RadioCentre
SHAPING COMMERCIAL RADIO'S FUTURE

RadioCentre submission to the DCMS/BERR Convergence Think Tank Seminar: Why does convergence matter?

Background

1. RadioCentre is the industry body for Commercial Radio. Formed in July 2006 from the merger of the Radio Advertising Bureau (RAB) and the Commercial Radio Companies Association (CRCA), its members consist of the overwhelming majority of UK Commercial Radio stations, who fund the organisation.

2. The role of RadioCentre is to maintain and build a strong, successful Commercial Radio industry - in terms of both listening hours and revenues. As such, RadioCentre operates in a number of areas including working with advertisers and agencies, representing Commercial Radio companies to Government, Ofcom, copyright societies and other organisations concerned with radio, and working with stations themselves. RadioCentre also provides a forum for industry discussion, is a source of advice to members on all aspects of radio, jointly owns Radio Joint Audience Research Ltd (RAJAR) with the BBC, and includes copy clearance services for the industry through the Radio Advertising Clearance Centre (RACC).

What do we mean by convergence?

3. Evolving technology, particularly the increasing take-up of high-speed fixed and wireless communications services has forced content providers to re-evaluate their relationships with each other and with their audiences. Technology penetration continues to accelerate as consumers demand and embrace new services and applications. Over 90% of the UK population has a mobile phone, 53% of UK households have a broadband connection - the figure jumps to over 80% for the proportion of households with a digital TV[1], and as at the end of 2007, over 6 million DAB sets had been sold[2].

4. Convergence - the process of bringing technologies, platforms and devices closer together - is affecting the broadcast and communications sectors at a rapid rate. An increasing number of services are being delivered on a wide range of competing platforms by both traditional players and new entrants. Consumers can now get television on their mobiles, digital radio on their televisions and make calls over the internet. Many businesses and interests are now able to communicate directly with citizens without using traditional broadcasters as the "middle men".

5. Radio, the oldest traditional broadcast service, is very much part of this converging environment, and has been facing rapid change for some time. Although it is still collectively valued by listeners, reaching 89% of the population every week, these listeners are choosing to access radio in a variety of ways. 15% of all radio listening is now via a digital platform - 8.6% of this is via DAB, 3% via digital TV and 1.6% via the internet. Listening via mobile phone continues to rise steadily to over 9% of all listening, an increase of 29% since 2006, and listening to radio programme podcasts has also seen a significant increase.[3]

[1] Ofcom, 'Communications Market Report 2007'
[2] DRDB, December 2007
[3] RAJAR, Q3 2007

Opportunities and challenges

For Consumers

6. Consumers are facing a diversity of rich digital multimedia products and services that were not previously available, or were provided separately, from organisations across the technology, media and telecoms sectors. This diversity comes not only from new entrants into the market but also traditional service providers who are embracing new technology and experimenting with a number of new business models to leverage existing content: for example, catch-up and on-demand streamed TV from the public service broadcasters such as the iPlayer and 4oD, and the move of traditional radio stations into online radio, personalised radio, podcasts and other on-demand audio content distribution.

7. Convergence enables consumers to use and experience media and communications services in new and different ways. Some users are becoming more engaged and are becoming active contributors as opposed to passive users of content and information. There has been a shift away from the reliance on traditional linear programming towards a more on-demand offering which enables consumers to choose the programming they want, when they want it - rather than at a time determined by the broadcaster – and on multiple devices.

8. Digital technologies are enabling consumers to interact with and share content like never before, even become content providers themselves. This trend towards user generated content or 'citizen media' could potentially move audiences away from traditional media and undermine the relevance and revenues of established information providers. Traditional media are slowly trying to adapt by becoming more "participative", giving consumers increasing opportunities to participate in news production, for example.

9. Convergence also brings challenges for consumers. Whilst an influx of new services available on more platforms brings more choice and greater control, it also brings complexity and potential threats to reliability of information, especially with regard to user generated content. Broadcasters will need to play an important role, not only in the education and empowerment of consumers, but also as defenders of the important broadcaster-consumer trust relationship.

For Citizens

10. An increasing number of communications platforms can now be used to achieve objectives in the public interest. Public service content can now be delivered via TV, the radio, mobile or the internet. Convergence is enabling citizens to interact and engage with society in new ways bringing with it significant citizen benefits for those who are well digitally connected.

11. However, a more inclusive and socially networked society will only occur if steps are taken to remove exclusion and promote inclusion to ensure that there is universality of access and its benefits are properly understood.

12. UK broadcasting has traditionally been regarded as trustworthy (fair, impartial and accurate), diverse yet inclusive, and widely consumed by all ages and all sections of society. In this converged age, it will be crucial for all parties to enhance the focus on media literacy to ensure that all citizens are equipped with the right skills and understanding to make full use of the opportunities presented by both traditional and new communication services.

For Industry

13. Convergence has prompted transformation in media businesses, especially broadcasters. New technology enables traditional businesses to extend their reach via new platforms and to forge perhaps more powerful relationships with customers.

14. Technological developments present opportunities to operators to re-evaluate operations and implement more cost-effective and more efficient ways of offering services and distributing content.

Increased competition

15. However, significant challenges to media businesses underly the excitement. While the citizen and consumer benefit from an array of new products and services available on different platforms, radio operators are faced with competing claims on listeners' time and attention – these claims coming not only from traditional media sources but also new media, entertainment and communication providers taking advantage of the lower barriers to entry in the online environment - be it an interactive online radio station, a music download service, or an audio podcast or streamed audio or video output from a newspaper or public or private business enterprise

16. The combination of rapid technological change and growing listener expectations creates a funding challenge for radio operators trying to make services available on as many platforms as possible. They need to invest in an array of distribution technologies, including FM and AM, DAB, DTV and internet streaming, whilst also working with platform operators and device manufactures to maximise the reach of each of these technologies. This is difficult when revenues are being stripped away to support other commercially funded communications ventures.

Inconsistent regulatory structures

17. Convergence is exposing differences in the regulatory structures applied to similar services on different platforms. Traditional players such as TV and radio are regulated in a way which may have been appropriate in the past. These days there are online radio stations that are not subject to Format and content regulation like Ofcom licensed analogue or DAB broadcasting stations. The content of an audio podcast launched by a newspaper would not be subject to same Codes affecting broadcasters. Citizens would be hard put to tell the difference between the two.

18. A revision of the current regulatory framework is needed to enable all operators to seize the opportunities presented by convergence. The regulatory process must be accelerated. Of course, Parliament must set policy about the principles which underpin regulation of the media. But, if any kind of level playing field between 'new' and 'old' media is to be achieved, Ofcom must be entrusted with greater flexibility to adapt its regulatory approach as market circumstances changes in the interests of citizens, consumers and the industries which it regulates.

19. In turn, media businesses need room to take decisions which will allow them to deliver the best possible services to citizens and consumers. We believe that new legislation should revise the statutory duties for Ofcom in Clause 6 of the Communications Act 2003 to include additional encouragement for Ofcom to consider the extent to which TV and radio regulation can be furthered or secured by effective self-regulation.

Content rights

20. Convergence brings with it other challenges for media businesses, particularly broadcasters, with regard to content rights such as music licensing. Radio is a ubiquitous, portable and mobile medium. It needs to be on every available platform if it is to find its place alongside all those others jostling for listener attention. Being able to choose among platforms however, does not mean that listeners consume the content simultaneously – and therefore music copyright agreements that are not platform neutral are likely to result in double payments and conflicting licensing criteria. However, within the music industry, there remains a great deal of uncertainty regarding how traditional licensing can extend to new media and cross-platform distribution, and thus far the tendency has been towards 'per platform' licensing which, although it seeks to maximise revenue for rightsholders, is neither fair, nor sustainable for broadcasters.

Public Service Objectives

21. Increased choice, platforms and competition in communications is changing the ways in which public service objectives are being delivered and consumed. This suggests that existing funding models may need to be adapted to find new, more transparent and flexible public service delivery mechanisms to better reflect the converged media landscape which now has many providers rather than just a handful.

22. Broadcasting policy has in the past been shaped by spectrum scarcity considerations, which heightened the value of broadcasting licences to commercial operators and justified significant public service obligations. However, digitisation and internet technology are increasing the capacity of spectrum and creating additional channels for the distribution of audio content. This is making it much more difficult to find a viable commercial model for delivering public service outputs.

23. In addition, analogue TV switch-off in 2012 will flood the market with new spectrum, at least some of which is likely to be used to provide content which will compete with Commercial Radio offerings. The scale of this release of spectrum should not be underestimated: it is 75 times greater than the spectrum being used to provide the new second national commercial DAB multiplex.

24. We believe that the debate about the future of Public Service Broadcasting triggered by these developments should be extended to radio content. Radio broadcasters are committed to retaining public service obligations if opportunities to broadcast radio programming remain sufficiently valuable. Certainty around the industry's digital transmission future will help in this regard.

25. Yet if public interest objectives remain a priority for government – and recent public concern around broadcaster trust issues suggests that they do – then it is likely that a new model for ensuring the funding viability of such outputs will need to be found. We believe that new Communications legislation should lead to the creation of a co-regulatory system for local programming. The focus of this new system should be on delivery of local material rather than quotas for locally-produced programming. Such an approach would transfer greater responsibility to individual broadcasters, who are best placed to understand the needs of their listeners on local basis.

26. Furthermore, if public funds are ultimately made available for the delivery of public service outputs, we believe that Commercial Radio broadcasters should also be eligible to bid for them.

The impact of the BBC

27. The BBC has a dominant position within terrestrial radio broadcasting: the BBC accounts for 54%[4] of all listening (a share which is nearly twice that of its share of television[5]) and 55%[6] of all revenue within the radio industry. Yet the terrestrial broadcasting market is mature, and although the boundaries between BBC and Commercial Radio activity may be disputed, they are at least well understood, having been drawn up over some time. The world of new media, however, is more uncertain. Commercial broadcasters are examining carefully the areas of technology, distribution and content rights, and how these are shaping the development of their businesses in the twenty-first century.

28. The BBC is expected to be at the forefront of technological developments, to act as a trusted guide to new technology and applications – take the BBC iPlayer as an example. This is, of course, vitally important for the citizen, consumer and the UK as a whole. However, if plurality of editorial provision is important, and we believe it is, the BBC's capacity to operate seamlessly in a converged media environment, without the pressure

[4] RAJAR, Q3 2007
[5] BARB, Sept 2007
[6] Ofcom, 'The UK Communications Market 2007', Aug 2007

of finite resources or the need to make a return on investment, must not be at the expense of a healthy commercial sector.

29. We believe that particular attention should be given to the way in which the BBC is able speculatively to explore, with seemingly minimum risk, content opportunities created by new technology, and the knock-on effect this is having on commercially-funded operators. Our concern is that such activity has the potential to lead to a foreclosure of nascent markets which could provide sources of future revenue for commercial broadcasters at a time when conventional sources of income are under pressure. The BBC is currently able to breed market failure in order to exploit it and thus endanger potential revenue bearing opportunities for UK plc.

Pressure on traditional revenue streams

30. There has been substantial growth in the share of display advertising accounted for by the internet. Its share grew 156% between Q4 2003 and Q4 2006 (note that this data does not include other forms of media revenue, such as internet search). Radio is the medium which has suffered the most as this £2bn of online advertiser spend has moved away from existing media. The decline in Commercial Radio revenue is proportionately much higher than the reduction in reach and hours occasioned by competition for listeners' time in the 15 to 35 age groups which advertisers find most attractive. This is despite the growth in the number of opportunities for advertising on radio. Interestingly, it is Commercial Radio which is particularly losing out, with BBC services maintaining reach and hours and thus increasing their share among this age-group. This may be because it has invested heavily online and exploited its national scale to access the most popular content opportunities.

Content regulation

31. With more and more people using content on demand and time-shifting programmes, there are more opportunities for listeners to 'skip' ads. Against this backdrop, devices are coming onto the market which provide access to regulated FM and DAB Commercial Radio services alongside unregulated internet radio stations. New business models are already appearing around podcasting and subscription audio content. The fragmentation of audiences across an ever wider range of services means that in the future, individual services will no longer need to provide content which appeals to a range of tastes, interests and ages. Listeners/users will expect to tailor their consumption of audio to their own passions and perspectives. Ultimately this is likely to make it much more difficult to implement and uphold strict rules around issues such as impartiality and advertising.

32. The new European Audiovisual Media Services Directive reflects something of these developments, potentially paving the way for increased sponsorship of editorial within programmes. There is also a demonstrable need for a legal framework which encompasses the increasing reliance which broadcasters have on non-traditional sources of revenue, such as use of PRS telephony and sale of programme-related materials such as music downloads. This suggests further areas of reform that may be needed in new Communications legislation, and we believe that the radio sector should be considered in the discussions around reforms for TV.

Certain sector specific rules, such as media ownership, are becoming less appropriate

33. Ofcom's Annual Plan 2007-8 identifies the increase in inter-platform competition as a key change in the communications market, which presents a challenge to the importance of mono-sector regulatory approaches. It is difficult to compete with content providers on other platforms if they are subject to less stringent regulatory controls.

34. UK Commercial Radio is subject to sector specific rules on concentration of ownership. We believe that such mono-media plurality rules are of decreasing importance in a multi-media, multi-platform world; and it is inappropriate that only the smallest section of the traditional media landscape should continue to be subject to them. As Ofcom notes, Commercial Radio is subject to more restrictive ownership controls than other media such

as newspapers and television[7]. Although radio continues to be an important source of local news, we believe that this is due to its ubiquity and real-time nature, rather than a genuine need for radio alone to provide plurality of viewpoint. The growth of digital media is allowing consumers to find new and different ways to access news and information.

35. We believe that media ownership and competition issues merit substantial consideration as convergence continues. Specifically, we believe that the radio-specific rules on concentration of ownership should be removed, local cross-media ownership rules should be retained, and that the government should continue to retain the right to intervene in mergers of special public interest.

Government and the regulator

36. Convergence is at the crux of many of the key issues facing the regulator, and as such Ofcom has publicly identified the need to 'regulate *for* convergence'. Spectrum management, content regulation and cross platform competition will all require a coordinated and joined-up approach. Convergence has brought into question the disparity in regulation between old and new media, and also cross media operators. Whilst a 'big picture' approach to regulation will be crucial to planning for the future, great care must be taken to monitor, and if need be, preserve those rules which protect the distinguishing characteristics of specific sectors, whilst those characteristics remain.

37. Convergence is a market-driven phenomenon, and the development of technology and innovation will continue. However, Ofcom will play a part in the speed at which convergence occurs, how well industry is placed to face the challenges, and how widely the benefits are enjoyed by citizens and consumers.

38. These rapid changes also raise questions around the legislation and the response of Government. The existing regulatory mechanisms were drawn up for the old world, based on linear media. As outlined above, this casts doubt as to their relevance and effectiveness in the fast paced world of converged digital cross-platform services.

Convergence and the UK

39. The UK has been at the forefront of these developments, possessing some of the most advanced creative industries in the world. According to Ofcom's publication 'The International Communications Market 2007', the UK's communications sector as a whole is the second largest in Europe, behind Germany. The UK also has a comparatively high number of broadband connections per head, more than in every other country except Canada. The UK has led the world in the development of Digital Audio Broadcasting (DAB) and is also amongst the most advanced markets in terms of digital television, with three (soon to be four) DTV platforms, each of which also carries radio services. It also has one of the world's most advanced new media markets.

40. In both advertising and broadcasting, the UK media ecology tends to be reshaped by technological developments ahead of the international curve. Since the 2003 Communications Act, technological change and the growth of internet advertising have had a strong impact on traditional, regulated media businesses. Although total UK radio listening per head remains higher than in any other leading market[8], technological advances have presented the UK Commercial Radio sector with increased competition for listeners and revenue alongside a need to invest heavily in new platforms and services. This suggests it is time to review the legislative framework to ensure that the UK remains a world leader in communications.

[7] Ofcom, 'Review of Media Ownership Rules', November 2006, pg 33
[8] Ofcom, 'The International Communications Market 2007', December 2007

Conclusion

41. Convergence offers many opportunities for consumers, citizens and businesses. However, it also raises a number of new challenges - we are now in a digital world, with more choice, more competition and more complexity.

42. The boundaries separating the broadcast, media and telecoms sectors are blurring, and the traditional ways of regulating the media are being severely challenged. Radio, as the oldest traditional media platform, is still wanted and needed. It is listened to by 89% of the population every week. However, the ways consumers choose to access radio are rapidly changing, and the industry needs to be in a position to accommodate these changes. This will depend on both the operator's ability to invest in new technology and also to make new innovative content available to compete with the plethora of competing offerings.

43. But, an operator's ability to compete in this converged environment also depends on the extent to which the legislation and regulation it is subject to is consistent with that of its traditional and new entrant competitors. As such, consideration needs to be given to whether new rules could apply consistently across all media as far as possible.

44. It is hard to argue that rules made for an analogue era are appropriate for this fast moving, digital age. Increasingly, debate suggests that self-regulatory and co-regulatory schemes will be the most effective and efficient approaches for the future.

45. Now is the time to make bold decisions. Any new rules must promote, rather than inhibit, free and fair competition, creativity and innovation, universal access to high quality content and empowered citizens and consumers. We firmly suggest that issues such as the delivery of public service objectives, content regulation, sector specific ownership rules, and the dominance of the BBC feature in the debate about how regulation and legislation can equip the UK to remain a world class media and communications economy.

RadioCentre, January 2008

RadioCentre

77 Shaftesbury Avenue, London W1D 5DU

t: +44 (0) 20 7306 2603 f: +44 (0) 20 7470 0062

www.radiocentre.org