

REASONS FOR THE PROPOSED AMENDEMENTS TO THE LICENCE

1. INTRODUCTION

1.1 Vuma 103 FM (Vuma) is applying for amendments to clauses 4 and 5 of its Individual Commercial Sound Broadcasting Service Licence (“the licence”). In essence these amendments aim to achieve two key goals, namely to:

1.1.1 clarify and resolve existing ambiguities and interpretative difficulties in the wording of the gospel format-related provisions of the licence while ensuring that gospel remains the predominant format feature of the station; and

1.1.2 reduce the obligation to play a 50% quota of South African music – which is significantly higher than the 35% required, by way of regulation, of other commercial or public-commercial competitors – to a 40% quota, thereby allowing Vuma to be competitive and therefore financially viable.

2. HISTORICAL OVERVIEW OF NICHE-FORMATTED COMMERCIAL STATIONS’ FINANCIAL VIABILITIES

2.1 In this paragraph 2, we set out below, key issues in regard to the challenges presented to commercial broadcasters of narrow, niched formats. These challenges are critical for Icasa to bear in mind and take into account when considering whether or not to approve the licence amendments in respect of the format issues.

2.2 Vuma took to the airwaves for the first time on 22 November 2012 broadcasting 90% isiZulu and 10% English and playing 100% Gospel music.

2.3 The formula was a first in South Africa as there was, and is, no other commercial radio station which broadcasts almost exclusively in the vernacular and neither has there ever been a commercial radio station which has successfully operated with such a narrow music genre format.

2.4 Although the gospel format applied for in the original licence application was based on the anticipation by One Gospel (which later changed its name to Vuma) that this niche format would be commercially viable, the experience of the last eight years, including changing needs of listeners, is that a radio station playing solely gospel may, now, be more appropriate for a community-based radio station as opposed to a commercial one.

2.5 It was clear, early on, that the station would not be able to compete in the commercial arena with such a narrow pure-gospel format. Further, the limitations of an overly religious platform, better suited to community as opposed to commercial radio, soon became obvious. By the

time the initial applicant sold the station to Times Media in January 2014 a whopping R35 Million cash injection was already required to meet outstanding debts and keep the station afloat.

- 2.6 The station has not been alone in facing commercial limitations of a narrow format. Commercial radio stations, such as P4 Durban and P4 Cape Town, which also attempted to operate with narrow music formats (adult contemporary jazz), also had limited success in the commercial sphere, where attracting audience mass is critical. P4 Durban (now Gagasi) and P4 CT (now Heart) were both forced to expand their format repertoire away from a strictly jazz format and widen their appeal over time to their current incarnations as adult contemporary jazz formatted stations but including R&B, Soul, Adult Contemporary and Pop music.
- 2.7 Much like the P4 stations' early days, Vuma also failed to gain a significant critical mass of listeners and thus was not able to attract sufficient advertising to meet its own operating costs.
- 2.8 When listeners are forced to tune into other radio stations in order to be able to listen to any other genre apart from, for example, jazz (as was the case with the P4 stations) or gospel (as is the case with Vuma), it severely hampers a station's ability to grow.
- 2.9 A further difficulty with a niched format is its inability to ever create a listener's "favourite radio station". A listener's "first preference" (P1) music radio station is one which typically presents the listener with the highest chance of playing that listener's favourite song(s).
- 2.10 It goes without saying that for songs to be considered "favourites", they must be familiar. So, unless the listener is a niched-format aficionado (gospel or jazz for example), it is highly unlikely that they he or she would know the majority of the 2000+ songs that would be played on such a radio station.
- 2.11 The effect of this is that it is simply not possible that a large enough number of listeners would have the requisite knowledge of a niche format repertoire so as to create a sufficiently large audience to allow a niche-format station to compete with a mainstream commercial radio station with a wider, more generic format.
- 2.12 Furthermore, "time spent listening" (TSL) is a key measure for advertisers in determining on which radio station advertising Rands are spent. Consequently, it creates an obvious and systemic commercial disadvantage to continuously play lesser known songs that are unlikely to keep listeners tuned into your radio station.
- 2.13 Sadly, it has become clear that stations with narrowly-defined formats, simply cannot compete in a commercial environment against commercial stations with broader appeal. In this regard, however, we think it vital to stress that Vuma is committed to building a

successful radio station on the back of a predominantly gospel format and believes that this can be done as is set out in the following paragraphs.

3. VUMA: THE NEED TO FIND A TARGET AUDIENCE AND MEET ITS NEEDS

- 3.1 In this paragraph 3, we take ICASA through the work that was undertaken by Vuma's management to find ways of securing the financial viability of the station by identifying an under-served attractive (to advertisers) audience while remaining true to its licensed predominantly-gospel format. We have done this in some detail with the aim of persuading ICASA to take seriously our amendment requests based, *inter alia*, on the need to develop a target audience that is key to the projected success of the station.
- 3.2 The difficulties faced by Vuma in attracting a critical mass of listeners to market to advertisers were made much worse in 2016, when changes to the RAMS methodology and industry research service providers left Vuma with only 79,000 listeners as recorded by TNS Kantar. These figures declined over subsequent months and reached a low, in the period Oct 2016 - March 2017, of just 44 000 listeners.
- 3.3 Thus, the station had been left with only 44 000 listeners in a market where its commercial or public broadcasting competitors ranged from 800,000 to over 5 million listeners at the time.
- 3.4 Having no choice but to fight for survival, the station was forced to rethink its strategy. It had to offer advertisers a new, unique and attractive target audience that was not being adequately served by other radio stations and to whom the advertisers would be comfortable to market their brands.
- 3.5 By examining the RAMS data during the 2017 year, we made the following key determinations which are also reflected in the table below:
 - 3.5.1 The East Coast Radio audience was found to be predominantly Indian/Asian and White, with approximately two thirds of the audience falling into those racial categories, and more than two thirds being first language English speakers.
 - 3.5.2 The Gagasi audience fell predominantly within the category of youth, with 73% of its audience being under the age of 34 and unlikely to be in the upper LSM brackets.
 - 3.5.3 Ukhozi's audience ranged across all age groups, without targeting any particular range, and with a huge proportion of listeners being in the middle to lower income levels - 93% of the audience falling into the LSM 7 and under categories.

Source: BRC RAMS Oct 2016 - Mar 2017

	Age	%	Race	%	LSM	%	Language (Top 2)	
ECR	15-24 years	24	Black	25	LSM 1-4	4	English	68
	25-34 years	24	White	19	LSM 5-7	42	isiZulu	22
	35-49 years	26	Indian or Asian	43	LSM 8-10	54		
	50+ years	26	Coloured	12				

	Age	%	Race	%	LSM	%	Language (Top 2)	
Igagasi	15-24 years	35	Black	99	LSM 1-4	17	English	1
	25-34 years	38	White		LSM 5-7	77	isiZulu	97
	35-49 years	19	Indian or Asian	1	LSM 8-10	6	Isixhosa	2
	50+ years	9	Coloured					

	Age	%	Race	%	LSM	%	Language (Top 2)	
Ukhozi	15-24 years	26	Black	100	LSM 1-4	21	English	0
	25-34 years	29	White		LSM 5-7	72	isiZulu	88
	35-49 years	24	Indian or Asian		LSM 8-10	6	IsiXhosa	7
	50+ years	21	Coloured					

3.6 It was clear to Vuma that Black, urban, upper LSM adults did not appear to have a radio station that had been crafted specifically to meeting their needs. The urban, working, isiZulu speaking 35-40yearold was not accommodated in the commercial/public sound broadcasting landscape as things stood.

- 3.7 It was for this reason that Vuma saw an opportunity to refine the station's positioning while remaining true to its predominantly-gospel format, to meet the needs of the following target audience:

Primary Audience: LSM 8 – 10, Secondary Audience: LSM 5 - 7

Bilingual isiZulu and English speakers

Ages: 25 – 49

Black Urban Adults

Economy Drivers

Business and Community Leaders

- 3.8 It was important to then assess the music tastes and content preferences of this pocket of the KwaZulu-Natal (KZN) society in order to tweak the sound of Vuma to position the station's unique format within an already-crowded KZN radio environment in order to meet the needs of this identified under-served target audience.

4. RESEARCH UNDERTAKEN TO DETERMINE TARGET AUDIENCE'S CONTENT PREFERENCES

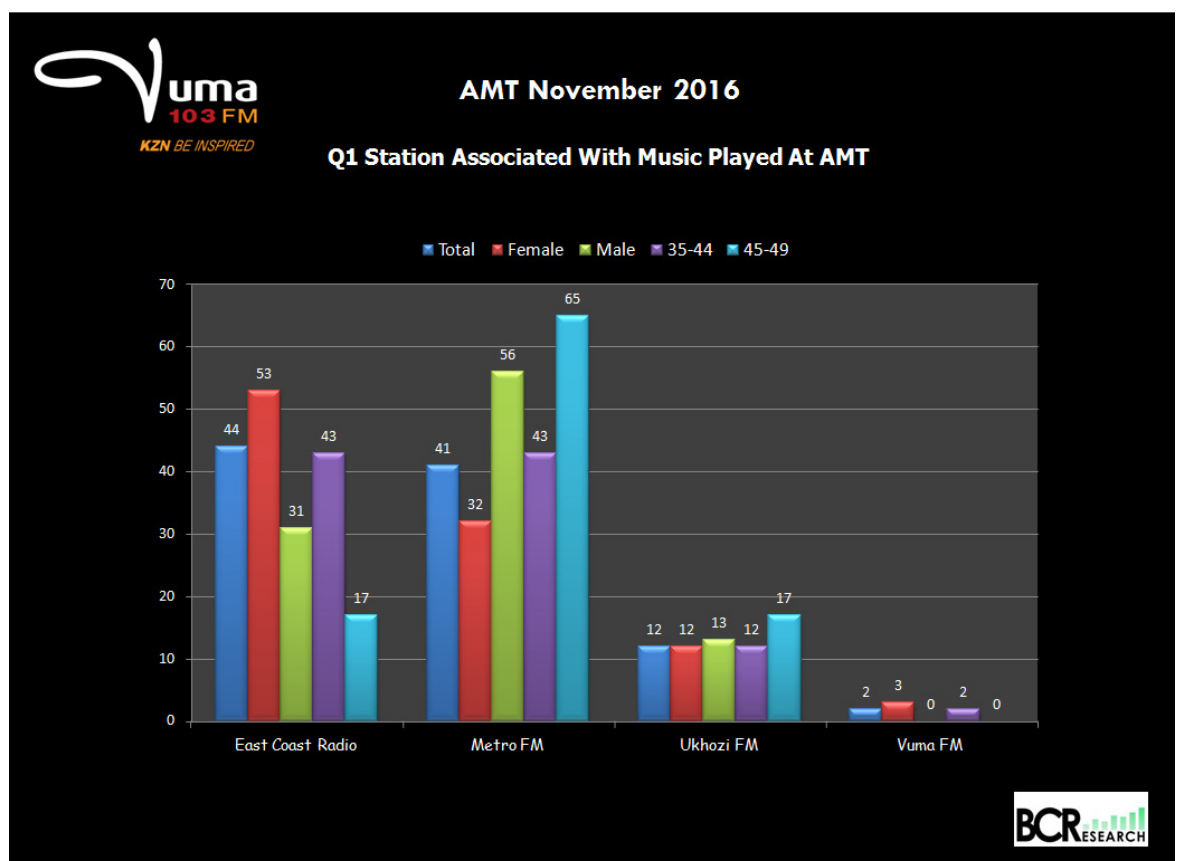
- 4.1 In this paragraph 4, we summarise for ICASA the key learnings from two distinct audience-related research projects undertaken by Vuma's management to find ways of securing the financial viability of the station by meeting the content needs of its target audience while remaining true to its licensed predominantly-gospel format. We have done this in some detail with the aim of persuading ICASA to take seriously our amendment requests based, *inter alia*, on the need to develop a content offering that was attractive to the station's target audience as that was key to turning the fortunes of the ailing station around.
- 4.2 Vuma conducted research to better understand the size of the identified under-served target audience and also the content-related needs of the identified target audience.
- 4.3 Two sets of research helped the station determine how it could best cater for the newly identified group mentioned above, namely:
- 4.3.1 Auditorium Music Research (AMT) which took place in November 2016 via a series of supplementary questions, conducted by BCR Research (Attached as Appendix 3.2.1); and
- 4.3.2 Vuma's Online Survey which took place in Oct 2017 and was conducted by Tiso Blackstar (Attached as Appendix 3.2.2).

4.4 The AMT was conducted on 100 respondents within the desired target audience with a 60%/40% female bias. In brief, the results of this research were as follows:

4.4.1 The aim of the study was to hone in on the music preferences of the audience and assist with refining Vuma's programming offering, while using gospel as the predominant format and lynchpin of the "look and feel" or "sound" of the station, to this under-served target audience specifically.

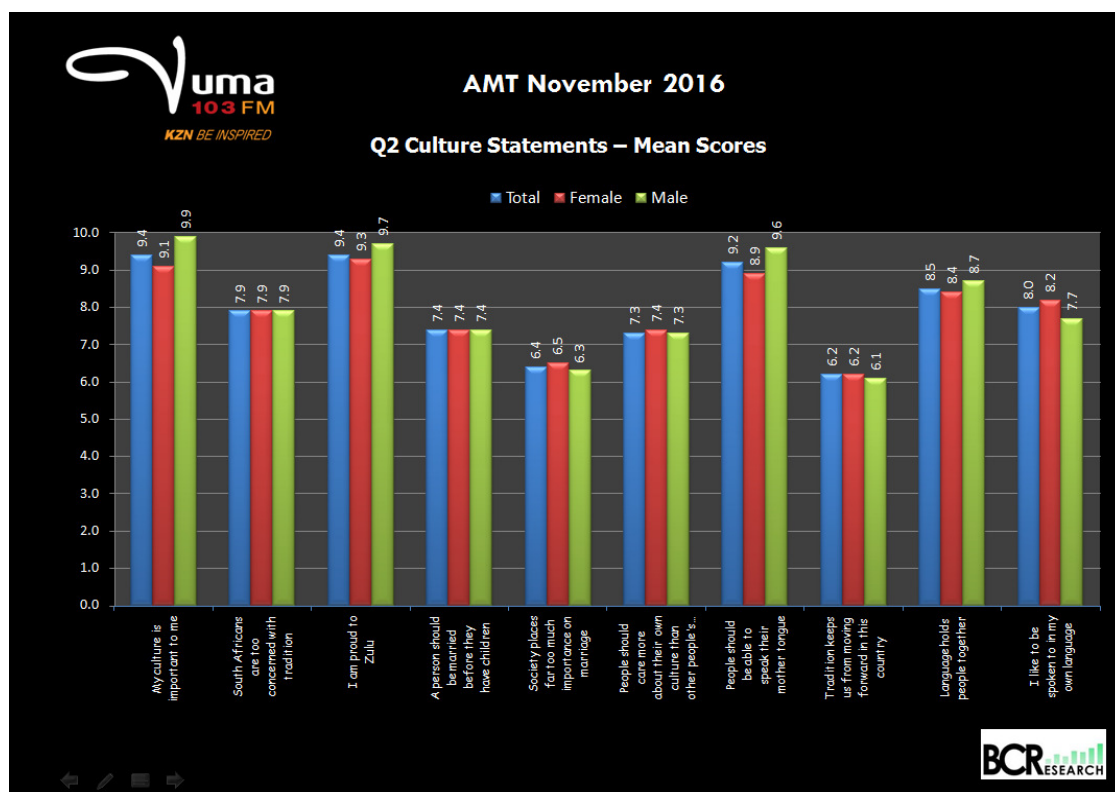
4.4.2 This research also allowed the station to conduct two focus groups which provided qualitative responses to various areas of probing into the psychographics, lifestyle, habits, beliefs and preferences of the new target audience.

4.4.3 The study found that Vuma was not seen as a station that delivered on the style of music which this under-served target audience also required, namely: R&B; Soul; Afro Pop; and Oldies. This, of course, was not particularly surprising given that the station had been established as a strictly-gospel format radio station.

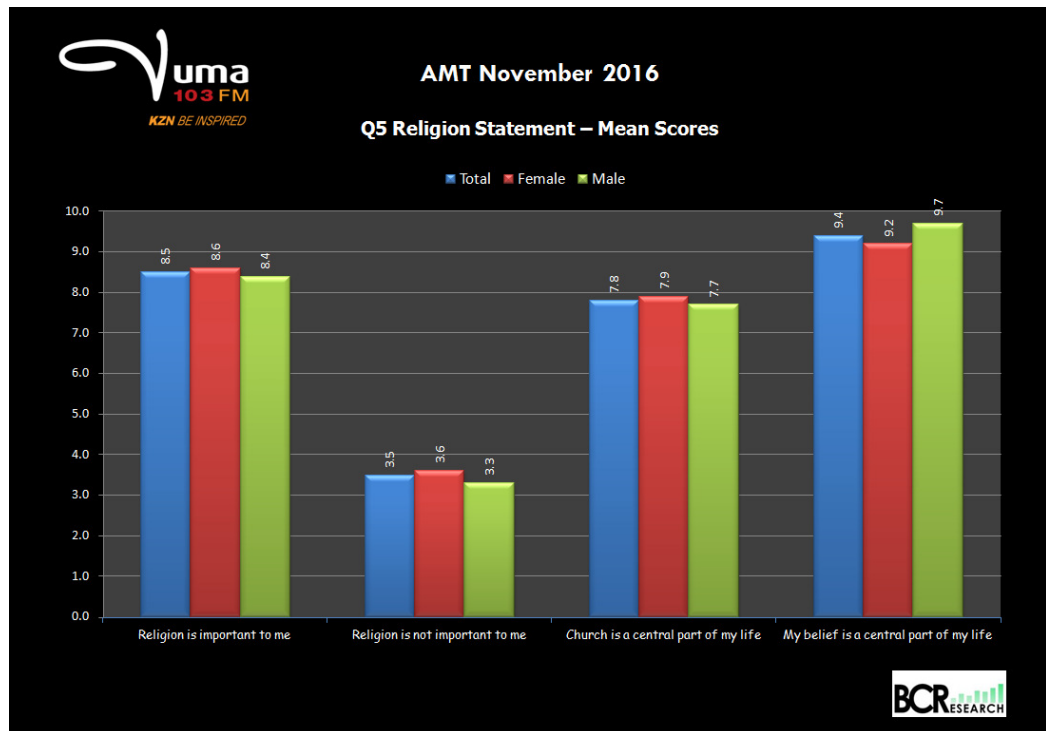


4.4.4 Importantly, when asked about matters of family, language, cultural beliefs etc, our audience showed clear, strong ties to tradition and held strong traditional values which assisted the station in better understanding the listeners' psychographic profile. This in

turn, confirmed the need for the station to continue to prioritise the use of isiZulu in its programming and in the delivery of its advertising messages on behalf of its clients.



4.4.5 Further, the research confirmed the importance, for the target audience, of maintaining a flow of gospel and/or religious programming, including in a talk format, where appropriate, as this would not likely be found on any other commercial radio station in the broadcast area and was in line with the identification of the target audience as being driven by values and faith. See the below graph in this regard:



4.4.6 On the basis of such results and the results of the music test conducted during the same survey, Vuma made various adjustments to its programming to suit the music and talk tastes of this audience. However, the station continued to ensure that gospel remained the most played and predominant music genre broadcast when compared with the R&B, Afro Pop and Soul music that the target audience also demanded. Further it continued to provide gospel-focused talk radio that resonated with the values and beliefs of the target audience.

4.4.7 The results were almost immediate and gratifying - the station began an upward climb in its audience figures which also led to improvements in its profitability.

4.5 Vuma's Online Survey, the second survey, was conducted a year after the AMT in November 2017, and was a means for the station to assess the appropriateness of the strategic direction that it had chosen to take through understanding the audience's response to the programming adjustments. It also assisted the station in gaining further insights regarding the audience's spending habits, aspirations and preferences which was to be used to better describe the typical Vuma listener to advertisers. This study was conducted on 100 respondents and responses were obtained electronically. Key findings were as follows:

4.5.1 The audience was found to have the following profile, exactly in keeping with the target audience of the station:

"Respondents are more single, Black, with 61% holding a tertiary qualification and seven in 10 employed. [They are] [h]igher income earners compared to the national average of R12 105.00 per household per month".

4.5.2 When asked when they started listening to the station, it was found that 44% of the respondents started listening to Vuma only after the programming adjustments, referred in paragraph 4.4 above, had been made.

4.5.3 The respondents' reasons for listening to the station were as follows:

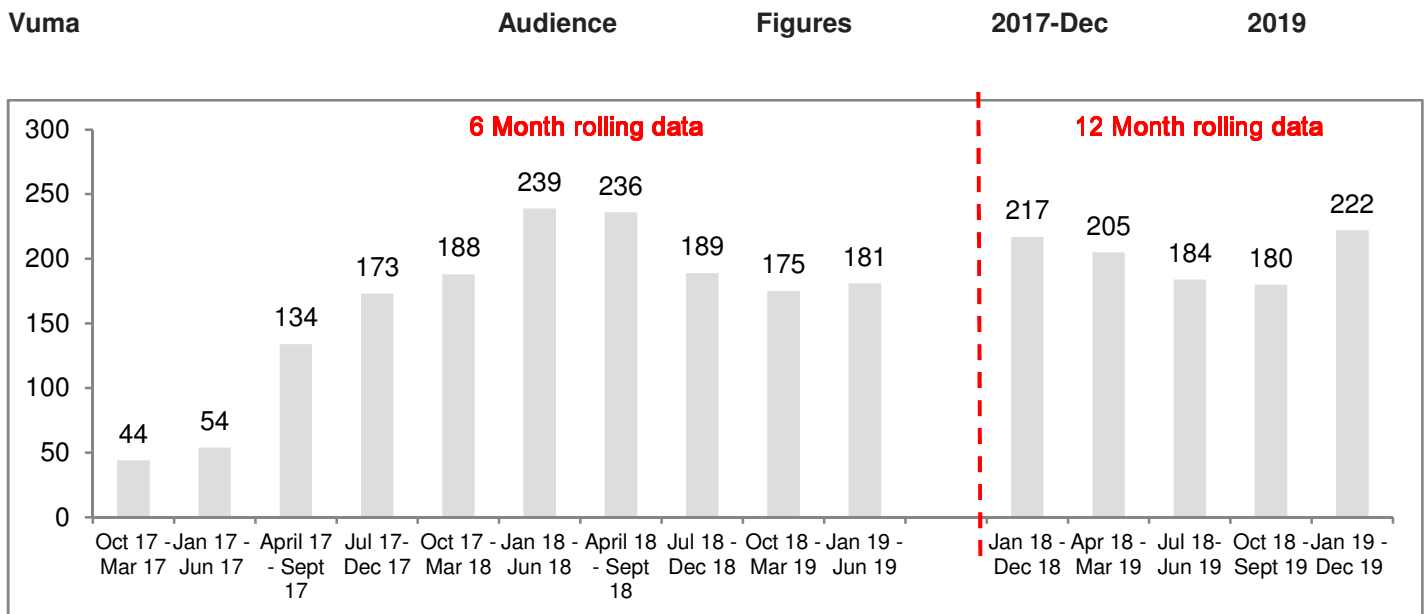
Plays the music I like	86%
Good presenters	57%
Shows are relevant to me	49%
News reports	29%
Traffic/weather updates	24%
Competitions	14%
Other	3%

5. PROVING THE FINANCIAL VIABILITY OF MEETING THE CONTENT NEEDS OF THE TARGET AUDIENCE

5.1 In this paragraph 5, we summarise for ICASA the approach that the Vuma management took in understanding the needs of advertisers, the ultimate arbiter of the success or failure of a commercial radio station. As ICASA is no doubt aware, mass audiences do not necessarily translate into ad spend. We have done this in some detail with the aim of persuading ICASA to take seriously our amendment requests based, *inter alia*, on the need to develop a content offering that was attractive to the station's advertisers as well as to its target audience as securing advertising was essential to turning the fortunes of the ailing station around.

5.2 Vuma's management recognised that the success of the station however would not only be measured according to audience satisfaction (which was already being built) but, crucially, in turning such audience satisfaction into advertiser satisfaction in order to achieve the station's commercial goal of becoming financially sustainable.

- 5.3 Over the period 2018-2020, the station proved that its new positioning as a predominantly-gospel station for the upwardly mobile, urban, Black adult market was in fact the key to making it commercially viable within its broadcast coverage area.
- 5.4 Similarly, over the same period, it became clear that the adopted strategy of mixing some R&B, Afro Pop and Soul to the predominantly gospel music mix was indeed the correct one. The audience figures climbed steadily from 44,000 to peak at over 200,000.
- 5.5 Currently, due to the Covid-19-related Lockdown, the broadcasting industry has not been able to track audience shifts as field research has been suspended indefinitely. Thus we must rely on the last available radio audience data, being:

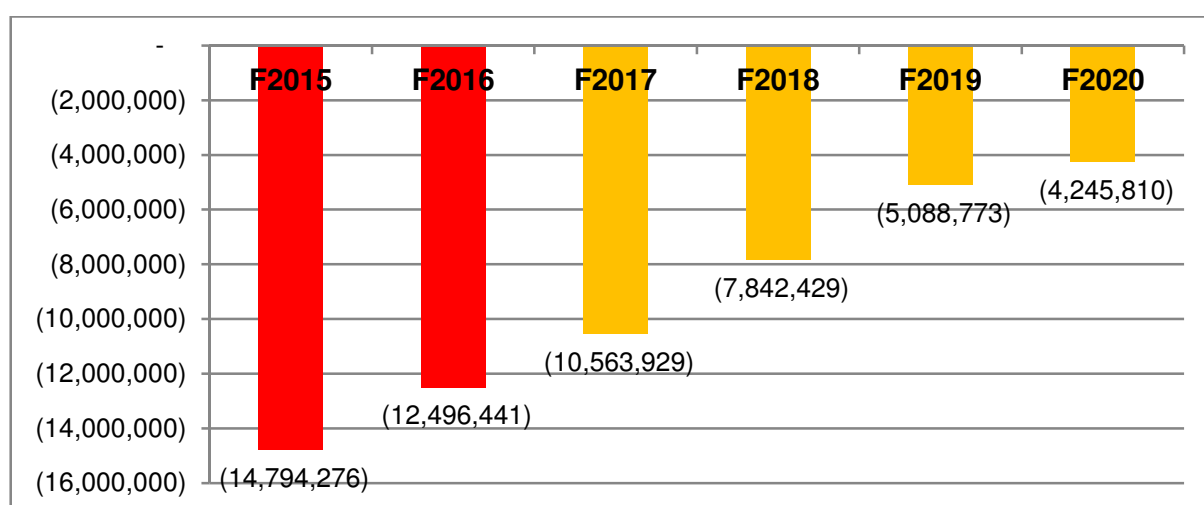


Please note that the industry changed the rolling period for the readings so that the BRC is now creating 12 month rolling data (instead of 6 months)
This was done to try to smooth out the sometimes erratic results caused by the under sampling in certain areas.
This new practice only started from the Jan 18 data so we do not have figures with 12 month rolling data for 2017

- 5.6 Although audience figures have dipped and bounced back over the past two years, the trend has clearly been an upward one.
- 5.7 Of the four commercial radio stations in secondary markets awarded licences in 2012, Vuma has now achieved the highest audience figures and has also reflected the largest audience growth of any commercial radio station since 2017.
- 5.8 It is critical to note that the station's strategy continues to be clearly differentiated in the market in which it operates, suggesting that the station has targeted a unique gap in the

audience profile that continues to be unmet by other broadcasters such as Ukhozi, East Coast Radio and Gagasi. Indeed, the station has filled a unique space: a predominantly gospel-led station, and with a certain amount of gospel talk radio, but including a mix of R&B, Soul and Afro Pop to the music mix, has been able to satisfy a previously ignored section of the KZN population.

- 5.9 Commercially, the station has finally managed to find a saleable proposition which is able to attract growing advertising revenues and steadily reduce its losses. In this regard, it is inconceivable that any entrepreneur would be prepared to fund an entity to the tune of almost R15 Million annually without return. As such, it has been a commercial imperative to grow the station's sales over the past few years. The graph below clearly indicates that the audited annual losses of the station have steadily decreased:



- 5.10 The station had budgeted to break even in its current fiscal year, however, the unanticipated Covid-19-related Lockdown and the severely constrained economic climate constitute significant risks to meeting the projected break-even time line. Nonetheless, the station's growth trend has been clear, and its commercial viability has been directly linked to its improved popularity amongst its target audience.

6. LOCAL CONTENT CHALLENGES

- 6.1 In this paragraph 5, we summarise for ICASA the reasons behind why the station requires additional flexibility by reducing its current local content obligation provided for in clause 5 of its licence. We have, again, done this in some detail with the aim of persuading ICASA to take seriously our amendment request based, *inter alia*, on the need to develop a content offering that was attractive to the station's target audience.
- 6.2 In the application we have requested a reduction of our local content-related licence condition obligation from 50% to 40%.

- 6.3 We think it important to acknowledge that South African music is being produced in the formats that are popular on Vuma. However, given that we target the 25-49 year old mature market, we need to be able to guarantee that sufficient quantities of music appropriate to our target audience will always be available. A 50% local content quota essentially means that every second song play-listed on Vuma must be local. The quality of gospel, R&B, Soul and Afro Pop produced in South Africa may not always make it possible for us to provide the popular, familiar, favourite hits that will please, and are demanded by, this audience.
- 6.4 Vuma is finding itself in a position where it has to sacrifice the tastes of our target audience to meeting the 50% local content requirement or *vice versa*. The station requires additional programming flexibility to be able to tailor its play-list based on audience responses to specific songs, particularly in respect of new releases. If we are unable to do this, our audience will move to a competitor commercial broadcaster which operates without these licence condition constraints and which is able to play more current music that is not South African.
- 6.5 In short, we are finding our flexibility to respond to audience tastes is being hampered by a local content requirement that is significantly in excess of the SA Music Regulations' 35% requirements for commercial radio. Moreover, we are in an unfair position *vis a vis* our competitor commercial stations as they do not have similar obligations – being able to operate off the baseline of the 35% local content requirement set down in regulations.
- 6.6 Consequently, we are respectfully applying for a reduction of our local content minimum obligations from 50 to 40% in order to allow Vuma to continue to grow audiences and revenues through tailoring its music playlist to be responsive to audience trends in the hope of one day breaking even, something that has yet to be achieved by Vuma some eight years after the granting of the licence.

7. CONCLUSION

- 7.1 It is clear that the station's burgeoning success is inextricably linked to its ability to draw a viable and attractive audience. With gospel as its predominant genre and an important feature of its talk offering and with a mix of other music, Vuma has been able to transform its fortunes, while still ensuring diversity in the broadcasting landscape by being the only commercial radio station which is "gospel led", in KZN and in South Africa as a whole.
- 7.2 The station is committed to continuing to be gospel led - hence the requested amendments to clarify the nature of the required predominance of gospel, both as a genre of music and as a topic for talk radio. However, to limit the station to being exclusively gospel and of that 50% South African gospel, would be to entirely destroy its ability to ever attract sufficient revenue to become commercially viable, whether in the short, medium or long-term.

- 7.3 In a market where its direct competition is permitted to supply a range of popular music with no additional the local content requirements, limiting Vuma to one niched music genre playlist poses a limitation that cannot be overcome by a station attempting to compete commercially.
- 7.4 Furthermore, Vuma derives 85% of its revenue from the local market (called the “Direct market”) which relies on support from business-people of all religions, races and walks of life in the urban centres of KZN. Limiting a commercial station to focusing overtly on the religious needs of one section of the population and alienating the rest of the market on religious grounds, creates serious barriers for our sales-people when attempting to market the radio station.
- 7.5 We have attempted to demonstrate to Icasa that Vuma is not shying away from being predominantly gospel-led both as a feature of its music offering and as a feature of its talk offering. Indeed we are excited to make commitments regarding 15 hours of gospel/spiritual-related talk programming as well as keeping gospel as the predominant music format. However, the current format-related provisions of its licence are unclear, contradictory and confusing, causing differing interpretations of what is required of the station as between the station and its Icasa compliance officers. As explained elsewhere, the words “exclusively” and “predominantly” cannot be read together; either it is exclusively or predominantly. This has caused different views being taken by Icasa and Vuma in relation to Vuma’s compliance with its licence conditions. Vuma maintains it is complying by playing gospel more than any other genre and hence, gospel is predominant. The amended wording would give both Icasa and Vuma absolute clarity as to what is required and how it is to be measured.
- 7.6 Similarly, we have attempted to show that the audience tastes have been minutely researched and our programming offering has been tailored to meet our unique market positioning. This, quite simply, cannot be achieved while consistently meeting a 50% local content target, a target much higher than its commercial of public competitors are playing. Vuma is not asking for its additional obligations to be done away with altogether, rather that they be reduced to a level (40%) that is still substantially higher than those of its competitors (35%) who have no licence conditions in respect of local content and who are governed by local content regulations only.