RADIOCENTRE

Dr Andrea Coscelli
Chief Executive
Competition and Markets Authority
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Dear Dr Coscelli

Online platforms and digital advertising market study

I am writing to you on behalf of Radiocentre in response to the CMA's invitation for initial comments regarding its market study into online platforms and the digital advertising market. Radiocentre is the industry body for commercial radio in the UK, representing over 300 licensed radio stations of all sizes from national brands like Classic FM, Kiss, Heart, LBC and Jazz FM, to small independent stations in communities all across the country.

Commercial radio is funded entirely by advertising and operates in a highly competitive market, generating over £713m in revenues in 2018. Over 36 million people listen to commercial radio's mix of music, news, travel and local information every week. It also supports £683m in gross value added to the UK economy and over 12,000 jobs.

In common with many other business sectors and areas of public life, the growth of the internet has transformed the world in which radio and related media companies operate, creating a huge range of new opportunities while presenting numerous complex challenges. In particular, there has been a significant shift in advertising revenues to online platforms. In the last 20 years digital advertising has grown from around 1% to a more than 50% share of UK ad revenue, with the majority of this spend now going to Google and Facebook or their subsidiaries. This transition of advertising spend to online is the most significant economic trend that has put pressure on revenues across all media. In the case of radio, this surge in online advertising has meant a decline in its share of ad revenue, as well as a real terms reduction in total annual revenues for commercial radio since the early 2000s.

In the radio and audio sector competition for audiences has never been more intense due to the range of entertainment options now available. Overall listening to online services like Spotify, Apple Music and podcasts now account for a 20% share of overall listening time (higher among younger listeners) according to the official RAJAR MIDAS audience measurement data for Summer 2019. This fragmentation has had limited impact on total audience, but average time spent listening to radio has reduced from 24.4 hours per week in 2004 to 20.7 hours in 2018.

It is clear that UK businesses have been particularly keen to take advantage of internet advertising due to the potential benefits in the terms of targeting, data and apparent cost efficiency. As a result over half of UK ad spend in 2018 was devoted to digital advertising (£13.4bn), more than any other EU country and more per capita than the USA.

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As the CMA rightly states, the impact of this rapid growth of digital advertising has been considered variously by previous inquires, including the work of the Furman Review, Cairncross Review, DCMS Select Committee, Lords Communications Committee and Which?. It also runs in parallel with the Government's work on tackling online harms and its broader Digital Charter.

Each of these pieces of work have identified fundamental issues arising from the significant changes in the way that advertising is bought and sold online, with the rise of automated processes known as programmatic advertising. This process is able to use data on audiences to match the characteristics required by advertisers in order to serve relevant ads online, which can then be measured and tracked in terms of user interaction.

This model is clearly attractive to advertisers and their agencies who determine the vast majority of spending in this area. However, a number significant issues have arisen as a consequence of the increasing reliance on digital platforms that are largely unregulated and exempt from external scrutiny. In particular, there is a lack of transparency on where the advertisers' money goes (due to the cost of ad tech intermediaries); absence of agreed effectiveness measures (including third-party audience measurement and viewability of ads); ad misplacement (that can lead to ads being placed next to illegal or harmful content); and deliberate ad fraud (where web traffic is inflated and manipulated to drive false impressions).

A number of these areas are already subject to industry action and efforts to introduce more effective self-regulation. For example, we note the position taken by the Incorporated Society of British Advertisers (ISBA) that content should not be made available for advertising placement unless it has been positively vetted, an approach that may at least help tackle the issue of ad misplacement that can be so damaging to brands. More broadly we support the recommendations made by the House of Lords Communications Committee among others to enable self-regulatory bodies (such as JICWEBS) to assume greater powers to create and enforce rules establishing industry standards, especially in measuring effectiveness and third-party verification. If the industry fails to do this in a manner that is satisfactory it may be necessary for Government to bring forward measures to regulate the operation of digital advertising, with appropriate sanctions.

No doubt these important matters and many more will be under consideration as part of the CMA review. Therefore we welcome the forthcoming review and are particularly encouraged by the fact that it explicitly proposes to examine the market power of the platforms and their impact on competition in digital advertising.

Yours sincerely

Siobhan Kenny
Chief Executive