

25 January 2002

**Scottish Radio Holdings Response
to the Consultation on Media Ownership**

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Introduction

Scottish Radio Holdings plc (SRH) began life in the early 1970s when a local business and community group came together in Glasgow to apply for the third commercial radio licence to be offered in the UK (the first two being in London). The group won the licence against fierce opposition and so the seeds of today's successful commercial radio industry began to take root.

The first two London stations were not an immediate success, casting doubts on the viability of the new broadcasting initiative. This, of course, was compounded by the miners' strike of the time and consequent three-day week. It was not until Radio Clyde burst on the scene on 1 January 1974 that the picture changed quite dramatically. Clyde was an instant success with both listeners and advertisers, and revolutionised the broadcasting map with its innovative locally focused programming. With a capital base of a mere £150,000, Clyde quickly established itself as the market leader in the West of Scotland and a 'must listen', a position it has never relinquished in all the years since its birth. It has done so because the company genuinely believes that the relationship and interaction it has with the audience are of paramount importance. It is this that concerns the consumer, not who holds how many share certificates, something that has become increasingly irrelevant in any event as companies have moved onto the stock market. It is in reality the people of Glasgow who own Radio Clyde and they will continue to do so as long as Clyde remains relevant to their needs, relates to them and serves them.

Over the years since Clyde's birth, other stations in Scotland emerged both large and small, each successfully following the pattern now so well established. At the same time a network of co-operation and assistance developed to give support to smaller stations by way of news resourcing and sales support. It was this goodwill and willingness to share resources in order to provide better services that subsequently led to the formation of Scottish Radio Holdings, now incorporating also stations in Ireland and England. Ownership legislation even then was striving to keep up with the realities of the marketplace, consumer demand and the sheer practicalities of providing services that could compete and win against those offered by the BBC

SRH has now expanded its portfolio to local weekly papers throughout the island of Ireland and in Scotland where again its policy of putting the consumer first has paid dividends in terms of circulation and advertising revenues. We do not believe that there is any inherent conflict in local or

national newspapers being in common ownership with radio. The two media are different and sources of news in each are jealously guarded by editors where these are not resourced from the news agencies. At the same time there is a statutory obligation upon us as broadcasters to be balanced and impartial.

Two years ago the company took a further step within the media sector by moving into outdoor advertising. So, from the award of that first Glasgow licence, a significant well-rounded media player has emerged, albeit still small by both UK and European standards. It is in part the artificial restriction on the growth of the UK sector against developments elsewhere in the world that makes UK media so susceptible to outside takeover. The quest for plurality is perhaps understandable historically but, in today's expanded media mix, to place its delivery above any other objective is damaging the ability of radio companies to grow, to serve the listener and offer a proper diversity of services within given markets. It is this that lies at the heart of the need for change, probably causes the greatest discussion but is crucial in terms of listener choice and a healthy commercial radio sector. For these reasons our submission will concentrate very much on the ownership issue, where we wish the Government to be bolder than would be the case if it simply adopted the proposals put forward by the Radio Authority, along with the improvements suggested by our trade association, the CRCA.

Plurality Versus Diversity

This is really at the nub of the ownership issue and where the tensions between the regulated and regulator arise. It is, in our experience, a myth that plurality of ownership leads to diversity of services for the listener. Indeed, the history of commercial radio does not support that supposition and many listeners would feel that there has been a diminution of service variety in the pursuit of plurality. It has been argued and, we believe, now well proven that the Government's vision of a dynamic and competitive market place with the consumer at its heart can only be achieved by a full liberalisation of our highly restrictive ownership controls.

SRH's philosophy is that local radio stations do not need to be locally owned but they should be operated locally, providing locally focused output, thus ensuring listeners interests and those of the community at large are best served. It is in the area of the service provided that operators should be held to account. If undertakings are given and licences awarded on such undertakings then operators should not be allowed to alter their promises.

Before plurality of ownership grew to the extent it now has, commercial radio was more diverse in its output than it is today. Local radio companies were producing high quality drama, documentary and current affairs programming within a popular music mix. Stations also broadcast niche and ethnic music programmes, providing a rich diversity across a service egging the BBC on to further excellence. As diversity gave way to plurality so this richness disappeared, leaving a sea of mainly music services as competing owners programmed their output to reach the centre ground, the most commercially attractive sector of the radio audience. Commercial radio could have been and should be so much more. There is now an opportunity to redress this drift to the musical centre, widen listener choice and properly challenge the BBC where plurality has never been an issue and therefore real diversity thrives across its services. It is the perpetuation of flawed thinking on plurality that has held commercial radio back and which needs to be redressed. Consolidation within the commercial sector to a minimum of two per area will deliver diversity as no commercial owner would sensibly cannibalise the audience of one service by duplicating programming from another.

Local Radio Ownership

In our response to the Government's White Paper in February last year, we put forward a simple proposal which limited ownership numerically; so indeed did the Radio Authority and CRCA. Since then the Radio Authority has produced a new points-based formula subsequently endorsed by the CRCA with some modest improvements. Government has said it is attracted by the concept but queries whether it could deregulate further. We believe that it must do so if change is to significantly boost the commercial radio sector in the interests of listeners, advertisers and the Government itself which hardly wishes to address the problem again a little further down the road because it didn't go sufficiently far in the first place.

Recognising that the Government is attracted to the points based formula but while still preferring our own original proposal which has the elegance of fairness and simplicity, we would make some suggestions about the Radio Authority's formula and amendments now recommended by the CRCA. We would suggest that sensibly the marketplace for the purposes of allocating points should include both the BBC and national commercial stations. The BBC has some 50% of the radio listening market across the UK and the national commercial stations, which have the ability to produce regional opt out programming, are also listened to locally.

We believe it is a mistake to confuse plurality of ownership with diversity of programming. If the same owner owns several services, it will be in his own self-interest to provide services which appeal to different segments of the audience, thus self-interest and public interest co-incide. The best example of this is probably the BBC which obviously, with five national services at its disposal has no interest in allowing one service to cannibalise the audiences of another. The next best example comes from the commercial sector when many years ago independent local radio stations were ordered to cease simulcasting the same programming on FM and AM. Throughout the country ILR stations produced radically different services on AM from those provided on FM. And it is no co-incidence that the ending of simulcasting represented both the biggest diversity in additional programming and the highest audience achieved.

There is the additional point that a common owner can ensure that overheads of a non-programming nature are shared among various services and thus resources, which can frequently be scarce, are able to be concentrated on programming rather than accounting, administration or, indeed, engineering.

To that extent, the listener is not directly adversely affected by a greater concentration of ownership but we do recognise that there are other constituencies to be considered and plurality is important, for advertisers, staff and suppliers, and the general public interest. For each of these 'constituencies', with the exception of advertising, the BBC should be regarded as part of the universe.

From the point of view of advertisers, we would first of all suggest that it is a mistake to regard radio as a discrete market. Advertisers can, and do, migrate from one medium to another, frequently dependent on cost or segmentation of audience. Even within radio, it cannot be right to exclude INR from the calculation of the universe in determining market share for advertisers. It is simply not reasonable to treat a local station on its own in exactly the same way as a local station which is already owned by an independent national station (which is permitted under the regulations). National stations are able to broadcast discrete advertising to individual local areas, and increasingly do so. Even in advertising, therefore, there is no logic in excluding them artificially from the universe.

In some areas it may well be that only one local station could be viable, in much the same way as in most of Britain only one local newspaper is viable, and this needs to be accommodated in the new legislation.

National Radio Ownership

We support the notion that ownership limitation should be completely removed for the national stations but the quid pro quo must surely be their inclusion in the points allocation within any local market.

Cross Media Ownership

We continue to believe that the current cross media ownership rules are unduly restrictive and inhibit the growth of a strong indigenous media sector in the UK. Radio, press and television are all discrete mediums and each has its own inherent dynamic. The notion that excessive plurality is required in order to protect the range of services and news sources available to the public is fanciful. The fact is that on the national and international level media tend to source their news from the same handful of news agencies and even share local news stringers. The compilation of news is obviously controlled at each media outlet but in broadcasting there is a statutory obligation to be accurate, balanced and unbiased. In the press, each editor exercises their own judgement in order to keep ahead of other papers, and the sharing of exclusives, whatever the ownership, is unheard of. In commercial radio we do not 'editorialise' as companies and therefore bias is protected against, with balance and impartiality assured.

We would put foreword once again the proposals we made in our submission of February 2001.

Duration of Analogue Licences

We continue to believe that all commercial radio licences should run for fifteen years in order that there is proper stability in the system to support the heavy investment required to underpin the development of digital radio. We also believe that there should be an obligation on those winning new licences to put the promised service on air rather than to immediately sell for a quick profit. Having put the service on air there should still be an inhibition

on then selling the company holding the licence for at least one year from date of broadcasting.

Other Matters

We divert very little from the views of our trade association on other matters and, as a second preference to our own proposals of February 2001, would wish to whole heartily endorse the ownership amendments it makes to the proposal put forward by the Radio Authority. We would also commend our additional amendments which serve to enhance those proposals and assist in providing a solid basis for the industry to move forward on behalf of the listeners whose interests should be paramount.

Scottish Radio Holdings
25 January 2002

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A Response to the DTI/DCMS White Paper from Scottish Radio Holdings plc

Scottish Radio Holdings (SRH) is based in Glasgow and operates local commercial radio services across Scotland and Northern Ireland. SRH also has shareholding interests in a number of other radio services, including the only national independent radio station in the Republic of Ireland. In addition, the company has a portfolio of weekly newspapers and a large-sheet poster business stretching from the south west of England to the north east of Scotland. The company has a full listing on the London Stock Exchange, prior to which it was on the forerunner to AIMS, the USM.

Our trade association, the Commercial Radio Companies Association (CRCA), submitted views on behalf of the industry prior to publication of the White Paper and will, no doubt, follow this up with a further submission. As one of the 'founding' members of the industry (Radio Clyde, our largest station and one of the most successful in the UK, was the third to go on air), we felt it important to emphasise our views on the all-important issue of ownership, regarded by so many as crucial to the well-being of radio within the wider communications environment.

Firstly, we hope that it might be recognised that, insofar as listeners, viewers, readers and advertisers are concerned, the various media forms do not exist in isolation of each other. The public use media on an interchangeable basis, moving easily from one to the other. Advertisers do likewise, using one part of the media against another as a price bargaining tool. It follows, therefore, that as long as ownership is diverse across all media then the consumers' and advertisers' interests are amply protected.

Ownership Regulation (Analogue Radio)

In our response to the White Paper, we will confine ourselves to matters directly affecting radio ownership and only touch on other media where that is relevant to cross-media ownership.

The current ownership system within radio is based on an allocation of points per licence, with FM licences attracting more points than those of AM

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which are seen as less desirable. Companies are limited to no more than 15% of the total number of points available in the system at any given time. Locally, this limit is supplemented by a restriction on the number of licences any company can hold. There are highly restrictive cross-media ownership rules and different arrangements regarding the three national commercial licences.

The current system already acknowledges that FM licences are more valuable than AM, and this is certainly supported by the attitude of both listeners and advertisers. The BBC only has one of its national services left on AM and none of its local stations rely on the waveband to any significant extent. This downward spiral in the way in which AM frequencies are considered needs to be arrested for the good of the industry as a whole. We believe the ownership regulations can be used to do this and propose that local AM licences only should be free of all ownership regulation and subject only to normal competition regulation. While this would only apply to local AM licences, we believe that it would not be unreasonable, given the BBC's position, to suggest that, in relationship to national radio, any one company should be able to own both an AM and an FM licence but not on the same waveband.

On local radio ownership, we do not believe it sensible to limit ownership other than numerically. Both the CRCA and Radio Authority have acknowledged this and put forward numerical limits, but we believe that multi-licence ownership is one of the keys to diversity and therefore we should go further. Commercial radio has not been as good as it should be in its diversity of output. It seems self-evident that, where a company owns a number of services within a local market, then diversity will be a natural consequence. After all, such a company will ensure each of its services are different, appealing to different segments of the audience, in order to attract a range of advertisers and, more importantly, to avoid one service cannibalising the audience of another. The BBC, after all, is the obvious example of a diverse range of services coming from one organisation, sharing 'below the line' overheads such as accounting, administration, accommodation, etc, in order to invest more resources into programming.

Having dealt with local AM and national services, we detail below the limitations that would be appropriate for ownership of local FM radio licences:

- in any area where there are up to four licences then no more than two may be owned by one company

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- in any area where there are between five to six licences then no more than three may be owned by one company
- in any area where there are between seven to eight licences then no more than four may be owned by one company
- in any area where there are between nine and ten licences then five may be owned by one company
- in any area where there are more than ten licences then six may be held by one company

The above would free up commercial radio and give it the impetus it needs over the coming years.

Ownership Regulation (Digital Radio)

Along with the CRCA, we see no rationale in setting specific ownership limits, given the wider marketplace available via digital platforms. We are content that digital radio broadcasters be subject only to normal competition controls and that the regulatory authority continues to award digital multiplexes within current guidelines.

Plurality Of Ownership.

We have touched on this but it is an important issue and therefore worth dealing with separately. We believe there is a mistaken view that plurality of ownership consequentially leads to diversity of programming services. The historical facts are at odds with this and as a result commercial radio is not yet offering the range of services that it both should and could. All too often new licence holders abandon the stance upon which they were awarded the licence and drift into the 'feeding ground' of the incumbent licence-holder. This is frequently followed by a sale of the licence, with the 'short-term trader' then retiring to the sidelines, having made no contribution to the local community, diversity or plurality.

We have already pointed out how the BBC demonstrates that multiple ownership of radio services produces diversity of output, yet the commercial sector where this would not only benefit listeners but advertisers too is

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strangely inhibited. The ability to share overheads and invest more in programming must be regarded as a plus. The obvious point, that a company with a number of services within a market will ensure they are different, can only be regarded as in the interests of the community so served. For the advertiser, it also means that there are in reality, and not simply in theory, alternative services to reach different segments of the market. Equally, such a situation will make a contribution to controlling media inflation, something of concern to advertisers wrestling with the multi-duplication of media costs.

Cross Media Ownership Rules

SRH believes that current cross media ownership regulations are unduly restrictive and out of place in the 21st century. They work unfairly against both the consumer and shareholder, being designed to help neither.

While the proposals put forward by the Radio Authority go some way towards resolving this and the CRCA stance is not one we have a problem with, we believe that the thoughts we set out below are an improvement:

- No newspaper with more than 50% of the total paid-for circulation in a local market may control an FM licence in that market, unless there exists at least one other FM licence within the market not so owned. Control is defined as holding in excess of 50% of the voting shares in issue, or any form of agreement giving managerial control. This restriction does not apply to AM licences.
- No national newspaper should own more than one national radio licence, AM or FM.
- No company should be able to own a national commercial television service, or combination of regional services which taken together would result in national coverage, and a national radio licence, either AM or FM.
- No company owning a national television service, or any combination of licences which taken together would result in national coverage, may own a local FM licence unless there exists within the same market at least six other FM licences not so owned. This restriction does not apply to AM licences.

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- No company owning a national newspaper should own any local FM licence unless there exists within the same market at least six other FM licences not so owned. This restriction does not apply to AM licences.

Duration Of Licences.

All commercial radio licences should run for at least fifteen years and be subject to two formal reviews within that period, the second not later than eighteen months before the expiry of the licence. Should the regulator be satisfied with the performance of the licence holder, the regulator may roll the licence for up to a further fifteen years. Alternatively, the regulator may advertise the licence.

Access Radio

The only comment we would make here is that if a third tier is to be different then it must be funded differently, ie, not from advertising or sponsorship. Lottery funding via a special trust might be the obvious solution.

*Richard Findlay
9 February 2001*