

**RG Capital Radio Limited**

**Submission to the  
House of Representatives Communications  
Committee Inquiry**

**into**

**The Adequacy of Radio Services  
in Non-Metropolitan Australia**

**10 November 2000**

## Executive Summary

As the second largest regional radio operator in Australia, RG Capital Radio Limited (**RGCR**) has a strong interest in the inquiry into the adequacy of radio services in non-metropolitan Australia being conducted by the House of Representatives Communications Committee (HoRCC).

RGCR has built its regional radio group from providing one commercial radio service in one regional market to providing 28 commercial radio services to 17 non-metropolitan markets over the past 11 years. RGCR services are listened to by 1.35 million people in regional Australia each week. The popularity of RGCR services (as demonstrated by the fact that RGCR services rate strongly in each of their markets<sup>1</sup>) illustrates that our radio services meet the current entertainment needs of people in regional Australia.

As the HoRCC may be aware, on 26 October 2000, RGCR listed on the Australian Stock Exchange. The RG Capital Radio Limited Prospectus outlined that RGCR's critical success factors include:

- effective programming, resulting in RGCR having significant ratings in all its markets;
- offering "live and local" programming between 5.00am and 6.00pm, which attracts local audiences; and
- it's well trained and committed employees.

These factors would appear to be central to the inquiry being conducted by the HoRCC, and are addressed in detail in this submission.

RGCR is pleased to provide the committee with an overview of the programming it provides to its audiences, as set out on pages 4-10 of this submission.

One of the key points made in this submission is that in RGCR's experience, the resources of a larger radio group enable stations in the group to make more local programming than if they "stood alone". This is because the better performing stations can and do cross subsidise the poorer performing stations, and enable resources to be applied to producing local programs. This happens in the RGCR group because fostering "live and local" programming is a key policy objective. This is not to suggest that the same policy applies in every regional radio network, but it is a key feature of our radio group.

We note that one of the terms of reference for the inquiry is that the HoRCC report on the extent to which there is a need for the Government to take action in relation to the quantity and the quality of radio services in regional and rural Australia.

---

<sup>1</sup> The only exception to this is that in markets which adjoin capital city markets (eg Gosford) the ratings figures are less than in markets which do not adjoin capital city markets. This is because in markets which adjoin capital cities, all the capital city radio services can be received, and this splits the audience figures.

RGCR submits that the current Australian Broadcasting Authority Licence Planning Process is reducing local programming in regional licence areas. It is RGCR's belief that this process should be halted and no new commercial licences be issued in regional markets.

Another of RGCR's key suggestions for the HoRCC is that the ABA's licence area planning process, when combined with the "2 to a market" rule in section 54 of the *Broadcasting Services Act 1992 (BSA)*, operates in many cases to reduce levels of local programming and quality programming in regional licence areas.

The ABA has been steadily planning new commercial radio licences for regional Australia since 1995, under the licence area planning process in the BSA. Under the 2 to a market rule, if an incumbent commercial radio broadcaster provides two commercial radio services in a market, it is not allowed to provide any more. This means as new licences are planned, the existing radio services are faced with a new service competing for the same audience with similar programming. In the ensuing battle between the existing and the new services, one of the first casualties may be local content, as profit margins dwindle.. How this may occur in practice is set out in detail in the case study at pages 13-19 of this submission.

As the ABA has elected to place greater weight on the objective in the BSA to promote "diversity" of radio services (section 3(a) of the BSA) rather than the objective that providers of radio services provide "an appropriate coverage of matters of local significance" (section 3(g) of the BSA) or the objective of promotion of "the provision of high quality and innovative programming" (section 3(f) of the BSA), the ABA has proceeded to plan a significant number of additional licences in regional areas. RGCR has experience, both as an incumbent and a new entrant in different markets, which informs RGCR's submission, and the case study in particular.

Given the ABA's application of the legislative framework, RGCR's submission is that the way to ensure that levels of local programming are not reduced in regional radio is for section 54 of the BSA to be repealed.

RGCR further submits that in view of the loss of local services occurring in some regional markets that the current ABA licence planning process issue no further new commercial licences in regional markets.

RGCR also wishes to emphasise the contribution it makes in providing:

- local programming to regional Australians; and
- training opportunities for young Australians.

RGCR looks forward to appearing before the Inquiry to further discuss its submission.

## **Inquiry Terms of Reference**

The House of Representatives Communications Committee (HoRCC) has called for comments on the adequacy of radio services in non-metropolitan Australia and the extent to which there is a need for Government to take action in relation to the quantity and the quality of radio services in regional and rural Australia. The HoRCC will have regard to the following:

- The social benefits and influence on the general public of radio broadcasting in non-metropolitan Australia in comparison to other media sectors;
- Future trends in radio broadcasting, including employment and career opportunities, in non-metropolitan Australia;
- The effect on individuals, families and small business in non-metropolitan Australia of networking of radio programming, particularly in relation to local news services, sport, community service announcements and other forms of local content; and
- The potential for new technologies such as digital radio to provide enhanced and more localised radio services in metropolitan, regional and rural areas.

### ***FARB Submission***

RGCR is a member of the Federation of Australian Radio Broadcasters (FARB).

RGCR supports the submission of FARB dated November 2000, which provides an overview of commercial radio industry and specific responses to the matters to which the HoRCC has regard to in this Inquiry. In particular, RGCR supports the FARB submission in relation to the potential for new technologies such as digital radio to provide enhanced services in regional Australia.

### **An Introduction to RG Capital Radio**

RG Capital Radio Limited (RGCR) has been involved in regional commercial radio since 1989, when SEA FM on the Gold Coast went to air for the first time. The company changed its name from Sea FM Limited to RG Capital Radio Pty Limited in 1996, and changed its name to RG Capital Radio Limited with the float of the company in October 2000.

Since 1989, RGCR has built its regional radio network by:

- a) acquiring new licences and starting up new commercial radio stations. RGCR has successfully bid for new licences at auctions conducted by the ABA after the completion of licence area planning for particular regional licence areas;
- b) acquiring existing regional commercial radio licences when these have been offered for sale. For example, RGCR acquired 3GG Warragul in June 2000; and
- c) entering into joint ventures with existing regional operators. For example, RGCR controls 3SR 95.3FM and 96.9 SUN FM in Shepparton with Goulburn Valley Broadcasters.

RGCR owns and/or operates 28 regional commercial radio services in the following non-metropolitan/regional areas of Australia:

<b>Region</b>	<b>Service</b>	<b>2<sup>nd</sup> Service</b>	<b>Studios/Office</b>
Cairns	99.5 Sea FM		Cairns
Townsville	106.3 Mix FM	100.7 Sea FM	Townsville
Mackay	98.7 Sea FM		Mackay
Capricorn Coast	4RO 990 AM	101.5/91.5 Sea FM	Rockhampton
Fraser Coast	4MB 1161 AM	101.9 Sea FM	Maryborough Qld
Sunshine Coast	92.7 Mix FM	91.7 Sea FM	Maroochydore
Darling Downs	4GR 864 AM	100.7/97.5/91.9 CFM	Toowoomba
Gold Coast	92.5 Gold FM	90.9 SeaFM	Southport
Central Coast	2GO 107.7 FM	101.3 Sea FM	Gosford
Albury/Wodonga	91.3/105.7 FM The River		Albury
Shepparton	3SR 95.3 FM	93.7/96.9 Sun FM	Shepparton
LaTrobe Valley	3GG 531AM		Warragul
Northern Tasmania	7LA 1089 AM		Launceston
Devonport	7AD 900 AM	107.7 Sea FM	Devonport
Burnie	7BU 558 AM		Burnie
Scottsdale	7SD 540 AM		Scottsdale
Hobart	7TTT 100.9 FM	Magic 107.3 FM*	Hobart

\* Management rights only

## **RGCR**

Is Australian owned and operated; and publicly listed on the Australian Stock Exchange.

Employs 425 full time staff, including 15 station managers, 13 engineers/technicians and 14 journalists; and over 100 on-air presenters.

Employs a high percentage of young people, giving them their first start and training in the radio industry;

Produces 2740 hours of local content in regional markets every week of the year (including 23 local breakfast shows, with almost all of these being “duos” – ie provided by two on-air announcers);

Produces over 1,000 local news bulletins per week;

Serves a potential audience of 2.7 million people in non-metropolitan Australia;

Reaches an actual audience of approximately 1.35 million listeners – this is the number who tune into RGCR’s 28 radio services each week;

Operates 21 broadcast or sales offices; and

Operates or rents 24 transmission sites.

These features of RGCR’s business illustrate the differences between a major regional network and a capital city radio service. While RGCR reaches approximately the same audience as a top rating station in Melbourne, it employs many more staff and creates many more training opportunities, as well as producing much more programming and operating many more studio and transmission facilities, than its capital city counterparts.

**OVERVIEW OF RGCR SERVICES**

Service	Breakfast 5.30-9.00am	Mornings 9am- 12noon	Afternoons 12noon-4pm	Drive 4-7pm	Nights (I) 7pm- 12am	Local News Generated Locally (ii)	Local News (iii)	Community Airtime EST (iv)	Comm Cash Raised (v)
Sea FM Gold Coast	Local	Local	Local	Local	Network	Yes		350,000	200,000
Gold FM Gold Coast	Local	Local	Local	Local	Network	Yes		400,000	150,000
Sea FM Sunshine Coast	Local	Local	Local	Local	Network	Yes		50,000	40,000
Mix FM Sunshine Coast	Local	Local	Local	Local	Network	Yes		50,000	57,000
Sea FM Central Coast	Local	Local	Local	Local	Network	Yes		250,000	305,000
2GO Central Coast	Local	Local	Local	Local	Network	Yes		322,000	1,100,000
The River (Albury/Wodonga)	Local	Local	Local	Local	Network	Yes		65,000	50,000
3GG Gippsland	Local	Local	Local	Local	Network		Yes	20,000	
3SRFM Goulburn Valley	Local	Local	Local	Local	Network		Yes	50,000	3,000
Sun FM Goulb Valley	Local	Local	Local	Local	Network		Yes	50,000	2,000
7LA Launceston	Local Area	Laws	Local Area	Local Area	Network	Yes		52,000	19,000
7AD Devonport	Local Area	Laws	Local Area	Local Area	Network		Yes	200,000	11,000
7SD Scottsdale	Local Area	Laws	Local Area	Local Area	Network		Yes	105,000	8,000
7BU Burnie	Local Area	Laws	Local Area	Local Area	Network		Yes	200,000	11,500
Sea FM Devonport	Local	Local	Local	Local	Network	Yes		150,000	2,000
7TTT Hobart	Local	Local	Local	Local	Network	Yes		76,000	40,000
Magic 107 Hobart	Local	Local	Local	Local	Local	Yes		54,000	2,000
Sea FM Fraser Coast	Local	Local	Local	Local	Network	Yes		250,000	
4MB Fraser Coast	Local	Laws	Local	Local	Network	Yes		282,000	
4GR Toowoomba	Local	Laws	Local	Local	Network		Yes	350,000	20,000
CFM Toowoomba	Local	Local	Local	Local	Network		Yes	150,000	5,000
4RO Rock/Gladstone	Local	Local	Local	Local	Network		Yes	95,000	10,000
Sea FM Rocky/ Gladstone	Local	Local	Local	Local	Network		Yes	5,000	
Sea FM Mackay	Local	Local	Local	Local	Network		Yes	200,000	10,000
Sea FM Townsville	Local	Local	Local	Local	Network	Yes		35,000	2,000
Mix FM Townsville	Local	Local	Local	Local	Network	Yes		65,000	6,000
Sea FM Cairns	Local	Local	Local	Local	Network	Yes		500,000	
								<b>4,376,000</b>	<b>2,053,500</b>

- i. Live programming generated from the Gold Coast.
- ii. Local news which is produced from local location.
- iii. Local news provided from another regional centre.
- iv. Estimated value of airtime given to community groups.
- v. Estimated cash raised directly for the community as a result of the radio station's participation in the event or initiated event by the station.

### ***RGCR Programming***

RGCR commercial radio services provide “predominantly music” formats, supplemented by local and national news bulletins.

RGCR services are provided into markets where audiences also receive a range of other traditional media, from national and commercial television services, national, community and narrowcasting radio services, and local and national newspapers. Importantly, RGCR services are now being provided alongside a range of new media services, such as satellite delivered subscription television and radio services (provided by Austar in particular), streaming audio and other on-line services. This is discussed in more detail later in this submission.

**a) Music**

RGCR has established two broad streams of programming formats. The RGCR “Adult Contemporary” stream targets the 35+ age group with a mix of “classic” and current music. The RGCR “Contemporary Hit Radio” stream targets the under 40 age group with an emphasis on new music and younger announcers. In licence areas where RGCR provides two commercial radio services, each of these formats will be used (eg SEA FM and MIX FM on the Sunshine Coast).

Where RGCR has entered a new market and one of these formats is already being provided by an existing radio service, RGCR adjusts one of its formats to target a different niche audience rather than mirroring an existing format. For example, in Mackay, SEA FM is a “rock” music radio service rather than a “Contemporary Hit Radio” radio service. However, RGCR notes that this approach has not been used by its competitors when they have entered markets where RGCR has previously provided the commercial radio services in that market.

With a few exceptions, all RGCR commercial radio services broadcast live local programming from 5.00am to 6.00pm. The only exceptions are 4GR (Darling Downs), 4MB (Fraser Coast), Magic 107 (Hobart) and 7AD (Devonport) which broadcast the John Laws Show in the mid-morning time slot.

After 6.00pm, RGCR commercial radio services broadcast one of two centrally produced evening programs. The “Nite Mix” program is produced for the Adult Contemporary formatted services, and the “Big Kahuna” program is produced for the Contemporary Hit Radio formatted services. Each of these programs are produced at RGCR’s Gold Coast production facilities, and are relayed by satellite to the RGCR services around the country.

**b) News**

RGCR stations produce local news content. This is important in serving the interests of the local community, and identifying the station as “live and local”. Local news bulletins are broadcast (over 1,000 local bulletins per week).

These local news bulletins are supplemented by a national news bulletin which is produced at the Gold Coast Radio Centre, and broadcast by satellite into the national news bulletin timeslots of each station (on the hour from 6.00am to 6.00pm). In addition, on weekends, sports updates are provided from 12.00 noon to 6.00pm.



**c) *Technology as an enabler***

RGCR has embraced the use of digital technology in the production and distribution of programming within and between its stations, and to promote its stations and radio services in the on-line environment.

Digital technology should not be regarded as a by-word for networking. Instead, RGCR stations can rely on a technology backbone for information exchange with other stations – no longer does a small station with only 13 staff need to “reinvent the wheel” to address advertiser or audience demands. Use of technology means that ideas can be exchanged and assistance sought almost instantaneously.

Previously, small stations could not cost effectively research audience attitudes. Use of on-line music research products means that this is now possible. Using technology as an enabler allows regional operators to be more “in touch” with audiences than ever before.

***RGCR as a training ground for radio***

The RGCR radio network has been an important provider of career opportunities for people in regional markets, both off air and on.

We have created additional on-air positions in markets over the last three years as follows:

	<u>Additional Announcers</u>
• Cairns	4
• Townsville	8
• Albury	5
• Devonport	2
• Mackay	4
• Fraser Coast	3
• Rockhampton/Gladstone	3
• Darling Downs	3

Furthermore, by building our network to a size that allows us to generate our own news services on a national level, we have been able to discontinue the common practice of sourcing news from Sydney and Melbourne. This has seen additional news positions created.

Many more opportunities have been created in sales, marketing, technical and administration that didn't exist three years ago.

Many of our staff are under 25 and starting radio careers.

Our company provided financial assistance over the last year two years:

- 30 announcing staff to complete the Programmers Certificate Course
- Over 50 sales people completed the Sales and Marketing Certificate Course  
(these courses are run under FARB auspices and are industry recognised)

In the last year alone, many of our staff have entered metropolitan radio careers. Approximately 20 announcers and newsroom staff have moved on from the RGCR group to larger or metropolitan radio markets.

Furthermore, the RGCR Network supports education of tomorrow's radio stars by:

- Providing an ongoing scholarship to Charles Sturt University.
- Providing lecturers on an ad-hoc basis to the Australian Film, Television and Radio School.

## **Analysis of a Non-Metropolitan Commercial Radio Market**

The Australian Broadcasting Authority (ABA) publishes the broadcasting financial results of the commercial television and radio industries each year. The results are released in March each year and are based on the previous financial years financial returns for each licensed broadcaster.

The ABA groups the regional commercial radio services by state/territory and into small, medium and large markets (based on market population). A complete list of the commercial radio markets is attached at appendix A.

A summary of the regional radio results is set out below:

<b>Market Size Category</b>	<b>Number of markets  (Average revenue per market)</b>	<b>Number of commercial services  (Average revenue per service)</b>	<b>Number of commercial FM services  (Average revenue per service)</b>	<b>Number of commercial AM services  (Average revenue per service)</b>
<b>Large</b>	21 (\$4.9m)	49 (\$2.1m)	31 (\$2.5m)	18 (\$1.5m)
<b>Medium</b>	37 (\$1.9m)	71 (\$1.0m)	34 (\$0.6m)	37 (\$1.3m)
<b>Small</b>	35 (\$0.9m)	67 (\$0.5m)	32 (\$0.4m)	35 (\$0.6m)

RGCR owns and operates radio stations in each of the market categories. To assist the HoRCC in its considerations, RGCR has set out a market profile on an average medium sized market.

## **RGCR Case Study**

The following is a profile of a typical non-metropolitan commercial radio market. This illustrates the likely effects on local content of the expansion of analog radio services in non-metropolitan Australia. New commercial radio services in regional areas may not mean more local programming or higher quality programming for audiences. To the contrary, when the planning of new commercial radio services is combined with the current ownership restrictions on commercial radio operators, the opposite is likely to result.

In RGCR's view, this is a negative development, because one of radio's traditional strengths is to relate to people where they live. Unfortunately, the implementation of the existing legislative scheme has placed less emphasis on localism and more emphasis on diversity of ownership rather than diversity of content.

RGCR submits that the HoRCC recommend that clause 54 of the Broadcasting Services Act (1992)<sup>2</sup> to be repealed to allow commercial radio stations in non-metropolitan markets to provide more program diversity and continued live & local services.

RGCR also submits that the HoRCC recommend that licence planning of commercial radio services in regional areas be stopped, so as to provide for continued live and local services.

### ***Profile of the a medium sized non-metropolitan market***

This medium sized market, as categorised by the ABA, has a population of 70,175 (based on 1996 Census). The revenue for the two commercial radio services in 1999 was \$1.9 million, the industry average for this category. The AM service has been operating for over 60 years while the FM service was commenced in 1999.

In this market, commercial radio currently competes for listeners and/or advertisers/sponsors from the following radio services available in the market:

<b>Type of Radio Service</b>	<b>Description of formats</b>	<b>Number</b>
<b>Commercial Radio – Local</b>	AM music/talk, FM music	2
<b>Commercial Radio – Neighbouring markets</b>	FM music	4
<b>ABC Services</b>	Local ABC, JJJ, Classic FM, Radio National	4
<b>Community Radio</b>	Local community, Christian	2
<b>Low Power Open Narrowcast</b>	Information, music	2
<b>Total Radio</b>		<b>14</b>

Commercial radio also competes for advertising revenues from the following advertising funded media:

<b>Service</b>	<b>Description</b>	<b>Number</b>
<b>Television</b>	Seven, Nine & Ten affiliate services	3
<b>Newspapers</b>	Local daily	1

---

<sup>2</sup> s54 of the Broadcasting Services Act – ‘A person must not be in a position to exercise control of more than 2 commercial radio broadcasting licences in the same licence area’.

## ***Profile of a RG Capital radio station***

### **People**

The locally based RGCR radio station provides two commercial radio services for the market – an AM service and a FM service. The station employs 18 full time staff, of which 15 have lived in the market for at least two years.

### **Programming**

The FM service provides 18 hours of locally produced programming each day. This includes a breakfast show featuring two on-air announcers . Each evening 6 hours of network programming (sourced from another RGCR regional radio service) is broadcast.

The AM service provides 15 hours of locally produced programming each day. Each morning, three hours is allocated to the John Laws program and each evening 6 hours to network programming.

### **News & Information**

Both the AM and FM services broadcast locally produced news bulletins on the hour from 5am to 9am on weekdays. A networked national news service is broadcast every hour from 6am to 6pm.

The services also provide regular weather forecasts, local boating & fishing conditions reports, and rural storm warning alerts.

### **Local Advertising**

Local businesses are able to place advertising throughout the day, whether the program is locally produced or a network feed.

## Community Service Airtime

Last year the AM service broadcast just under 10,000 free-of-charge community announcements for local charitable and welfare organisations (a total value of \$370,000). The FM service broadcast free-of-charge over 4,000 community service announcements (a total value of \$160,000)

RGCR has developed special community service promotions to raise money for local charities and welfare organisations. The promotions are targeted to particularly needy causes within the service area. Examples are 'Give Me 5 For Kids', 'Million Dollars Worth of Work', 'The Walk of Achievers'.

## Financial Performance

Even though the AM and FM services are provided by RGCR in this market, the provision of the second service has put the financial performance of the radio station under some strain. However is supported by the cash flow generated by the larger stations in the RGCR group. This illustrates how in the absence of support from the group, these stations may have needed to reduce key expenditure items such as the provision of community services.

	1997-1998	1998-1999	1999-2000
Figures in \$'000	<b>AM Service only</b>	<b>AM &amp; FM for half year</b>	<b>AM &amp; FM Full year</b>
<b>Sales</b>	1,540	1,859	1,987
<b>Expenses</b>	1,348	1,666	1,993
<b>Profit (Loss) before Interest &amp; Tax</b>	\$192	\$154	<\$6>

## Recent Capital Expenditure

With the introduction of the new FM commercial radio service in 1998, RGCR outlaid \$618,000 to build and equip a new studio and \$1.2 million for a new FM transmitter and to build a new tower.

### ***The Impact of New Competing Services on this Market***

The ABA has recently completed the planning of new radio services for this non-metropolitan area.

The following new radio services are expected to be provided in the area:

<b>Type of Radio Service</b>	<b>Description of formats</b>	<b>Number</b>
<b>Commercial Radio – Local</b>	AM music/talk, FM music (2)	3
<b>Commercial Radio – Neighbouring markets</b>	AM/FM music	3
<b>ABC Services</b>	Local ABC, JJJ, Classic FM, Radio National	4
<b>Community Radio</b>	Local community, Christian	2
<b>High Power Open Narrowcast</b>	Country Music	1
<b>Low Power Open Narrowcast</b>	Tourist Information	2
<b>Total Radio</b>		<b>15</b>

Each of these new services will have a negative impact on both audience reach and advertising revenue for the two commercial radio services in the market. However the new local commercial radio service will have the greatest effect on the capability of the two incumbent commercial services to retain their current level of local programming.

Based on the financial results for this market in 1999-2000, it is estimated the third competing service will have the following financial impact on the incumbent commercial services, assuming the radio station maintains the current level of 'live and local' programming.

<b>Incumbent Services AM/FM</b>	<b>Current Position</b>	<b>Incumbent 5% Rev Loss</b>	<b>Incumbent 10% Rev Loss</b>	<b>Incumbent 30% Rev Loss</b>
Figures in \$'000				
<b>Sales</b>	1,987	1,888	1,788	1,391
<b>Expenses</b>	1,993	1,963	1,933	1,816
<b>Profit (Loss) before Interest &amp; Tax</b>	(\$6)	(\$75)	(\$145)	(\$425)

The outlook for the operator of the third commercial radio service is even more difficult, due to the fact that it is commencing from a zero revenue base. Even if the new service were able to expand the market by 15% (as was experienced with the introduction of the second service into the market in 1998), the revenue share for the new service would be barely adequate to cover capital expenditure financing costs.

<b>Revenue Share</b>	<b>Current Position</b>	<b>Incumbent</b>	<b>Incumbent</b>	<b>Incumbent</b>
Figures in \$'000		<b>5%</b>	<b>10%</b>	<b>30%</b>
		<b>Rev Loss</b>	<b>Rev Loss</b>	<b>Rev Loss</b>
<b>Market (15% growth)</b>	1,987	2,285	2,285	2,285
<b>Incumbent AM/FM</b>	1,987	1,888	1,788	1,391
<b>New FM Service</b>		397	497	894

At these revenue levels, the new commercial FM service cannot afford to provide an equivalent level of local programming as the two incumbent services. The most cost effective option for the new service is to insert local advertising into a 24-hour networked service from a metropolitan market. This is model adopted by regional television with the introduction of the television aggregation in the 1980's.

The new FM service is also likely to provide network music programming that targets the same audience as the incumbent FM service. This is the largest audience most attractive to local and national advertisers. In a market of 70,000 people, a commercial service will not target a niche. In fact if there is a lucrative niche it is highly likely it will already be targeted by the new high powered narrowcaster – also advertiser funded – or by the new community radio service.

The incumbent radio station – faced with lower revenues and further operating losses – will need to find more cost effective ways of delivering programming to its two services. 'Live and local' programming may become a luxury that this radio station can no longer afford.

The ABA planned the new commercial radio service to provide this regional market with a greater choice of local service. Paradoxically the net effect will be less local programming on commercial radio.



This result will be good news for the television operators and the newspaper proprietors in this market. Two cash-strapped commercial radio operators in this market will inevitably strengthen the position of television and newspapers in that market. This is not a sound policy result nor is it the best outcome for competition in regional Australia.

There is a better way to provide for live and local radio services to non-metropolitan Australia.

The ABA's allocation process is restricted by the two commercial radio services per market rule. This rule is applied equally to metropolitan and non-metropolitan markets, which in reality have very different market conditions.

## **An Alternative Approach to the development of Commercial Radio Services in Non-Metropolitan Areas**

### **The economics**

72 of the 93 non-metropolitan radio markets currently have two commercial radio services. The ABA has planned a third commercial service in many of these markets.

It is far more economical and efficient for the incumbent radio station to provide a third service than another stand-alone operator providing that third service.

The new operator will have to have to build a new studio; buy a transmitter and either build or lease a transmission tower. It is unlikely the new operator will be able to build the new station for less than \$2 million. The incumbent already has access to studios and to a transmission tower. The capital cost of the incumbent providing a third commercial radio service is around 75% less than a new operator.

#### *Capital Expenditure Comparison*

\$'000	<b>Incumbent Operator Marginal Cost</b>	<b>New Operator</b>
<b>Set up costs of a third radio service</b>	\$500	\$2,000

If a new commercial radio service is commenced the incumbent is facing an operating loss of up to \$425,000, unless the radio station reduces its commitment to local news and programming.

However if the incumbent radio station is allowed to provide a third commercial radio service, it will earn a profit of \$41,000, with no reduction in local news and programming.

*Operating Expenditure Comparison*

\$'000	<b>Incumbent Operator providing 2 Services</b>	<b>Incumbent Operator providing 3 Services</b>
<b>Sales (15% market growth)</b>	1,987	2,285
<b>Expenses</b>	1,993	2,241
<b>Operating Profit (Loss) before Interest</b>	(6)	41

**The benefits to the community**

*Greater Diversity of Programming*

In RGCR’s experience, an independent third service will provide programming to endeavour to win audience from the incumbent services, by targeting a similar audience as the incumbent FM service. There is little likelihood that there will be a growth in radio listening.

Allowing the incumbent radio station to provide a third service will expand the levels of radio listening by providing complimentary programming which differs from the formats already being provided in the market.

The above table shows the likely target audiences of the three stations in the market.

	<b>AM Service</b>	<b>FM Service 1</b>	<b>FM Service 2</b>
<b>Incumbent Only</b>	55 plus	10-35	35-55
<b>Incumbent &amp; Independent</b>	39 plus	10-39	10-39

*More Local News and Community Involvement*

As mentioned above, an independent third commercial FM service cannot afford to provide an equivalent level of local programming as the two incumbent services. The likely outcome is service is acquired by a metropolitan commercial radio owner and they insert local advertising into a 24-hour network service.

However the incumbent radio station, providing three complementary services, can afford to spread the cost of staffing, local program development and local news across three separate services.

It is the advantage and cost efficiencies generated by the scale of the radio station that an independent providing a single service could not match. The audience is better served with a greater range of services with more local programming.

#### *Wider Audience Reach for Local Advertisers*

The wider audience reach provided by the incumbent radio station with three services is also very attractive to local advertisers.

Due to the marginal cost of providing the third service, it is also likely the cost of advertising will be lower. Local business will pay less to be on the three co-owned commercial radio services than being on three services with two owners.

### **A solid platform for media competition**

#### *Existing Media*

Currently commercial radio's main competitors for advertising revenues in non-metropolitan Australia are television and newspapers. The three regional television services provide a metropolitan network programming with 'local windows' for news and advertising. Even though essentially the same television program is being broadcast across a very large area of Australia, the television operator has the ability to broadcast different local advertisements to geographic areas of an equivalent size to the commercial radio licence area. The television station is therefore able to sell the same 'local window' to multiple advertisers in multiple areas, enabling television stations to sell their advertising at a similar and offer much lower price to commercial radio.

Newspapers have historically been a strong competitor for commercial radio. With improved printing technology, newspapers now have shorter copy deadlines and lower publishing costs. These are two factors that previously gave radio a competitive edge. There is generally only one major newspaper in each of the non-metropolitan markets – providing the newspaper with an attractive audience reach to sell to advertisers.

The existing ownership restrictions on commercial radio strengthen the relative positions of regional television and newspapers. Our view is that this is not good for media competition in non-metropolitan Australia.

### *Alternatives to Commercial Radio*

Today the non-metropolitan commercial radio audience has a record number of alternative broadcasting choices to commercial radio.

The dramatic growth in the number of community radio services over the past ten years has been mainly in non-metropolitan markets. Community radio not only competes with commercial radio for audience but also advertising revenues (in the form of sponsorship).

A new category of radio service called narrowcasting is now a direct competitor for radio in the niche programming formats. Narrowcasters are allowed to carry advertising and do not have any of the ownership and control restrictions of commercial radio.

Austar – the provider of pay-TV services in non-metropolitan areas – offers 8 radio channels as part of its basic satellite service. RGCR's understanding is that these services are directly competing with its services for the ears of the audience (particularly as Austar has large subscriber numbers in RGCR's key markets).

Internet radio is growing in popularity, especially amongst the younger audience as ISP access costs fall. The Internet's ability to offer hundreds of different program formats, and the sheer diversity of information sources available to audiences, make the two per market restriction on commercial radio look outdated and ineffective.

### *Digital Television and Datacasting*

From 1 January 2001, digital television will commence in Australia. Commercial television operators have been loaned additional spectrum to deliver digital television and data services. Spectrum is also being made available for datacasting services.

Digital television and datacasting will dramatically expand the number and type of services being offered by television operators and new datacasting providers. The ABC and SBS will be able to provide additional radio services using their digital television channels. RGCR's understanding is that all the free to air television operators are considering opportunities for interactive television.

As the digital television legislation favours the datacasting of news and information, it is widely expected the major newspaper groups will acquire digital datacasting capacity when spectrum is auctioned next year.

Digital television threatens two of radio's most attractive features – portability and mobility. Small hand held televisions are already available and with digital reception – the signal is crystal clear. The digital signal provided will be very robust – allowing for excellent television reception in the car, on trains & buses and at the office. These are very important locations for radio listening.

Digital television and datacasting will provide the television and newspapers with a stronger market advantage over radio at a time radio is trying to cope with the greatest expansion of analog radio services in 60 years and competition for new media such as pay TV and online services.

## **Section 54 of the BSA should be repealed**

RGCR calls on the HoRCC to recommend that Section 54 of the Broadcasting Services Act (1992)<sup>3</sup> to be repealed.

It is RGCR's view the supervision of acquisitions in the commercial radio industry can be satisfactorily regulated by the relevant provisions of the *Trade Practices Act* (1974), as administrated by the Australian Competition and Consumer Commission (ACCC).

RGCR's submission is that no additional provisions beyond those presently found in the *Trade Practices Act* need be introduced. Acquisitions of commercial radio licences are already subject to section 50 of the *Trade Practices Act*.

Section 54 of the BSA applies a blanket prohibition on ownership and control of commercial radio licences, without any consideration of the particular market conditions. The regulation is applied to commercial radio services in small regional market the same way it is applied in Sydney.

RGCR's submission is that it is time for the ownership and control rules for radio to be revisited, and that this would be in the interests of audiences throughout regional Australia. We look forward to discussing these issues with the HoRCC when it visits our licence areas.

---

<sup>3</sup> s54 of the Broadcasting Services Act – 'A person must not be in a position to exercise control of more than 2 commercial radio broadcasting licences in the same licence area'.

## **No New Licences Should Be Issued**

RGCR believes the best and quickest way to ensure local services continue in its markets is for ABA to stop issuing further commercial radio licences in regional markets. If you consider the model in this document of one of RGCR's services, it is clear an additional licence will reduce localism, economically operators will have no choice. If you want to save local content, then allocation of commercial radio licences should stop now.

## **RG Capital Radio**

November 2000

**Appendix A: ABA Classification Regional Markets**

	<b>Small</b>	<b>Medium</b>	<b>Large</b>
<b>NSW</b>	ARMIDALE (AM/FM) BROKEN HILL (AM/FM) COOMA (AM/FM) GOULBURN (AM/FM) GUNNEDAH (AM/FM) INVERELL (AM/FM) LITHGOW (AM/FM) MUDGEE (AM/FM) PARKES (AM/FM)	BATHURST (AM/FM) BEGA (AM/FM) COFFS HARBOUR (AM/FM) DENILQUIN (AM/FM) DUBBO (AM/FM) GRAFTON (AM/FM) GRIFFITH (AM/FM) KEMPSEY (AM/FM) MOREE (AM/FM) MUSWELLBROOK (AM/FM) ORANGE (AM/FM) TAMWORTH (AM/FM) TAREE (AM/FM) WAGGA WAGGA (AM/FM) YOUNG (AM/FM)	ALBURY (AM/2FM) CANBERRA (2AM/2FM) GOSFORD (2FM) KATOOMBA (FM) LISMORE (AM/FM) NEWCASTLE (1AM/2FM) NOWRA (AM/FM) WOLLONGONG (2FM)
<b>Vic</b>		COLAC (AM/FM) HAMILTON (AM) HORSHAM (AM/FM) MILDURA (AM/2FM) SWAN HILL (AM/FM) WANGARATTA (AM/FM) WARRNAMBOOL (AM)	BALLARAT (AM/2FM) BENDIGO (2FM) GEELONG (2FM) MARYBOROUGH (Vic.) (AM) SALE/ WARRAGUL (2AM) SHEPPARTON (AM/2FM)
<b>QLD</b>	CHARLEVILLE (AM/FM) CHARTERS TOWERS INNISFAIL (AM/FM) LONGREACH (AM/FM) MOUNT ISA (AM/FM) ROMA (AM/FM)	ATHERTON (AM/FM) BUNDABERG (AM/FM) EMERALD (AM/FM) GYMPIE (AM/FM) KINGAROY (AM/FM) MARYBOROUGH (Qld) (AM/FM)	CAIRNS (AM/2FM) GOLD COAST/Murwillumbah (AM/2FM) IPSWICH (FM) MACKAY (AM/2FM) NAMBOUR (2FM) GLADSTONE/ROCKHAMPTON (2AM) TOOWOOMBA/ WARWICK (3AM) TOWNSVILLE (4FM)
<b>SA</b>	PORT LINCOLN RENMARK	MOUNT GAMBIER MURRAY BRIDGE PORT AUGUSTA PORT PIRIE	
<b>WA</b>	ALBANY (AM/FM) BRIDGETOWN (AM/FM) CARNARVON (AM/FM) ESPERANCE (AM/FM) GERALDTON (FM/FM) KALGOORLIE (AM/FM) KARRATHA (AM/FM) KATANNING (AM/FM) MERREDIN (AM/FM) NARROGIN (AM/FM)	BUNBURY (FM) MANDURAH (AM/FM) RCRS (2)	

Inquiry into the Adequacy of Radio Services in Non-Metropolitan Australia

	NORTHAM (AM/FM) PORT HEADLAND (AM/FM)		
<b>Tas/ NT</b>	ALICE SPRINGS (AM/FM) QUEENSTOWN (AM/FM) SCOTTSDALE (AM)	BURNIE (1) DEVONPORT (AM/FM)	RCRS (NE) RCRS (Central) LAUNCESTON (2AM)