

Emap response to the DCMS Secretary of the State's review of the BBC's digital services

1. Background to digital radio

In a commercial sense, DAB Digital Radio began late in 1999 when Digital One launched the national commercial multiplex. However, the BBC already been involved with the Eureka 147 standard of broadcasting digital radio since the early 1990s.

In September 1995 the BBC and the Swedish public radio became the first radio broadcasters to begin testing DAB with permanent services on air. By spring 1998, the BBC had achieved 60% population coverage with national DAB transmitters. The Corporation continued to work with manufacturers through the early years of DAB development, encouraging them to bring a product to the market. They also played an important role overseas where its voice was supportive to European parties considering a move to DAB.

With the road duly paved by the BBC, the Digital One multiplex launched in November 1999 which marked the arrival of the first unique DAB only services in the UK.

It took another year for prices of DAB equipment to become remotely affordable to the mass market consumer. By September 2000, a small entrepreneurial UK manufacturer, Videologic, (later to become PURE Digital), smashed the price barrier with the first DAB hi-fi tuner to retail at less than £300.

And that's the way things remained for nearly two years. Between September 2000 and July 2002 much progress was made by broadcasters, both commercial and public. New multiplexes were launched and reception coverage grew as broadcasters invested in programming and transmitter rollout. The DCMS approved five new national digital radio stations from the BBC. And while some new product appeared, it was all top-end hi-fi and very highly priced.

Behind the scenes things were moving apace. In January 2001, Texas Instruments and RadioScape announced a joint venture to develop a low-cost, low-powered DAB chip. This was followed by a similar

announcement from Digital One and Imagination Technologies (the company behind VideoLogic/PURE Digital) in April 2001.

In December 2001, the digital radio industry, under the auspices of the DRDB, launched a special promotion called the "Marconi Radio". A limited number of DAB kitchen style radios were made by PURE Digital and marketed in just eight independent hi-fi stores around the UK at a price point of £99.99. The launch saw queues outside shops from early morning, and all 300 radios were sold out within one hour. The message was clear - if manufacturers made an affordable DAB set people would buy it.

Seven months later, in July 2002, PURE Digital launched the EVOKE-1. A kitchen radio, the EVOKE-1 went on sale at just £99 at selected John Lewis and Dixons stores. It sold out in three hours.

Since then, the growth of DAB digital radio has been steady and impressive and the EVOKE-1 has gone on to become the UK's best selling radio.

At the end of 2002, sales were up by 170% at the end of 2003, they were up by another 229%, and in March 2004, the DRDB announced that penetration in the UK had topped half a million units and stood at 547,000. Industry expectations are for more than 1 million DAB digital radios to be in homes by the end of 2004.

The number of digital radio products in the market has doubled every year since 2002 and will double again in 2004. DAB digital radios are now available in every format across the audio range, including handheld portables, boom boxes, micro systems, in-car radios, home cinema, clock radios, and PC products. In the kitchen portable category, DAB now accounts for 32% of all radios by volume, and 67% by value. In hi-fi, digital radio takes 43% of the market by volume and 48% by value. A similar trend can be seen in other form factors, indicating a growing move to overtaking analogue as consumers' technology of choice. Some retailers have said they intend to de-range analogue products in some form factors in favour of exclusively DAB stock.

More and more manufacturers are bringing DAB product to market, with major Japanese brands such as Sharp and Sony expected to launch later in 2004. At Christmas 2003, the three top selling radios in the UK – analogue or digital – were all DAB and all British brands. The number of manufacturers entering the market more than doubled in two years, and, as profitability has started to become a reality – in the year ending March 2004, DAB sales were valued at £45 million - more and more companies are announcing their intentions to launch DAB products.

At the same time that the range of available products and the number of manufacturers have grown, the number of stockists has increased from 600 in 2002 to more than 5,500 in March 2004. Supermarkets now sell DAB digital radios alongside the cornflakes, and non-traditional electronic outlets such as Homebase and WH Smith are also stocking DAB.

With increasing competition among manufacturers and retailers, an improved range of product choice, and continuing technology advances, the consumer is benefiting from lower prices on the High Street. It is now possible to buy a DAB digital radio for as little as £49.99 – a far cry from the £299 of four years ago.

Mass market is the holy grail of broadcasters, manufacturers and retailers and at 547,000 radios and just over one million listeners (March 04) this is still some way off. However, it is apparent from the trends of the past few years that while it may take time, mass market is certainly achievable.

The framework is in place for consumers to begin buying DAB digital radio in big numbers. There is a full range of product to choose from, a diversity of stations to listen to, stocks are available throughout the High Street, and prices are truly affordable. And it appears that people are excited by the proposition of digital radio.

Surveying more than 12,000 digital radio owners, the DRDB has produced conclusive data showing that receiving new digital radio stations is the number one benefit perceived by consumers. Leading the pack is the new national DAB service, BBC7. More than 45% of consumers planning to buy a DAB radio name BBC7 as the prime station of interest. And 23% of those who have bought say they did so to receive BBC7. Other benefits perceived by consumers is better reception of existing stations and improved sound quality. With 160 different brands broadcasting 385 services around the UK, most people can expect to double their listening choice, compared with FM.

Early indications show that those with a DAB digital radio listen to more radio, and for a longer period. They are also inspired to go out and buy a second DAB radio – 40% of new owners said they are planning to buy a second, while 8% already own more than one.

DAB digital radio in the UK benefits from a unique, cross-media commitment from both the BBC and commercial radio groups to promote and market the medium to consumers. To this end, the Digital Radio Development Bureau was formed, their role being to ensure digital radio's wide accessibility and swift adoption in the UK with consistent and effective marketing.

Both commercial radio and the BBC use the media at their disposal to promote DAB digital radio. The commercial sector freely bestows an amount of airtime each year on the DRDB for promoting DAB digital radio to consumers. At the same time, the BBC runs promotional trails across all its radio and television networks, continually promotes online, and has also used poster sites around the country to promote DAB digital radio.

Commercial radio groups and stations also do independent marketing promotions in local areas, and Digital One, the national commercial multiplex operator, produces advertising campaigns that run nationally on its service providers' stations, along with a free consumer magazine. The BBC promotes local DAB coverage using the local and regional press.

The consumer press is interested in DAB digital radio and the number of press cuttings each month has grown over the past two years, peaking in March 2004 when there were 385 cuttings which is 27% higher even than Christmas.

All of which leads to a current awareness of 43%, or 25 million people, an increase of 27 percentage points in two years.

So, a revolution that began five years ago with broadcasters, and gathered pace via chip technology, manufacturers and retailers, is poised to bring the much loved medium of radio into the 21st Century.

2. Emap

- a) Emap is a media company whose purpose is to create “must have” entertainment and information that can be delivered to every home and business within defined communities.

Emap owns and develops leading edge brands in radio, TV, consumer magazines and B2B (magazines, conferences and exhibitions) in the UK, France and around the world. It leads in many of its markets with a strong portfolio of over 400 products including *FHM*, *Kiss*, *Heat*, *Nursing Times*, *Health Service Journal*, *Spring Fair*, *MaxPower*, *Kerrang!*, *Smash Hits*, *Télé Star* and *Pleine Vie*.

Emap people live and breathe their products, and their products are part of the lives of those they serve. Thousands of girls read about their favourite stars in *Smash Hits* magazine, listen to them on *Smash Hits* radio, and watch them on *Smash Hits TV*, to name but one example.

Emap is a FTSE 100 company quoted on the London Stock Exchange. Turnover for the financial year ending March 2004 was £1,050 million, and profit before tax was £196 million. Its market capitalisation is currently around £1.9 billion (July 2004).

Emap is a member of the Periodical Publishers Association (PPA), the Commercial Radio Companies Association (CRCA), and the British Internet Publishers Alliance (BIPA).

Further information about Emap can be found on the company's website www.emap.com.

- b) Radio listening in the UK is relatively constant, so for Emap Performance audience share is a key performance indicator.

Audience figures published in May 2004 show Emap's share of the London radio audience for Kiss 100 and Magic 105.4 to be 8.8%, a significant increase from 7.7% last year. Emap's Big City network's share in key cities across the north of England reduced from 14.6% to 13.1% year on year, reflecting increased competition in the network's key markets, recent steps have been taken to protect and rebuild this audience share, including a broadening of the target audience from 15-24 to 15 – 39 and a more localised music policy.

Emap's eight national radio stations, broadcast on Freeview, satellite and cable, digital audio broadcasting and via the internet. They now account for over 20% of the group's total hours. This has helped to

take Emap's share of total commercial hours across the industry from 14.1% to 14.6% year on year, a significant increase (Rajar Q1:04 v Q1:03).

Airtime sales revenue grew by 6% during the year, just behind the industry revenue growth, expected to be 8% (Advertising Association March 2004). Share gains at Kiss 100 and Magic 105.4 in London more than balanced a weaker performance from Big City as a result of managed reduction on advertising minutes sold and lower overall audiences in the period. Emap Performance brought in its first ever advertising revenues from digital radio – around £1 million – a development which is likely to become more significant as listening, and ultimately advertising revenues, transfer from analogue to digital.

A highlight of the year was winning a new analogue licence to broadcast Kerrang! 105.32 FM in the West Midlands, which is now broadcasting 24/7 from a new studio in Birmingham. Emap Performance intends to apply for further FM licences over the coming months.

The new Communications Act relaxes the ownership rules governing commercial radio, making further consolidation possible. On 16 January 2004 Emap announced the purchase of 28% of Scottish Radio Holdings PLC for £92 million, confirming Emap's commitment to its radio business and demonstrating the importance of maintaining a position of financial flexibility and strength.

- c) Emap has been a long term supporter of digital radio, having successfully secured a portfolio of local multiplexes. Through a joint venture with Capital Radio, Emap own and operate the local multiplexes in London, Birmingham and Manchester. These three multiplexes simulcast all the heritage ILR stations, including Capital FM and Key 103. Additionally new radio formats are broadcasting across these conurbations, including Kiss, Capital Disney and Smash Hits. Emap also wholly own seven multiplexes spanning the North of England: Liverpool, Central Lancashire, South Yorkshire, Leeds, Humberside, Tyne and Wear and Teesside. These multiplexes provide existing analogue stations and new digital offerings. In addition, Emap participate with the Wireless Group in a joint venture to operate multiplexes across Stoke, Bradford, Huddersfield and Swansea. Emap's multiplex 'real estate' which covers most major cities is highly demanded and provides more new digital only services than any other radio company. Emap is proud to be participating in a range of joint ventures and has a dedicated team who provide expertise and day-to-day management.
- d) As well as operating 13 multiplexes Emap own a total of 86 local digital stations broadcasting across England, Scotland, Wales and Northern Ireland. This includes existing analogue stations: Big City, Magic, Kiss

and Kerrang! Digital only services include Smash hits, Heat, Mojo and The Hits. All these stations now broadcast across all digital platforms including satellite, cable and more recently Freeview. In addition to these platforms, Emap contribute services to developing technologies such as Broadband – namely KIT and Homechoice. Emap's cross-media position is a unique and one shared only with the BBC. Emap continue to push boundaries and develop appealing content including screen-based activity, including red button technology. Emap were the first commercial radio company to enter all its services into RAJAR, and now command a 43% share of all UK digital radio audiences. This accounts for nearly a quarter of the company's total hours, with revenues forecasted to grow to £4m in the current financial year.

(see appendices A, B and C for details on Emap)

3. **DRDB**

The Digital Radio Development Bureau (DRDB) is a trade body funded and supported by the BBC and commercial radio multiplex operators. Their task is to ensure digital radio's wide accessibility and swift adoption in the UK through consistent and effective marketing.

The DRDB's stakeholders are the BBC, Capital Radio Plc, Digital One (GWR Group Plc and Ntl), MXR Ltd (Chrysalis Radio Group Plc, Capital Radio Plc, Guardian Media Group, UBC Digital Ltd, Soul Media Ltd, Ford Motor Company Ltd), Now Digital (GWR Group Plc) and Emap.

As a trade body the DRDB is the central industry communicator on DAB digital radio. Working directly with broadcasters, manufacturers and retailers to encourage more and different products, heightened consumer awareness, improved understanding of DAB technology and co-ordination of brand usage.

The DRDB share information on DAB developments in the UK and worldwide with other interested parties, including, Government and regulators, Far East Manufacturers and international DAB proponents. They work with a wide variety of DAB supporters on communication and research initiatives designed to assist the successful evolution of DAB digital radio.

4. **Review of BBC Digital Radio Services**

The BBC was charged by the Secretary of State to ensure that certain objectives were fulfilled by the new digital radio services;

- They should be in keeping with the BBC's core purposes and distinct from commercial propositions.
- They should add value to the market.
- They should contribute to the drive for digital uptake.

In this respect the review and indeed Emap's assessment of the BBC digital radio services are driven by the following considerations:

- Has the BBC met the commitments and conditions contained in the proposals and their acceptance by the Secretary of State?
- The market impact of the new services on the commercial sector.
- The digital services contribution in the wider context of the review of the BBC's charter.

For each network Emap has weighted these considerations accordingly.

a) Review of 1 X – tra

This service has a remit to play contemporary 'black music' aimed at a young audience, covering all the popular 'urban' music genres.

Emap believe that the service has maintained an element of distinctiveness, but at times can duplicate output with commercial stations such as Galaxy and Kiss.

As more FM licences are released by Ofcom, there will be a greater need to ensure that the format remains well focused on its initial intentions. The use of archive material has been relatively positive, as well as allowing the format to distinguish itself from commercial radio counterparts.

More of an emphasis should be developed for live music, news, features and documentaries.

When conditions were agreed for this service, digital radio audiences were very modest, as such the case for damaging commercial operators was very weak. Emap believe that with new licences and more digital stations becoming available to consumers, the distinctive elements of this service should be further refined to appeal to an underserved audience.

The service currently meets its brief as set out in conditions 1, 2 and 3, but Emap believe these conditions should be tightened to preserve the distinctiveness of the service and prevent it from moving closer to similar commercial radio services.

Condition 1 could be refined to read as follows: The service will *only* play contemporary "black music" aimed at.....or *90% of the musical output* will be contemporary "black music" aimed at.....

Condition 2 could include the phrase *less than 10% of the output will be from the mainstream Top 40* and the speech content percentages should be minimums.

b) Review of Radio 7

This service was well supported in the original survey, and although the competitive issues were acknowledged in respect of Oneword, the format did refer to a wider range of programming.

Conditions surrounding this service included a wide range of programming that was to be distinctive from competitors.

The majority of this format's output is BBC produced, whilst most of Oneword is licensed in.

Emap fully support the opportunity for listeners to have increased access to the BBC's outstanding audio archive. However, we do not believe that the creation of a publicly funded competitor was the only way to achieve this. As the CRCA have pointed out, it may have been possible to licence such material for broadcast by Oneword or other commercially funded stations. This particular market now splits into two very similar services, thus diluting the number of hours that Oneword could reasonably have been expected to attract.

These two similar formats should be made more distinctive, with consideration given to potential format changes. Oneword should also be allowed to make its case to an independent, external regulator.

c) Review of Asian Network

This service was defined to expand an existing regional service which was already available on satellite. Although not well supported in the original consultation, it did attract support from those describing themselves as Asian origin.

Conditions surrounding the introduction this service included speech and the need to address the needs and interests of a wide range of Asian communities within the UK.

Emap agree with the BBC's own assessment of the networks performance, in particular the significant support being given to the British Asian Music Industry.

Consideration should be given to the inclusion of a specific remit to support British Asian Music. Additionally, the service should now focus more on Asian language driven content.

d) Review of Five Live Sports Extra

Five Live Sports Extra was intended to make better use of existing sports rights already obtained for BBC radio. Particular attention was given to the fact that the format must be used solely as an overflow for rights that had been obtained for Broadcasting on Radio Five and Radio 4 Long Wave. Conditions made for the provision of this service was not being an additional outlet for which the BBC could bid against broadcasters.

Emap applaud the BBC on developing a truly distinctive format that offers listeners something different. Audience figures support that. However, such an offering has slightly damaged commercial radio, in particular Scottish Stations who lost out to the BBC for the SPL football rights. The Premiership rights were also secured by the BBC, as were various other sporting events.

Commercial radio is concerned that because of the way the BBC is funded and constituted, it is able to move without financial risk in areas of direct competition with commercial broadcasters.

Consideration needs to be given to a level playing field with respect to sports rights and other paid for content. In particular we refer to condition two, Emap find it difficult to see how the existence of the service will not be a significant factor in the future negotiation of sports rights.

e) Review of Radio 6 Music

6 Music has developed the requirement to provide 'strong speech output through news features, documentaries' to include a strong element of music news within its bulletins. This is a key factor in the distinctiveness of its news output and should be secured.

This particular service could be provided by the commercial sector. Existing popular channels, such as Radios 1 and 2 continue to serve this target audience well, and these three services overlap.

The channel is currently meeting its brief as set out in conditions 1, 2 and 3, but we believe these conditions should be tightened to preserve the distinctiveness of the service and prevent it from moving closer to similar commercial radio services. Perhaps condition two could read as follows: the service will *only* concentrate on artists and material which do not receive much support elsewhere in the marketplace.

The theory of commercial radio providing such a format should be explored, with interim measures introduced that include;

- Music news led bulletins within the format.
- The targeting of UK music should be incorporated into the promise.
- A 100% focus on material that receives no support elsewhere.

f) Overall summary of BBC Network Services

Emap is broadly supportive of the BBC's approach to digital radio. There is now a real momentum and the medium is set to enjoy a high growth phase, with major manufacturers about to enter the market.

The BBC play a major role in supporting digital radio, and its co-operation with the commercial sector through the DRDB is a fundamental reason for the growth phase we are about to enter.

The original terms under which the BBC gained its new digital radio services could be further defined. Emap believe that the promises should be tightened to reflect truly distinctive output. In addition, there is an opportunity to transfer at least one station to the commercial sector. The DAB market will evolve at pace, and investment from the commercial radio sector needs protecting.

Criteria should be clearly defined, including where possible, percentage speech elements, and detailed requirements on the type of music and how this differs from the commercial sector.

While we believe that the BBC has been influential and important in the overall choice and range of services available, Emap would like to see safeguards in place to ensure that the BBC's DAB digital radio services remain genuinely distinctive to the rest of the market. We accept that BBC radio services – particularly BBC7, BBC Asian Network and BBC 6 Music – have been heavily promoted and are part of the reasons for consumer decisions to purchase DAB radio sets, but we believe that the BBC has 'cherry-picked' a wide range of formats, at the expense of DAB audio quality, in order to head off future potential competition from commercial rivals.

Emap believe that the present conditions for the BBC's DAB digital radio services are inadequate and are open to future abuse, primarily in the shape of vague channel commitments that are open to a great degree of interpretation. Past experience, such as the BBC confirming its national line up of services only after the landscape of commercial DAB services was known and launching a direct competitor to one particular commercial DAB service (Oneword), has shown example of how the BBC has behaved aggressively towards commercial operators, rather than to fulfilling its core public service remit.

In its response to the DCMS, the BBC Governor's foreword discusses the 'limited negative impact' that the BBC services has had on commercial competitors. This statement may be true given that the relatively limited digital radio revenues to date. However the extent to which the BBC has already occupied a wide beachfront of mainstream digital radio makes it, in our view, impossible to say how commercial competitors may have developed by now or in the future.

Emap believe that the range of the BBC's DAB digital radio services has made it difficult for potential commercial competitors to enter the market and provide services for amongst other formats: black and urban music, sport, album music and Asian broadcasting. While we would not dispute the findings in the BBC's report (commissioned from Oliver and Ohlbaum) that its services have played a vital role in driving digital penetration through DAB and other platforms, we wish to ensure that the BBC does not roadblock potential future commercial competition or suffocate new operators in their infancy by dominating and hoarding formats that could easily be supported by the commercial sector.

The BBC's presence in DAB digital radio must not be allowed to lead to market distortion and dominance by the Corporation. **An under regulated BBC poses a serious threat to the development of commercial DAB services**, particularly if the DAB services are tightly

regulated. An example of this is in live sports and music rights, where the BBC can purchase a range of bundled rights and offer coverage across a number of its network radio stations. No commercial broadcaster can, at present, offer rights holders with this width and depth of coverage: this puts the commercial radio sector at a serious competitive disadvantage.

It follows that welldefined formats and service parameters must be applied to each and every BBC DAB digital radio service, and also any future or replacement BBC DAB service must take into consideration current market provision. Ofcom should approve any changes whilst taking into account the impact of such changes on commercial broadcasters.

The BBC should not have access to any further national DAB spectrum until there is a commercial radio broadcaster with at least an equal position in the relation to the number of national services it operates. Emap has stated in a previous consultation response to Ofcom that a second national commercial DAB digital radio multiplex would benefit the development of this exciting new technology for UK consumers: we are keen to be involved in such a venture. Emap believe that a strong demand exists from both prospective listeners and providers of new national commercial DAB services.

(see appendix D – Band III Submission)

5. **Conclusions and Recommendations**

- Tighter format controls for all services, resulting in safeguards in place to ensure that all BBC digital radio services remain distinctive.
- Consideration for the 'Oneword issue', with particular attention to resolving the matter and ensuring no similar duplication arises in the future.
- British Asian Music detail to be included within the format for the Asian Network. More of an emphasis on Asian language programming.
- A fair and equal playing field when both BBC and commercial radio are focussed on sports rights, in particular football.
- BBC 1 X- tra to ensure it does not cross over with new commercial stations, attention should be agreed to format, new music and live broadcasts.
- The BBC's services should eventually fall within the remit of Ofcom. Formats should be devised, detailed and managed in a similar way to that of commercial radio.
- Access to further spectrum should be suspended until such a time that commercial radio operates a similar number of national services. A further national multiplex will serve both consumer and advertising markets well.