

## Radio – set for a digital future?

Gill Hind  
+44 207 851 0913  
gill.hind@endersanalysis.com

Julian Aquilina  
+44 207 851 0907  
julian.aquilina@endersanalysis.com

31 March 2015 [2015-030]

Radio's transition from analogue to digital has been slow, with no switchover date yet in sight 16 years after Digital Audio Broadcasting's (DAB) commercial launch

Recent initiatives intended to boost DAB are welcome, but most will not be transformative as they offer little new to the consumer

However, the award of the second national commercial multiplex to Sound Digital with the launch of new, compelling content in 2016 could finally give radio listeners the reason to upgrade and make a case for switchover

Radio and television both commenced digital transmissions in the late 90s, but the pace of digital radio uptake has been markedly slower. The BBC and the larger commercial radio companies are having to continue to simulcast their analogue services in DAB, adding significantly to their cost bases. While television completed digital switchover (DSO) in 2012, a future radio switchover date is still many years away. Prior to setting a date certain criteria need to be met, but by the end of 2013 none had been achieved and thus the Government produced a package of measures to aid DAB uptake. One such measure was to announce that a new national digital multiplex would be advertised by Ofcom. This licence was awarded on 27 March 2015 to Sound Digital Limited, a consortium comprising of Arqiva, Bauer Media and UTV Media.

This note looks at the history of DAB in the UK, the progress that has been made, and explores why we believe the award of this multiplex could be the catalyst the industry needs to successfully secure its digital future.

### Digital radio background

The regulatory framework for digital terrestrial television (DTT) and DAB was laid down in the 1996 Broadcasting Act, with the government keen to migrate TV and radio to digital so that it could auction off the analogue spectrum. DTT launched in 1998 with OnDigital, and DAB launched commercially the following year. While television DSO completed in 2012 and the spectrum was successfully auctioned off, there is no sign of analogue radio switchover. Indeed AM and FM still account for the majority of radio listening, and given the lack of demand for the spectrum analogue radio occupies, there has not been the same imperative to push switchover.

A comparison to DTT is not always fair. Freeview, which launched in 2002 following the failure of OnDigital, brought with it an increase in the number of channels from the five PSB channels to over 30, including the new PSB digital

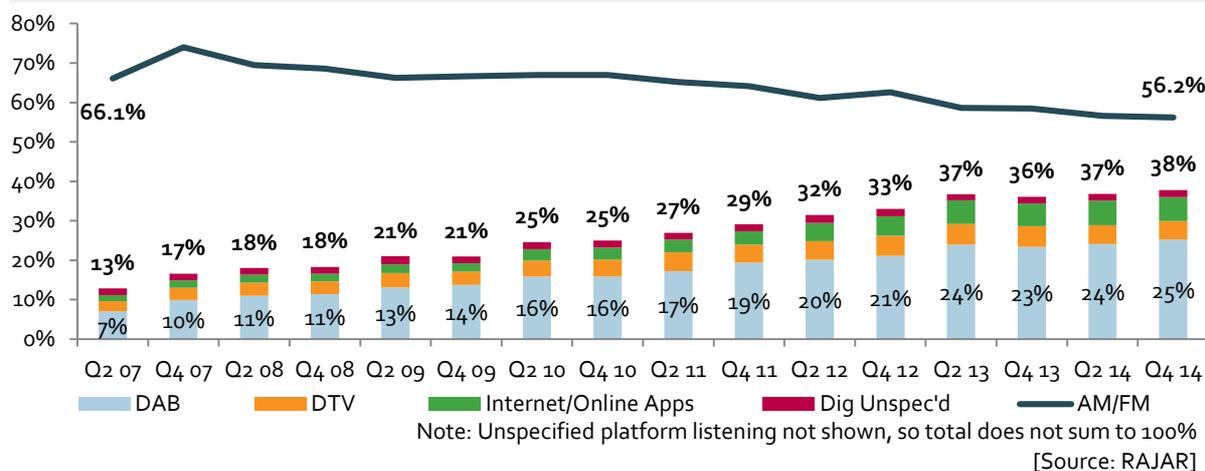
family channels. There was a marked increase in picture quality, and the advent of flat screen TVs with Freeview built in provided a compelling reason to upgrade. The same could not really be said for DAB. There were already eight national radio stations and in London a choice of a further 15 London-wide stations catering for a wide variety of tastes. Similarly, wide choices existed outside London. About 20% of radio listening was in-car, while no vehicles were fitted with receivers. Moreover, while there is a discernible difference in sound quality between AM and DAB, there is little between FM and DAB.

DAB coverage was also poor in comparison, with indoor reception often being patchy in areas that supposedly could receive DAB. Given that radio companies had little or no additional commercial return there was insufficient incentive to invest in the required cost of DAB transmission to improve the network. Moreover the Government had to resort to the carrot and stick approach of automatic renewal of analogue licences that also broadcast in DAB, in order to get the buy in of commercial radio companies in the first place. The majority of DAB stations were analogue simulcasts, with a few minor exceptions. However, with so few DAB devices and hence listeners, companies could not afford to invest even tens of thousands of pounds into programming DAB-only stations. In addition, by and large DAB would not replicate the transmission areas of smaller local commercial and community stations, and the larger transmission area they would broadcast to made the proposition unviable.

DAB was always likely to be a slow build, and this is exactly what we have seen over the past 15 years. In our previous report ([UK commercial radio: stable market with organic growth prospects \[2014-058\]](#)) we noted that the progress of digital radio listening across all outlets had been very slow, with DAB accounting for just 23% of total listening, 15 years after the launch of the first commercial multiplex. This has now risen to 25%, and total digital to 38%. Currently 48% of adult listeners have a DAB radio in their household, but of course households have multiple devices at home/in-vehicle on which they access radio each week, often with very long replacement cycles.

In-vehicle listening has not changed much over time; its share remains around 20%. Excluding this, digital's share rises to over 50% of all radio listening. Although over 60% of new car registrations now have DAB fitted as standard, it will take some time for this to filter through the 32 million cars on the UK roads. Since 2010, 3.2 millions cars have been sold with DAB fitted as standard.

**Figure 1: Digital and analogue platform listening shares (%)**



The Government's Digital Radio Action Plan, which started in 2010, set criteria that had to be met before a switchover date from analogue to DAB could be set. One criteria was that listening via digital devices had to account for at least 50% of all listening. We are now one third of the way into the second 12 year multiplex licence period, and digital radio accounts for less than 40% of all radio listening. At the current rate it would not hit 50% until 2019.

However, the signs are looking very positive for DAB and we will cover the reasons why we believe this 50% milestone will be hit much earlier in the following sections.

## Outlook for commercial radio

Our last radio report looked at commercial radio listening and revenue trends over the previous six years, and in particular it focused on the strategies of the three leading commercial companies. At a macro level there has been little change in overall radio listening since then. The BBC, which has always benefited from significantly more and better national frequencies, retains an audience share well above 50%, in spite of having fewer stations than the commercial sector. Commercial radio has 2.5m more listeners each week than BBC Network Radio but a marginally lower audience share.

In previous notes we have commented on both the Radio Advertising Bureau's initiatives to market the benefits of radio advertising and the major group's digital advertising strategies. As a result of these and a more buoyant advertising market in general, radio advertising increased 7% year-on-year to £575m, the highest figure since 2007, prior to the recession. Much of this increase was driven from national advertising which experienced a 15% year-on-year increase, albeit from a very poor 2013. Over a two year period radio advertising grew 4%. We are relatively optimistic going forwards, and see no reason to change our forecasts from December in which we forecast revenues of £591m and £613m in 2015 and 2016 respectively.

The commercial sector is dominated by three major players, Global Radio, Bauer Media and UTV Media, which combined account for over 80% of commercial radio listening and a significantly greater percentage of revenues. A healthy advertising market, coupled with stable audiences gives the major players the certainty they require to invest for the future.

Global has been focusing on ad technologies and integrating its recent acquisitions. In Q1 2014 Global re-branded many of its and Communicorp's stations into three quasi-national brands: Heart, Capital and Smooth. Re-brands, and specifically changing stations' names, are not without their challenges and have in the past often led to significant losses of audiences. As the advertising inventory available by way of the re-branded stations was by and large not fully sold, any loss of hours would be unlikely to lead to a commensurate decline in revenues. As it is, the re-brand has been successful with Global recording strong audiences and record Q4 2014 national revenues. Global has not jumped at the new DAB opportunities that have opened up.

Bauer is the company most focused on digital, and with over half its listening to digital devices sees it as an opportunity to become the leading commercial player. In January, Magic finally (and in our view belatedly) launched nationally on DAB, while the Kiss brand saw the addition of KISS FRESH in London and

KISSTORY in other cities. In its key local markets the AM service was re-branded and a third DAB-only service was launched targeting the under 25s.

UTV Media GB's main radio asset is TalkSPORT, and they have been leveraging their sports expertise with their magazine and international sales of live football commentary. Their local stations are somewhat peripheral to this, so it came as little surprise when they put out a statement in January regarding a possible sale of some or all of the English and Welsh stations, but noting that its national propositions would not be included in any sale. These stations could complement the portfolio of both Orion Media and Communicorp.

Both Bauer and UTV Media were part of the Channel 4 consortium that applied for and won the second commercial DAB multiplex that was awarded by Ofcom in 2008. At that point they were very keen to expand their digital assets and recognised that it was a perfect opportunity to grow nationally. However, the deep recession that year led to the licence being handed back as a launch of one station, let alone 10, would never have been commercially viable.

How the market has changed since then. Digital listening has more than doubled, the advertising market has recovered and prospects are considerably better.

## Future of DAB

### Measures to aid DAB development

While digital radio and DAB are both increasing in popularity, at this rate it will be many years before radio operators will choose to switch off their analogue simulcast services. To expedite this situation will require some form of market intervention. This was set in motion following the passing of the Digital Economy Act 2010, which changed the licensing framework in order to provide radio companies with the certainty required to make further investments in DAB. The Government's subsequent 2010 Digital Radio Action Plan set the following criteria that needed to be achieved before a switchover date from analogue to DAB could be set:

- 50% of all listening hours to be via digital platforms
- National DAB coverage to be comparable to FM
- Local DAB to reach 90% of the population and all major roads

However, by the end of 2013 these criteria had not been met, and so the Government announced a package of measures to aid the industry and encourage consumers to migrate to digital. These included:

- Investment from the Government, BBC and commercial radio to build out digital radio coverage
- Funding for Ofcom to develop a small scale DAB solution for smaller local stations
- Ofcom to advertise a second national commercial multiplex
- Ofcom to review of music format rules for commercial radio
- Digital Radio UK to launch the Digital Radio Tick Mark
- Digital Radio UK to work in partnerships with the DVLA on communications to drivers

These measures are now being implemented and by the end of 2016 the coverage criteria above should have been met, with BBC's National DAB coverage over 97%. The new local transmitters, which will take coverage to over 90% by the end of

next year, are being part funded by Government, the BBC and the commercial multiplex operators and are rolling out on schedule.

As part of a £500,000 government-funded programme, Ofcom is to commence a series of trials for small scale DAB across 10 areas of the UK. These are expected to be successful and will allow smaller stations to broadcast in DAB to their limited local area cost-effectively. If smaller stations had no digital migration path it would prove very difficult to turn off the analogue signal, and understandably many smaller operators have been very vocally anti-DAB. It appears there may now be a cost-effective solution.

## **The new national multiplex**

While increasing overall DAB coverage and getting more local stations onto DAB is helpful, it is unlikely to be the step change required for digital. We believe the factor that is likely to provide the greatest boost to digital radio will be the launch of the second national commercial DAB multiplex in approximately 12 months.

Digital listening can be broken down into three broad groups: listening to digital-only stations; listening to an FM/AM station via digital in the station's coverage area; and listening digitally to an FM/AM station but outside its analogue coverage area. We estimate that listening to digital-only stations accounts for approximately 21% of all digital listening, while out of area listening makes up a further 9%. This means that c. 70% of all digital listening is to the simulcast in the station's analogue coverage area.

Given the limited difference in audio quality between FM and DAB, simulcasting more stations in digital is not going to make consumers go out and buy a DAB receiver. What is more likely to provide the impetus would be the availability of compelling new content. The recent award of the second national commercial multiplex licence to Sound Digital is hopefully the boost that radio needs.

The criteria for the licence award are set down in Section 47 of the 1996 Broadcast Act, and it is in effect a "beauty contest", with Ofcom determining which applicant best fulfils the criteria. In deciding the award Ofcom must consider "the extent to which applicants' proposals would be calculated to promote the development of digital sound broadcasting in the UK (otherwise than by satellite)". The specified criteria include the coverage area; timetable for launch; ability to establish and maintain the service throughout the multiplex period; fair and effective competition for service provision; capacity of the digital sound programme services (radio stations) to appeal to a variety of tastes and interests; and finally proposals for promoting or assisting the acquisition of DAB equipment. Though these criteria are not weighted within the Act we believe the most important to satisfy would be the appeal of the radio stations and the proposals for promoting uptake.

There were two applicants for the multiplex, which on paper are not hugely different other than their shareholders. The table below summarises some of the key points in the applications.

**Figure 2: A comparison of the two applicants**

	Listen2Digital	Sound Digital
Shareholders	Babcock Media 45% Orion Media 35% Folder Media 5% Sabras Sound 5% 5 individuals @ 2% each	Arqiva 40% Bauer Media Group 30% UTV Media 30%
Proposed service formats	14 stations <ul style="list-style-type: none"> <li>• Asian x 2</li> <li>• Christian x 2</li> <li>• Music x 6</li> <li>• Money</li> <li>• Sports</li> <li>• Children</li> <li>• Food</li> </ul>	14 stations <ul style="list-style-type: none"> <li>• Asian x 2</li> <li>• Christian x 2</li> <li>• Music x 7</li> <li>• Business</li> <li>• Sports</li> <li>• Talk</li> </ul>
Coverage	81.5% indoor	75% indoor
Marketing	Matching funds – in form of fee rebates	£15m over 6 years from shareholders

N.B. Listen2Digital offered 4 DAB+ stations and Sound Digital 1

The Sound Digital consortium comprises Bauer and UTV Media, which are two of the three leading commercial groups, as well as the main UK transmission provider, Arqiva. All three already have interests in DAB multiplexes. Bauer is also the leading commercial player in digital service provision, with 11 digital-only services and over half of its listening via digital devices.

In contrast, Listen2Digital's consortium comprised of: Babcock Media, which is new to UK radio; Orion Media, which is a Midlands based radio company run by experienced radio professionals (with previous multiplex experience); and with a smaller shareholding, Folder Media, which operates some local DAB multiplexes.

While the proposed coverage levels of Listen2Digital were higher Ofcom did note that Sound Digital's coverage would be more reliable in those areas where it was available.

Both applicants proposed many new digital-only services appealing to a variety of tastes and interests, and unsurprisingly both applicants offered supporting evidence of this via bespoke research. Bauer and UTV Media are behind nine of the Sound Digital services (one UTV station is through a brand licence with Virgin Radio), and have the funding and the experience required to successfully launch these services. However, two of Bauer's services currently broadcast on the existing national multiplex, though Bauer argued that vacating that multiplex opens opportunities for other stations, thereby broadening choice. Not all of the Listen2Digital's proposed services had firm providers, which made it harder for Ofcom to establish the likelihood of their plans to be realised.

The overriding theme of the Listen2Digital application was that it would provide competition in the market for access to DAB as the companies in the Sound Digital consortium control the existing national multiplex and over 80% of the local multiplexes, as well as a monopoly on transmission. Babcock Media would have managed the transmission network if successful.

In contrast Sound Digital focused on its experience within DAB and radio content creation, and promised significant marketing support. It also had contractual agreements with all service providers, as well as a transmission agreement in place.

Ofcom's decision to award the licence to Sound Digital is, in our view, a sensible and safe option. The consortium has significant experience in managing multiplexes, but more importantly the breadth of programming on offer is very strong, with several services being able to benefit from existing complementary radio brands including Kiss and Magic. Moreover, Bauer and UTV will offer several different music or speech services and have every incentive to make them as distinct from each other as possible so as to maximise total audiences – a fact so often not recognised in radio licensing decisions in previous years.

By the end of 2016 national DAB coverage will be similar to FM, and local would be over 90% of the UK, so the coverage criteria for switchover will have been met. Other support measures from the government, including for small-scale DAB, coupled with the increase in new cars fitted with DAB as standard, should help to push digital's share of listening up further.

We believe the most significant reason for listeners to purchase DAB equipment will be the launch of new digital-only stations on this second national commercial multiplex. This will speed up audience migration to digital, thus bringing forward the date when BBC and commercial operators can make the decision to switch off an analogue signal, and invest money into programming rather than transmission, thus benefiting the listener.

This multiplex launch will give the industry the opportunity for a concerted marketing push in the first half of next year. This needs to focus on the increased choice and compelling innovative content afforded by the new multiplex. Bauer and UTV have every reason to deliver on this as digital is central to their growth strategies. For the same reason, Global cannot afford to be left behind. For the first time, we might see strong alignment across the commercial sector in backing DAB, and in working closely with the BBC and other stakeholders we should see a marked increase in support for DAB.

The award of this multiplex to Sound Digital is, we believe, the catalyst that UK radio has been waiting for to push it into the digital age. The launch of new compelling content in 2016 could finally give radio listeners the reason to upgrade to digital radio. As digital listening overtakes analogue the industry can make a case for switchover. However, the transition from 50% of radio listening being digital to 100% will be a long, drawn out process.

## Enders Analysis

Enders Analysis is a research and advisory firm based in London. We specialise in media, entertainment, mobile and fixed telecoms, with a special focus on new technologies and media, covering all sides of the market, from consumers and leading companies to regulation. For more information go to [www.endersanalysis.com](http://www.endersanalysis.com) or contact us at [info@endersanalysis.com](mailto:info@endersanalysis.com).

Important notice: By accepting this research note, the recipient agrees to be bound by the following terms of use. This research note has been prepared by Enders Analysis Limited and published solely for guidance and general informational purposes. It may contain the personal opinions of research analysts' based on research undertaken. This note has no regard to any specific recipient, including but not limited to any specific investment objectives, and should not be relied on by any recipient for investment or any other purposes. Enders Analysis Limited gives no undertaking to provide the recipient with access to any additional information or to update or keep current any information or opinions contained herein. The information and any opinions contained herein are based on sources believed to be reliable but the information relied on has not been independently verified. Enders Analysis Limited, its officers, employees and agents make no warranties or representations, express or implied, as to the accuracy or completeness of information and opinions contained herein and exclude all liability to the fullest extent permitted by law for any direct or indirect loss or damage or any other costs or expenses of any kind which may arise directly or indirectly out of the use of this note, including but not limited to anything caused by any viruses or any failures in computer transmission. The recipient hereby indemnifies Enders Analysis Limited, its officers, employees and agents and any entity which directly or indirectly controls, is controlled by, or is under direct or indirect common control with Enders Analysis Limited from time to time, against any direct or indirect loss or damage or any other costs or expenses of any kind which they may incur directly or indirectly as a result of the recipient's use of this note.

© 2015 Enders Analysis Limited. All rights reserved. No part of this note may be reproduced or distributed in any manner including, but not limited to, via the internet, without the prior permission of Enders Analysis Limited. If you have not received this note directly from Enders Analysis Limited, your receipt is unauthorised. Please return this note to Enders Analysis Limited immediately.