2009.

Figure 3.50 MP3 player/iPod ownership and personal use



Source: Ofcom research, Q1 2010
Base: All adults aged 15+ (n = 9013 UK, 1075 Wales, 5709 England, 1468 Scotland, 761 Northern Ireland) Those who have access to a MP3 player at home (n=1898)
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?