



Department
for Culture
Media & Sport

REPORT

**COMPETITION IMPACT
ASSESSMENT OF REGULATORY
INTERVENTION IN THE UK RADIO
INDUSTRY**

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1 Project background

Value Partners have been commissioned by the Department for Culture, Media and Sport (DCMS) to conduct market research to explore the competition effects of the following three policy options:

- **Option 1:** Do not intervene: allow licences to expire and be re-advertised in the usual way by Ofcom as outlined in the Broadcasting Act 1990 and amended by the Digital Economy Act 2010
- **Option 2:** Make a regulatory intervention such that existing radio broadcast licences are given a rollover for a further five year period for licences renewed under s103B and s104AA of the 1990 Broadcasting Act, and twelve years extension for stations that have not yet been renewed under s103B or s104AA
- **Option 3:** Make a regulatory intervention as above however for a longer period of time not specified or an indefinite period until the point of a mandated radio switchover

This research is part of the current DCMS consultation on the renewal of analogue commercial radio licences launched on the 3rd of November 2014 and expiring on the 1st of December 2014 at 5:00 pm. This work has primarily consisted of a large number of individual interviews conducted between 7 - 20th November 2014.

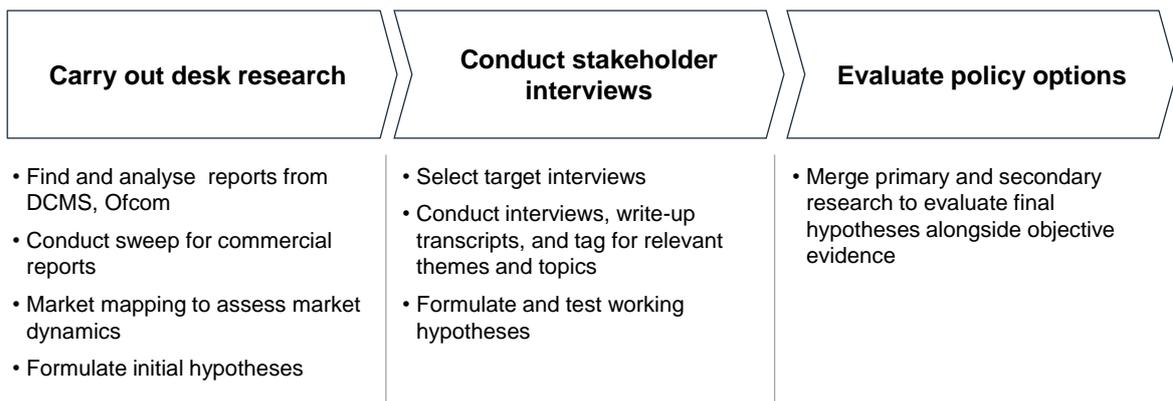
2 Research methodology

2.1 Methodology framework

Individual interviews with 19 senior stakeholders in the UK radio industry form the bulk of research in this study. These interviewee stakeholders collectively represent 64% of the UK radio market by licence ownership. These interviews were conducted over a period of 10 working days between the 7th and 20th of November 2014 and included: industry experts, radio operator groups, general radio industry contacts, digital players and technology facilitators. The aim of these interviews was to gather a broad range of perspectives on the DCMS policy proposals and their impact on competition within the commercial radio industry from as many of the relevant stakeholders as possible within the project timeframe.

While most of our analysis is based on this primary research this study is also informed from our own industry experience and desk research where appropriate.

Exhibit 1: Methodology framework



2.2 Three stages of competitive assessment

This study follows a three-stage interrogation of the policy options presented by DCMS based on a) demand for increased competition b) core competitive indicators c) secondary outcomes. For each detailed competition area the study analyses the key questions required to evaluate the advantages and disadvantages of each policy option.

The first competition area is designed to assess the extent to which further competition is demanded by the market by considering preliminary indicators such as demonstrated demand for renewed competition by existing incumbents and potential new entrants. Questions asked during this phase would include: *would you consider applying for licenses upon advertisement? Would you expect your current licences to be challenged on the open market?* Additionally we consider demand demonstrated by the recent process for competition of a radio licence in London.

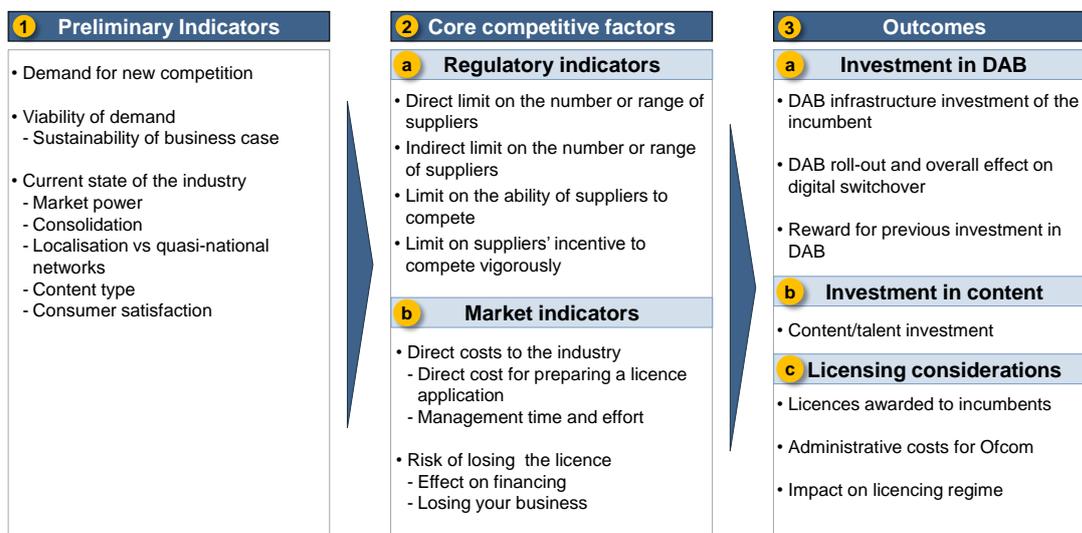
In the second competition area, many of the core competitive indicators are based on the template outlined by the OFT¹ and form *regulatory indicators*: a formal, broad approach to appraising competition dynamics

¹https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/191489/Green_Book_supplementary_guidance_completing_competition_assessments_in_impact_assessments.pdf

in any given industry. These are necessary to rule out anti-competitive initiatives but are not alone sufficient to positively support a particular policy choice. Additional criteria, known as *market indicators*, are introduced to evaluate more subtle factors such as attempting to minimise disruption and cost to industry.

The third and final competition area covers possible and likely outcomes of policy selection with respect to the Government’s broader support for DAB adoption, investment in content, and administrative considerations such as Ofcom’s resource allocation required to given policy.

Exhibit 2: Competition framework



2.3 Methodology assessment

We believe that this study covers a broad and comprehensive representation of views from within the radio industry. A limitation of this study has been the limited timeframe available to process interviews, test hypotheses, and develop quantitative models to complement the decision-making process.

The benefits of our research approach include:

- Substantial primary research through interviews with most of the key radio industry stakeholders
- In-depth insight and analysis provided by individuals with significant expertise
- Addressing directly the policy options and their impact

There have been a number of differing opinions expressed in interviews as a function of incumbent or putative new entrant status. The split between local and national was also an issue of contention, especially those in favour of, or hostile to, the so-called quasi-national strategy employed by some operators. The broad spectrum of individuals we interviewed should help mitigate the inherent risk of partiality and enables a balanced examination of the issues raised.

2.4 Proposed methodology for further investigation

Given the limited timeframe of this study, developing a quantitative model has not been possible. One of the key questions that a model could try to estimate would be the potential demand for each one of the local licences facing expiration.

A lengthier study could evaluate the:

- revenue potential of each licence up for renewal
- historical demand for licences of similar Measured Coverage Area (MCA) or Total Survey Area (TSA)

It would also be necessary to:

- Identify the precise MCA of each licence
- Identify the population over 15 years of age that resides within the coverage area
- Segment the population into relevant age brackets
- Estimate competing radio services in the area, including both FM/AM and DAB radio stations
- Estimate the % reach of each radio licence within each population bracket based on historical figures, adjusted for recent listening trends and competition from other radio/audio services available within the area
- Calculate local and national advertising revenue per radio licence based on adjusted historical figures for national and local advertising revenue per listener within each MCA
- Estimate the number of commercial enterprises operating within the MCA of the licence along with a measure of the relative financial health of businesses operating within the area (e.g. in comparison to London) which could proxy for different local advertising revenue potential of licences and inform adjustment of historical data
- Collect historical data about the spread of national advertising revenue across different licences to inform the national advertising revenue potential of each local licence
- Analyse radio station formats of all stations, historically broadcasting using the frequencies of local licences affected to inform assumptions about the most frequent format for radio stations using each licence
- Measure the advertising share of each station format to inform the assumptions about national and advertising revenue for each licence
- Calculate other sources of revenue for local radio stations (e.g. sponsorship) based on adjusted historical figures for that MCA
- Identify and quantify major cost components for establishing a local analogue radio station, including property rent and equipment, general and administrative, rights, sales, production, marketing and transmission expenses

Sources for the required information include but are not limited to Ofcom, Rajar and Radio Advertising Bureau.

Based on historical data from Ofcom and Radio Authority, a mapping of past competitive licensing processes would help identify the most important characteristics of licences that were heavily contested in the past. Our preliminary assessment highlights the population within the MCA/TCA as one of the most important determinants of competition, along with demographics and disposable income of residents.

3 Background context of the study

This section of the report provides an overview of the three policy options that the DCMS is evaluating with regards to the re-advertisement or renewal of the 65 analogue commercial radio licences that expire starting from October 2017, as well as an examination of the current ownership and population coverage of affected licences.

3.1 Policy background and current DCMS policy options

Under the Digital Economy Act 2010, Ofcom was granted new powers to provide FM and AM analogue licence renewals for a further period of 7 years to radio stations that were licenced on or after 8 April 2010, or whose licences were renewed for 12 years under the Broadcasting Act 1990 (section 104A or 103A). The purpose of the legislation was to support the digital migration of radio. At the time the expectations of the government and the commercial radio industry were that a timetable for a radio switchover could be set as early as 2015 and a radio switchover would be finished in 2017 and 2018. The 7 year renewal of licences reflected this anticipation.

In order for the licensees to be qualified for a further renewal, radio operators had to simulcast the service on an appropriate DAB multiplex. This legislative change offered incentives to the commercial radio industry to further support expansion of DAB coverage.

The Digital Economy Act 2010 provides the following regulatory framework for Ofcom:

- Terminating of relevant analogue licences by the mandated date for digital switchover without the licensee's consent subject to a minimum notice period of 2 years
- Allowing variation of the frequency or coverage area of a multiplex licence to improve DAB coverage
- Renewing multiplex licences to facilitate investment in DAB coverage

In December 2013, the Government did not commit to a radio switchover and did not set a firm time-plan for the digital migration of radio. According to the speech delivered by HM Minister for Culture, Media, and Sport, Edward Vaizey during the GO Digital Conference on the 16th of December 2013², "now is not the time to switchover" in consideration of the following benchmarks:

- Listening should be at 50%
- Coverage needs to be built out towards FM equivalence – with coverage matching FM in place for all stations that need to switchover
- Shifting new cars to digital and migrating more in car listening

More than 60 analogue commercial radio licences will expire between late 2017 and 2021; under the current legislation the stations affected would need to apply and bid for the renewal of their licences in a competitive process as organised by Ofcom.

The Government is examining the following three policy options concerning these licences

² <https://www.gov.uk/government/speeches/go-digital-conference-16-december-2013-check-against-delivery>

- Option 1: Do not intervene: allow licences to expire and be re-advertised in the usual way by Ofcom as outlined in the Broadcasting Act 2010 and amended by the Digital Economy Act 2010
- Option 2: Make a regulatory intervention such that existing radio broadcast licences are given a rollover for a further five year period for licences renewed under s103B and s104AA of the 1990 Broadcasting Act, and twelve years extension for stations that have not yet been renewed under s103B or s104AA
- Option 3: Make a regulatory intervention as above however for a longer period of time not specified or an indefinite period until the point of a mandated radio switchover

Policy Options 2 and 3 would require the Government to modify current legislation. Policy option 2, a 5-year renewal would in effectively convert the seven year period introduced by the Digital Economy 2010 Act into a 12 years licence period aligning option 2 with the 12 year statutory maximum period which applies to all analogue licences issued by Ofcom³. Policy Option 3, a longer or indefinite licence renewal, would imply a more significant reform of the radio licencing regime.

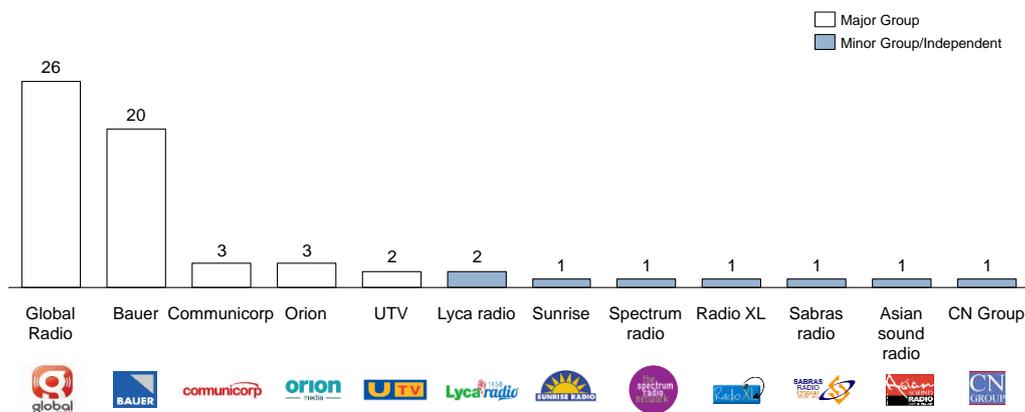
3.2 Licences affected by the DCMS proposals

Exhibit 3: Timeline of nation-wide licence expiry



In addition to the three national licences, 62 local analogue commercial licences will expire. The first of these licences is the XFM licence in Paisley which expires in October 2017.

Exhibit 4: Ownership of local analogue licences affected

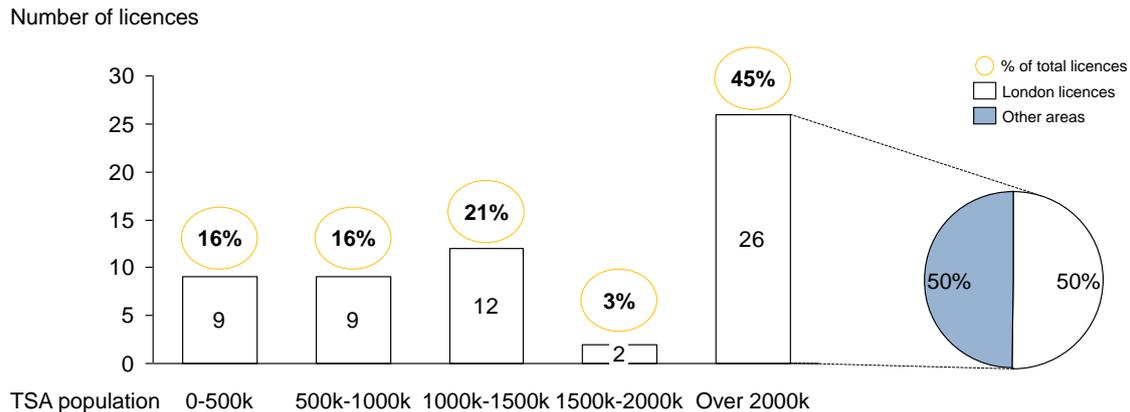


Source: DCMS, Ofcom, Value Partners analysis

³ <http://stakeholders.ofcom.org.uk/binaries/consultations/local-radio-durations/statement/statement.pdf>

The vast majority of the local licences expiring have a significant coverage area. More than 68% of the 58 analogue licences for which a TSA has been recovered, provide coverage for a region with more than 1 million inhabitants over the age of 15. Furthermore, 13 of the licences expiring cover London (21% of all local licences).

Exhibit 5: Population within the TSA of local licences affected⁴



Source: RAJAR, Ofcom, DCMS, Value Partners analysis

3.3 Analogue licencing process

3.3.1 National licences

The first licencing process for the three nation-wide analogue radio licences occurred in 1991. Applicants who submitted the highest cash bid and committed to a specific station format were granted the licences. The national FM licence for a “non-pop station” was awarded to Classic FM. One of the AM licences, for speech-based service, was awarded to TalkSport and the second one, without any format obligation, was awarded to Virgin Radio which has been rebranded since to Absolute Radio. These licences were renewed in 1999/2000 and granted a second renewal under section 103B of the 1990 Broadcasting Act for a seven year period in 2010.

3.3.2 Local licences

The licencing process for local analogue licences follows the “beauty parade” format. Therefore, the application proposal for local licences has to include provisions about offering local content and contributing to the plurality of local radio services available. The major factors that Ofcom considers in awarding licences to provider are the following:

- Financial viability and ability to maintain the service
- Degree to which it serves the local audiences
- Contribution to plurality of programmes available in that area
- Level of support by the local community

⁴ Analysis includes only 58 out of the 62 licences affected as relevant data on the TSA is unavailable on RAJAR. Reported population refers to those aged 15+ years

Local commercial radio stations must also comply with the commitments made in their application concerning the format of the station and a common set of standards for taste and decency, due accuracy and impartiality in news.

a) Re-advertisement

Section 104B⁵ of the 1990 Broadcasting Act enables Ofcom to adopt a “pre-advertisement” stage in the licencing process. During this preliminary phase, usually lasting one month, competitors to the incumbent licence holder can submit “declarations of intent” to apply for the licence. Ofcom intends to use this special application procedure in all cases except the following:

- When size of the licensed area is altered considerably
- When the incumbent has not complied with the licence requirements at a satisfactory level
- When no formal confirmation that a submission of “fast track” application on the basis of maintaining existing format of the service has been received from the incumbent licensee

If a fast-track process is followed, the incumbent has a period of around 6 weeks to submit the “fast track” application to Ofcom, with the licence awarded within one month. If the licensing process moves to the re-advertisement stage any party can submit an application.

3.3.3 Renewal process

National and local licences can be renewed if stations choose to broadcast on relevant national or local DAB multiplex. The FM and DAB services should share at least 80% of their content to classify for the station to classify for the renewal. A total of 65 radio stations licenced on or after 8 April 2010 or which had been renewed for 12 years under section 103A or 104A of the 1990 Broadcasting Act applied to Ofcom for a final renewal period of 7 years.

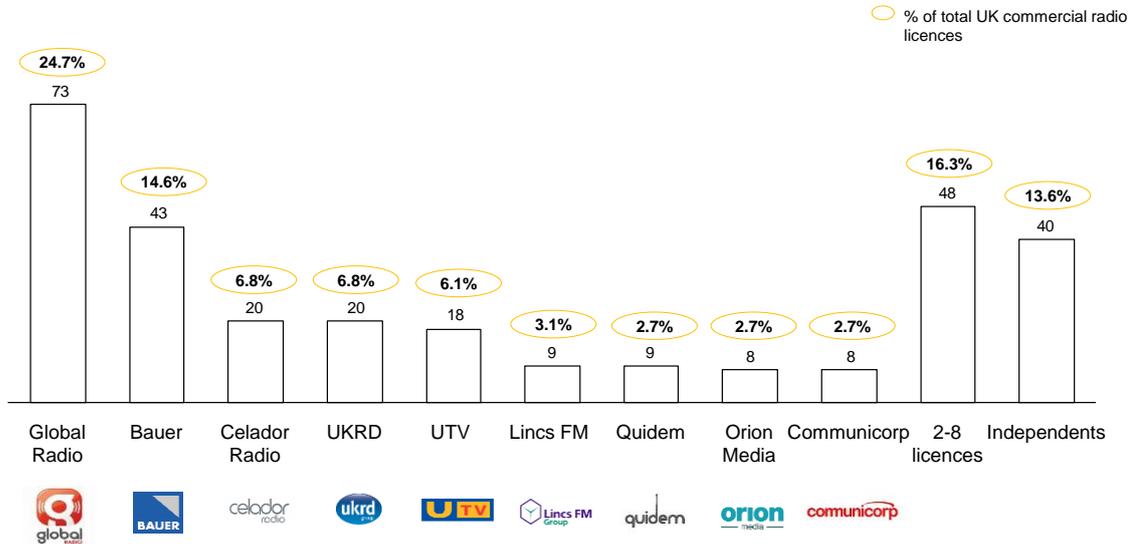
3.4 Overview of the UK commercial radio industry

The commercial radio industry is a highly consolidated sector and most radio groups tend to own more than one commercial analogue licence. Independent standalone commercial radio stations accounted for only 13.6% of all FM and AM radio stations in November 2014, whereas more than 59% of the 295 commercial analogue radio licences belonged to a group that owned 18 or more licences in total.

⁵ http://licensing.ofcom.org.uk/binaries/radio/re-ads/notes_guidance.pdf

Exhibit 6: Ownership of all UK commercial analogue radio licences

Number of commercial analogue licences



Revenue for the commercial radio industry has declined at a CAGR of 2% between 2007 and 2013. This decline can be largely attributed to the general economic downturn during 2008 and 2009, causing a decrease in advertising spend. Average revenue per listener declined steadily (with the exception of 2012) over the same period, at a CAGR of -4% and at a faster pace than commercial revenue. This result is in line with the overall decrease in commercial radio revenue and the relatively stable reach of commercial radio among adult population over the past 7 years.

Exhibit 7: The British commercial radio industry sector



Source: Ofcom, Value Partners analysis

4 Core competition assessment

The following section represents a logical framework to be used to help evaluate the Competition Impact of each of the three policy options proposed by the DCMS in its consultation. For each competition indicator we group interview responses according to whether they support or contradict the hypothesis and then provide our objective assessment of the most appropriate policy option choice.

On balance it is Value Partners' view that Option 1 maximally serves the interests of both the consumer and the commercial radio industry as a whole. We consider regulatory intervention in the form of Option 2 or Option 3 to be unnecessary and potentially damaging to consumer interests and broader policy objectives of the Government. Given that Option 2 and Option 3 would require the government to introduce new legislation, we believe that the burden of proof required to justify such regulatory intervention should be very high. The interests of a small number of incumbents should be balanced against the broader interests of the public and the wider industry. We also believe that Option 1 is the best way to ensure the commercial radio industry develops its collective competitive edge against the BBC.

Preliminary indicators suggest there is sufficient, viable demand from incumbents and new entrants to warrant a competitive process. Fourteen out of the nineteen stakeholders interviewed stated that for the majority of the licences, there would be significant competition in a new licensing process. Furthermore, based on our comprehensive consultation of the industry, we believe that core competition factors (regulatory indicators and market indicators as below) suggest that the positive effects of increased competition convincingly outweigh any hypothetical risks such as reduced investment in DAB or content. We also note that there is evidence to suggest a number of commercial operators are already providing the bare minimum level of local content provision. In these cases it is unclear how provision of such local content could get any worse without breaching legal commitments to Ofcom. We would suggest that competition on the open market encourages all players to compete on the basis of content quality rather than scale alone. Consolidation of the industry means that smaller players may find it difficult to expand their portfolio by acquisition and, for these operators, re-advertisement presents the only opportunity for competitive repositioning.

The radio industry is now in a much healthier condition than when Digital Economy Act partially deregulated the industry in 2010. There is convincing evidence that the industry is in rude health from a commercial perspective. It is our assessment that historic regulatory coercion that was designed to promote DAB investment has already been repaid in full to the industry in the form of previous licence roll-overs. Any additional licence roll-overs may constitute a de facto subsidy for the industry at a time when many question some incumbents' commitment to providing high-quality content and promoting consumer interests.

We believe that the DAB platform is now sufficiently developed that commercial radio operators are extremely unlikely to disinvest in the DAB platform. A number of incumbents also generate substantial revenues from ownership of DAB multiplexes themselves and have already invested in DAB infrastructure to such an extent that future disengagement would make limited commercial sense. There is an argument that DAB multiplex ownership by broadcasting licencees may have had an upward effect on DAB costs for

the rest of the industry. Additionally it is clear that, while DAB adoption has been much slower than anticipated, it is an increasingly important mix of advertising share.

Originally the 7-year roll-over in the Digital Economy Act was predicated on a level of digital adoption that has failed to materialise. In 2010 the assumption was that the government would accordingly mandate a digital switchover around 2017-2018. The majority of interviews with industry stakeholders indicate that growth of DAB adoption is unlikely to justify voluntary switch-off for most AM/FM providers for at least another 10-15 years. Value Partners therefore believes that during this time such AM/FM licenses will continue to have commercial value. However it would make most sense to re-advertise licences now instead of doing so after another 5 years when the value of FM/AM licences is likely to have diminished and so resulting in reduced competition for those licences.

We also consider wholly without merit claims that Option 1 would introduce “catastrophic uncertainty” to the commercial radio industry. All licences under consideration have already been renewed at least once. All operators have known about re-advertisement since 2010 and as such this should have been factored into business models when volunteering for roll-over in the first place. While it is recognised that a number of operators have acquired substantial debt as a consequence of consolidation activity, Value Partners does not consider it the responsibility of the regulator to underwrite high risk business strategies. This would represent a form of moral hazard in favour of larger, risk-taking incumbents. Furthermore Value Partners would question the spirit of large incumbents threatening to reduce investment and disrupt the industry.

While it is true that the direct costs associated with researching and submitting licence applications to Ofcom will be substantial indeed, Value Partners believes that such costs apply to both Option 1 and Option 2. Option 2 would only delay the inevitable since the slow pace of digital adoption means that the vast majority of licenses would be competed for even after a 5-year extension. In any regulated industry such bidding costs are a fundamental part of doing business, onerous as they are. Objections to the *process* itself therefore reflect on calls for reform of the overall regulatory framework. Such calls lie beyond the scope of this consultation. Likewise we recognise that Option 1 would place significant burdens on the operational capacity of Ofcom to process the re-advertising process. We would therefore recommend that additional resource be allocated to Ofcom for this critical task in the name of overall public good.

4.1 Summary of assessed positive and negative impacts by option

● High negative impact ◐ Low negative impact ○ No net impact
● High positive impact ◐ Low positive impact

| Competition Framework | Option 1 | Option 2 | Option 3 |
|---|--------------------------------------|--------------------------------------|--------------------------------------|
| Preliminary indicators | ◐ | ◐ | ◐ |
| • Demand for new competition | ● | ◐ | ● |
| • Viability of demand | ◐ | ○ | ○ |
| • Current state of the industry | | | |
| - Market Power | ◐ | ◐ | ◐ |
| - Consolidation | ◐ | ◐ | ◐ |
| - Localisation vs quasi-national networks | ◐ | ◐ | ◐ |
| - Consumer satisfaction | ◐ | ◐ | ◐ |
| Regulatory indicators | ○ | ◐ | ◐ |
| • Direct limit to the number/range of suppliers | ○ | ◐ | ● |
| • Limit on the number or range of suppliers | ○ | ◐ | ● |
| • Limit on ability of suppliers to compete | ○ | ◐ | ● |
| • Limit on suppliers' incentives to compete vigorously | ○ | ○ | ○ |
| Market indicators | ◐ | ◐ | ○ |
| • Direct cost to the industry | ◐ | ○ | ○ |
| • Risk of losing the licence | ◐ | ◐ | ○ |
| Outcomes | ◐ | ○ | ◐ |
| • Investment in DAB | | | |
| - Further investment in DAB infrastructure | ◐ | ◐ | ◐ |
| - DAB take-up and knock-on effect on digital switchover | ◐ | ○ | ◐ |
| - Reward for previous investment in DAB | ○ | ◐ | ◐ |
| • Investment in content | ◐ | ○ | ◐ |
| • Licencing considerations | | | |
| - Regulator awarding licences to the incumbents | ◐ | ◐ | ◐ |
| - Administrative costs for Ofcom | ◐ | ◐ | ○ |
| - Impact on licencing regime | ○ | ◐ | ◐ |
| Impact of Policy | ◐ | ◐ | ◐ |

4.2 Preliminary indicators

Preliminary indicators are used to identify the demand for market competition in the first place. A reasonable level of demand for competition determines the relevance of Option 1.

On the basis of interviews and desk research Value Partners concludes that there is sufficient demand for competition and that much of this is commercially viable due to the strength of the underlying business case for investing in FM in the short to medium term. The consensus is that market entry would be difficult for new entrants however not impossible. Market consolidation due to the emergence of quasi-national networks (as a consequence of partial deregulation in the Digital Economy Act 2010) has resulted in the perception of market power amongst some large incumbents. Additionally many smaller operators believe they would have interest in disrupting strategies predicated on local consolidation. A number of interviewees commented that, subsequent to the Digital Economy Act 2010, a number of large incumbent operators sought to reduce the provision of local content and so see this as an opportunity to improve on the super-local proposition.

4.2.1 Perceived demand for competition from new entrants and incumbents

Value Partners concludes that there is sufficient demand for competition from new entrants and incumbents. The majority of interviewees (74%), both incumbent and potential entrants, clearly acknowledge that most of licences would probably be contested. The recent case study of a London licence attracting 6 bids also demonstrates clear demand for competition.

Interview evidence for

- “In major markets a lot of people might want to bid for licences and there would be multiple applications both from existing incumbents and new bidders”
- “It’s a bit of leap to assume that there would be no competition at new re-advertising process”
- “People would be willing to bid for the Classic FM licence; for some national licences there would be genuine competition”
- “The renewal of a local licence is scheduled for 2017. We might want to apply for that licence if it were made available - you cannot look at the past to determine whether there will be demand for local licences”
- “For national licences it might be worth re-tendering to determine the right value of these licences”
- “Sky sport might be a potential competitor to TalkSport in a new national licence auction”
- “There will be interest in bidding for licences, especially for London licences”
- “There have been 6 applications this week for an AM licence in London. Clearly there is still demand for analogue licences”
- “There are still many people who would want to bid for some of the licences, even if the incumbent has a good chance of retaining it”
- “A lot of people broadcasting on the various digital radio platforms might want to acquire a licence to expand their reach”
- “I might want to bid for some of the re-advertised licences”
- “National licences are still high in demand
- “There would be competition. One could expect 10-15 applications for a Manchester or Birmingham licence”
- “If licences were to be re-advertised and there was clarity by government on licence durations then there would be a significant level of competition”

Interview evidence against

- “The risk is that we’d all be forced to compete, to hedge our bets and this would prove highly inefficient and costly – it wouldn’t be real demand”
- “The majority of small local stations have limited revenue; they just scrape by”
- “If you have less than 500k listeners you are struggling”

4.2.2 Viability of potential demand for competition

Commercial viability of potential new entrant bids has been a highly controversial topic in the consultation.

Incumbents were united in saying that national new entry was almost impossible. On the other hand a number of major operators have suggested that a national FM licence could be extremely valuable for a large contender for instance by competing for sports coverage. Smaller operators, e.g. small groups or independents, believed that local commercial success was achievable with dedication and proposition focus since local advertising still commands high margins.

It is Value Partners’ view that there is a reasonable viability of potential demand for competition.

Interview evidence for

- “We would be interested in bidding for the Capital FM licence in Yorkshire; we see that a station there would be financially viable”
- “More regional licences like the Capital FM in Yorkshire are probably worth a lot”
- “Super local propositions can work”
- “Juice FM (youth station) in Liverpool does not do any syndication and has [significant] revenue, owns the young audience in Liverpool”
- “Radio is the one medium where local still works”
- “There is a model that works financially”

Interview evidence against

- “A new Classic FM would have to establish an audience and build its brand. Potentially, they could spend a fortune on marketing; it might be that they can make a profit after 5-years”
- “Only idiots would apply for most licences with TSA under 100k population”
- “It is really hard to launch a brand new station on FM, but it is harder to launch on DAB”
- “It will be difficult for somebody else than the incumbent to justify and build the business case, as it takes a lot of time to build and scale up the audience”

4.2.3 Overall commercial attractiveness of the radio industry

The majority of interviewees agreed that FM/AM spectrum still had substantial commercial value both from the local and national perspective and that FM would remain the dominant radio platform for the foreseeable future. However most believe that the FM/AM licences would diminish in value as function of listener share. It is therefore Value Partners’ assessment that with Option 1 most operators would consider the radio industry to be attractive enough to defend their incumbent licenses and therefore would not result in listeners losing their favourite radio channels.

Interview evidence for

- “FM is like gold dust”

- “Classic FM is clearly a cash-cow. Sky Sports, or any large media player, might be a potential competitor to TalkSport in a new national licence auction”
- “To argue that national licences do not have any value is absolutely absurd; to allow those licences to be rolled-over does not make economic sense”
- “FM licences will continue to have a value, when an FM does not make economic sense then the licence holder can choose to give away the licence”

4.2.4 Market consolidation

Several interviewees have highlighted the fact that the radio industry is highly consolidated. Some claim that the effect of this consolidation is that incumbents may have an unfair advantage due to scale and that this may prevent new entrants from making commercially viable bids to acquire operators (and therefore licenses) on the open market.

Interview evidence for

- “Industry consolidation can go further but not by much”
- “Global and Bauer sell 80% of shared advertising deals, but they demand 90% of it due to market power”
- “At the moment the current system and the proposed 5-year renewal has been put in place to protect the big 4 groups and their financial interests”
- “The market has changed quite a lot, there has been lots of consolidation going on in the market. Our main concern with Global is that their share of revenue is not proportional to their share of listening. One could say that Ofcom has not really addressed competition in the radio sector”
- “Consolidation in the industry has gone too far, it has created an anti-competitive environment”

Interview evidence against

- “Just like in the US people can actually already directly approach existing licensees if they really want the licence badly enough”
- “Consolidation has made the industry more profitable”

4.2.5 Localisation vs. quasi-national networks

Several interviewees have stated that an aggressive strategy from a number of incumbents have created quasi-national networks that seek to comply with the bare minimum statutory requirements for local vs. syndicated content. Some claim that this had led to a significant erosion in providing local content and that this apparent failure may present an opportunity for improved local competition given Option 1.

Interview evidence for

- “People used to have great loyalty for their local radio station, but this has changed since the Digital Economy Act, as some pseudo-local stations do not really offer local content. The audience in [...] is not satisfied with the service delivered because the service is not local enough”
- “As a local radio operator you have to work in the interest of the community, your employees and shareholders. Some large groups have been abusing the privilege of having a local licence and reduced the quality of their content... Radio groups should be engaging more with the community. The erosion of local content, the closing of stations has led to a failure to engage with local audiences and a disengagement with local community”
- “It is not quasi-national networking it is full-on networking”
- “Where the programming comes from is absolutely important for local engagement. Some people have no idea of what is needed for local communities; major decisions are taken from London”

4.2.6 Indications of consumer satisfaction

A number of interviewees have made a reasonable case to suggest that there is scope to improve the content offering of many local and quasi-national services.

Interview evidence for

- “Capital and Heart are having lots of music being played and presenters do not really talk much. There seems to be a lack of ambition. TalkSport has outstanding speech content and presenters but only covers premiership football and does not stretch to a wide range of sports... Classic FM has not really invested in British content”
- “My view is that... lots of commercial radio stations are less creative with their content, are bland and are not willing to take any risk”
- “We need radio services that invest in content, in training and development of their people, deliver local content and are willing to take risks”
- “Re-advertising keeps the industry vibrant, creative and fresh”
- “One incumbent in particular won its licence, consolidated, stripped out local content, and shut down its offices in the area. How can that be good for listeners?”
- “Demographics are changing; there should be more content catering to specific ethnic minorities”
- “Many commercial operators do not compete on the basis of content because content requirements from Ofcom have deliberately separated them – it’s almost as if Ofcom has preferred consumer choice over direct competition within the industry”
- “Commercial radio has failed in its competition with the BBC because of chronic underinvestment in good content... for instance why is no-one trying to compete with BBC Radio 2?”

Interview evidence against

- “The quasi-national networks as you put it actually mean that we can afford to invest more in local services, not less”

4.3 Core competitive indicators

Core competitive indicators are designed to assess the extent to which the different policy options under consideration affect necessary and sufficient criteria for healthy competition. The following regulatory indicators (modelled on the framework developed by the OFT) are useful to rule out options that would significantly harm industry competition. It is Value Partners’ assessment that Option 3 fails the regulatory test whereas Option 2 is probably ruled out, depending on the Government’s willingness to accept potential negative consequences. On the basis of these regulatory indicators alone Option 1 is clearly the most easily defended position.

4.3.1 Regulatory indicators

a) Direct limit on the number or range of suppliers

Exclusive rights to supply

Given that both Option 2 and Option 3 deny the possibility of open competition for existing licences, both of these options fail the test of “exclusive rights to supply”. Option 3 does so indefinitely. The logic applied in the Digital Economy Act 2010 (of only extending existing licences by 7 years instead of 12) was predicated on the false assumption that digital/DAB adoption would be more significant than has been the case. The only scenario in which Option 2 or Option 3 would not constitute a direct contravention of this test would be

when there is no market demand for competition. Value Partners believe there is a case for such demand for the foreseeable future (~15 years) and therefore supports Option 1 with respect to this indicator.

Interview evidence for

- “At the moment, the current system and the proposed 5-year renewal has been put in place to protect the big 4 groups and their financial interests”
- “Purely from a competition perspective I do not disagree that licences should be re-advertised”
- “There is a reason why licences have finite durations. With an analogue licence you have been offered a part of public spectrum without having to pay the market value of that spectrum. There is an obligation to broadcast local content”
- “From a competition perspective licences should be re-advertised. People who have committed to a radio station should be given a chance to go on to FM”

b) Indirect limit on the number or range of suppliers

Increased costs for new relative to existing suppliers

The cost of broadcasting via FM is considerably lower than the cost of broadcasting via DAB as a number of interviewees have highlighted. Not allowing the licences to be renewed increases the costs for new suppliers as they cannot broadcast via analogue. While there is on-going research designed to reduce the costs associated with DAB broadcast (i.e. in Brighton) it is unclear whether this work will be timely or successful enough to make a material difference with regards to this consultation. It is Value Partners' view that Option 2 and Option 3 may indirectly limit the number or range of suppliers given the cost differentials.

Interview evidence for

- “It costs us around £56k a year to broadcast on DAB. We are the mercy of whatever Arqiva wants to charge us as they are in a position of power. It might be price prohibitive for some people”
- “It cost £8-9k to broadcast on FM, since only one transmitter is necessary”
- “The carriage costs for local DAB range between £50k and £80k. Carriage costs are three times higher than on FM”
- “Cost of DAB is really prohibitive for some local players”

Interview evidence against

- “There's really little difference between FM and DAB with regards to set-up costs, besides there's more access to DAB than FM so that probably makes up for any difference”

c) Limits on the ability of suppliers to compete

Limit on sales channels or geographic area of operation

A number of interviewees claimed that it is much more difficult for a (local) radio station to remain commercially viable while broadcasting on DAB and not FM. Value Partners therefore assesses that both Option 2 and Option 3 potentially limit the ability of suppliers to compete. This is likely to remain the case until such a time either DAB becomes the dominant platform or that radio listening has moved away from FM/AM in favour of a more fragmented platform portfolio.

Additionally, a number of interviewees have indicated that coverage of DAB is not local enough and does not really enable the delivery of local content in the specific coverage area for which this content has been created. This indicates that many believe DAB is not an appropriate substitute for FM.

Interview evidence for

- “It is really hard to launch a brand new station on FM, but it is harder to launch on DAB”
- “FM is more lucrative than DAB so if you cannot make it on FM you should pull out of radio”
- “If you are a small local new player you would not be able to launch on DAB, you would have to launch on FM”
- “The revenues attached to FM licences are disproportionately higher than those associated with DAB despite industry progress towards digital switchover”. “DAB inventory is certainly not valued as highly as FM licences”
- “DAB is not geographic specific and does not facilitate delivery of local content”
- “DAB transmission areas do not match the coverage of analogue licences. We are trying to provide local content for small markets of less than 100k people in 10-15 small areas. DAB areas are more extensive than analogue licences so it is very difficult to provide suitable local content over DAB”

4.4 Market indicators for competition assessment

While regulatory indicators (as discussed above) are intended as clear criteria that are useful for ruling out extreme options they are of limited value evaluating more nuanced cases. Accordingly the following “market indicators” for competition assessment are designed to assess the direct and indirect costs of the policy options for the industry as a whole.

It is Value Partners’ view that, while many of the following objections to Option 1 have some merit, on balance these arguments equally apply to Option 2 since they are mostly generic criticisms of the regulatory framework itself and would arise 5-years later under Option 2 in any case. Option 2 would merely delay the inevitable since most operators would be highly likely to re-compete for a licence or lobby for a further extension after the end of the Option 2 5-year roll-over unless the FM/AM suffered a catastrophic loss of support in the meantime.

It is our belief that this consultation is not the appropriate forum for discussing more fundamental issues that question the legitimacy of overall radio regulation. Furthermore we believe that all incumbents (who previously agreed to a 7-year extension to their existing licences) have been aware of any direct or indirect costs associated with Option 1 and they therefore should already have factored these into their business models. Large incumbent claims of “industry catastrophe” therefore seem somewhat unwarranted.

4.4.1 Direct costs to the industry

Many interviewees have argued that the direct costs involved with the application process are significant. A major element of this cost would be commissioning market research commensurate with TSA. While Value Partners accepts that the total cost per licence lies within the range of £20-100k, it is our belief that this cost would need to be incurred either now or in 5 years (re: Option 2) since the analogue market is likely to remain valuable for the foreseeable future. This fundamental “cost of doing business” in a regulated industry therefore applies equally for Option 1 and Option 2.

a) Direct costs of preparing a licence application

Interview evidence for

- “It is hugely expensive to re-apply for licences if there is completion...Costs depend on whether you are willing to take the risks. Costs for applying are around £50k per licence.”

- “For a new licence application you have a drop-dead time, the research might cost up to 50k, other preparation costs can be 25k”
- “Significant cost and time goes into re-applying for licences, there is probably the same cost and time involved in bidding for bigger and smaller licences”
- “Research cost to submit a bid is £15-20k. There is also significant time and effort to do the financial and business plans. For the whole process, in total, the absolute minimum is £50k (including research costs)”
- “For licence with a TSA of 100k you would need £50-60k for a submitting a licence application; £20-30k would be for research and the rest for giving presentations and rounding up support from local stakeholders and advertisers”
- “For regional licences, where you would be facing proper competition, I would be surprised if you spent less than £150k. For a West Midlands licence at Global we spent £250k and we did not win the licence, despite being very confident about our bid”
- “For Classic FM, you might spend £300-400k”

Interview evidence against

- “Claiming that it costs £150k for licence application is outrageous; the cost would not exceed £15k including research”
- “Business is all about risk so I’d expect people to invest an amount in writing bids that matched their risk appetite for winning the licence”
- “Radio spectrum is a public good so it’s only fair people are forced to compete over it in the context of the public getting the very best service”

4.4.2 Risks of losing the licence

Several interviewees have argued that the risk of losing their licence in a licencing process would create significant uncertainty and would be hugely disruptive to the radio industry as a whole. On balance we believe however that the risk of having to compete for the analogue licence is an inherent risk of running a commercial radio operation and any disruption to the industry would have to be incurred either now or otherwise in 5 years’ time (Option 2) given that the analogue is expected to remain profitable for the foreseeable future. Furthermore, Value Partners acknowledges that commercial radio operators who chose to have their licences renewed under the Digital Economy Act 2010, have had ample time to factor in this regulatory risk into their business plans.

a) Industry uncertainty

Interview evidence for

- “It would be a catastrophic loss of value for the industry as a whole if licences were to be re-advertised”
- “If a licence is due to expire, shareholders and banks might be really weary. There is uncertainty even though the incumbents will most probably retain licence and this will affect their investment”
- “Losing one of the licences would be devastating”

Interview evidence against

- “It is pure nonsense that option 1 would disrupt the industry. We had to go through a local licencing process several times”
- “If all licences were up for grabs, the industry would not be destroyed over-night”
- “A new licencing process would not create chaos. It might result in some change within the radio industry but it is an overstatement that it would destroy the industry”

- “Over the last 12 months we renewed 3 of our licences. It is what it is, it’s the risk of doing business”
- “Option 1 might be bad, if you are highly leveraged, if you are Global and you have to protect so many licences to defend, you would have to hire more people to create robust bids”

4.5 Outcomes

Value Partners believes that the choice between Option 1 and Option 2 or Option 3 is largely determined by the significance attached to the benefits of improved competition vs. the costs associated with the likely outcomes. These outcomes refer to investment in DAB, investment in content and licensing considerations.

A potential negative impact of Option 1 (not intervening and allowing licences to be re-advertised) could be the potential curtailment of investment on the DAB platform. In this line of argument Option 1 might create a sense of uncertainty within the commercial radio industry, concerning the Government position on future digital switchover of radio. An implicit “Faustian pact” has been created over the years between the commercial radio industry and the Government.

On balance Value Partners believes that such an effect would be negligible since for the majority of large radio operators the DAB platform is becoming an increasingly significant revenue stream on account of its burgeoning share of listening. From a commercial perspective, investment in DAB infrastructure is becoming a profit centre for radio operators with ownership of DAB multiplexes. Broadcast of radio services through the DAB platform is a way of reaching a significant portion of the radio audience. Our assessment is that the costs of no intervention are exaggerated.

Concerning quality and investment in content, our assessment is that the likelihood of some of the incumbent licensees curtailing investment in their core product on the run-up to a licensing process is minimal. Any competitive process would lead to higher commitment in local and high quality content and would benefit the consumer in the long-run.

Concerns about the administrative costs to the regulator and the tendency of Ofcom to award licences to incumbent players in case of re-advertisement have been mentioned by some stakeholders. Our view is that some of the new entrants would have a realistic opportunity to secure some of the re-advertised licences. We base this on the change in commercial radio landscape as a result of the provisions of the Digital Economy Act 2010. The Act deregulated the commercial radio sector and allowed for content syndication and creation of quasi-national networks that broadcast more limited local content.

Given the assumption that the FM/AM channel will remain commercially viable for the foreseeable future, Ofcom would have to incur support costs either now or in 5 years’ time.

4.5.1 Investment in DAB

a) Further investment on DAB infrastructure

A number of interviewees have highlighted that Option 1 might result in reduced investment to support extending local DAB coverage. However, our overall assessment is that further investment in DAB infrastructure is a commercially sound decision as DAB adoption is increasingly led by consumer demand. In the past there is no doubt that regulatory intervention was necessary to promote DAB adoption.

However now DAB usage has reached a critical mass and is now substantial enough to represent a commercial interest in its own right. The number of DAB-only services attests to this fact.

The fact that several radio operators have already significant investments in DAB multiplexes provides further evidence for our appraisal. According to Ofcom⁶:

- Bauer have interests in 15 multiplexes
- UTV have interests in 7 multiplexes
- Global have interests in 4 multiplexes
- UKRD have interests in 2 multiplexes

UTV Media and Bauer Radio along with Arqiva are part of a consortium, bidding for the second national commercial DAB multiplex⁷ (Digital 2) licence as advertised by Ofcom on 1st of July 2014⁸. This is evidence showing the commitment of some radio operators in improving DAB infrastructure. We assume this is for sound business reasons.

Interview evidence for

- “DAB is now a commercial opportunity, whereas in the past it was purely a cost for some radio stations”
- “UTV are making £ 3-4m in profit from investing on DAB infrastructure”
- “DAB multiplexes are now a profit centre for Bauer”
- “[Radio operators] are making money from DAB itself”
- “The business case for broadcasting on DAB is different if you are a tenant only vs. being a landlord of a multiplex”
- “DAB infrastructure in London cannot meet the current demand”
- “There is a degree of bluster and fact in saying that digital build-out would be affected”
- “DAB is now a commercial opportunity, whereas in the past it was purely a cost for some radio stations”

Interview evidence against

- “Unless the sector believes that digital is the future, there is no business case for DAB. Investment case makes sense, only if the industry believes that DAB is the future. Option 1 does not offer clarity for the industry”
- “We need clarity from the Government to be able to make our long-term investment decisions”
- “Security of tenure enables us to keep investing in DAB”

b) DAB take-up and knock-on effect on digital switchover

Some interviewees have suggested that as soon as the incentive to broadcast on DAB to retain the renewed licence is removed, a number of radio operators might decide to stop offering their services via the DAB platform and that this may have a negative impact on DAB take-up and a future digital migration for radio.

Value Partners believes that the likelihood of radio operators withdrawing their services from DAB multiplexes is highly unlikely since:

⁶ <http://licensing.ofcom.org.uk/tv-broadcast-licences/current-licensees/multiplex/>

⁷ <http://www.arqiva.com/news/press-releases/partnership-with-bauer-and-utv-to-bid-for-second-dab-licence>

⁸ <http://licensing.ofcom.org.uk/radio-broadcast-licensing/digital-radio/advertisement-2014/advertisement/>

- A significant portion of the audience is listening via DAB. Therefore, it makes commercial sense for the radio sector to maintain broadcast on DAB.
- Broadcasting via DAB is a way for incumbent licensees to retain their service and keep their existing audience should a new entrant be successful in acquiring a national or local licence

Interview evidence for

- “DAB frequencies are safe, if some incumbents were to be unsuccessful to renew their FM licence they could go on DAB”
- “More powerful groups could say to their audience that in a year’s time they would switch off FM and have more capacity to support a campaign to push their audiences to transition to DAB. They could promote the purchase of DAB sets”
- “If someone buys UTV licence, TalkSport would carry on broadcasting on DAB”
- “Global might threaten to go off DAB if their licences were up for re-advertising and apply some pressure. They would be mad if they were to pull-out of DAB. They would try to keep their audience and migrate it to DAB, if their licences were up for re-advertisement”
- “If Classic FM were to lose its licence, it would continue broadcasting on DAB and take a hit off analogue”
- “We would not see an Exodus from DAB if the obligation of broadcasting on DAB to keep the analogue licence was removed”
- “Global are broadcasting on DAB in some areas where they do not hold an analogue licence”
- “Half of TalkSport stations are already on DAB”
- The threat that a lot of services would pull out of DAB might have been a real threat five years ago. No station that would have to go up for renewal would pull out its service from DAB”

Interview evidence against

- “If option 1 is selected, then it shows that Government is no longer committed to support DAB and a digital switchover”
- “[Option 1] could communicate that Ofcom and the government is not serious about migrating into digital”
- “Those bright new people, who would acquire some of the re-advertised licences, would have no obligation to invest in DAB and migrate their listeners to the new platform. Hence, it would be difficult to have a switchover”
- “There is a “Faustian pact” between commercial radio and the government. Commercial radio will continue to provide content, invest in DAB and participate in a government led program but it needs to secure and protect licences. This house of cards might collapse if option 1 goes through”

c) Reward for previous investment in DAB

Several interviewees have stressed the point that the “Faustian pact” between the Government and the commercial radio industry has supported the development of the DAB platform when there was no market for DAB broadcasting. They argue that, therefore, the Government should continue indefinitely rewarding operators who have invested in DAB infrastructure and have incurred dual transmission costs while DAB was not profitable. Our assessment is that radio operators have made a commercial decision to have their licences renewed under the requirement to broadcast and support DAB. Any “sense of entitlement” from within the radio industry should not dictate Government policy. It is our belief that previous investment in DAB infrastructure and services has more than been paid for by the previous round of automatically extended licences. A continuation of any licence extensions may amount to market subsidy and restrict competition as a consequence.

Interview evidence for

- “If you are broadcasting on DAB and supporting local multiplex you cannot apply for an FM licence, which is an irony, because you are supporting digital migration, the reason why some of commercial licences are rolled over in the first place... We are investing in DAB but we are not rewarded for it”
- “Licences should be re-advertised. People who have committed to a radio station should be given a chance to launch on FM”
- “Whatever obligation you think the Government has had to the radio industry, it has been repaid in full”

Interview evidence against

- “From a policy perspective it would be completely ingenious to take away the cash-flow from the FM licence that was used to fund investment in DAB during the difficult times when the platform was not attractive, at a time when the platform is just becoming profitable on its own”
- “FM services in this country have paid for the built-up of the DAB infrastructure”

4.5.2 Investment in content

Several interviewees have argued that in the run-up to a licencing process, investment in content would decline significantly, as they would have to factor the risk of losing the licence in their commercial decisions and negotiations. Value Partners believes that commercial interests are such that operators would not risk losing audience (and therefore revenue) by undermining content investment.

Re-advertisement of licences would also force radio operators to make significant commitments on providing higher quality local content over the new 12 year period. This would result in more choice, more plurality and higher listener satisfaction with the improved quality and locality of the service. Investment in better quality content would allow commercial radio to become a more viable competitor to the BBC.

a) Content/talent investment

Interview evidence for

- “If somebody’s licence is coming up for renewal they would have to dress the station up and deliver more local content to prepare for a beauty parade”
- “There is ample time until the re-advertisement and incumbent licensees can make sure that their services are up for the licencing approach in a beauty parade by improving quality and locality of their service”
- “Re-advertising keeps the industry vibrant, creative and fresh”
- “The Capital licence in London would probably be one of the most sought after licences. Every major media player in the country would be going after that licence. How could that not be to the benefit of the consumers, when these players would be offering to deliver 24-hours of London content to secure the licence?”
- “To provide a more competitive landscape the DCMS should re-advertise the licence and offer them to companies that would offer more local content. The most competitive media landscape possible can be achieved through a re-licencing process”
- “A more competitive playing field against the BBC can be created if licences were to be awarded to companies that run a full-on service... A more competitive radio sector would allow for broader range of voices and opinions being broadcast”

Interview evidence against

- “On the run-up to a new licence award there would be no investment in content for some of the players affected... You cannot just shift the clock back. Competitors will have grown during that period so incumbent licence holders would be at a severe disadvantage even if the licence has been awarded to them”
- “Groups affected could cut investment in content gradually. Audiences take a long time to churn from a radio station”
- “High-value talent and presenters are generally contracted for a long period of 3-4 years. If licences are up for renewal in 3 years’ time we would offer shorted contract durations. Some of this talent might not be willing to accept these terms so quality of content will be reduced”

4.5.3 Licensing considerations

a) Tendency of the regulator to award licences to the incumbent

A number of interviewees claimed that Ofcom rarely has awarded a re-advertised licence to another player when the incumbent competes. The majority of these stakeholders have agreed that incumbent licensees often provide a good service to the listener and will most likely retain their licences in a new licencing process. It is our assessment that the Digital Economy Act 2010 has changed the landscape considerably. This legislation has allowed for content syndication, lowered the mandatory requirement for broadcasting local content to a minimum of seven hours and, more importantly, allowed the creation of quasi-national networks. Value Partners believes that some of these licences would be facing significant and viable competition. Hence, the regulator might well choose to award the licence to a new media player. The current circumstances are unprecedented in the UK radio industry.

Interview evidence for

- “When companies are re-paying debt and not investing in content this is a clear loss to the listener. A company that does not have to repay a bank debt will be able to provide more local and higher quality content”
- “Some commercial radio stations are providing the very thinnest form of public services”
- “If licences were to be re-advertised... the regulator would be able to appoint radio stations that would have to deliver a significant amount of local content to secure their licence. The consumer wins and the government wins. There is more choice for the consumer and more services available”
- “From Ofcom’s point of view just having traffic and weather updates does not equate to local content. Listeners like their shows to have local content and they want their presenter to be local”
- “For some of the licences in major markets, such as the Manchester Key 103 licence, which offers on average 7-9 hours per day of local programming, all of the big media players would want to compete and offer more local content to acquire the licence”

Interview evidence against

- “There is a track record of the regulator to award licences to the incumbent players”
- “Only 7 licences have not been awarded to the incumbent”
- “The reality is that in the last 40 years when the incumbent already has the licence, there have been really few cases when it was not renewed”

- “Our fundamental view is that all the current licence holders are making a good job”

b) Administrative costs for Ofcom

Several interviewees have highlighted that Ofcom would have to incur significant administrative costs and would need additional resources to complete an extensive licencing process. On the issue of national licences, Ofcom would have to use a procedure that was designed in the 1990s. Value Partners considers that administrative costs should carry limited weight on the decision to re-advertise national or local commercial licences. It is part of Ofcom’s remit that scarce spectrum resources are allocated to the users that can extract the maximum value from it, use frequencies efficiently, and deliver the highest benefit to the general public. We would recommend that Ofcom’s resources are scaled accordingly.

Interview evidence for

- “The cost in theory could be met and there are no insurmountable obstacles in a new licencing process”
- “Administrative costs should not be a concern for Ofcom. Ofcom’s remit is to ensure that public spectrum is put to the best possible use”
- “Ofcom has resources to do a re-advertising - they might need to hire a few extra people but the burden would not be significant”

Interview evidence against

- “Ofcom used to have 7 or 8 people in the radio department. Now, it is only Neil and Peter remaining. So they might need to hire more people for a new re-advertisement process”
- “We have no counterfactual scenario that can be used in a new licencing process”
- “Re-advertising the national licences would require us to use a process designed in the 1990s”

c) Impact on licencing regime

The majority of interviewees have highlighted that Option 3 (allowing for licences whose total length would exceed the 12 year statutory duration or would be indefinite) would require a more comprehensive examination and assessment of the entire radio licencing regime for the commercial radio sector. Value Partners agrees with the fundamental point that such legislative intervention would entail a broader change in commercial radio licencing. Assessing the impacts of this legislation cannot be addressed within the scope of this document or by the current DCMS consultation but is certainly an issue that warrants further attention in the future.

Interview evidence for

- “Extending licences indefinitely would lead Ofcom and DCMS to question the value that is given back from commercial radio to the UK public”
- “It is a more fundamental process that would affect the entire legislation. As a tax-payer, I would prefer that a government department looks at the complete issue of legislation more comprehensively and gives it the proper attention it deserves”
- “There is a reason why licences have finite durations. With an analogue licence you have been offered a part of public spectrum without having to pay the market value of that spectrum”
- “[Indefinite licence renewal] completely changes how commercial radio licencing has worked in the past. If the intention is to move towards an American regime, it certainly is an interesting point”

5 Appendix

5.1 Detailed interview list

Exhibit 1: Interviews conducted 7th – 20th November 2014

| Organisation | Category | Licence share | Individual | Title |
|------------------------|--------------------------|---------------|---------------------------|--|
| Arqiva | Technology facilitator | N/A | Paul Eaton | Head of Digital Radio Strategy and Development |
| Bauer Radio | Radio Group | 14.6% | Travis Baxter | Content and External Affairs Director |
| BBC | General Industry | N/A | Mark Friend | Controller, Radio and Music Multiplatform |
| Celador Radio | Radio Group (unaffected) | 6.8% | Don Thompson | Chief Executive Officer |
| Consumer Experts Group | General Industry | N/A | Roger Darlington | Chairman |
| Enders Analysis | Industry expert | N/A | Gill Hind | Chief Operating Officer |
| Folder Media | Radio Group (unaffected) | N/A | Matt Deegan | Creative Director |
| Global Radio | Radio Group | 24.7% | Will Harding | Group Strategy and Development Director |
| Lincs FM | Radio Group (unaffected) | 3.1% | Michael Betton | Chief Executive Officer |
| Media info | Industry expert | N/A | James Cridland | Managing Director |
| Milton Keynes FM | Radio Group (unaffected) | N/A | Chris Gregg | Programme Director |
| Mixcloud | Digital player | N/A | Nikhil Shah | Cofounder |
| Myers media | Industry expert | N/A | John Myers | Director |
| Ofcom | Regulator | N/A | Neil Stock | Head of Radio Policy |
| Orion radio | Radio Group | 2.7% | Phil Riley | Chief Executive Officer |
| Panjab Radio | Radio Group (unaffected) | N/A | Surjit Ghuman | MBE |
| RadioCentre | General Industry | N/A | Matt Payton Ben Walker | Director of External Affairs External Affairs Manager |
| UKRD | Radio Group (unaffected) | 6.8% | William Rogers | Chief Executive Officer |
| UTV | Radio Group | 6.1% | Jimmy Buckland | Director Strategy |

5.2 Evaluation of Office of Fair Trading guidelines for completing competition assessments in Impact Assessments

Exhibit 2: Office of fair trading key competition parameters assessment

| Office of Fair Trading key parameters | Relevance for DCMS policy options |
|---|-----------------------------------|
| Directly limits the number or range of suppliers | |
| Exclusive right of supply | Relevant |
| Procurement from single supplier or restricted group of suppliers | Not applicable |
| Creation of a form of licensing scheme | Already in place |
| Fixed limit on the number of suppliers | Already in place |
| Indirectly limits the number or range of suppliers | |
| Significantly raises the costs of new suppliers relative to existing suppliers | Not applicable |
| Significantly raises the costs of some existing suppliers relative to other existing suppliers | Not applicable |
| Significantly raises the costs of entering or exiting from and affected markets | Not applicable |
| Impact on small business | Relevant |
| Limits the ability of suppliers to compete | |
| Controls or substantially influences the price a supplier may charge | Not applicable |
| Controls or substantially influences the characteristic of the product(s) supplied | Not applicable |
| Limits the scope for innovation to introduce new products or supply existing products in new ways | Not applicable |
| Limits the sales channels a supplier can use, or the geographic area in which a supplier can operate | Relevant |
| Substantially restricts the ability of suppliers to advertise their products | Not applicable |
| Imposes restrictions on any supplier's production processes, or the choice or organisational form | Not applicable |
| Limits suppliers incentives to compete vigorously | |
| Exempts suppliers from general competition law | Not applicable |
| Introduces or amends intellectual property regime | Not applicable |
| Requires or encourages the exchange between suppliers or publication, of information on prices, costs, sales or outputs | Not applicable |
| Increases the cost to customers of switching between suppliers | Not applicable |

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