



Tim Gardam  
DCMS  
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by email and hard copy

Dear Tim

### **Review of BBC Digital Radio Services**

I am pleased to submit our response to your review of BBC digital radio services. In forming this response I have taken advice from executives in our company's radio division who have experience in programming national and local digital radio programme services and also the running of DAB digital radio multiplexes. I have also reviewed the response of the CRCA, the trade body for commercial radio in the UK.

#### **About SMG**

SMG is a national media company with a market capitalisation of approximately £400m and which comprises television, radio, outdoor and cinema advertising businesses. SMG owns Scottish TV and Grampian TV, the Channel 3 regional licences for central and northern Scotland, as well as independent national and local radio licences, broadcasting as Virgin Radio. Our portfolio of media assets gives SMG a unique cross-media profile in, and perspective of, the United Kingdom media market.

#### **Consultation summary**

Having reviewed the terms of reference for this review, SMG is broadly supportive of the BBC's approach to DAB digital radio. The platform is now growing strongly and is set to enjoy a high growth phase, benefiting consumers and offering new commercial opportunities for UK broadcasters.

SMG recognises the BBC's role in promoting digital radio services and its co-operation with commercial DAB providers and DAB set manufacturers as key drivers behind the increased take-up of the new platform.

We believe that, overall, BBC national services add value to the overall DAB digital radio package for consumers. However, the original terms under which the BBC gained its new national digital radio services were, in our view, inadequate. We believe these terms require significant tightening to protect their distinctiveness, to reflect the current and evolving DAB radio market conditions, and to protect current and encourage future commercial enterprises. SMG suggests that stricter criteria be imposed on BBC national DAB Radio services, including fixed percentages of types of music played and the level of news, speech and information provision.

We also recommend that at least one DAB network on the BBC's multiplex – possibly Network Y (now BBC 6 music) - could be provided by the commercial sector. The effect of this would be that the BBC would still provide two popular music channels- Radio 1 and Radio 2 - rather than the three that they provide at present.

### **The BBC's role in driving digital take-up**

SMG believes that the BBC's positive endorsement and promotion of DAB has been the single most significant catalyst for increased DAB digital radio take-up in the last 12 months. The Corporation's powerful marketing support for DAB digital radio, across all of its platforms and channels, has been central to increased take-up of sets and also in persuading major manufacturers, such as Sony, to commit to DAB digital radio production. The support of set manufacturers is critical to ensure that consumers are able to purchase product at realistic price points, with significant progress having been made in this regard in the past 12 months.

SMG applauds the BBC's high-level support of the cross-industry DAB development association, the DRDB, and highlights how this association has been an excellent example of commercial and public service radio broadcasters working together for the public good. At the same time we wish DCMS to be aware that commercial stations such as Virgin Radio have also been extremely supportive of the new medium, giving valuable on-air support to the new technology. An example is Virgin Radio's pre-Christmas DAB giveaway in 2003, which remains to date the single biggest promotion for DAB digital radio.

### **Distinctiveness of the BBC's DAB digital radio services**

While we believe that the BBC has been influential and important in the overall choice and range of services available, SMG would like to see safeguards in place to ensure that the BBC's DAB services remain genuinely distinctive to the rest of the market. We accept that BBC radio services – particularly BBC 7, BBC Asian Network and BBC 6 Music – have been heavily promoted and are part of the reasons for consumer purchasing decisions of DAB radio sets, but we do believe that the BBC has cherry-picked a wide range of formats, at the expense of DAB audio quality, to head off future potential competition from commercial rivals.

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

In its response to the DCMS, the BBC Governors' Foreword talks about the "limited negative impact" that the BBC services has had on commercial competitors.

This statement may be true given 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.

SMG believes 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 do 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 which 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 where the latter is more 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 this width and depth of coverage, putting the commercial radio sector at a serious competitive disadvantage.

It follows therefore that well-defined formats and service parameters must be applied to each and every BBC DAB digital radio service, and also that any future or replacement BBC DAB service must take into consideration current market provision. Any changes should be approved by Ofcom, which must take into account the impact of such changes on commercial broadcasters.

### **DAB future and the BBC**

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 relation to the number of national services it operates. SMG 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, and we are keen to be involved in such a venture. SMG believes that strong demand exists from both prospective listeners and providers of new national commercial DAB services.

If you require any additional information or detail to this response do not hesitate to get in touch.

Yours sincerely



**Andrew Flanagan**  
Chief Executive, SMG plc