

*Digital Radio Working Group*

**Interim report for the Secretary of State for Culture, Media and Sport**

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## 1. INTRODUCTION

1.1. The Digital Radio Working Group, hereafter referred to as DRWG, was established in November 2007 by instruction of the Secretary of State for Culture, Media and Sport. Its purpose was to bring together senior figures from the radio industry and related stakeholders (membership of the DRWG is detailed in Annex A of this document), under an independent Chair, to consider three questions:

- What conditions would need to be achieved before digital platforms could become the predominant means of delivering radio?
- What are the current barriers to the growth of digital radio?
- What are the possible remedies to those barriers?

The DRWG was asked to report its findings to the Secretary of State by the end of the 2008.

1.2. As part of its first phase of work the DRWG established four sub-groups to consider the following issues: Technology and the Consumer Proposition; Spectrum Planning; Manufacturers; and Mechanisms for Growth. These groups were formed with a wide membership from across the sector, associated industries and consumer representatives with some groups consulting widely on their considerations, with the intention of presenting recommendations to the DRWG by the end of April.

1.3. The findings and recommendations from three of the sub-groups (the work of the Spectrum Group is continuing) were accepted by DRWG at its meeting in May. At that time the DRWG agreed to submit an interim report to the Secretary of State rather than wait until the end of the year. The purpose of this report is to set out:

- an agreed vision for the future of radio in the UK;
- a number of interim recommendations for Government, Ofcom and industry to consider;
- an outline of future work; and
- to provide an opportunity for wider debate on the initial findings of the DRWG.

## 2. DIGITAL RADIO - 'THE FACTS'

- 2.1. The UK is a market leader in the development and take-up of digital radio. Listeners can listen both to their favourite stations and to thousands of new ones across a range of platforms including Digital Television, the internet, satellite and DAB.
- 2.2. Recent figures suggest that many listeners are taking advantage of these new services. RAJAR's first quarter 2008 figures show that digital listening now accounts for at least<sup>1</sup> 17.8% of all radio listening; a growth of nearly five percentage points<sup>2</sup> in nine months. DAB is the most popular digital platform accounting for around 11%, listening via digital television is 3.2% and the internet at 2.1%. The reach of digital platforms is also on the increase rising from 28.4% (Q3, 2007) to 31.4%<sup>3</sup> (Q1, 2008), with DAB representing around 17.9% of reach, DTT 10.5%, 6.2% the internet and 7% to unspecified digital platforms.
- 2.3. The take-up of DAB digital radio over the last few years has been impressive. By the end of May this year sales of DAB sets exceeded 7 million, with this figure predicted to rise to 9 million by the end of the year. As a result 27%<sup>4</sup> of all adults live in a DAB household, projected to increase to about 30%<sup>5</sup> of households by the end of the year.
- 2.4. Recent figures from GFK, show that despite consumer confidence being at its lowest since 1992 consumer electronics has achieved a 9.5%<sup>6</sup> growth in the last year, with sales of DAB devices outperforming the rest of the consumer electronics market.

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<sup>1</sup> Source: Rajar notes 9.5% of listening is not specified by platform

<sup>2</sup> Source: Rajar Q2 2008

<sup>3</sup> Source: Rajar Q2 2008

<sup>4</sup> Source: Rajar Q1 2008

<sup>5</sup> Source: DRDB Five year forecast – press release 21 September 2007

<sup>6</sup> Source: DAB 'The True Story' – GFK presentation May 2007

### 3. BARRIERS TO GROWTH

- 3.1. Whilst the growth of digital radio in the UK has to date been encouraging, we believe there are a number of barriers which threaten the future growth of the market. These barriers are described below.

#### *Transmission Costs*

- 3.2. Listeners are increasingly expecting access to radio services via a number of platforms and devices. However, for analogue broadcasters carriage across a number of platforms represents a significant increase in their fixed cost base with little or no financial benefit in return. In the context of falling advertising revenues, from £645 million (MAT<sup>7</sup> through Q1 2005) to £598 million<sup>8</sup> (MAT through Q4 2007), and a tight licence fee settlement for the BBC, the increased transmission costs are challenging the traditional radio business models. In addition, for the evolving community radio sector seeking to establish itself in the analogue world, the cost of digital broadcasting is likely to be prohibitive for the foreseeable future.
- 3.3. We believe that the industry cannot indefinitely support the increased transmission costs of broadcasting on analogue and multiple digital platforms.

#### *Coverage*

- 3.4. We also believe that the current gaps in coverage and the robustness of the signal within covered areas are a potential barrier to some listeners adopting digital radios, particularly portable devices and in-car. While the current coverage of the national DAB networks is around 90% of the population we believe that this must increase if DAB is ever to be seen as a replacement for analogue radio. We also believe that the industry will need to consider not only how to grow coverage but also the robustness of the existing signal.
- 3.5. For the BBC's Nations and Regions services this problem is even more acute as the BBC's services are carried on local commercial multiplexes and there is currently little incentive for these multiplex operators to increase coverage significantly.

#### *European Harmonisation*

- 3.6. There are encouraging signs that other European countries are now adopting digital radio. However, some are adopting different variants of the Eureka 147 family, of which DAB is only one. For example, the

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<sup>7</sup> Moving Annual Total

<sup>8</sup> Source: Radio Advertising Bureau

French authorities recently decided to license digital radio in DMB-A<sup>9</sup> and in Germany they are currently proposing to re-launch digital radio on DAB+<sup>10</sup> or DMB-A.

- 3.7. Given the demands from global manufacturers to create economies of scale, any need to build different receivers for individual European markets would do little to encourage the major manufacturers to produce new receivers or to plan their product ranges effectively. On the other hand, a common profile for radio receivers would drive innovation and help create economies of scale, which could ultimately bring down the cost of sets.

#### *In Vehicles*

- 3.8. The problems of coverage and lack of European harmonisation are key reasons why many automotive manufacturers have so far not chosen to fit digital radios as standard.
- 3.9. Around 20%<sup>11</sup> of radio listening in the UK happens in cars and although around 30%<sup>12</sup> of new cars registered in the UK during 2007 were offered with DAB products in their ranges, take-up remains low. The Society of Motor Manufacturers and Traders (SMMT) estimate the size of the UK *Vehicle Parc* (registered vehicles) to be over thirty-four million cars and commercial vehicles in Great Britain at the end of 2007. Of these vehicles we believe that between 75,000 and 100,000 have taken up DAB radio as an optional extra, with a further 50,000<sup>13</sup> being fitted with aftermarket radios.

## 4. THE FUTURE LANDSCAPE

- 4.1. It is the view of this Group that radio must have a digital future, not least because it represents more choice of channels and additional functionality for listeners. Radio stuck in an analogue world risks becoming increasingly irrelevant, particularly to young listeners, as consumers' expectations for interactivity, quality and choice grow.
- 4.2. At the same time we recognise that there is not currently an obvious digital migration path for all radio, because of the amount of spectrum available and the cost of digital broadcasting. Therefore, we believe that any agreed solution must first address these barriers, alongside a longer term plan for a full digital migration.

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<sup>9</sup> DMB-A is a variant of T-DMB which was developed in Korea primarily for the delivery of digital TV.

<sup>10</sup> DAB+ is a variant of DAB which uses a more efficient AAC audio coding.

<sup>11</sup> Source: Rajar "DAB – the true story" presentation 6 May.

<sup>12</sup> Source: the SMMT after a survey of its members.

<sup>13</sup> Source: SMMT submission to the DRWG Sub-group 4 – these are estimated numbers for a third party and shown to the SMMT,

### *Technological choices*

- 4.3. Carriage of radio on IP, DTT, satellite and mobile networks offers listeners alternative ways to receive and interact with their favourite radio stations. These platforms have an important role to play. In particular, IP is likely to play a vital role in the future digital radio landscape, both in its own right and as a complementary technology to broadcast digital technologies, such as DAB. The two-way functionality that IP brings can allow exciting features such as personalisation of the listener's experience and linkage between traditional radios, your computer, your mobile and other devices. The industry should embrace the opportunities of a hybrid technological approach, not least because different technologies suit different listeners' needs.
- 4.4. However, whilst delivery of radio on a range of platforms is an important part of the future market, we believe that DAB, as a broadcast specific platform, is currently the most practical replacement for analogue. This is because:
- the UK already has a well-developed DAB market that offers wider choice;
  - it is currently the most appropriate digital means of delivering portable reception;
  - it is free at the point of access; and
  - as a radio specific broadcast platform it provides the opportunity for the industry to determine its own future.
- 4.5. The DRWG has examined the ongoing development of DAB+ and other variants of the Eureka 147 family of standards and believes that in the longer term these variants may help solve some of the problems of migrating to a totally digital future. However, we believe that, at least for the foreseeable future, the UK market must adopt DAB as the main digital radio broadcast platform. The UK DAB market is well developed and we believe it is not sensible, at this stage, to switch to technologies which are not compatible with the more than 7 million DAB sets already sold.

### Future Landscape

- 4.6. We propose that DAB should become the primary platform for all national, regional and large local services. The opportunity for listeners to access new content alongside increased functionality and interactivity, such as Electronic Programme Guides (EPGs), visuals and text services, can, when taken as a whole, strengthen the consumer proposition for most listeners.
- 4.7. In the case of community radio and smaller local services we recognise that for now analogue still remains the most effective, and cheapest, way of delivering radio to small geographic areas. For this

reason we recommend that until an appropriate migration path to digital can be achieved for these services, they should be carried on FM. However, there should be continued work on a plan to assist smaller commercial and community stations to migrate to digital without adding significantly to their transmission costs.

- 4.8. Whilst the intention must be to deliver DAB coverage to as much of the UK as possible, where it is not economic to roll out DAB then these listeners should not be disadvantaged by the general migration to digital. Therefore, it may be necessary for some of the re-structured FM spectrum to be retained, in those areas where it is not economically viable to roll-out DAB, to ensure that the BBC can continue to provide its existing analogue services to all those who currently get them.
- 4.9. We believe that this strategic vision must be complemented by a co-ordinated policy across both the radio industry and manufacturers to ensure that all future radio receivers are capable of receiving analogue, DAB and the other variants of the Eureka 147 family.
- 4.10. Under these proposals all services will be migrated from the MW platform onto either DAB or FM. Therefore the MW frequencies could be allocated for other uses.
- 4.11. We recognise that further consideration will need to be made of the usage of LW for radio services.

#### **SUMMARY OF INTERIM RECOMMENDATIONS:**

- DAB is the most appropriate replacement for analogue radio in the UK;
- The future radio landscape should at least in the medium term be a mixed ecology with:
  - DAB as the primary platform for national, regional and large local stations;
  - FM capacity for small local and community radio stations; and
  - IP delivery to complement the above and provide opportunities for greater interactivity.
- Future receivers should be capable of receiving FM, DAB and the other main variants of the Eureka 147 family.
- A long term plan should be developed to move all services to digital.
- MW should be re-allocated for other uses, while more work is needed to consider the future role of LW.



## 5. DIGITAL MIGRATION

- 5.1. If we are to move to a predominantly digital radio landscape, listeners must be convinced of its benefits. Broadcasters will have a very important role in developing and selling the future digital landscape. One of the main proposals of this Group is that broadcasters should agree a unified promotional strategy promoting the benefits of digital radio and helping listeners to make informed buying decisions.
- 5.2. Ofcom and Government should make clear statements of their intention to build a digital radio future. They should state that DAB will be the primary digital delivery mechanism in the UK, at least for the next 15 to 20 years; and they should indicate the way in which digital migration can be achieved.
- 5.3. This Group does not support the setting of a switchover date for radio at this time. However, we believe that the Government should make a clear statement to the industry and consumers of the circumstances in which migration to the digital landscape set out above will begin. This statement should include a set of criteria which, when satisfied, would trigger migration, alongside a migration timetable for achieving this.
- 5.4. We believe that the most important of these criteria should be the extent to which consumers have adopted digital radio, in particular listening to DAB. The digital migration criteria should include a determined level of total listening to DAB enabled devices. The Group intends to do more work in the second half of this year to consider what the most appropriate level of total listening should be; although we currently believe that it is likely to be around 50%.
- 5.5. We believe that in setting the migration criteria the Government should also consider the existing and planned coverage of digital radio services; in particular DAB and plans for FM infill. Again, the Group believes that more work is needed to agree the most appropriate levels of coverage, but that the overriding principles must be that the vast majority of consumers are able to migrate. With this in mind we believe that Government and Ofcom should consider the possibility of migrating services on a region-by-region basis to allow for spectrum to be re-organised smoothly.
- 5.6. We also noted a number of other issues which the Government will want to consider before any digital migration process can begin. For example:
  - A cost benefit analysis;
  - take-up of digital radio technologies in both new and existing cars;

- the affordability, functionality and usability of receivers; and
- the environmental impact of digital migration.

5.7. Progress against the agreed criteria, which the Government should review regularly, will ultimately determine the timetable for migration. However, we believe that the Government should set an aspirational timetable for migration. From our initial discussions we believe that it should be possible to set realistic criteria to trigger migration, which meet listeners' needs, which could be achieved between 2012 and 2015 and then digital migration could be completed by 2020 at the latest. However, whatever the final timetable we believe consumers should be given at least two years notice before the migration process begins.

#### **SUMMARY OF INTERIM RECOMMENDATIONS:**

- The Government should make a clear statement on the future of digital radio.
- Government should agree a set of criteria and timetable for the migration to digital.
- These criteria should include an assessment of:
  - the percentage of listening to DAB enabled devices;
  - Current and planned coverage of DAB and FM; and
- In considering the case for migration we expect the Government will also want to consider the take-up of digital radio in cars, affordability, functionality, and an environmental impact plan.
- The aspiration should be to meet these criteria by between 2012 and 2015 with migration completed by 2020.

## 6. ROUTE MAP AND NEXT STEPS

- 6.1. As stated in the introduction the purpose of this interim report is to set out the agreed view of the DRWG and our vision for radio in a digital future. However, this is an interim report and there are a number of areas where we believe more work is needed to flesh out our proposals.
- 6.2. As we described in sections 3.7 and 3.8, a key barrier to the growth of digital radio is the lack of European harmonisation of the technologies being adopted. The DRWG believes that the UK must work to encourage the production of a harmonised digital radio profile. This profile should have several layers, with a basic level receiver as a minimum allowing automatic shifting between analogue and digital services and be capable of receiving all of the main Eureka 147 variants. We recommend that the industry, manufacturers, Government and regulators should continue the dialogue which they have already started with other European states to agree the profile for a harmonised receiver.
- 6.3. We intend to continue our work examining the future spectrum options. The Group will want to consider in detail the current levels of FM coverage and the scale and cost of delivering comparable levels for DAB. In addition, we will need to consider the impact of migrating services off the existing analogue spectrum.
- 6.4. The DRWG believes that implications of changing the way in which consumers access radio could lead to confusion and anxiety for listeners. The radio industry has an important role to play in ensuring that buying decisions, and the subsequent use of digital radios, are as simple as possible. We recommend that in the coming months the industry agree a combined marketing message which promotes both the benefits of digital radio and greater understanding amongst listeners.
- 6.5. Alongside a clear marketing message there must be a range of compelling content. The Group believes that further consideration should be made of what mechanisms can encourage greater investment in new and high quality digital content. One such mechanism might be to allow greater economies of scale in the commercial sector by allowing for greater consolidation of ownership and coverage, particularly of local multiplexes, which in turn may free up investment for increasing coverage and more digital-only content.
- 6.6. The Group is aware that the impact of the proposed digital migration is likely to differ across the Nations. For example, Northern Ireland currently has no access to the digital-only services carried on the national commercial multiplex. We believe it is essential that, where possible, all parts of the UK should benefit from digital

migration, therefore we propose to conduct further research and engage closely with stakeholders in each of the nations to understand these barriers better.

- 6.7. Considerable progress has already been made in identifying the key barriers to the take-up of digital radio by the automotive industry. The continuing work to agree a multi-standard receiver and increase coverage will have an important role to play in addressing the industry's concerns. However, we note the need to agree a detailed plan to drive the take-up of digital radio in vehicles.
- 6.8. In the coming months we want to consider the essential elements of any future energy efficiency plan. In particular, to encourage manufacturers to look at the existing power performance of analogue sets as a target for future digital sets and the timetable for delivering this.
- 6.9. As stated in paragraph 4.10 we believe that further work will be needed to consider the future use of LW.
- 6.10. In addition, the Group will work closely with the various consumer bodies to consider in more detail the impact of digital migration on listeners. In particular, how to address the concerns of older or disabled people and those on low incomes.
- 6.11. Finally, we intend to consider what mechanisms might be used to help drive the market in the lead up to digital migration. This will include whether there is a case for direct interventions such as gifting or subsidising sets, a help scheme or changes to the existing regulatory framework.

Membership of the DRWG

The DRWG is chaired by Barry Cox and the following organisations have been represented:

BBC

RadioCentre

4 Digital Group

DigitalOne

Arqiva

Community Media Association

Society of Motor Manufacturers and Traders

Consumer Expert Group

Intellect

Office of Communications

Department for Culture, Media and Sport

Department for Business, Enterprise and Regulatory Reform