Advertisers hanging out for Christmas and a record year

Asia's economic crisis may yet affect advertising revenues in Australia but for the moment, the figures for the first half of 1998 are looking good

Despite the economic woes in Asia, advertising budgets in Australia managed to remain surprisingly resilient during the first half of 1998, according to figures just issued by the Commercial Economic Advisory Service of Australia (CEASA). Advertising expenditure in major media in the first six months of 1998 was $3.2 billion, an increase of 11.3 per cent compared with the same period in 1997. National advertising across all media grew by 12.3 per cent and local advertising across all media by 10 per cent.

Print media as a whole enjoyed healthy growth during the first half of this year. Newspapers, which accounted for the largest share of the advertising pie, experienced a surge in retail - display - advertising. It rose by 16.2 per cent. Newspapers' classified advertisement revenues also experienced healthy growth, up by 10.1 per cent.

Total magazine advertising grew 29.8 per cent, largely because there are more titles being published and so the medium is slowly increasing its share of the advertising pie. In 1997, magazines accounted for 6.8 per cent of the total advertising pie, up from 6.7 per cent in 1996.

But many of the new magazines on offer fall under the umbrella of a new category, "custom publishing". These are titles published under contract by a publishing house on behalf of someone else. Often dispatched free to a targeted mailing list, custom titles can be published for anyone who wants one and is willing to contract the work out - car manufacturers such as Volvo and BMW, airlines, supermarkets, even insurance companies like the NRMA and FAI.

Such has been the impact of custom publications on the market, that without the revenues from these contract titles, the CEASA figures suggest that advertising expenditure in national magazines grew only three per cent for the first half of 1998.

With regard to television, advertising expenditure grew a respectable nine percent overall. National television advertising was up 9.7 percent. Radio advertising revenues grew 6.2 per cent and outdoor advertising experienced a small but significant surge of 3.1 percent. In 1997, advertising expenditure on outdoor billboards and the like accounted for a 3.9 per cent share of the total advertising pie.

Cinema advertising too enjoyed a first half year boom period. With the proliferation of new screens from the building of several new multiplex sites nationwide, cinema advertising increased by 21.5 per cent.

Unfortunately, the CEASA study, which is compiled from a series of surveys of media companies and advertising agencies carried out with the supervision of accounting firm KPMG, does not reveal the dollar value of each advertising expenditure category. But what is known from previous CEASA figures is that in calendar 1997, newspapers held the largest share of the total $7.5 billion ($7,472,000,000) advertising pie with a 46.1 per cent share (includes all newspapers, metropolitan national dailies and Sundays, regional dailies and non-dailies, suburban newspapers and country newspapers). In that same year, television accounted for 34.3 per cent of the pie, radio 8.2 per cent, magazines 6.8 per cent, outdoor advertising 3.9 per cent and cinema 0.7 per cent.

Since 1994, annual advertising expenditure as monitored by the CEASA at six monthly intervals, has risen steadily rather than spectacularly. But this year was the first time in five years that growth broke the double digit mark. Total advertising expenditure rose by 9.6 per cent in 1994 compared to the previous year; 9.3 per cent in 1995; 1.9 percent in 1996 and 9.4 per cent in 1997. This year, it rose 11.3 per cent compared to the same period in 1997.

The CEASA figures bore out general optimism about the first half of the year though media buyers and sellers have since reported a more cautious approach to spending from major advertisers in the second half of the year. This month's federal election gave advertising revenues a quick shot in the arm with last-minute bookings on television and in print media but the activity wasn't expected to last. In fact, worries that advertising sales revenue would slowdown toward the end of 1998 were illustrated by media analysts in September. They took a dim view of the encroaching Asian economic crisis and downgraded some of their fiscal 1998 profit expectations for media organisations including Kerry Stokes' Seven Network, John Fairfax Holdings Ltd and Kerry Packer's Publishing & Broadcasting Ltd.

The last quarter of the year, however, may still prove to be its traditionally more buoyant self for retailers in the weeks before Christmas and depending on the depth and impact of the economic crisis, Australia's advertising big spenders may see the growth carry over into the new year.

Karen Winton

Comment

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speeds obtained using your existing telephone connection. But for most home users, ISDN is a Rolls Royce system that comes at a Rolls Royce price. The only way it will get thought of as a basic service is if it gets priced like one.

This issue of the pricing of enhanced services is likely to be one of the major policy challenges of the Coalition's second term if the earlier challenge of getting the infrastructure itself can be met. The government will be constantly reminded of its 1996 election commitment to "bring ISDN into the price cap regime from July 1, 1996. Prices will be brought down to ensure Australia's competitive parity with overseas online markets".

But if the government thought it was getting to the end of the policy challenge of making the next generation of "basic" communications services universally accessible, it got a sharp wake-up call immediately after the election. Telstra greeted the new government with the news that the universal service obligation was a little more expensive than had been previously thought. Currently, it's estimated at around $250 million. Having recalculated the figures using the new universal service obligation costing model which carriers and the ACA have been working on for some years, Telstra announced that it actually cost $1.8 billion.

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A company like Optus, which will pay around $25 million of the roughly $250 million universal service cost for 1997/98, would pay about $180 million of the $1.8 billion. AAPT, a carrier and universal service contributor only since July 1997, would expect to pay some $30-35 million. Both would pay more than enough to wipe out their expected profits of around $65 million (Optus, profit after tax and abnormals, 1998/99) and $13 million (AAPT, profit after tax, calendar 1998) respectively.

Curiously, of the major carriers only Telstra itself, with a profit of roughly $3 billion for the last financial year, would cope with its share of the net universal cost without going into loss.

It's hard to know what's happened in the provision of standard voice telephony and payphones since 1989 when Telecom estimated that its community service obligations cost it $800 million. That was using "Fully Distributed Cost" methodology widely interpreted as giving the highest possible cost for this kind of analysis, and hence requiring the largest possible subsidy from other carriers to Telstra. It also defined community service obligations to include not just unprofitable standard telephony and public payphones (which became the statutory universal service obligation), but losses made on services provided at concessional rates to specific groups, including hospitals, fire brigades and other community service organisations and concessional services provided to the disabled.

At the time, the Bureau of Transport and Communications Economics assessed the cost of Telecom's then community service obligations at $240 million (at an estimated cost of capital of 13.6 per cent) using an "avoidable cost" methodology.

According to Telecom/Telstra's numbers, the cost of providing the unprofitable services, after nearly a decade of technological improvements including the multi-billion dollar digitisation of the entire Telstra network, has more than doubled over the decade, from $800 million to $1.8 billion. Add to that the government's proposal to supplement the universal service obligation with a new element - half the cost of satellite equipment for ISDN for the most remote customers.

The politicians in Albury may have found common ground on universal service, but in the industry, it's still shifting sands.

Jock Given