

ADVERTISING ASSOCIATION

Advertising Association's Response to the BBC's New Music Radio Stations: Public Interest Test Consultation

About the Advertising Association

1. The Advertising Association promotes the role and rights of responsible advertising and its value to people, society, businesses, and the economy. We bring together companies that advertise, their agencies, the media and relevant trade associations to seek consensus on the issues that affect them. We develop and communicate industry positions for politicians and opinion-formers, and publish industry research through advertising's think-tank, Credos, including the Advertising Pays series which has quantified the advertising industry's contribution to the economy, culture, jobs, and society.
2. The membership of the Advertising Association is very broad and includes the associations representing industry sectors, such as the advertisers (through the Incorporated Society of British Advertisers), the agencies and advertising production houses (through the Institute of Practitioners in Advertising and the Advertiser Producers Association), all the media (from broadcasters and publishers, cinema, radio, outdoor and digital), advertising intermediaries and technology providers (such as platforms like Google and Meta, as well as the Internet Advertising Bureau UK), market research (through the Market Research Society) and marketing services such as direct marketing (through the Data & Marketing Association).

Context

3. Advertising and marketing are important. They play a crucial role in brand competition, drive product innovation and fuel economic growth. Many industries such as the arts, sport and culture depend on it for their revenues and it also funds a diverse and pluralistic media enjoyed by consumers of all ages, including children and young people.
4. Advertising is also a driver of economic growth and competition. We have estimated that every pound spent on advertising returns up to £6 to GDP through direct, indirect, induced, and catalytic economic effects. The Advertising Association/WARC Expenditure Report shows that the UK's ad market is set to grow 2.6% in 2023 to a value of £35.7bn. This would mean a contribution of approximately £214bn to the economy supporting over 1 million jobs across the UK.
5. According to Deloitte research carried out on behalf of the Advertising Association, the one million jobs supported by advertising can be broken down as follows:
 - a) 350,000 jobs in advertising and the in-house (brands) production of advertising.
 - b) 76,000 jobs in the media sectors supported by revenue from advertising.
 - c) 560,000 jobs supported by the advertising industry across the wider economy.
6. Commercial radio also has a substantial reach to local communities across diverse locations of the UK and it a vital trusted source of news. Listeners to commercial radio stations represent a broad cross section of the population, with the sector attracting an ethnically and socially diverse audience which compares favourably against the BBC.
7. Radio advertising revenue is the principal income stream for commercial radio, enabling its content to be provided to listeners for free. Commercial radio operates in a highly competitive advertising market which generated £740 million in ad revenues in 2022¹.

¹ <https://www.radiocentre.org/the-audio-market/ad-revenues-and-forecasts/>

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8. From a public service point of view, commercial radio also provides significant value to audiences through their provision of news. Many stations allocate airtime for higher frequency and longer duration news. This includes additional news coverage, regularly refreshed daily bulletins, as well as special coverage of breaking news.
9. Fundamentally, we think that the BBC's primary focus should be on providing content that is distinct, underserved and not well represented in the commercial radio sector. This would ensure that the BBC's offerings, of which there are many, complement instead of competing directly with commercial offerings. Moreover, the BBC should commit to adopting mitigations to minimise any potential negative effects on fair and effective competition or to promote potential positive impacts within the radio sector.
10. While this response focuses on the new music radio stations Public Interest Test (PIT), many of the issues raised also apply to the 5 Sports Extra PIT (e.g. the distinctiveness of the proposals, targeting audiences already served by the commercial sector). Similarly, the BBC could adopt mitigations to reduce the impact of its 5 Sport Extra proposal on the market (e.g. by proposing a distinctive offer to cover a wider range of under-covered and minority sports).
11. Please contact [redacted] for any questions regarding this response.

Response

Question 1: What do you think about the potential public value of our proposals for the launch of new music radio stations on DAB+, including the extent to which our proposal contributes to the BBC's mission to serve all audience through the provision of high quality and distinctive output and services which informs, educates and entertains?

12. While the BBC aims to serve all audiences and provide high-quality content that informs, educates and entertains, in reality achieving excellence across the board for every conceivable interest or demographic is challenging. This is because different audiences have diverse interests, preferences, and information requirements. There is also a need to create content that resonates equally well with every individual or group.
13. The BBC, like any media organisation, operates with finite resources, including budget, talent, and time. It may not be feasible to allocate resources evenly across all possible content areas and therefore the BBC would be better placed to prioritise resources on existing stations. Moreover, we are aware of reports² that the BBC plans, depending on regulatory approval, to introduce advertising in other audio services to help plug a funding gap of about £500 million per year by 2027. Despite this funding gap the BBC seems to be determined to continue launching new services.
14. Additionally, the media landscape is dynamic, with evolving technologies and consumption patterns. The challenge is how the BBC will be able to adapt to these changes while maintaining a high standard of content across a higher number of diverse platforms and formats.
15. Hence, we think that the BBC's primary focus should be on providing content that is distinct, underserved and not well represented in the commercial radio sector. This would ensure that the BBC's offerings, of which there are many, complement instead of

² <https://www.thetimes.co.uk/article/bbc-adverts-tv-ads-programmes-uk-channel-commercials-rvsjd2vgg>

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competing directly with commercial offerings. Particularly as the BBC's size and unique funding distorts the market UK radio market. The proposals, as outlined in the Public Interest Test (PIT) document, pose a significant risk and impact to the market. The lack of public value outlined in the potential output is also a surprise, particularly the omission of any news provision.

16. We are also concerned that there is a risk that further proliferation of BBC music radio stations might crowd out smaller, independent commercial operators, thereby reducing the variety of voices and perspectives available to the public.

Question 2: What do you think about the benefit to audiences who will listen to the stations, as well as wider potential social and cultural impacts?

17. The BBC's proposal for the new radio stations is based on the rationale of serving underserved audiences, in particular lower socio-economic groups and younger audiences, as well as serving the moods and needs of modern audiences better.
18. However, according to the BBC's own research (PIT page 10), commercial radio has demonstrated stronger performance, particularly among younger and lower socio-economic groups. In the age group of 35-54, commercial radio has experienced an 8.2% increase in reach, while BBC radio has seen a decline of 16.5% since 2013. In the 15-34 age bracket, commercial radio reaches 11.2 million listeners, surpassing BBC Radio by 3.9 million, and engaging almost two-thirds of the weekly 15-34 population, compared to the BBC's 42.6% reach.
19. An alternative interpretation of these figures is that these key audience segments are being served effectively by commercial radio. If this is indeed the case, then it would reinforce the idea that BBC should focus more on areas or demographics not adequately covered by commercial radio to avoid redundancy and duplication of efforts.
20. Furthermore, if commercial radio is indeed satisfying the needs and preferences of those demographics, then there is perhaps a question mark over whose needs are met by the proposal to launch four more stations. Fundamentally, we believe that audiences should have the autonomy to choose where they get their content. Additionally, we think that at its best the BBC complements commercial media. This perspective aligns with principles of a free and diverse media landscape. In contrast the proposition from the BBC poses a serious adverse effect on competition.

Question 3: What impact (positive or negative) do you think our proposal for new music radio stations on DAB+ might have on fair and effective competition on commercial radio stations providing music content on radio?

21. Commercial radio stations operate in a competitive market, and the introduction of new BBC radio stations would likely bring increased competition for audience share. This could impact commercial radio stations' ability to attract advertisers and impact the wider advertising market, creating challenges for commercial stations to maintain or grow their own market presence.
22. We found the BBC's analysis of the competition impact somewhat inadequate. Specifically, the BBC's analysis contained in figures 3 & 4 (PIT pages 9-10) presents a misleading picture regarding market share/reach.

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23. The table below lists the top ten UK-wide stations/networks, ranked by market share for Q1 2023. As we can see, BBC Radio 2 and BBC Radio 4 occupies first and second position with a market share of 15.2% and 11.2% respectively. BBC Radio 2's market share is 2.7 times and BBC Radio 4's is double the market share of third-placed Heart.

Rank	National station/network	Ranking change from previous quarter	Weekly reach of adults 15+	Market share	Owner
1	BBC Radio 2	-	25.80%	15.20%	BBC
2	BBC Radio 4	-	16.80%	11.20%	BBC
3	Heart Network (UK)	-	15.90%	5.60%	Global
4	Hits Radio Network	-	12.10%	5.00%	Bauer
5	BBC Radio 1	-	13.50%	4.90%	BBC
6	Greatest Hits Network	3	9.50%	3.70%	Bauer
7	Classic FM	-1	8.10%	3.60%	Global
8	Smooth Radio Network (UK)	-1	9.40%	3.40%	Global
9	BBC Radio 5 live	-1	9.10%	3.00%	BBC
10	LBC (UK)	1	4.90%	2.90%	Global
10	Capital Network (UK)	-	11%	2.90%	Global

Source: RAJAR Q1 2023. TSA: All Radio. Weight: Automatic (each station weighted by its own weight). From Ofcom's Media Nations UK 2023. Published 3 August 2023.

24. Clearly, the market is not a binary competition between the BBC and commercial radio; there is also competition among commercial radio stations who have invested significantly in recent years in these spin-off stations. The BBC's limited market impact analysis appears to focus on an aggregate of all commercial radio, rather than a more realistic competitive set of stations.
25. Furthermore, considering the potential competitive pressure on commercial radio operators that could result from the proposed BBC radio stations, we believe any comprehensive competition analysis must also account for the intensifying competition between commercial radio operators and streaming music services, which have gained significant popularity and market share in recent years. The BBC's own consultation acknowledges the impact of streaming services like Spotify, Apple Music, Amazon Music, and YouTube Music which have been rapidly gaining subscribers with streamed music now accounting for 21% of listening for all adults, and 50% of listening for 15-34s (PIT page 6).
26. Additionally, we found that the consultation did not adequately consider the competition impact of BBC Sounds. Much of the content being proposed in the new stations is already available on BBC Sounds (It is worth noting that the 5 Sports Extra proposal is another example of where content will be repurposed podcast content already available on BBC Sounds, e.g. Sports Strangest Crimes, Football Daily).

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27. It is also not clear if the budgets for this content have been factored into the BBC's overall projected costs for the new radio services. What puts the BBC at a significant advantage is its ability to harness significant cross-promotional opportunities that are unavailable to commercial broadcasters. Furthermore, it is unclear what marketing budget has been allocated and the level of cross-promotion planned for these new services.
28. However, one could argue that BBC Sounds creates an unfair advantage as it allows the BBC to repurpose content that it has already produced using public funds. This creates a cost advantage over commercial radio operators who would normally have to create and fund all their content from scratch. This could make it difficult for commercial stations to compete effectively. Hence commercial radio operators would be less incentivised to invest in creating new, innovative content to differentiate their offerings.
29. If the new BBC stations were to rely heavily on reusing content already available on BBC Sounds then it may in fact limit the diversity of programming and reduce meaningful listener choice. The BBC is also proposing to launch the new stations on BBC Sounds ahead of any regulatory approval of the DAB+ stations through a separate materiality assessment. Given shifts in listening habits and the importance of online listening to commercial broadcasters, the impact on competition from the launch of the new stations on BBC Sounds alone would be a material change with competitive impacts and so should warrant a comprehensive Public Interest Test.

Question 4: Are there any steps you think we could take to minimise any potential negative effects on fair and effective competition or to promote potential positive impacts?

30. To minimise any potential negative effects on fair and effective competition or to promote potential positive impacts within the radio sector, the BBC could consider the following:
 - a) Pause the parallel materiality assessment process of the BBC Sounds-only launch of the stations and instead conduct a full Public Interest Test.
 - b) Implement more transparency to account for the costs associated with the new radio stations from its existing services. This would help address concerns about unfair cost advantages from reusing existing BBC content and resources.
 - c) Commit a significant portion of the new stations' content being truly new and original programming, rather than heavily relying on repurposing existing BBC Sounds content. This distinctive programming should be underpinned by stretching quotas that are included with the BBC's Operating Licence. This would help foster diversity and differentiation.
 - d) Impose limits on marketing and cross-promotion to prevent unfair leveraging of the BBC's existing massive audience.
 - e) Commit to regular, independent reviews assessing the actual market impact of the new stations on commercial radio and streaming if launched, with a willingness to make adjustments if negative effects are identified.
 - f) Focus on underserved audience segments. By intentionally targeting audience segments that are currently underserved by commercial operators, the new BBC stations could fill gaps rather than directly competing for the same audiences.

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Advertising Association