# The Communications Market 2011

## 3 Radio and audio

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# 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 | 2005 | 2006 | 2007 | 2008 | 2009 | 2010 |
|---|---|---|---|---|---|---|
| Weekly reach of radio (% of population) | 90.0% | 89.8% | 89.8% | 89.5% | 89.8% | 90.6% |
| Average weekly hours per head | 21.6 | 21.2 | 20.6 | 20.1 | 19.8 | 20.1 |
| BBC share of listening | 54.5% | 54.7% | 55.0% | 55.7% | 55.3% | 55.2% |
| Total industry revenue | £1,118m | £1,126m | £1,174m | £1,137m | £1,092m | £1,123m |
| Commercial revenue | £530m | £512m | £522m | £488m | £432m | £438m |
| BBC expenditure | £588m | £614m | £652m | £649m | £660m | £685m |
| Radio share of advertising spend | 3.3% | 3.0% | 2.9% | 2.8% | 2.8% | 2.7% |
| DAB digital radio take-up (households) | 11.1% | 16.0% | 22.3% | 29.7% | 33.4% | 35.8% |

*Source: RAJAR (all adults age 15+), Ofcom calculations based on figures in BBC Annual Report and Accounts 2010/11 note 2c (www.bbc.co.uk/annualreport), AA/Warc, broadcasters. Revenue figures are nominal.*

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

- **National commercial radio advertising sales and spend by the BBC on UK-wide radio services drove rising radio industry value during 2010 to £1.1bn, up 2.8%.** National commercial advertising revenue rose by 4.5% year on year in 2010, the only commercial revenue type to do so. BBC network stations available on analogue frequencies accounted for 46.7% of the rise in BBC Radio's 2010/11 expenditure, while BBC digital-only stations spend rose proportionally the furthest, up by 13.1% year on year (page 158).

- **In Q1 2011, RAJAR figures showed that digital radio platforms accounted for 26.5% of all radio listening, a 2.5 percentage point (pp) increase on the same quarter the previous year.** Listening through DAB sets accounted for the largest component of digital listening, 16.7% of all listening hours, while digital television and online simulcast streaming represented a further 4.1% and 3.6% respectively (page 160).

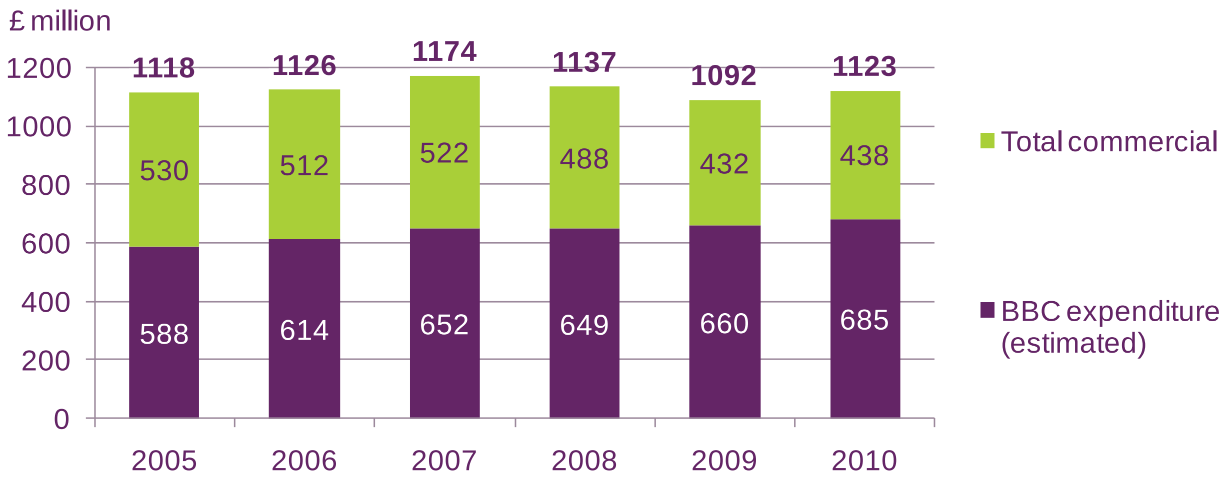
- **Listener hours rose to 1.04 billion per week in 2010, up by 2.1% year on year.** All categories of radio service experienced rising listener hours during the year - BBC and commercial radio, national and local. National commercial stations experienced the largest annual increase, up by 7% year on year (page 163).

- **People in the 15-24 age bracket remain a harder-to-reach group for radio**; their listener hours fell by 4.3% year on year, accounting for 11.6% of all radio hours (page 163).

### 3.1.2 Radio revenue up by 2.8% to £1.1bn as commercial revenue stabilises

Radio industry income in 2010 increased for the first time in three years. It stood at £1.1bn, representing a 2.8% increase on 2009 (Figure 3.2). This year's overall increase is due in part to the first commercial revenue increase since 2007, rising from £432m to £438m, up by 1.4% year on year. Estimated spending by the BBC on its radio services was £685m in 2010, up from £660m in 2009, an increase of 3.8% over the year.

#### Figure 3.2 Radio industry revenue and spending: 2005-2010



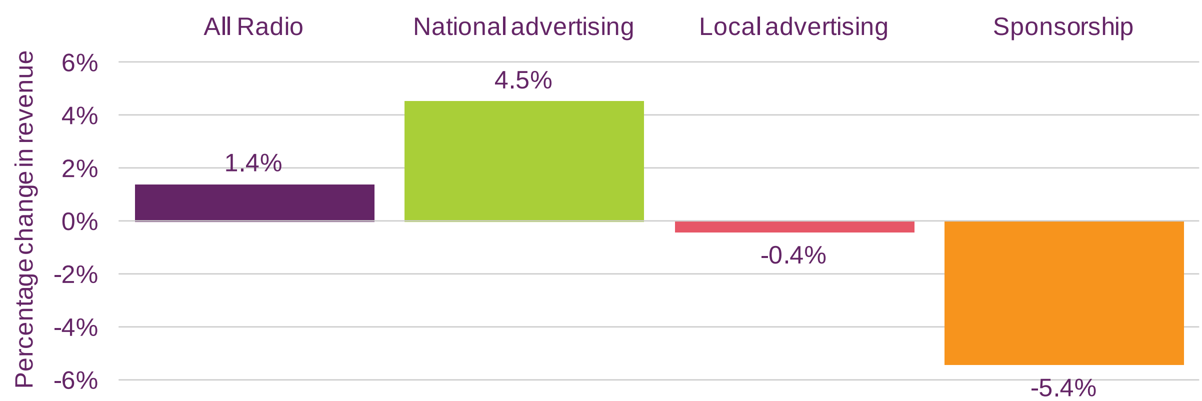

*Source: Ofcom / operator data / BBC Annual Report 2005-2010 Note: BBC expenditure figures are estimated by Ofcom based on figures in Note 2c of the BBC Annual Report (www.bbc.co.uk/annualreport); figures in the chart are rounded and are nominal*.

**Commercial revenues stabilise as national advertising revenue rises by 4.5%**

National advertising sales, the largest contributor to commercial revenues, increased by 4.5% to £210m in 2010. Local advertising, worth £136m, held steady while sponsorship revenue fell by 5.4% from £94m to £89m (Figure 3.3). The increase in national advertising revenue was generated for the most part by local radio stations. This may be explained by larger radio groups selling more national advertising across their local stations portfolio.

Despite commercial revenue rising by 1.4% in 2010, average revenue per listener declined from £13.71 to £13.33 over the same period (Figure 3.13). This is due to average weekly reach for the commercial sector rising faster (by 4.3% over 2010) compared to revenue.

#### Figure 3.3 Commercial revenue percentage: 2009-2010




*Source: Ofcom / operator data 2009-2010*

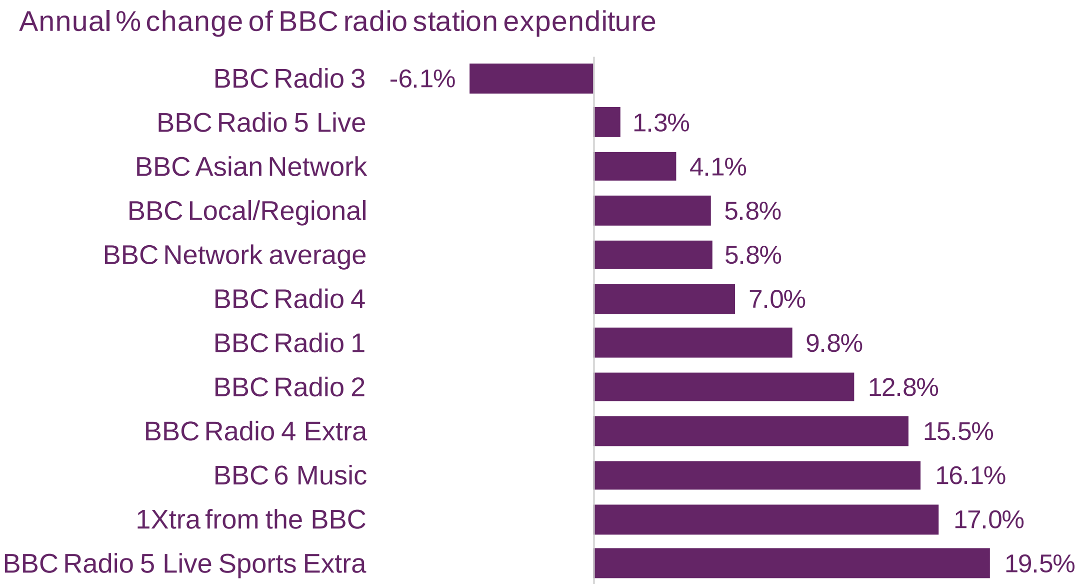
**The BBC's digital-only radio services experienced the largest proportional increases in spending during 2010/11**

The BBC's Annual Report and Accounts for 2010/11 provides greater detail on its stations' budgets (these data are not directly comparable to data set out Figure 3.2. Figure 3.4 shows the percentage change in operating expenditure of BBC radio services between the financial years ending in the first quarter of 2010 and 2011.

With the exception of the BBC Asian Network, spend on the BBC's digital-only station portfolio rose faster than that of the analogue/digital simulcast services. The largest increases were experienced by Radio 5 Live Sports Extra, 1Xtra, 6 Music and Radio 4 Extra (formally BBC Radio 7). BBC Radio 3 was the only service to see its expenditure fall in 2010/11. In combination, the BBC's spending on local and nations stations rose by 5.8%, the same as the average increase in BBC network stations overall.

Excluding overheads, BBC radio spending rose by £35m in nominal terms in the 12 months to the end of Q1 2011. Taken together, digital-only BBC stations' revenue rose by 13.1%, accounting for £5.5m (15.7%) of the increase. Expenditure on the BBC's UK-wide stations available on analogue frequencies increased by 4.9%, amounting to £16.4m (46.7%) of the annual increase. Spending on local and nations' radio services grew by 5.8%, contributing £13.2m (37.6%) to the annual increase.

**Figure 3.4 BBC radio stations expenditure percentage change: 2009/10 – 2010/11**




*Source: BBC Annual Report 2010/11 note 2c (www.bbc.co.uk/annualreport). Note that these are financial year figures, excluding BBC-wide overheads, and are therefore not directly comparable to those set out in Section 3.2.2. Figures are nominal. It should be noted that the percentage changes are based on operating expenditure for individual stations based on financial years and they do not include BBC-wide overheads; as such they are not comparable with the calendar year figures that are set out in Section 3.2.2.*

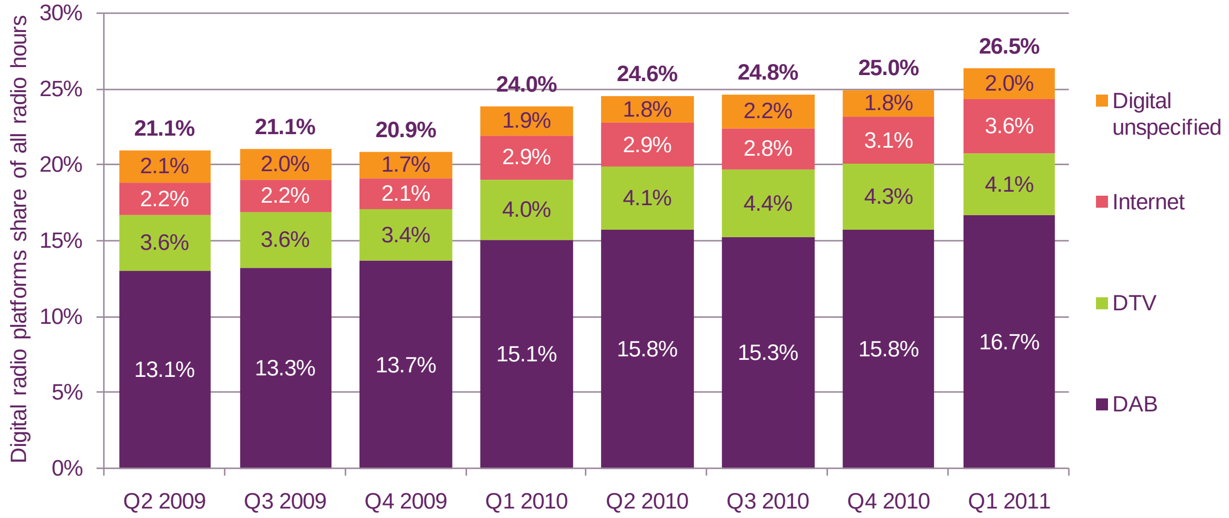
### 3.1.3 Listening through a digital radio platform accounted for over a quarter (26.5%) of all listener hours in Q1 2011

Digital radio's share of listening hours in Q1 2011 was 2.5pp higher than the same quarter in the previous year; accounting for over a quarter (26.5%) of all listener hours. Listening through a DAB radio accounted for the largest share of digital listening, at 16.7% of the total.

Digital television represented a further 4.1%, while the internet accounted for the remaining 3.6%.

Figure 3.5 shows the digital radio listening figures by quarter, highlighting the fact that over the past two years, digital listening experienced a larger increase in each Q1 than in other quarters, possibly as devices acquired during December/January start to be used.

### Figure 3.5 Digital radio's share of radio listening, Q1 2011

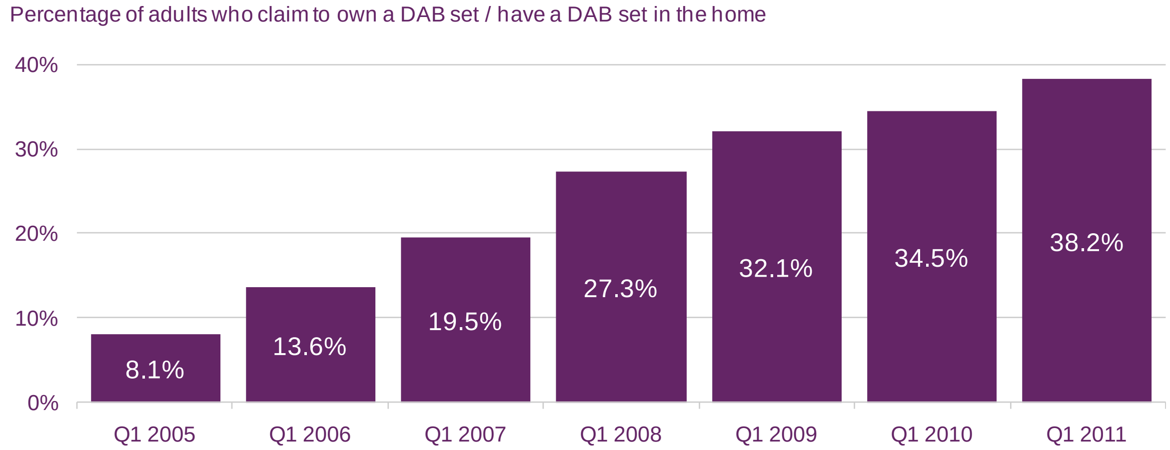



*Source: RAJAR / Ipsos MORI / RSMB Note: 'Digital unspecified' relates to listening to digital-only stations where the survey respondent has not specified the listening platform used.*

**Ownership of DAB radio sets rose by 3.7pp to 38.2% of homes in the year to the end of Q1 2011**

Adults claiming to have access to a DAB radio set in the home rose by 3.7pp in the 12 months to Q1 2011; to 38.2%. Take-up has tripled over five years, from 13.6% of homes in 2005; up by 24.6 percentage points over the period.

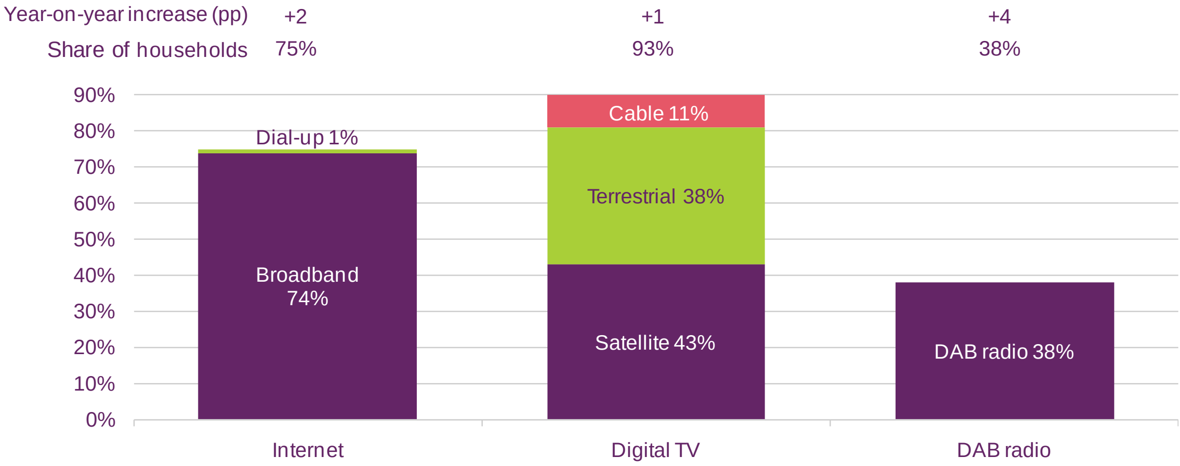
### Figure 3.6 Ownership of DAB sets, Q1 2011




*Source: RAJAR / Ipsos MORI / RSMB Q1 2005-2011*

Consumers have access to digital radio services through a variety of platforms. By the end of Q1 2011, 93% of households had a digital television decoder connected to their main television set, capable of providing access to digital radio. Moreover, 75% of households had access to the internet at home, supporting access to radio services online.

**Figure 3.7 Take-up of equipment capable of receiving digital radio, Q1 2011**




*Source: Ofcom research / GfK / RAJAR Q1 2011*

**Government policy on digital radio switchover**

The Department for Culture, Media and Sport (DCMS) launched its Digital Radio Action Plan in July 2010. Its purpose is "*not to implement a transition to digital radio, but to provide the information to allow for a well-informed decision by Government on whether to proceed with a radio switchover*". The plan emphasises that a digital switchover process should be primarily consumer-led. It includes milestones which would need to be achieved before the government could start to implement a transition from analogue to digital radio.

These milestones are when 50% of all listening is on a digital platform and when DAB coverage reaches 90% of the population, including all major roads. Figure 3.5 shows that 26.5% of listening takes place on a digital platform. The Government's Digital Radio Action Plan can be found here: http://www.culture.gov.uk/publications/8218.aspx.

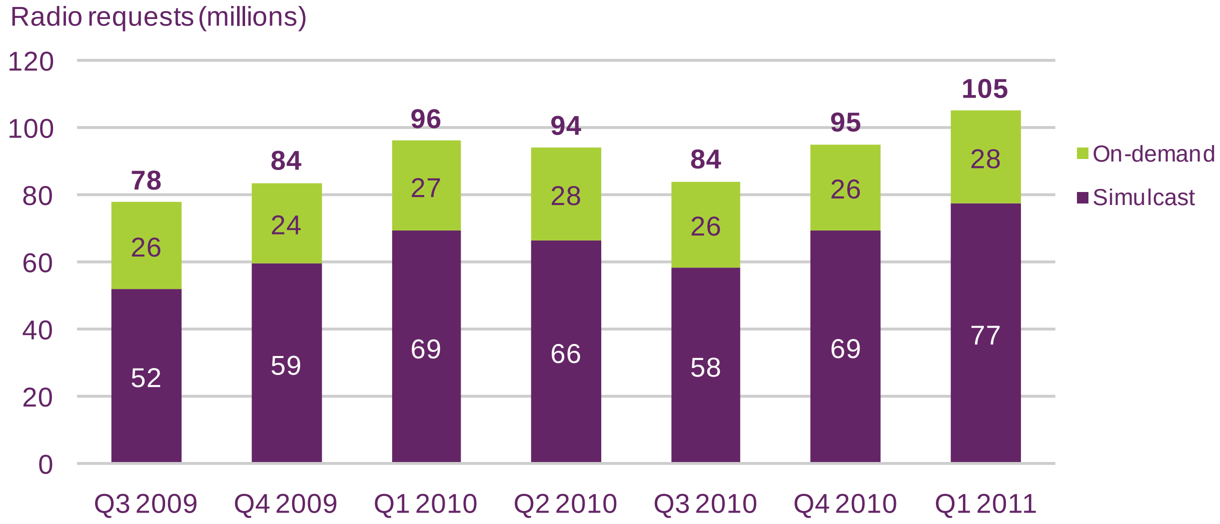
As part of the Action Plan, Ofcom was asked to publish an annual report on the availability and take-up of digital radio services. The most recent *Digital Radio Report* was published on 28 July 2011 and is available at http://www.ofcom.org.uk/drr11.

We have also recently published a consultation outlining an approach to building up DAB coverage. This is available at http://stakeholders.ofcom.org.uk/consultations/dab-coverage-planning/ and we anticipate presenting a final report to government in Q4 2011.

**BBC iPlayer radio simulcast requests reached 270 million in the year to Q1 2011**

Figure 3.8 sets out the number of radio requests that consumers made through the BBC's iPlayer, broken down into simulcast (i.e. listening to live radio) and listening to previously broadcast radio programmes on demand. In total, 105 million radio requests were made in Q1 2011, compared to 291 million for television. BBC iPlayer radio simulcast requests in Q1 2011 were 12% higher than in Q1 2010. The Q1 2011 figure was boosted in March 2011 by the *Cricket World Cup* on Radio 5 Live and *Chris Moyles' Longest Show Ever for Comic Relief* on BBC Radio 1.

**Figure 3.8 BBC iPlayer quarterly radio requests**




*Source: Ofcom calculations based on BBC iStats*[23]

2011 saw the launch of Radioplayer, offering a single point of online access to BBC and commercial radio stations' simulcasts and podcasts. It allows users to search, switch between and save their favourite participating stations. Each station uses its own branding, advertising and interactive features, and hosts its own web stream and player page. Radioplayer comprises a user portal with navigation and integration functions.

According to Radioplayer, early figures suggest that 5.7 million unique users accessed the service over a four-week period in May 2011, and a total of 22.5 million listening sessions were launched[24].

### 3.1.4 The volume of radio listener hours rose by 2.1% in 2010

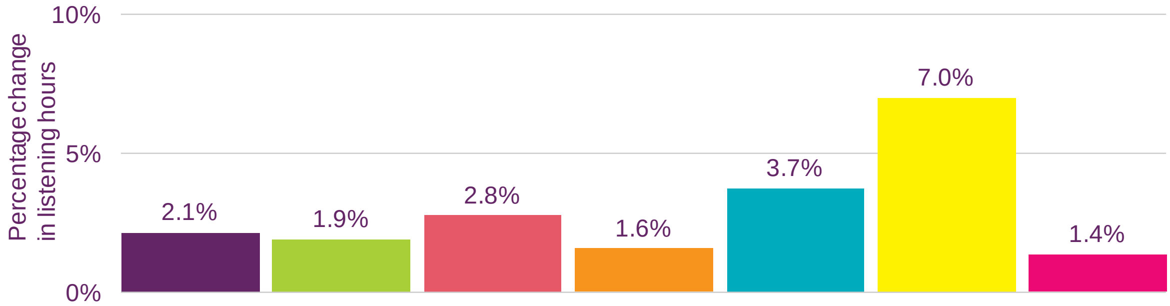
Among all 15+ UK adults, RAJAR figures showed that hours of radio listening rose by 2.1% in 2010 to 1,036 million per week. National commercial radio stations saw the largest increase of radio listening in 2010 (up by 7%) while BBC network UK-wide stations were up by 1.6%

The BBC's portfolio of local radio stations experienced a 3.7% increase in listening hours while local commercial radio's hours rose by 1.4%. As a result of these trends, national commercial radio accounted for 11.1% of all radio hours in Q1 2011, while the BBC's network services attracted a 46.3% share. Among local radio stations, the commercial services attracted a higher proportion of listening hours than BBC local radio, with shares of 31.5% and 8.9% respectively.

[23] http://www.bbc.co.uk/blogs/bbcinternet/bbc_iplayer_press_pack/
[24] http://www.radioplayer.co.uk/index.php/large-and-small/

## Figure 3.9 Change in listening hours between 2009 and 2010

| | All Radio | All BBC | All Commercial | BBC network | BBC local | Nat commercial | Local commercial |
|---|---|---|---|---|---|---|---|
| 2010 weekly hours: | 1036m | 571m | 442m | 480m | 92m | 115m | 327m |
| Share of all radio hours: | 100% | 55.2% | 42.6% | 46.3% | 8.9% | 11.1% | 31.5% |




*Source: RAJAR, all adults (15+). Data based on calendar year 2009 – 2010*

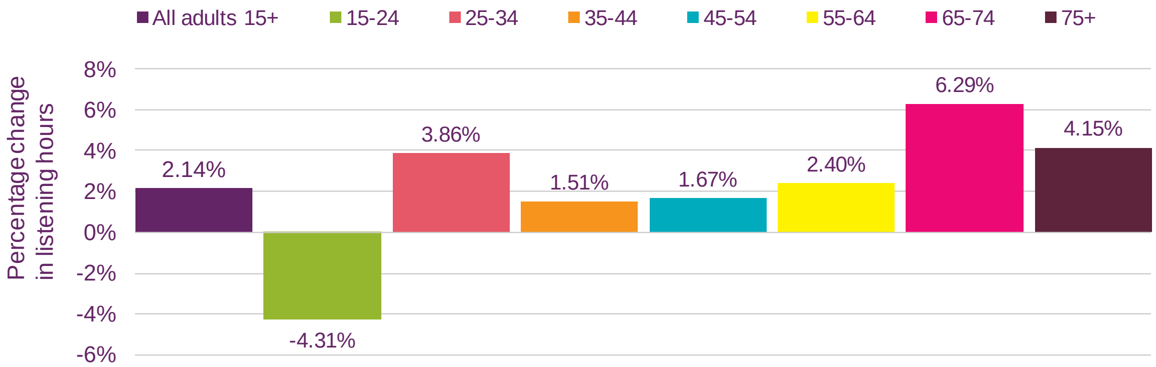
**15-24 year olds were the only group of listeners for whom radio consumption did not increase in 2010**

Listeners in the 15-24 age group were the only group for whom listener hours did not increase in 2010, falling instead by 4.3%. 15-24 year olds now make up 11.6% of radio listening in the UK, compared to a share of 13.0% five years ago. The 25-34 year-old age group's share of all listening rose for the first time since 2004; up by 3.9% to 13.9% over the same period.

Listening among 65-74 year-olds increased the furthest year on year, up by 6.3%, while those aged 45-54 accounted for the largest proportion of listening, representing nearly one in five (18.1%) of all listener hours.

## Figure 3.10 Changes in listening hours, 2010 vs. 2009, by age

| | All adults 15+ | 15-24 | 25-34 | 35-44 | 45-54 | 55-64 | 65-74 | 75+ |
|---|---|---|---|---|---|---|---|---|
| Share of all radio hours: | 100.0% | 11.6% | 13.9% | 17.6% | 18.1% | 16.7% | 13.9% | 8.4% |




*Source: RAJAR, all adults (15+). Data based on calendar year 2009 – 2010*

# 3.2 The radio and audio industries

## 3.2.1 Introduction

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

Key points in this section include:

- **Total UK radio industry income was £1.1bn in 2010, up by 2.8% in a year.** Recorded music revenue was £1.2bn for 2010. This compares with TV industry revenue of £11.8bn in the same year (page 166).

- **Commercial radio revenue stabilised during 2010, rising a little to £438m, the first nominal increase since 2007.** Ofcom estimates that BBC radio spending increased by 3.8% in 2010 to £685m, representing 61% of the industry income as a whole (page 166).

- **Radio's share of advertising spending declined by 0.1pp in 2010 to 2.7% of the total.** Annual WARC figures show that overall spending on advertising in the UK grew by 8.1% year on year, with spend on radio rising by 4%, leading to a lower share of the overall market (page 167).

- **The two largest commercial radio groups accounted for 56% of commercial radio listening hours in Q1 2011**, a three percentage point decline on Q1 2010. The commercial sector as a whole accounted for 43% of all radio listening hours in Q1 2011, a 1.3pp increase over the year (page 169).

- **Recorded music revenues fell by 8.6% in 2010.** This was despite revenues from digital business models rising by 15%, as the value of physical music sales fell further than the rise from online sales. Digital sales accounted for 24% of recorded music revenue in 2010, a 5pp increase on 2009. Singles sales accounted for 98.7% of online music by volume and albums for 83.2% of the volume of physical retail sales (page 175).

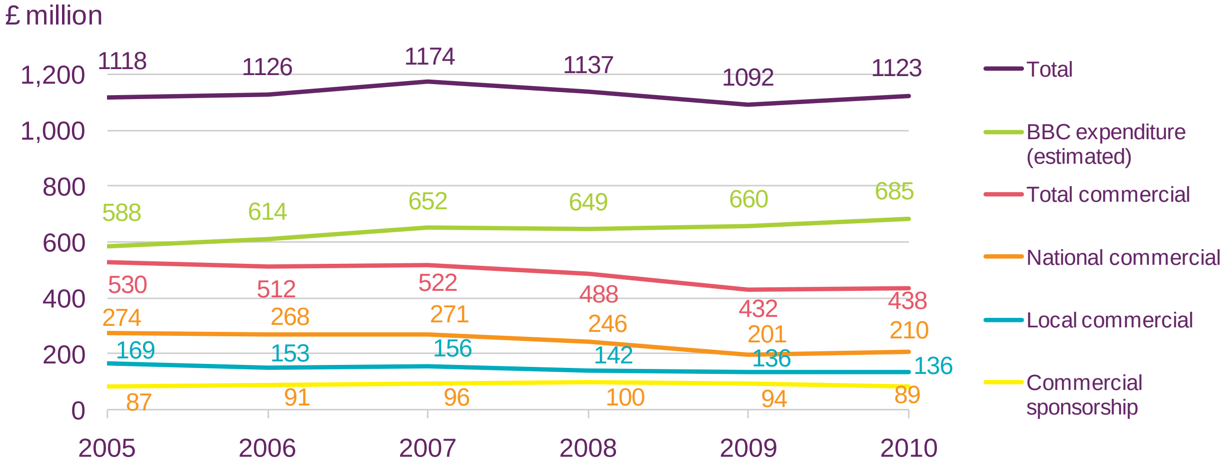
## 3.2.2 Radio industry revenues and expenditure

**Radio industry revenue increased by 2.8% in 2010 to reach £1.1bn**

We estimate that total radio industry income (commercial radio revenue and BBC expenditure on radio services) in 2010 stood at £1.1bn, up by 2.8% year on year. This was the first increase in total income since 2007.Estimated spending by the BBC on its radio services was £685m in 2010, up from £660m in 2009. Spending increased by 3.8% over the year, compared to a 1% increase on estimated BBC TV expenditure (to £2.7bn) and a 1.4% increase on its online services (£212m).

Commercial radio revenues were also up in 2010, rising from £432m to £438m, up 1.4% year on year. National advertising sales were responsible for the commercial revenue increase, increasing 4.5% on 2009 to £210m. Local advertising sales stabilised at £136m while sponsorship revenue fell by 5.3% to £89m.

**Figure 3.11 UK commercial radio revenue and BBC radio spending**




*Source: Ofcom / operator data / BBC Annual Report 2005-2010 Note: BBC expenditure figures are estimated by Ofcom based on figures in Note 2c of the BBC Annual Report (www.bbc.co.uk/annualreport); figures in the chart are rounded and are nominal.*

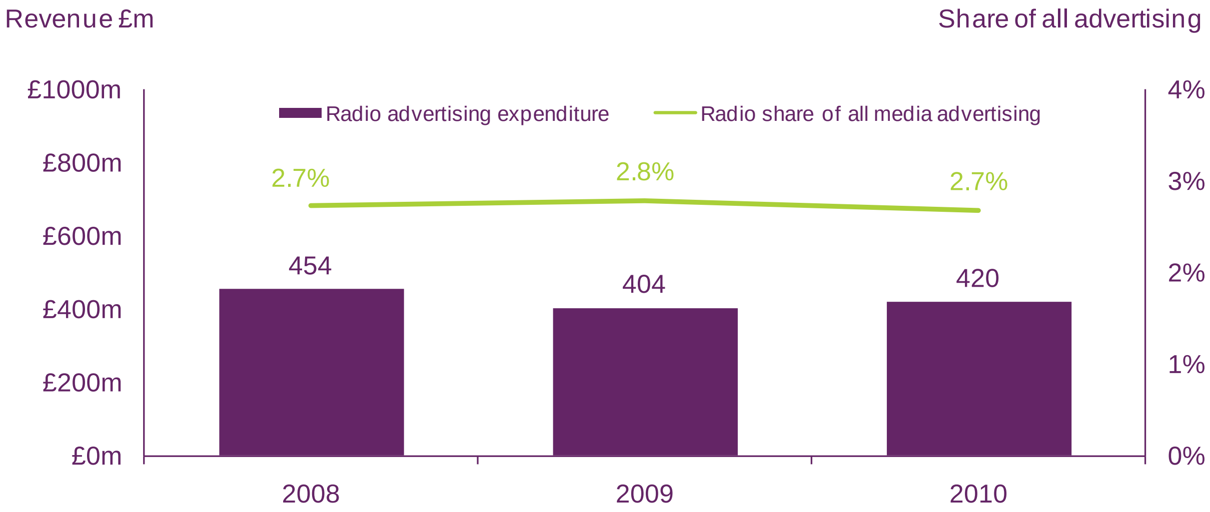
The data in Figure 3.11 combine Ofcom's estimate of BBC expenditure on radio services (including overheads, drawing on information from the BBC's 2010/11 Annual Report) with data from commercial radio licensees. Every year, licensees are required to submit annual revenue returns to Ofcom, breaking down revenue into national and local advertising revenue and sponsorship. As we rely on licensees to submit returns within the set deadlines, the aggregate revenue figures may not always represent 100% of the commercial market.

**Radio advertising expenditure stabilised in 2010 but its share of display advertising fell**

Against the background of total UK advertising market spend increasing by £1.2bn in 2010 to £15.7bn (a 8.1% nominal increase), the Advertising Association/Warc reported that radio's share of that total fell by 0.1pp in 2010 to 2.7%.

The 4% year-on-year increase in radio advertising expenditure, shown in Figure 3.12, represents the first annual increase since 2007. Note that the data set out in this chart represent advertising expenditure and are sourced from the AA/Warc; the radio advertising income data set out in Figure 3.11 is collected by Ofcom, and represents advertising spend net of any production and agency fees.

**Figure 3.12 UK radio advertising spend and share of display advertising: 2008 – 2010**




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

**Commercial radio revenue per listener fell by 38 pence in 2010 to £13.33**

Despite an increase in commercial revenue, revenue per listener fell once again in 2010, by 38p to £13.33, a 2.8% reduction year on year. Figure 3.13 sets out revenue per listener by dividing the total net broadcasting revenue generated by the commercial radio sector by average weekly listener reach. Average weekly reach of commercial radio increased by 3.7% between Q4 2009 and Q4 2010, a larger increase than commercial revenue.

**Figure 3.13 Commercial radio revenue, per listener**


*Source: Broadcasters and RAJAR, 2005-2010. Figures are nominal.*

## 3.2.3 Radio sector market shares in 2010/11

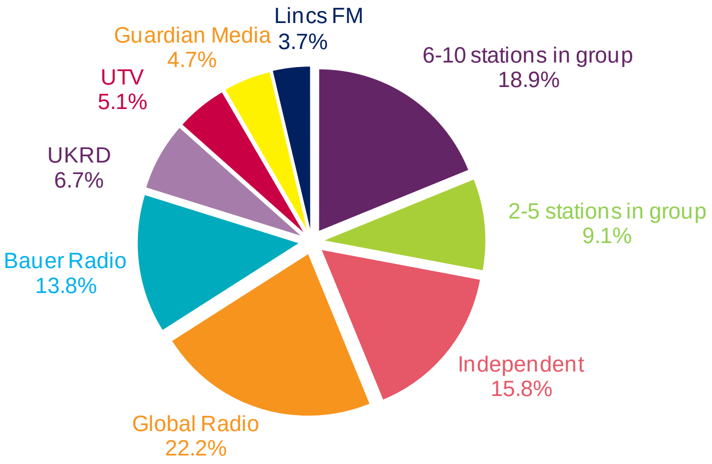
**Commercial radio station ownership shifts from smaller to medium-sized radio groups**

Following significant consolidation among the largest commercial radio groups, culminating in Global Radio's 2008 purchase of GCap Media and Chrysalis Radio, the past two years have seen some significant consolidation among the smaller commercial radio companies, with UKRD Group taking control of a number of licences formerly held by The Local Radio Company and its various subsidiaries, while new players in the market such as Celador Radio, Quidem and Media Sound Holdings have brought together groups of licences formerly under a variety of different owners.

A few stations have left group structures to return to independent ownership, such as Isle of Wight Radio, Silk FM in Macclesfield, Dune FM in Southport and Imagine FM in Stockport.

Global Radio is the largest group in the commercial radio by number of licences held, accounting for over a fifth (22%) of all those on issue, although it should be noted that the size of licences (measured by the size of the population each covers) varies considerably across the radio sector. Figure 3.14 also shows that the Bauer Radio group is the second largest, with 14% of all commercial analogue radio licences.

### Figure 3.14 Number of commercial analogue licences owned, by group

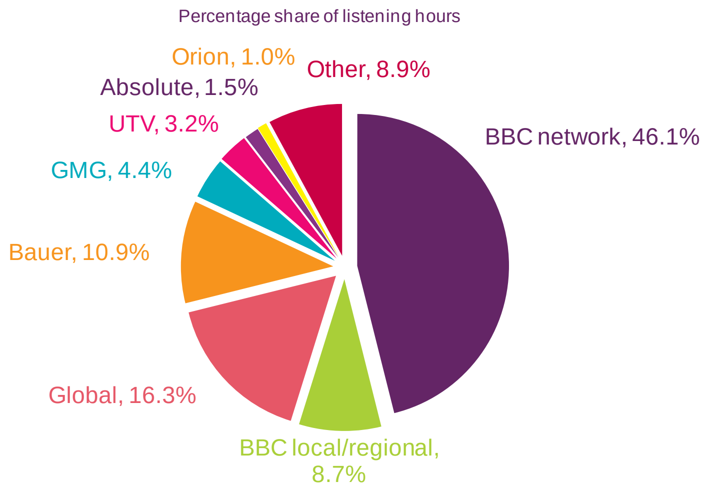



*Source: Ofcom, June 2011*

**BBC radio services accounted for 55% of all radio listening in Q1 2011**

The BBC's combined share of all radio listening was 54.8% in Q1 2011, in line with its share in earlier years; network radio attracted a 46% share while BBC local/nations' radio drew a further 8.7%. The UK's two largest commercial radio groups, Global Radio and Bauer Radio, accounted for a further 27.2% of all radio listening in Q1 2011, representing 56.3% of all commercial radio listening – this figure fell by 3pp on Q1 2010.

**Figure 3.15 Share of all radio listening hours, Q1 2011**




*Source: RAJAR, (all adults 15+), Q1 2011, does not include community radio listening*

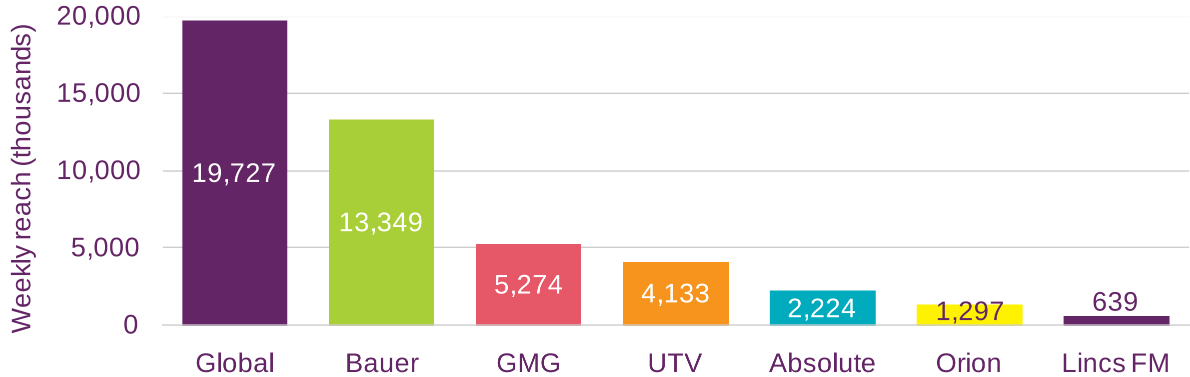
**Commercial radio groups' reach rose by 3.2pp year on year**

Commercial radio's weekly reach stood at 66% in Q1 2011, a 3.2pp rise on Q1 2010. In Q1 2011 the weekly reach of national commercial stations was 27% compared with 51% for local commercial.

Figure 3.16 illustrates the average weekly audience reach of the seven largest commercial radio groups in the UK in Q1 2011. The top six all saw their reach rise in the year to Q1 2011. The largest increases came from the two largest radio groups; Global Radio's weekly audience rose by 2.2pp to reach 38.2% (19.7 million adults) while Bauer Radio increased 1.7pp to 25.9% (13.3 million).

**Figure 3.16 Commercial radio by weekly audience reach: Q1 2011**

| | Global | Bauer | GMG | UTV | Absolute | Orion | Lincs FM |
|---|---|---|---|---|---|---|---|
| Weekly UK audience reach | 38.2% | 25.9% | 10.2% | 8.0% | 4.3% | 2.6% | 1.2% |
| Annual change in reach | + 2.2pp | + 1.7pp | +0.7pp | +0.9pp | +0.9pp | +0.2pp | -0.1pp |




*Source: RAJAR, (all adults 15+), Q1 2011 Note: pp = percentage points increase*

### 3.2.4 BBC radio services in 2010/11

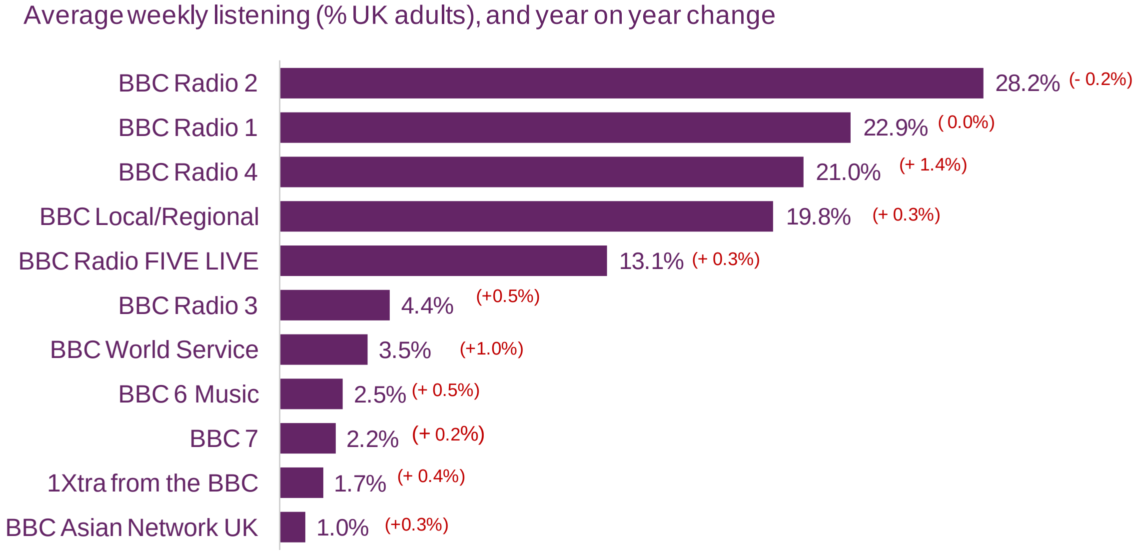
BBC radio's 55% share of all radio listening in Q1 2011 was accompanied by a collective weekly reach of 68% of the adult population during 2010. Excluding BBC-wide overheads, the services received £638.9m of funding in 2010/11. This portfolio is made up of two components: BBC local and nations' stations include all BBC local and regional stations in England and the national stations for Scotland, Wales and Northern Ireland. BBC network stations include those that cover the whole of the UK, some stations of which are available exclusively on digital radio.

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

BBC Radio 2 was the only BBC station whose reach fell year on year. Despite the 0.2% decline in the last 12 months, it remained the UK's most listened-to station, with a weekly reach of 28.2% of the adult population. BBC Radio 1 remained the second most listened-to station, with a reach of 22.9%, in line with the previous year.

The reach of all other BBC network radio stations rose year on year (Figure 3.17) by between 0.3% and 1.4%; the collective reach of BBC local/nations stations rose by 0.3% over the same period. The reach of BBC Radio 4 and the BBC World Service rose the furthest since 2009, up by 1.4% and 1.0% respectively.

**Figure 3.17 Weekly reach of BBC stations, Q1 2011**



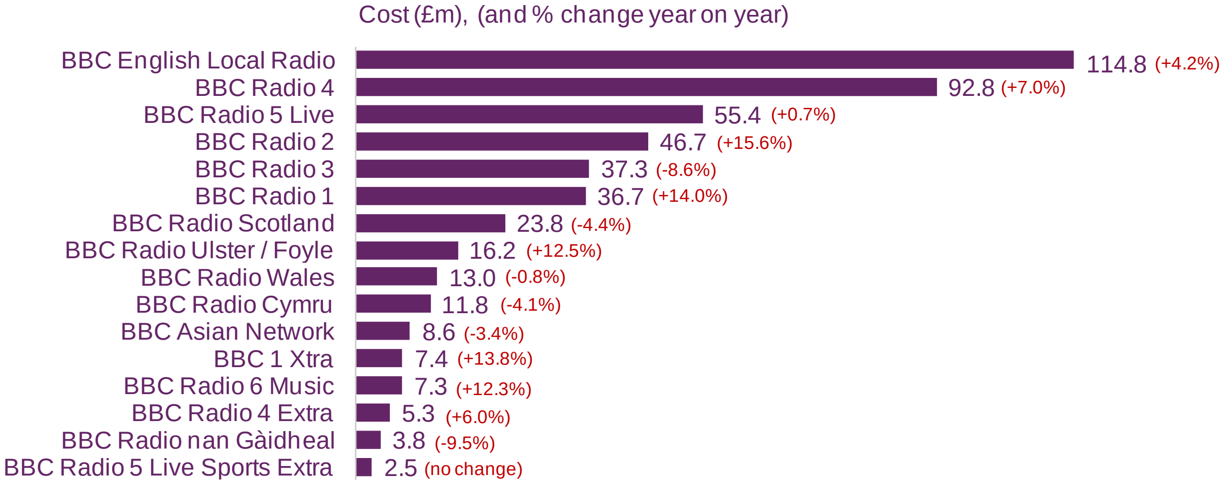

*Source: RAJAR, (all adults 15+), Q1 2011*

**BBC Radio 2 had the largest percentage increase in spend among individual BBC radio stations in 2010/11**

BBC Radio content spending rose from £463.6m in 2009/10 to £483.4m in 2010/11, up by 4.3% over the period. BBC Radio 2 saw the largest increase in content spending, with a 15.6% rise to £46.7m. The budget of Scottish Gaelic service BBC Radio nan Gàidheal saw the largest contraction, with a 9.5% reduction to £3.8m.

BBC Radio 4 had the largest content spend of any individual BBC station, at £92.8m in 2010/11. The lowest spend came from BBC Radio 5 Live Sports Extra at £2.5m, excluding individual BBC local radio stations in England.

### Figure 3.18 BBC radio stations: spend on radio content, 2010/11



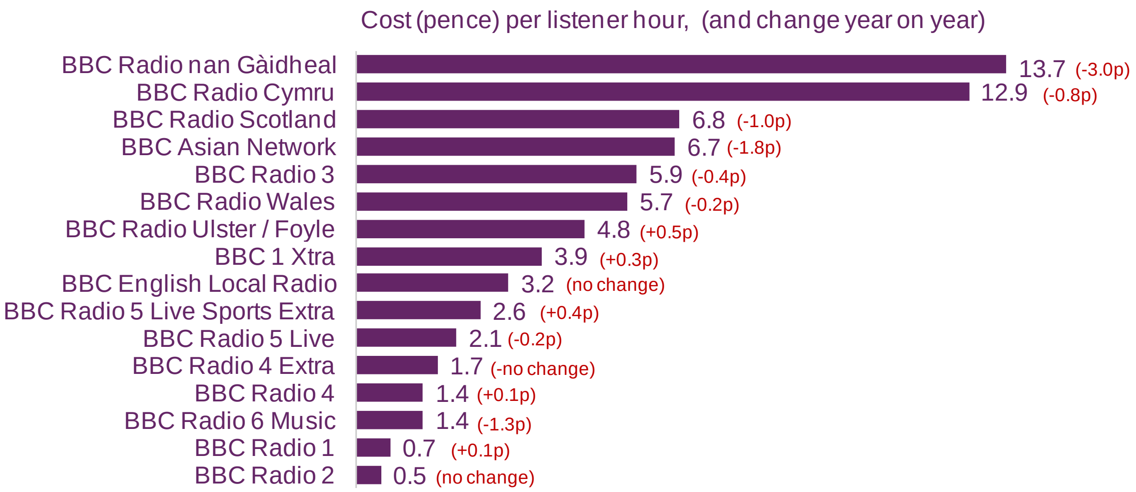

*Source: BBC Annual Report 2010/11 Part 2 (www.bbc.co.uk/annualreport).*

Note that the figures in Figure 3.18 cover radio content only; they exclude radio infrastructure and distribution expenditure as well as BBC-wide overheads.

**BBC network stations' cost per listener hour tended to be the lowest within its radio portfolio**

Figure 3.19 sets out the cost of BBC radio stations per adult (15+) listener hour for 2010/11. The BBC's Gaelic and Welsh language nations' services, BBC Radio nan Gàidheal and BBC Radio Cymru, had the highest cost per listener hour, at 13.7p and 12.9p respectively. BBC network services tended to have a lower cost per listener hour, with BBC Radio 2 lowest at 0.5p. BBC Asian Network and BBC Radio 3 had comparatively high costs per listener hour for BBC network services, at 6.7p and 5.9p respectively.

### Figure 3.19 BBC radio stations: cost per listener hour of programmes, 2010/11




*Source: BBC Annual Report 2010/11 Part 2 (www.bbc.co.uk/annualreport).*

## 3.2.5 Radio licences

There are 298 local commercial services in operation and broadcasting on analogue (53 on AM and 245 on FM) across the UK. Many of these licences share programming; for example, all of the 23 Gold services on AM carry the same programming. Across the Global Radio-owned Heart services (32 licences), there are 17 distinct services.

There are three national commercial services on analogue (talkSPORT and Absolute on AM and Classic FM), all of which are available on the Digital One DAB multiplex, which covers England, Scotland and Wales. The digital radio multiplex in Northern Ireland broadcasts two of the national services (talkSPORT and Classic) in addition to seven other services.

The number of national digital-only stations has grown over the past year, with Smooth Radio, Jazz FM and Absolute 90s being added to the line-up, bringing the total number of national DAB stations to 13 (this excludes services like Kiss, which are available across most of the UK via a range of local DAB multiplexes).

There are 46 local digital radio multiplexes. Services on these consist of simulcasts of local services, quasi-national services (i.e. services that are available on some local multiplexes but not all) and occasionally some digital-only services.

There are 193 community radio stations broadcasting (five on AM and 188 on FM) as of June 2011. Community radio licences are awarded to small-scale operators working on a not-for-profit basis to serve local areas or particular communities. No new licences have been issued since July 2010, although applications are now being invited for a third round of licensing.

**Figure 3.20 UK radio stations broadcasting on analogue: July 2011**

| Type of station | AM | FM | AM/FM total |
|---|---|---|---|
| Local commercial | 53 | 245 | 298 |
| UK-wide commercial | 2 | 1 | 3 |
| BBC UK-wide networks | 1 | 4 | 5 |
| BBC local and nations | 36 | 46 | 46 |
| Community radio | 4 | 188 | 193 |
| **TOTAL** | **96** | **484** | **545** |

*Source: Ofcom, July 2011 Note: 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.*

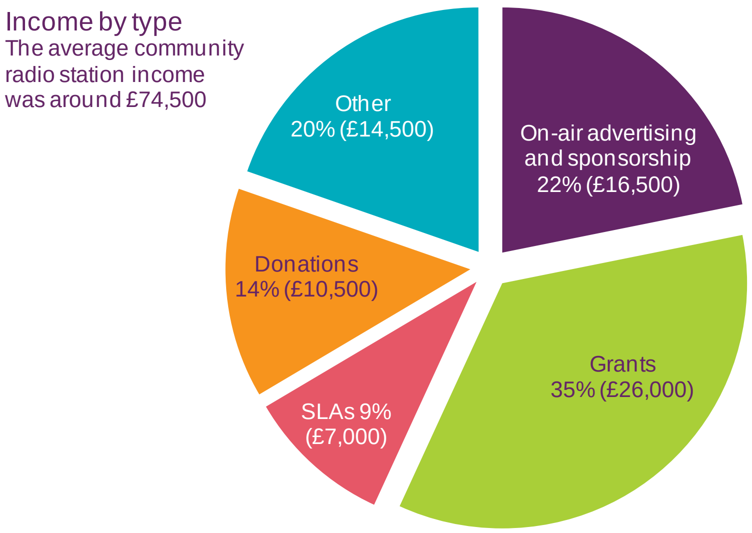
### 3.2.6 Community radio income

**Average community radio income fell by 6% in the twelve months to the end of 2010**

The main source of income for community radio stations is grants, for example from the Community Radio Fund, the Arts Council, the Ministry of Defence, local authorities or the National Lottery.

Average income per station stood at £74,500 in 2010, 6% less than the previous year. Figure 3.21 shows the distribution of funding sources for the average station, although it should be noted that there can be quite a wide variation in those sources across operators. The grants' share of total industry income fell by 6pp year on year, accounting for 35% of all funds in 2010. Service level agreements or service contracts (SLAs) fell by 3pp over the year to 9%. SLAs involve the stations broadcasting output of social benefit on behalf of other organisations, in return for funding. The sale of on-air advertising and sponsorship accounted for 22% of income, roughly in line with the previous year (23%), although in real terms income from this source dropped (from an average of £18,000 in 2008/09 to £16,500 in 2009/10). Donations increased as a funding source rising, on average, from £7,100 to £10,500.

**Figure 3.21 Community radio income, by source**




*Source: Ofcom, community station revenues 2009/10*

**The Future of Small-Scale Radio project**

In mid-2010 Ofcom commissioned research into 'small-scale' radio stations, defined as those which have a coverage area of less than ten kilometres and/or serve a population area of fewer than 250,000 adults (aged 15+).

Small-scale stations are typically not in a position to commission research on their audiences. There is little data about who listens to these services, as few are members of RAJAR, the official audience measurement service for the radio industry.

The government's policy to move larger services to DAB-only might open up the possibility of growth in this market segment, through new availability of spectrum in the FM band. The aim of Ofcom's research was to develop a better understanding of smaller stations and how they serve their listeners.

**Background and objectives**

There are around 500 local non-BBC stations licensed in the UK, of which around 350 can be described as small local stations. These fall into two categories, according to the way they are licensed.

**Small commercial stations** - whose primary aim is to make profits by selling advertising. Licence conditions require the provision of a certain amount of locally-focused programming.

**Community stations -** a relatively new type of station. These are not for profit and have funding from different sources, such as grants. They may not make more than 50% of their income from advertising/sponsorship. Licences may not be traded. Licence conditions include a requirement to provide 'social gain' (e.g. community information).

Both of these types of small-scale station have been under growing financial pressure due to declining advertising revenues and more recently, declining public funding (Figure 3.21).

**Brief summary of research findings**

The research has shown that small-scale radio services are highly valued by their listeners.

They are felt to be unique and to offer benefits to listeners and communities, such as supporting local businesses, that are not provided by other (larger) radio stations. Listeners expressed relatively higher levels of engagement and attachment to their respective small-scale stations.

While listeners believed that community and small commercial stations had some similar characteristics, they were seen to have a very different 'feel' and appeal from each other, and to deliver benefits in different ways.

Despite this, for both types of small-scale stations, they are not seen to deliver to the same level as larger stations; for example, in their consistency of output.

As part of the research, hypothetical scenarios were explored, involving different responses to the growing financial pressure faced by these stations. The research findings indicate that listeners are willing to accept more local commercial activity as a way of helping stations remain sustainable; other possibilities, such as stations becoming more 'mainstream' and less locally focused, were less popular with listeners.

Full details of the project, including the research and findings, can be found here: http://stakeholders.ofcom.org.uk/market-data-research/radio-research/

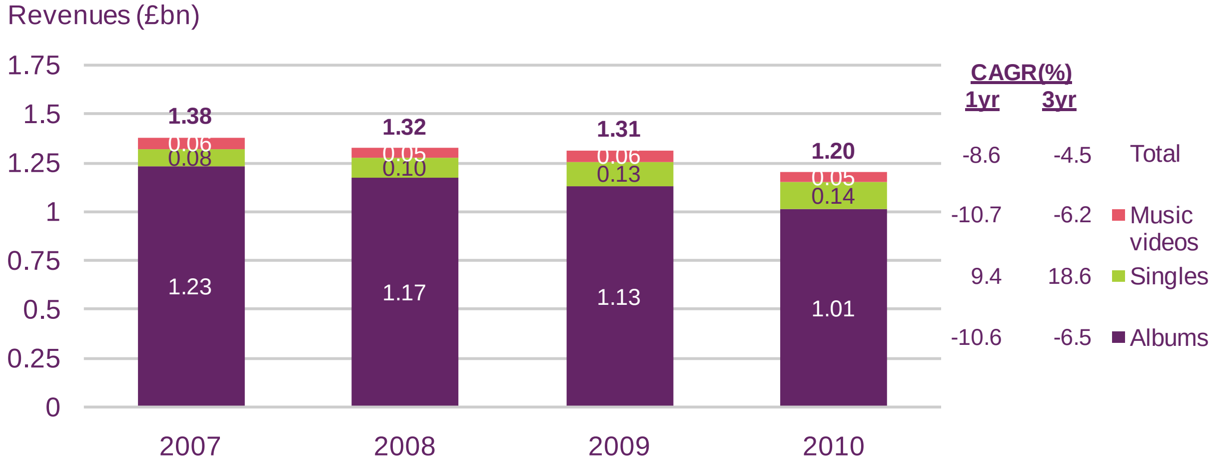
### 3.2.7 Recorded music revenue

**Recorded music revenue continued to fall in 2010, mostly due to falling album sales**

Total recorded music revenues fell b y 8.6% in 2010, according to data from the Entertainment Retailers' Association (Figure 3.22). The value of album sales, which make up over 84% of the total recorded music revenue, fell by 10.6%. The value of singles sales continued to rise in 2010 with a 9.4% annual increase, as online music stores such as iTunes enabled consumers to purchase individual music tracks without having to buy an entire album.

The value of sales of recorded music fell further in 2010 than in the previous three years, declining 8.6% in 2010 compared to an average reduction of 4.5% since 2007. The far lower unit cost of singles compared to albums, despite increased volumes, resulted in consumer spending on music declining overall.

## Figure 3.22 Recorded music retail revenues: 2007-2010

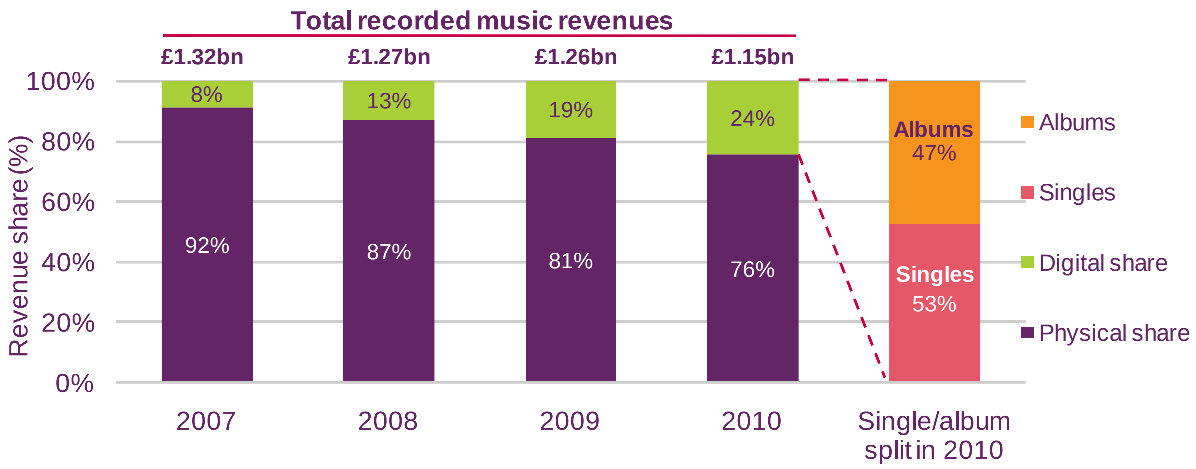



*Source: Entertainment Retailers' Association yearbook 2011. Figures are nominal.*

### Digital sales accounted for nearly a quarter of music retail revenue in 2010

Digital's share of recorded music revenues increased in 2010 to reach 24% of the total (up by 5pp in a year). Within the digital total, singles' share of it overtook albums for the first time to account for 53% of digital revenue in 2010, compared to 50% in 2009. Physical sales still accounted for a significant (albeit declining) share of revenue.

## Figure 3.23 Distribution of recorded music retail revenues: 2007-2010




*Source: Entertainment Retailers' Association yearbook 2011 Note: This chart does not include revenues from music videos.*

### Volume of album sales continues to fall as singles sales increase to 162 million units

Figure 3.24 illustrates consumers' preferences for physical and digital media, split between albums and singles. While digital's share of both is increasing, the declining popularity of physical album sales resulted in an overall fall in album volumes in 2010. The volume of physical singles sales in 2010 was only 2.1 million units, compared to the 159.7 million sold online.

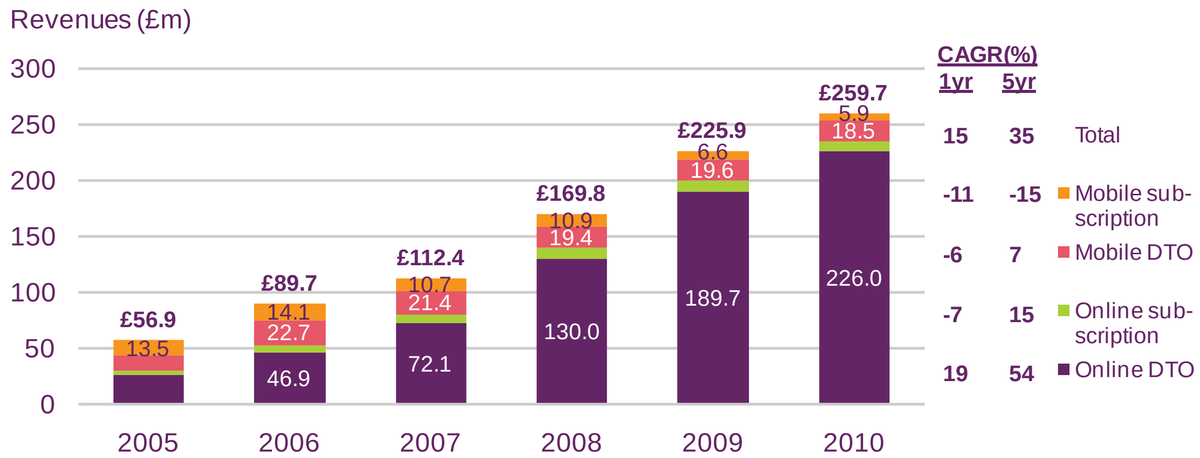
**Figure 3.24 Recorded music sales, by volume: 2007-2010**


*Source: Entertainment Retailers' Association yearbook 2011*

**Download-to-own business models are responsible for annual digital music revenue growing 15% year on year**

Figure 3.25 illustrates that among the alternative digital music business models, the online 'download-to-own' (DTO) model (e.g. the music tracks that can be purchased from iTunes) was the only one to increase in value during 2010. Its £36.3m (19%) growth was responsible for driving the 15% increase in the digital music market overall, of which online DTO makes up 87%. Mobile subscription services have continued to fall in popularity during 2010, having contracted by an average annualised rate of 15% p.a. over five years.

**Figure 3.25 Digital music revenues, by business model: 2005-2010**




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

# 3.3 The radio and audio listener

## 3.3.1 Introduction

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

Key points in this section include:

- **The number of weekly radio listeners in the UK reached a new high of 91.6% of the adult population in Q1 2011, up by 1pp since Q1 2010.** This represents the highest weekly reach figure since RAJAR's present research methodology was introduced in 1999 (page 178).

- **Over the past five years, UK-wide stations' share rose, while that of local stations fell.** BBC network services listening hours increased by 2.5% over the five-year period, commanding a 46.3% share of all hours in 2010. National commercial stations' hours rose by 5.2% over the same period. BBC local and nations stations' hours fell by 21%, and local commercial stations' share fell by 7.3% (page 179).

- **DAB set sales remain steady, at 1.9 million in the year to Q1 2011,** representing a fifth (22.3%) of all radio device sales (up from 20.9% in the year to Q1 2011); the rest were made up of analogue set sales (page 186).

- **Digital listening rose by 2.5pp in a year to reach 26.5% in Q1 2011.** Analogue accounted for a 65.4% share of listening while 8.1% was unspecified (page 181).

- **BBC 6 Music was the most listened-to digital-only station in Q1 2011,** with its weekly listener base growing by 261% since Q1 2006, reaching 1.3 million weekly listeners (3% of the market) on average (page 184).

- **Listening to the radio online in the UK remains more popular than listening to other audio content online through, for example, advertising-supported and subscription streaming services.** Eighteen per cent of households used the internet to listen to the radio, whereas 7% used free streaming services such as Spotify and 2% used subscription-based streaming services such as Spotify Premium (page 188).

## 3.3.2 Weekly radio reach in the UK

**Weekly radio reach was up across the board year on year, reaching new highs in Q1 2011**

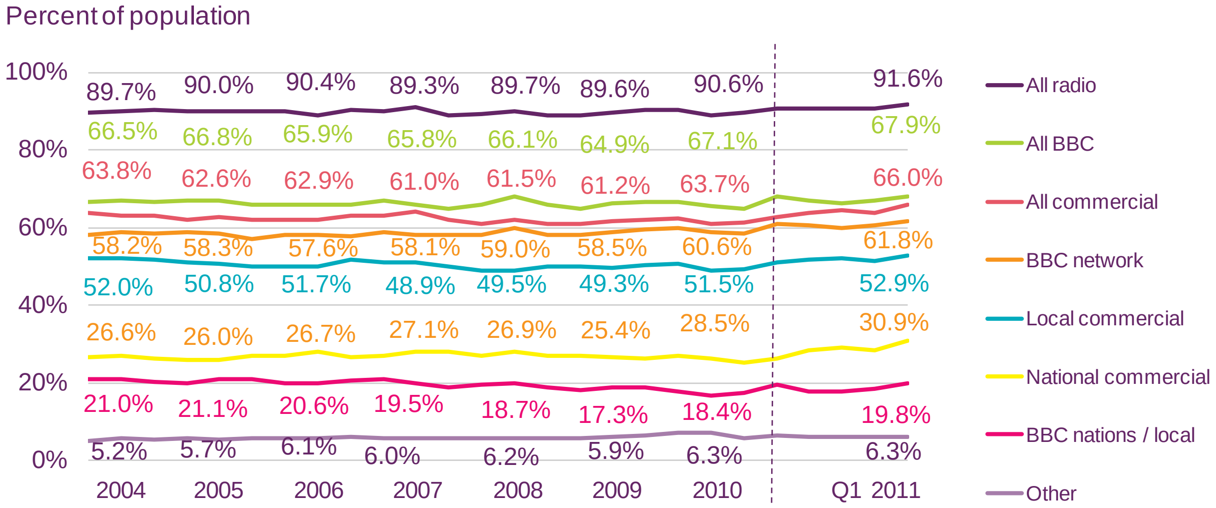
Weekly radio reach increased across all station types, reaching a record 91.6% of the adult (15+) population in Q1 2011, the highest level since RAJAR's present research methodology was introduced in 1999.

Over the past five years, the BBC local/nations' stations were the only station type where reach fell, collectively from 21.1% in 2005 to 18.4% in 2010. But the overall reach of the BBC's radio stations still rose (by 0.3pp to 67.1% at the end of 2010), thanks to a 2.3pp increase in the reach of BBC network stations.

For the commercial sector, reach increased both for national and local stations over a five year period. National commercial stations increased by 2.5pp to 28.5% at the end of 2010.

For local commercial stations, the comparative increase was 0.7pp, but the local commercial sector had a significantly higher reach than its national counterpart, at 51.5%. Taken together, the commercial sector reached 66% of the population in Q1 2011, attracting 34 million UK adults every week.

### Figure 3.26 Reach of radio, by sector




*Source: RAJAR, all adults (15+), 2004-2010 calendar years and Q1 2011*

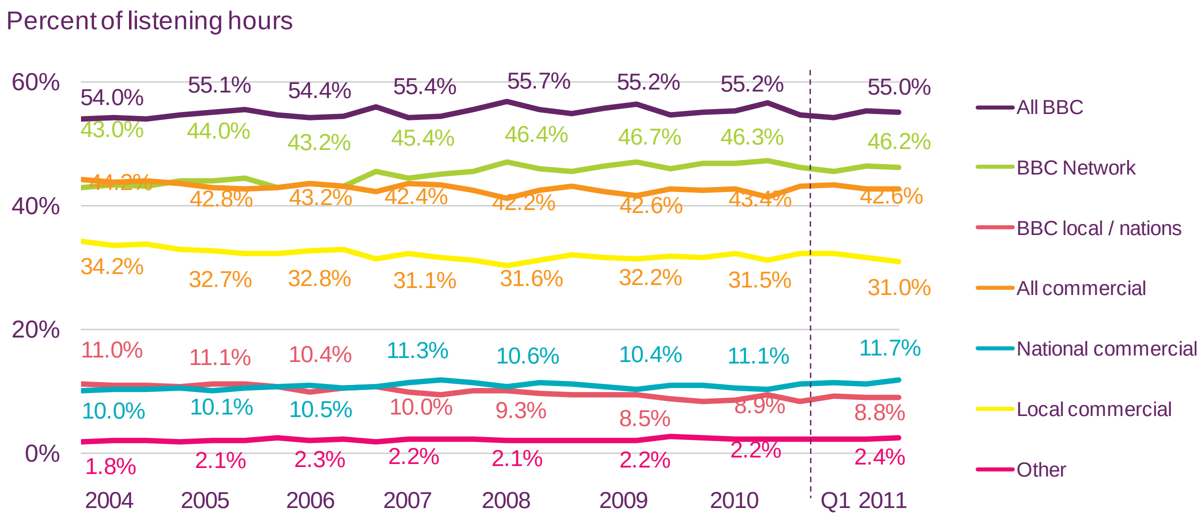
## 3.3.3 Listening hours

**National stations increase in popularity over the past five years as local radio declines**

Over five years, the BBC and commercial radio have seen listening fall. In terms of share of listening hours, the BBC has broadly held its share at 55% since 2005. It is the same story for commercial radio, registering a small (0.6pp) increase over five years, with a 43.4% proportion of listening hours at the end of 2010.

Year on year, the BBC's share remained unchanged, at 55.2% in 2010, whereas commercial radio's share increased by 0.8pp; from 42.6% in 2009 to 43.4% in 2010.

### Figure 3.27 Share of listening hours, by sector

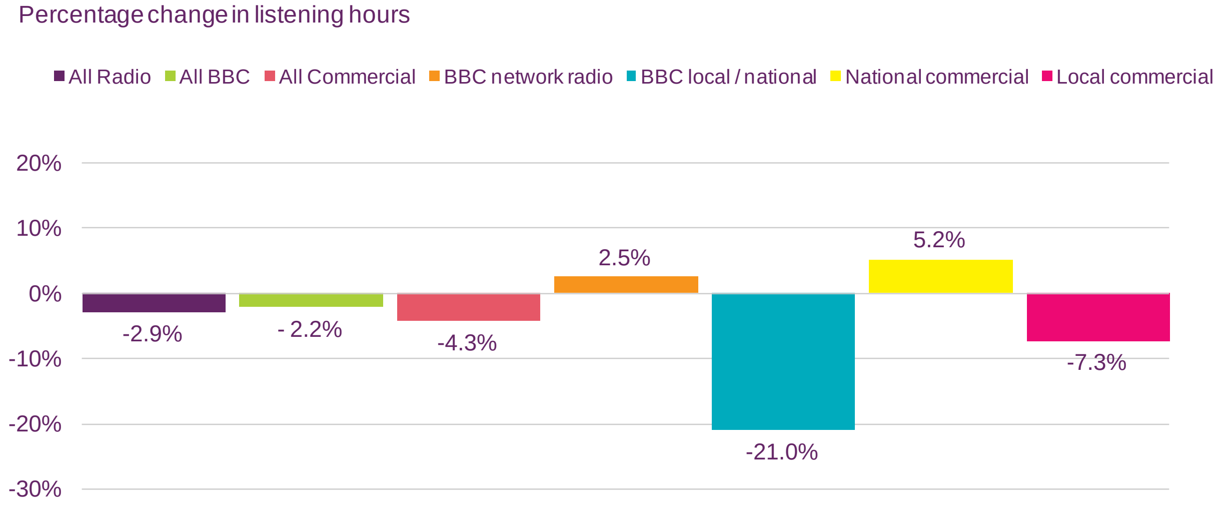



*Source: RAJAR, all adults (15+), 2004-2010 calendar years and Q1 2011*

BBC network radio (the BBC's UK-wide radio stations) and national commercial radio were the only sectors in which listener hours grew between 2005 and 2010. With only three national commercial stations available on analogue radio, the national commercial sector has benefited from the increased number of stations available on digital radio.

BBC local stations, including the national stations for listeners in Scotland, Wales and Northern Ireland, have seen the largest reductions (21%) in listener hours in the five-year period to 2010. Local commercial station hours also registered a five-year decline of 7.3%.

## Figure 3.28 Changes in listening hours, by sector: 2005-2010

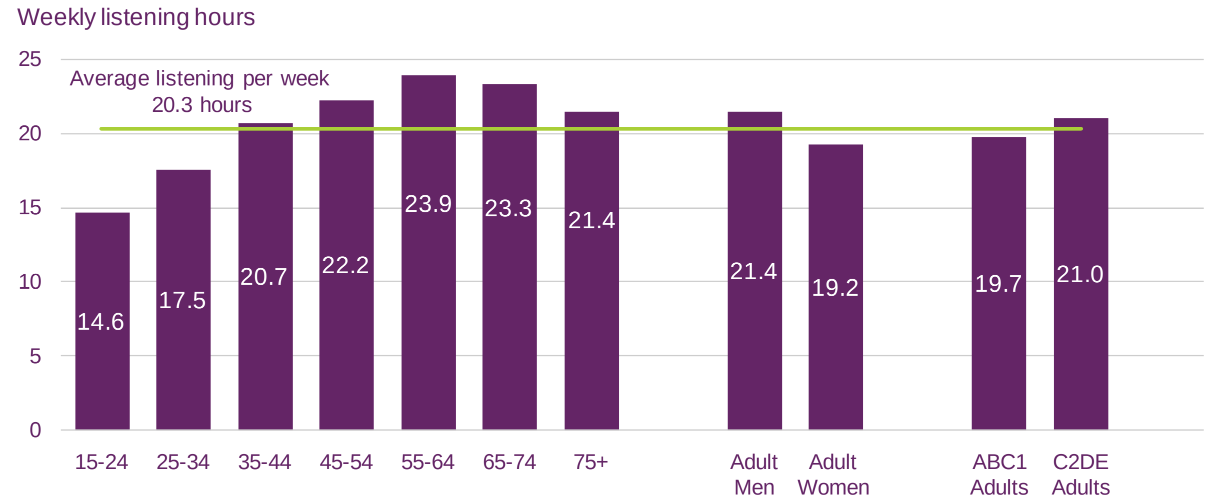



*Source: RAJAR, all adults (15+), data based on calendar years 2005 and 2010*

### Average time spent listening to radio increases with age

Figure 3.29 shows the demographic profile of average weekly listening hours for adults in the UK in the year to Q1 2011. It shows that listening increases with age, peaking in the 55-64 age group. It is higher among men than women, with the former listening on average to 2.2 more hours per week than the latter. Those in the ABC1 group listen to 1.3 fewer hours than those in the C2DE category.

### Figure 3.29 Average weekly listening by demographic, year ending Q1 2011

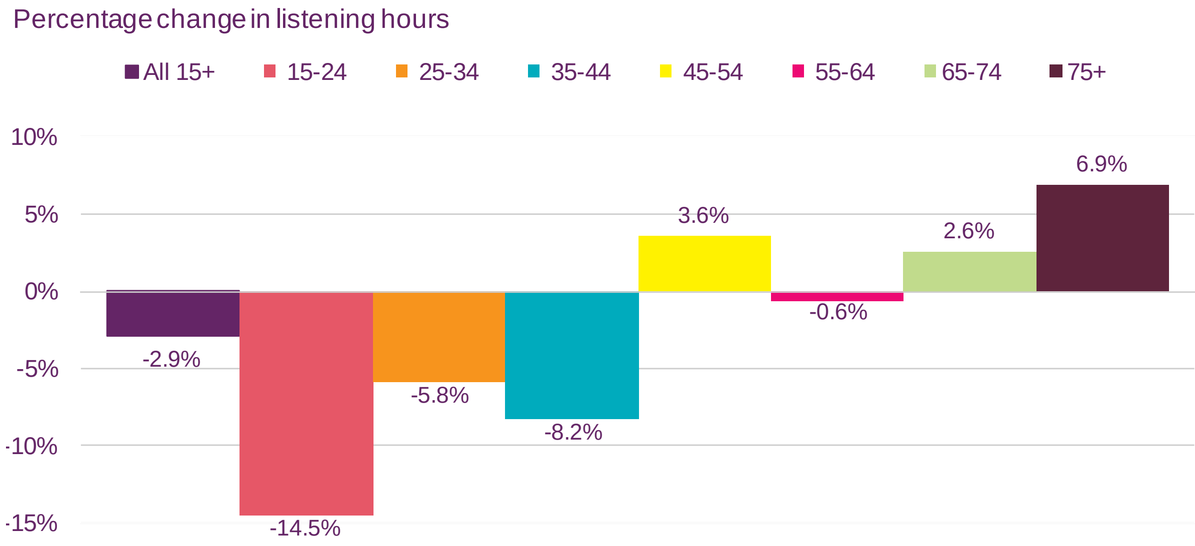



*Source: RAJAR, all adults (15+), year ending Q1 2011, average weekly listening hours per head of population*

**Five-year decline in listening hours is driven by under-44s**

Despite a positive 2010 for radio listening, as illustrated in Figure 3.10, the five-year trend remains negative, with a 2.9% fall in overall listening. Figure 3.30 shows the percentage change in listening hours over the last five years, by RAJAR age group. The 15-24 age group remains the group demonstrating the sharpest decline, with all listener hours among all adult groups under 44 showing a reduction.

### Figure 3.30 Changes in listening hours, by age: 2005-2010




*Source: RAJAR, all adults (15+), data based on calendar years 2005 and 2010*

## 3.3.4 Most listened-to radio stations

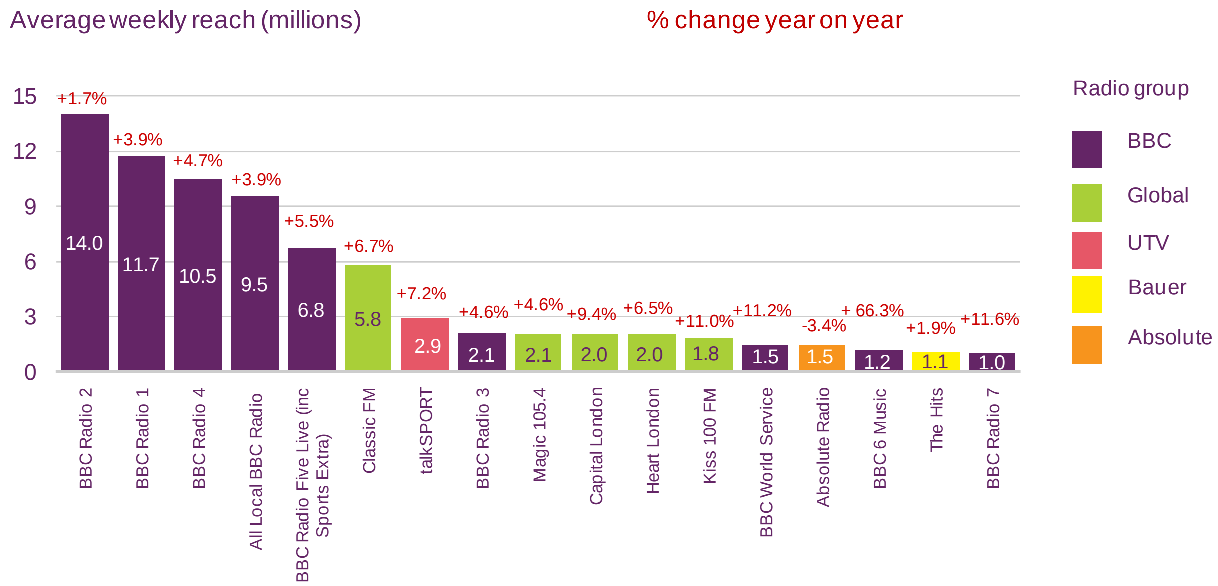
**Many stations' weekly reach rose in 2010, with BBC network stations remaining the most popular**

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

The national commercial radio stations Classic FM and talkSPORT also experienced increases during the year to Q1 2011 (of 6.7% and 7.2% respectively). They had higher listening than BBC Radio 3 but less than all other BBC analogue network stations.

BBC 6 Music, which is the UK's most listened-to digital-only station, was the fourteenth most listened-to overall. The Hits, the most listened-to digital-only commercial station, was placed fifteenth.

**Figure 3.31 Most listened-to radio stations, year ending Q1 2011**



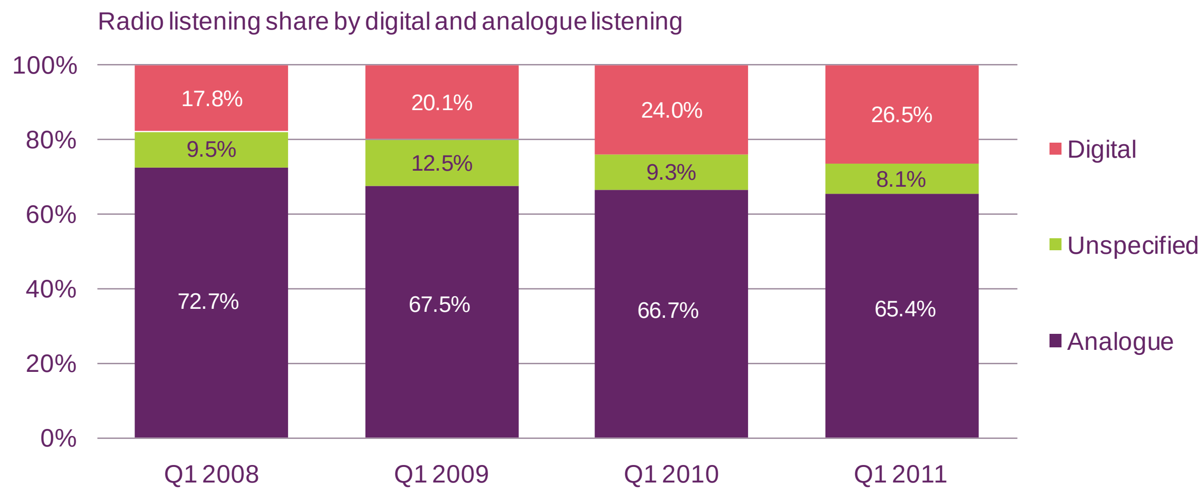

*Source: RAJAR, all adults (15+), year ending Q1 2011*

## 3.3.5 Digital radio listening trends

**Digital listening increases by 8.7 percentage points in three years**

Digital radio listening as a proportion of total listening rose by approximately 3pp each year, comparing Q1 figures in each of the last three years, rising by 8.7pp between Q1 2008 and Q1 2011. The figure includes listening via both online and digital TV platforms, as well as through DAB radio sets.

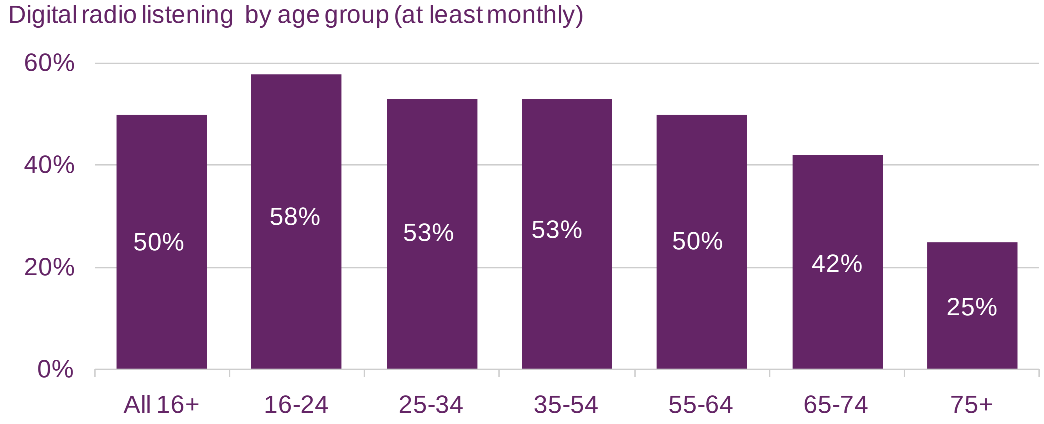
**Figure 3.32 Share of listening hours across analogue and digital platforms**




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

Figure 3.33 illustrates that older listeners are less likely to listen through a digital radio platform. For listeners under 64, at least half claim to listen to digital radio on a monthly basis. In the 65-74 age group the figure falls to 42%, and to 25% for the over-75s.

**Figure 3.33 Digital radio monthly listening, by age group**




*Source: Ofcom research, Q1 2011. Base: All who listen to the radio (n=2811) Q: Use digital radio at least monthly*

## 3.3.6 Digital radio share, by sector

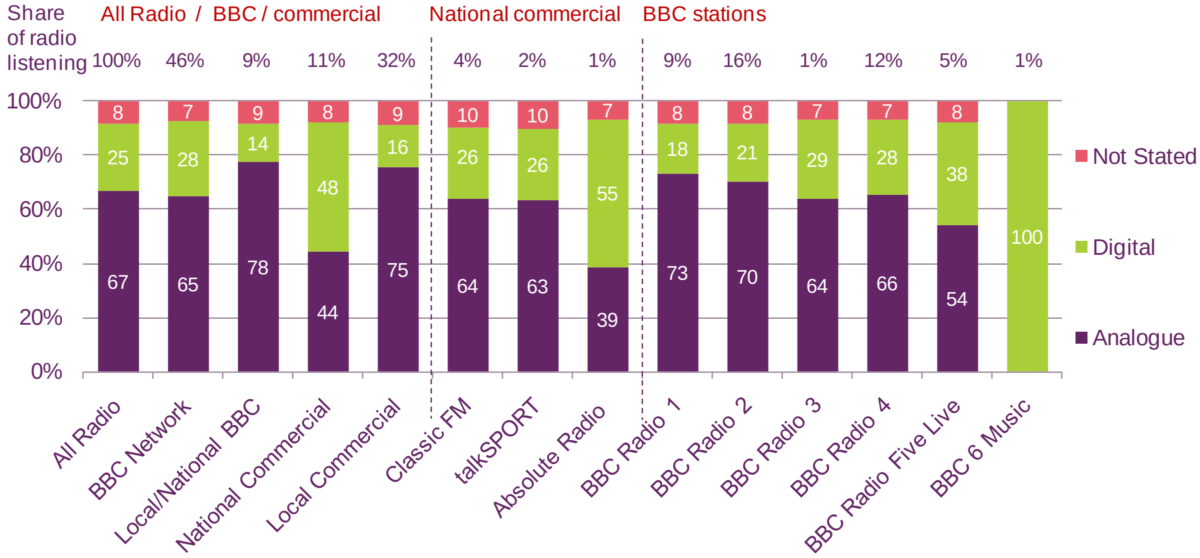
**UK-wide stations have the highest proportion of digital listening**

UK-wide BBC network stations and national commercial stations have the highest level of digital listening compared to other station types. Digital listening to local and nations' BBC stations, and to other local commercial stations, is typically less popular, at 14% and 16% respectively, compared to 2009 shares of 15% and 16% respectively.

There are only three national commercial stations available in the UK on analogue radio. Absolute Radio and talkSPORT are not available nationally on FM. Absolute Radio had a proportion of digital listening over the half-way mark, at 55%, possibly due in part to a focus on recorded music content and its limited FM availability (music listening on AM is generally considered an inferior experience). By comparison, national-FM-available Classic FM and talk-radio-based talkSPORT attract only 26% of listening hours through digital radio platforms.

BBC Radio Five Live, available only on analogue via the AM frequency band, had the highest share of digital listening for a BBC analogue-available station, with 38% occurring via a digital platform.

**Figure 3.34 Audience profiles and platform split, by sector and station: year ending Q1 2011**




*Source: RAJAR, year ending Q1 2011, UK adults aged 15+*

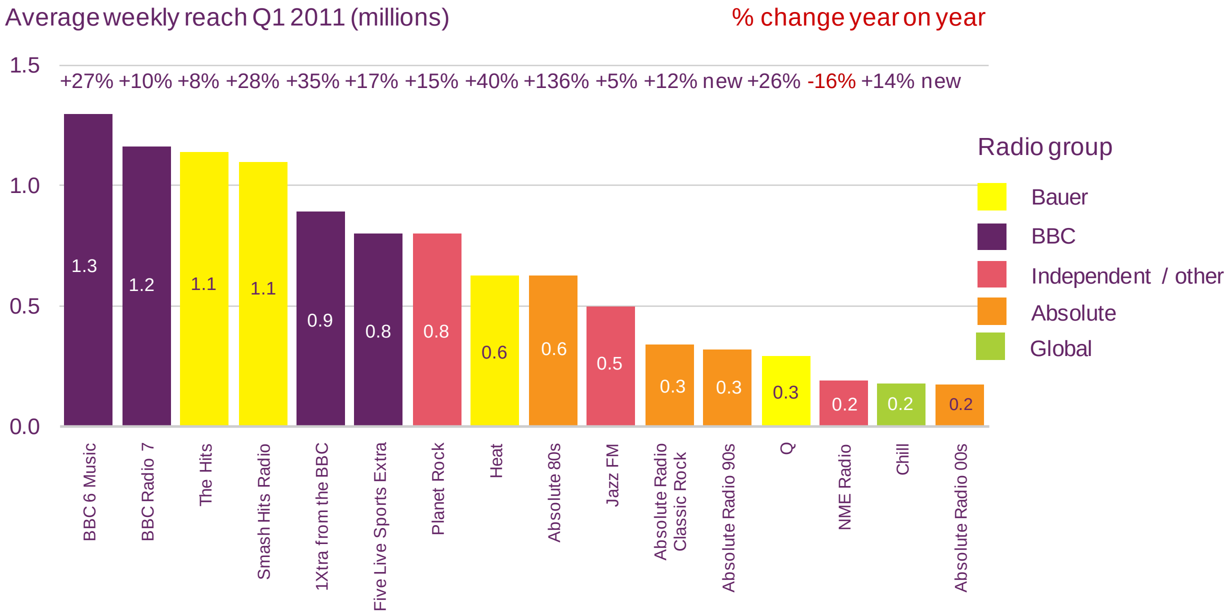
**BBC 6 Music becomes the most listened-to digital-only radio station**

Following a public campaign to keep the station open, which ran from February to July 2010, BBC 6 Music's reach increased by 27% (Q1 2011 compared to Q1 2010) to 1.3 million adult listeners, making it the UK's most popular digital-only radio station.

NME Radio was the only digital-only national station whose reach did not increase in the year to Q1 2011. The service ceased broadcasting nationally over DAB in June 2010. The largest increase in average weekly reach came from Absolute 80s, with a 136% rise since the station launched in December 2009. Other digital-only stations saw rises in reach ranging from 5% to 35%.

The digital-only market, while currently much smaller than analogue-available stations in terms of listening hours and reach, is populated by a wider range of owners among the most popular stations, compared to the same segment of the analogue market. There are two independent stations (not part of a larger radio group) in the top ten: Planet Rock and Jazz FM. Bauer Radio has three digital-only stations in the top ten, while Absolute has one. Global Radio owns one digital-only national station, Chill, which was available nationally only through the Sky and Virgin Media digital television platforms in 2010.

**Figure 3.35 Most listened-to digital-only stations, Q1 2011**




*Source: RAJAR, Q1 2011, UK adults aged 15+*

## 3.3.7 Listening patterns across the UK nations

The shares of listener hours among the categories of stations shown in Figure 3.36 have remained broadly similar for the UK in the year to Q1 2011. There are, however, significant variations in listening hour shares between the UK nations, outlined below.

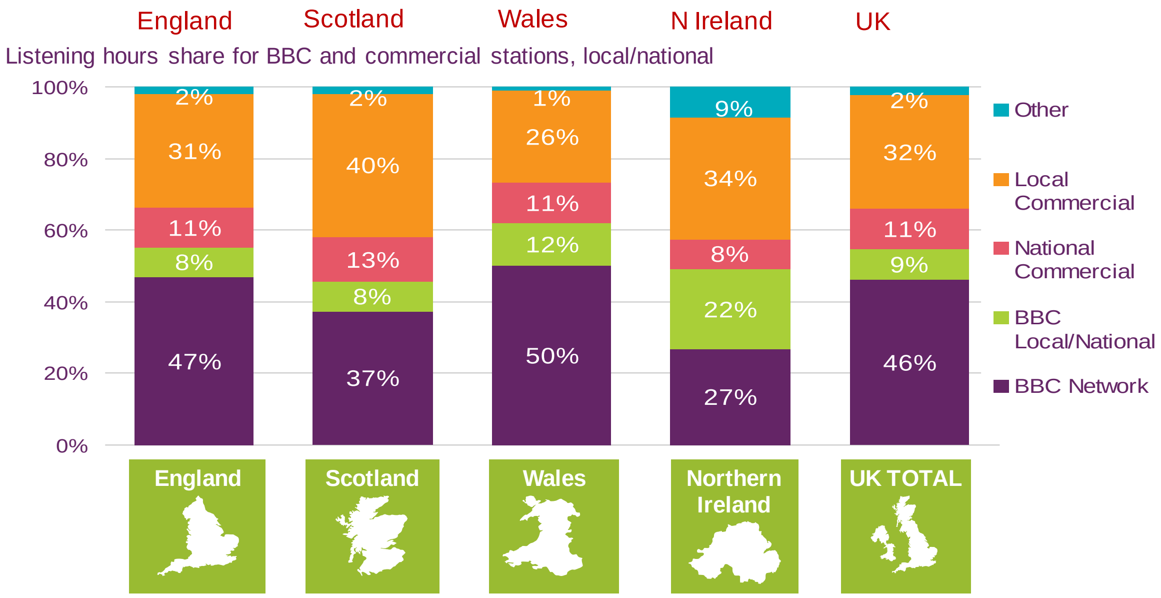
- In **Northern Ireland**, BBC stations Radio Ulster and Radio Foyle achieve the highest proportion of listening hours for BBC local/national stations across the UK, with a share of 22%. BBC network stations' share has increased by 2pp over the year but was still the lowest among the four nations, at 27%, 19pp below the UK average.

- **Wales** had the highest levels of listening and reach in the year to Q1 2011. It has the lowest proportion of local commercial listening, 6pp below the UK average. Half of all listening in Wales is to one of the BBC's UK-wide network radio stations. Taken with BBC local/national stations, this brings the BBC's listening share to its highest level among the four nations, at 62%.

- In **Scotland**, local commercial services attracted a higher share than anywhere else in the UK, at 40% of all listening hours. Furthermore, 54% of all Scottish listening hours were to stations in the commercial sector, the highest proportion in the UK.

- In **England**, listening shares have stayed the same year on year, despite an increase in overall listening and reach. BBC network stations attract the largest collective share, at 55% of total hours.

**Figure 3.36 Share of listening hours, by nation**




| | England | Scotland | Wales | Northern Ireland | UK TOTAL |
|---|---|---|---|---|---|
| Average weekly listening | 22.3 hours | 21.8 hours | 23.3 hours | 22.2 hours | 22.3 hours |
| Reach | 90.9% | 88.1% | 92.9% | 92% | 90.8% |

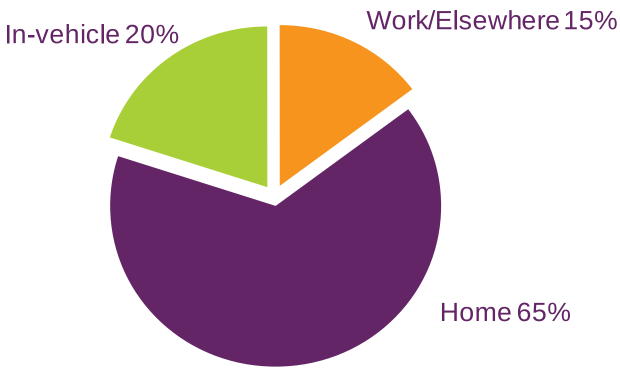
*Source: RAJAR, All adults (15+), year ending Q1 2011 Note: Audience share by category (year to Q1 2011) % share BBC & commercial, local & national*

## 3.3.8 Location of radio listening

**65% of radio listening takes place in the home**

The locations where radio listening takes place have remained relatively unchanged over the last five years. In-vehicle listening accounted for a fifth of all radio consumption in Q1 2011, according to RAJAR. A further 15% of listening takes place at work or away from the home.

**Figure 3.37 Location of listening, year to Q1 2011**




*Source: RAJAR, year ending Q1 2011, UK adults aged 15+*

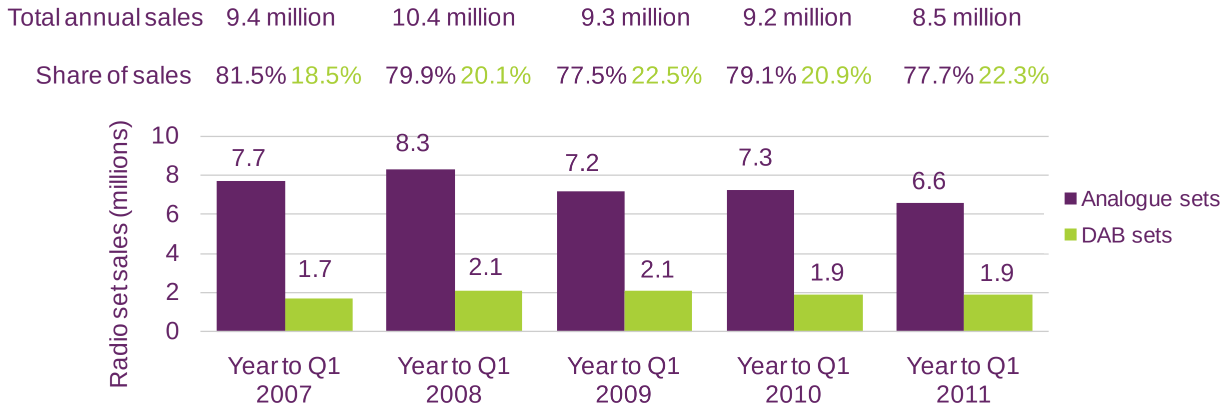
### 3.3.9 Retail sales of radio sets

**DAB set account for 22% of all radio sales**

DAB sales have remained stable at 1.9 million in the year to Q1 2011. While analogue sales still account for the majority of radio sets sold (77.7%), DAB increased its proportion of sales by 1.4pp to 22.3%.

The portable market accounted for nearly half (49.8%) of total DAB sales in the year to Q1 2011, representing 64.5% of the overall portable radio market. Total radio set sales (analogue and digital) were down by 677,000 to 8.5 million in the year, mostly due to a decline of 655,000 in analogue sales.

**Figure 3.38 Number of analogue and digital radio sets sold**

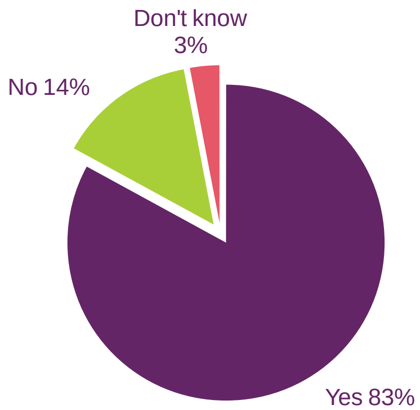



*Source: GfK sales data, 2006-2011. Note: Figures cover GB only, GfK Panelmarket data represents over 90% of the market. Categories of device included are: portable radios, personal media players, car audio systems, home audio systems, clock radios, radio recorders, headphone stereos, tuners and receivers.*

**83% of consumers are aware of the term 'digital radio' or 'DAB'**

Awareness of the terms 'DAB' and 'digital radio' have a high level of awareness, with 83% of consumers recognising at least one of the terms by Q1 2011. Figure 3.39 shows that 14% of consumers said they had not heard of either term, while 3% answered 'don't know'.

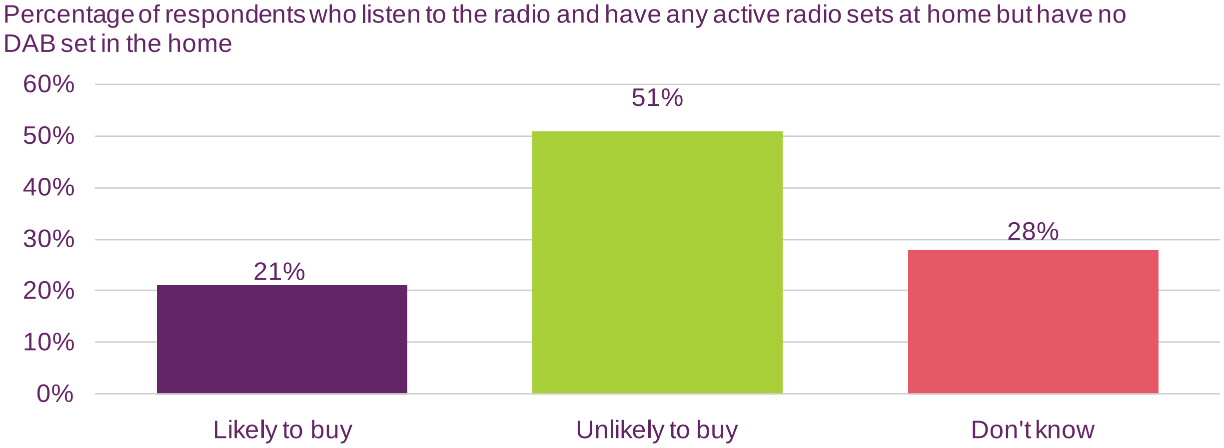
**Figure 3.39 Have you heard of the term 'DAB' or 'digital radio'?**




*Source: Ofcom research 2011*

By Q1 2011, 21% of research respondents without a DAB radio stated that they intended to buy one within the next 12 months. However, 51% of radio listeners without DAB said they were not planning to purchase a set in the next 12 months, 4pp lower than in 2010.

**Figure 3.40 Likelihood of buying a DAB radio within the next 12 months**



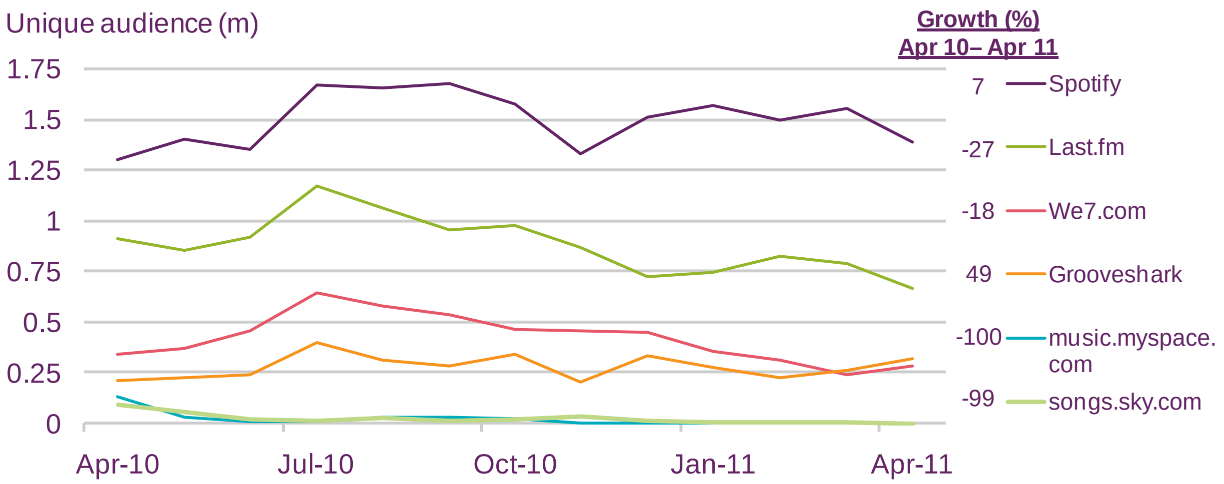

*Source: Ofcom research Q1 2011. Base: Those who listen to the radio and have any active radio sets but have no DAB sets in the home (n=1304) QP12: How likely is it that your household will get a DAB radio in the next 12 months?*

## 3.3.10 Online music streaming services

**Growth in reach of music streaming sites slows**

Spotify continued to command the highest unique audience of online streaming services in the UK during 2010, with 7% year-on-year growth. However, this is significantly lower than the 74% growth the streaming service saw in its unique audience in the same period last year. Grooveshark also increased, with 49% growth. Last.fm's reach fell by 27% while We7.com's contracted by 18% over the same period. Sky Songs, a music subscription service from BSkyB, closed in February 2011[25] following its launch in October 2009.

**Figure 3.41 Unique audiences of selected music streaming sites**



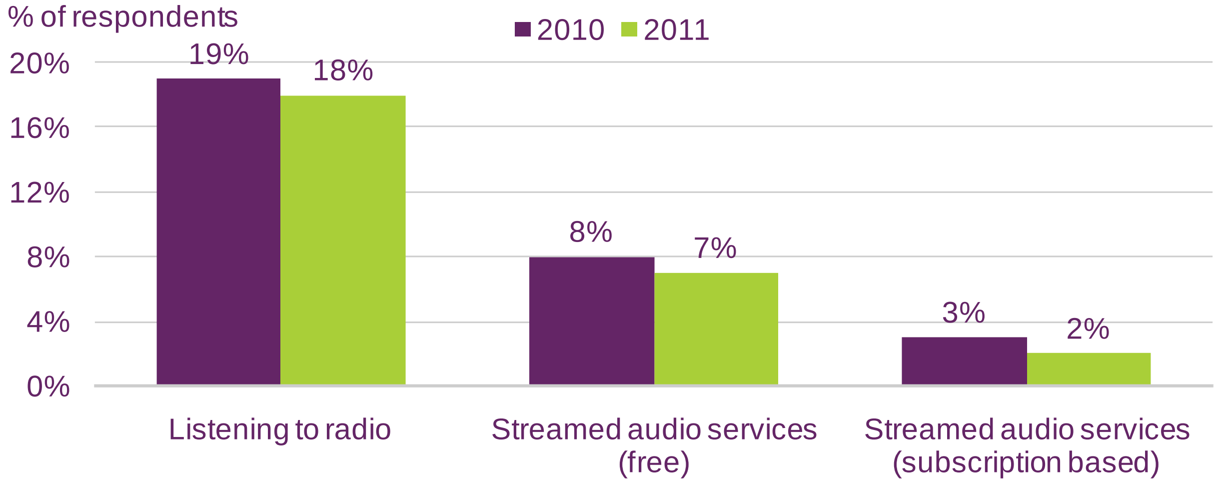

*Source: UKOM / Nielsen. Month of April 2011, home and work panel. Applications included.*

[25] http://songs.sky.com

**Listening to the radio online is more popular than streaming services**

According to Ofcom's own consumer research, nearly a fifth (18%) of households use the internet to listen to the radio. Seven per cent used free streaming services such as Spotify while 2% used subscription-based streaming services such as Spotify Premium.

**Figure 3.42 Audio internet use**




*Source: Ofcom research, Q1 2011 QE10A. Which, if any, of these do you or members of your household use the internet for whilst at home? Base: Those with access to the internet at home (n= 2534)*

## 3.3.11 Use of digital music services and devices

**UK listeners now spend more time using Spotify than iTunes**

Spotify, a free advertising-supported and paid subscription-based music streaming service, has surpassed iTunes in terms of the time spent by users using the services each month. Figure 3.43 shows users spending more time on Spotify every month from July 2010 onwards, out-performing primarily offline music players iTunes and Windows Media Player.

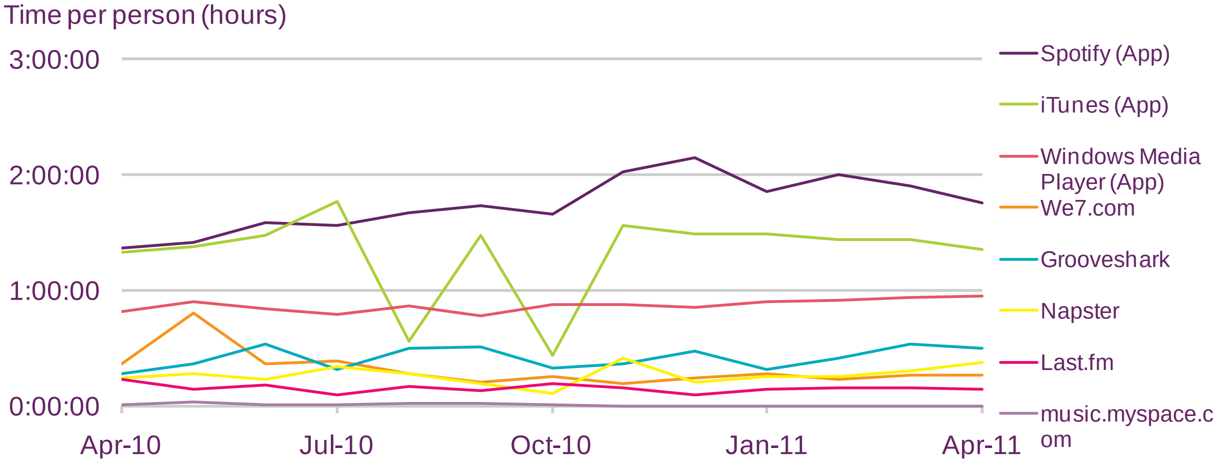
Despite Spotify's growth, in April 2011 it announced changes in the quantity of music that ad-supported users could listen to before having to take a paid subscription[26]. The restrictions limit ad-supported users to 19 hours of music per month, with a maximum of five plays per track.

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 3.43, does not represent actual time spent listening to music; it is likely to underestimate it. However, these data do show the time spent browsing, searching and compiling music playlists. The figures show the number of people who opened and ran these applications on their computers, and do not necessarily represent a connection to the internet.

[26] http://www.spotify.com/uk/blog/archives/2011/04/14/upcoming-changes-to-spotify-free-open/

**Figure 3.43 Time spent using selected music services and media players**



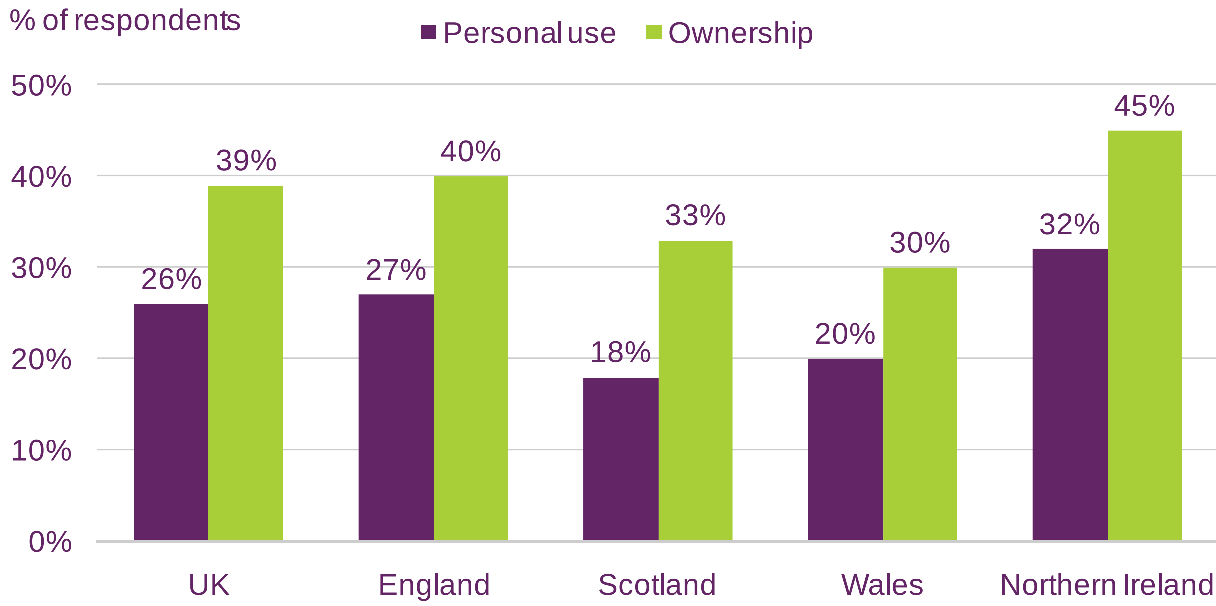

*Source: UKOM / Nielsen. Month of April 2011, home and work panel. Applications included.*

**Personal use of MP3 players and iPods in the UK is 13 percentage points lower than ownership**

Figure 3.44 shows that a clear gap has opened between personal use and ownership of MP3 players. The reasons for this gap may include the increase in use of smartphones as music players, leading to more consumers no longer using their MP3 players and iPods (see page 47).

Across the UK personal use was 26%, while ownership was 39%. Ownership and use remain highest in Northern Ireland, with personal use at 32%. The figure was lowest in Scotland, with only 18% personally using an MP3 player or iPod.

**Figure 3.44 MP3 player/iPod ownership and personal use**




*Source: Ofcom research, Q1 2011. 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? Base: All adults aged 16+ (n = 3474 UK, 1983 England, 487 Scotland, 493 Wales, 511 Northern Ireland)*