Commercial radio consolidates

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The commercial radio industry in Australia is presently undergoing a major period of consolidation, with the expansion and takeover of several networks and the imminent introduction of more than 50 new FM services in regional areas.

Of the 165 commercial radio stations in Australia, 100 are now controlled by nine networks headed by Austereo Limited, Australian Radio Network (ARN) - owned by Australian Provincial Newspapers and Clear Channel Communications Inc of the US - and Southern Cross Broadcasting (Australia) Ltd in metropolitan markets; and Rural Press Limited, Supernetwork Radio Pty Ltd, Grant Broadcasting, Broadcast Media Group, ACE Radio Broadcasters and Sea FM Limited (recently acquired by RG Capital Pty Ltd) in major provincial and regional markets. Earlier this year, ARN acquired the commercial arm of Radio New Zealand; while Austereo has interests in Asia and Europe.

Profits up

As in the United States and the United Kingdom, commercial radio in Australia has recently become the 'flavour of the month', with a return to more profitable times prompting interest from both local and overseas investors. Industry profitability has been rising slowly since having recorded its first loss ($15.5M) in 50 years in 1990/91. In 1994/95 industry profit increased for the fourth consecutive year - up 48% or $56M on the previous year.

The key impetus for the consolidation has been section 52 of the Broadcasting Services Act (the Act), which has allowed commercial broadcasters to own two stations in one licence area. This has vastly changed the nature and operation of the industry and has improved the status of radio within the mass media - the only mass medium that can 'micro-target'. This new industry structure has provided broadcasters with the opportunity to reign in expenditures and achieve economies of scale, whilst retaining the essential localism of commercial radio.

Importantly, commercial radio remains the most used form of media in Australia, with people tuning in for an average of 20 hours every week. The end result has been a significant improvement in the corporate value of the commercial industry and the subsequent investor interest.

With the plethora of new and emerging media it is becoming increasingly obvious that radio's unique features, such as its portability and mobility, give it an assured future. So as to capitalise on this strength, the commercial radio industry is examining a range of strategies designed to increase its share of advertising revenue. These strategies include comprehensive training programs, more sophisticated research tools and options and improved corporate practices, coupled with a commitment to ensure that radio occupies its proper place in the new media landscape.

Planning

The heightened interest in media stocks and industry consolidation has coincided with the Australian Broadcasting Authority's current planning of radio and television licence areas, which will result in an expansion of National, commercial, community and narrowcasting radio services.

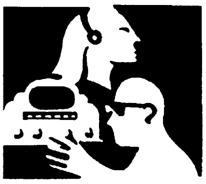
Pursuant to recently amended provisions of the Act, a total of 54 commercial licensees in solus regional markets (a market comprising only one commercial operator) are now able to apply for the automatic grant of an FM licence. This legislation has expedited the process of allocating second commercial licences in these markets and will provide major benefits to listeners. The move is designed to provide regional listeners with more diverse programming and will enable a licensee to target the FM service to the younger demographic with predominantly a music format, while focussing the AM service on the preferences of the older listener with a combination music and talk format.

While the focus has so far been on extending services to remote and regional areas of the country, the planning process will move to the major metropolitan markets later this year. Broadcasters are making considerable efforts to redefine commercial radio so as to place the industry in a strong position to meet the competition from the new services emerging from this process.

Digital radio

The commercial industry is also gearing up for the impending development in Australia of the next phase of broadcasting - Digital Radio Broadcasting (DRB).

The prime objective of DRB will



be to enhance commercial radio's ability to compete with an expanding array of information and entertainment technology by delivering innovative programming and improved sound quality (particularly in the mobile environment), while also offering listeners a range of associated communication services. DRB will allow radio to join the information superhighway as radios become multi-media receivers.

All sectors of broadcasting are represented on the Digital Radio Advisory Committee (DRAC) established by the federal government to advise on the introduction of DRB. Commercial operators and their national and community broadcasting counterparts in Sydney, Melbourne and Brisbane are participating in digital radio trials being conducted by the National Transmission Authority and Telstra. Significantly, all broadcasters share a reasonably common approach to DRB, and the planning work carried out to date has been a joint approach.

The trials are assessing the potential suitability of the Eureka 147 digital radio transmission system, which allows for broadcast either terrestrially or via satellite. Digital will change the entire way in which listeners currently consume radio. Along with CD quality sound and interference-free reception, DRB has the potential to offer listeners a host of add-on features (described as Program Associated Data) by way of a small screen - information such as name of song and artist, the station call-sign and promotion details, traffic and entertainment information and advertiser details.

All commercial and national, and several community broadcasters, are providing programming for the trial, with the signal being transmitted from Centrepoint Tower in Sydney and a city location in Melbourne. The trials will assist the planning of digital services and allow broadcasters to develop skills in the handling of the new concept of a multiplexer, which distributes a range of services, as opposed to the current transmission arrangements with analogue.

Commercial broadcasters prefer a simplistic approach to the development of digital broadcasting and support the use of both satellite and terrestrial delivery for all services. The industry is seeking a phased introduction starting with an initial three to four year development phase. During this time, existing broadcasters would provide both 'simulcast' (transmitting identical programs simultaneously on both AM/FM and digital networks) and experimental services.

The industry recognises that digital radio is an entirely new concept that will require extensive marketing to consumers and a simulcast period lasting from 10 to 20 years before it becomes a full-blown transmission system. In order to receive digital transmissions, listeners must purchase special reception equipment, presently costing approximately $1,000. The key factor will, of course, be the take-up rate of new receivers and their availability at prices similar to that of today's analogue receivers.

Self regulation

Another recent impact on the commercial broadcasting industry has been self-regulation. The Act requires the commercial radio industry to develop its own Codes of Practice and complaints handling procedures, developments which have made stations more directly responsive to the needs of listeners. Commercial radio introduced its Codes of Practice in May 1993, the first sector of the radio industry to do so. The judicial system of the former Australian Broadcasting Tribunal has been replaced by direct contact between the station and listener. The industry verdict on self-regulation has been one of satisfaction. The average number of complaints for each of the industry's 163 member stations during each quarter has been slightly more than two. Despite more than 1,000 complaints being recorded by commercial stations during 1995, only 25 listeners found it necessary to take the matter further with the ABA. Following investigations only one of those complaints was upheld.❑

US RADIO INDUSTRY BOOMS

THE US radio industry is currently the scene of intense corporate activity, with mergers and acquisitions to the value of $10.1 billion having taken place this year - already exceeding the entire 1995 total.

This surge of business follows Congress' passing of the Telecoms Bill earlier this year, which relaxed previous restrictions on media ownership and control. Under the Bill, radio station proprietors may now own up to eight stations in any one market (increased from four), and the previous maximum national ownership limit of 20 AM and 20 FM stations has been abolished. Congress also directed the Federal Communications Commission to relax these rules, along with other cross-ownership provisions, if this would promote competition in a particular instance.

Radio is emerging once more as a lucrative business, following a heavy slump during the early 1990s, with advertising revenues now growing faster than any other medium except cable television. Commentators suggest several reasons for this: radio's flexible program formats make it highly responsive to changing consumer tastes, it can target niche markets, it is cheap to advertise on, and - a clincher in the US - it reaches places other media cannot: automobiles.