

PRIMEDIA'S RESPONSE TO ICASA'S DISCUSSION DOCUMENT ON DIGITAL SOUND BROADCASTING

2018

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1. Introduction

1.1 Primedia (Proprietary) Limited ("Primedia") is the licensee in respect of four commercial sound broadcasting licences namely, 947 and 702 in Gauteng and KFM 94.5 and CapeTalk 567AM in Western Cape.

1.2 Primedia welcomes the opportunity to submit comments in response to the Discussion Document on Digital Sound Broadcasting ("the Discussion Document") published by the Independent Communications Authority of South Africa ("the Authority") in Notice 161, Government Gazette 41534 of 29 March 2018, in the context of an inquiry initiated in terms of section 4B of the Independent Communications Authority of South Africa Act no 13 of 2000 ("ICASA Act").

1.3 Primedia will make representations at any public hearing that is convened as part of the inquiry.

2. General Comments

2.1 Primedia has been a participant in the Digital Audio Broadcasting Plus ("DAB+") trials that commenced in November 2013, however, we have been concerned that DAB+ trials were taking place in a policy vacuum. We commend the Authority for finally taking steps to open up discussions on the future of Digital Sound Broadcasting ("DSB") in South Africa. We believe that the outcome of this inquiry may lead to clear policy positions on DSB in South Africa.

2.2 Primedia is cognizant of the challenges that have been experienced in the Digital Terrestrial Television (“DTT”) migration process and we are hopeful that the Authority would apply lessons from the DTT in the introduction of DSB to ensure a smooth transition from analogue to digital sound broadcasting in the future.

2.3 We are also concerned with the fact that the DAB+ trials have mainly focused on the technical aspects and capabilities of DSB and no insight or detail has been forth coming on the actual commercial benefits of DSB for sound broadcasters. The Authority will appreciate that in order for DSB to be successful in South Africa, there needs to be buy in from sound broadcasters and investment into the technology and new content. The Authority will further appreciate the difficult financial conditions that broadcasters have to operate in as well as shrinking revenue in the sector. Any broadcaster will be reluctant to take on any further financial commitment that will further reduce its profitability. However, as already alluded to above, we welcome the opportunity to put forth our views on the Discussion Document and we are confident that this inquiry will lead to a clear policy position on DSB and that our concerns will be duly considered.

3. Responses to Specific Questions

3.1 Is there a need for the introduction of DSB technologies in South Africa?

3.1.1 Yes. Currently there is a scarcity of radio frequency spectrum, which has led to the Authority issuing a moratorium on licensing of new entrants particularly in the community broadcasting services. The introduction of DSB technology will not only open up new opportunities for current sound broadcasting licensees but it will also enable the introduction of new players

in the industry, by freeing up much needed frequency spectrum in the sound broadcasting space.

3.1.2 In introducing DSB technology, the Authority should also be cognizant that DAB+ and Digital Radio Mondial (“DRM”) technologies have already been superseded by broadcast over internet protocol (“IP”). There have been major developments that have taken place in the broadcast sector over the last five years or so, which have seen many international sound broadcasters adopting convergence of technologies to offer their audiences an array of services over and above what is generally available over analog transmission. Convergence has allowed sound broadcasters to develop Over-The-Top (“OTT”) services such as mobile telephony applications and websites which stream content. The increase in broadband ubiquity and the gradual decline of data costs has resulted in broadcasters seeing an increase in the number of audiences using digital platforms for radio consumption. We are of the view that this trend will keep growing significantly, more so as we see a broader access to smart devices, car infotainment systems and satellite television. Sound broadcasters continue to make significant investment into their digital platform strategies, as demand for access to content on digital platforms grows. Primedia does not see the value of investing in DSB technologies particularly considering that the success and benefits of DSB is dependent on the uptake of DAB+ and DRM receivers by the general public. However, the cost of DAB+ and DRM receivers which currently retail from a minimum of R750 to over R3000 per unit is an inhibitor to the successful uptake.

3.1.3 The European Broadcasting Union (“EBU”), in its Market Insights for Digital Radio 2017¹ (“the Report”), conducted a study into the digital radio rollout in a number of European countries which included Denmark, Norway, United Kingdom and Germany amongst others. The Report highlights the key success factors for radio digitization and points out both its strengths and areas that require action. The Report further highlights that even in countries that have seeing major growth in DSB radio offering, access to DAB+ receivers is still a concern. For example, Denmark, which is regarded as a leader in digital radio in the European market only has only seeing 46%² of its population having access to DAB+ receivers and one of the major reasons for this status is due to costs of receivers and a general decline in the sale of radio sets.

3.1.4 Based on the above, we are of the view that a viable method to the successful uptake of DSB technology without it being rendered obsolete by OTT services, is by ensuring widespread access to receivers, which can be achieved by ensuring that smart devices include an integrated DAB+ and DRM receiver as standard, and that car manufacturers sell vehicles equipped with receivers as standard. This will in turn ensure that the majority of South African citizens have access to DSB services without having to use data bundles to access OTT services. Furthermore, we recommend that the Authority conduct a Regulatory Impact Assessment (“RIA”) which will amongst other things look into the costs of DAB+ and DRM receivers, to ensure that they are accessible to the ordinary man on the street.

¹ European Broadcasting Union – Market Insights – Digital Radio 2017 (Media Intelligence Service February 2017)

² *Ibid* at page 18

3.1.5 We are of the further view that once the issue of cost of receivers is addressed, the introduction of DSB technologies will aid in achieving the objects set out in section 2(d), (e), (g) and (i) of the Broadcasting Act 4 of 1999 ("Broadcasting Act"). These objects will be achieved by ensuring that there are new players in the sector which would ensure a plurality of views, a broad range of services, investment in the sector and efficient use of spectrum.

3.1.6 Furthermore, we strongly believe that the introduction of DSB technologies will further aid in ensuring those classified under the Historically Disadvantaged Groups ("HDG's") and in particular Black people will have access to ownership opportunities in the sector by being able to apply for broadcasting licences.

3.2 Would you propose a total switch – off of the traditional analogue AM and FM sound broadcasting?

3.2.1 No. As discussed above, the majority of South Africans will not have access to DAB receivers and the prices of receivers currently available on the market is still relatively high for a South African household to purchase. This phenomenon is not unique to South Africa alone, the Report shows that even in European markets with a larger and wealthier middle class, access to receivers is still relatively low. The slow uptake has also resulted in a number of European countries pushing back the analogue switch-off date due to the slow uptake of DSB technology. In the South African context, we believe that there should not be a switch-off of the analogue AM and

FM signals until such time that access to receivers to South African Households is over 90%.

3.2.2 We are aware, as indicated in the Discussion Document that with the advent of digital terrestrial television, households will be able to use their set top boxes to receive sound broadcasting services. This will ensure that there is a wide spread uptake of DSB. However, the analogue signal should still be used until such time there is widespread access to affordable DAB receivers. Furthermore, we are encouraged that the Authority recognises that *“ideally, digital audio broadcasting should augment and not replace AM and FM”*³

3.3 Should the Authority adopt the strategy used in other international markets if licensing DSB services in the primary markets first and then a nationwide rollout?

3.3.1 Yes. In the event that the Authority adopts a principle of dual illumination, we believe that licensees in the primary markets will be better placed to adopt DSB technology and access to DAB receivers is more prevalent in primary markets than it is in secondary markets.

3.3.2 We would also like to propose that in the event that licensees in the primary markets are licensed first, the Authority implement an exclusivity period wherein no new licensee will be licensed on DAB in the primary markets for a set period of time. This approach we believe will encourage investment into the technology by current licensees and we further believe that it would

³ ICASA Discussion Document on Digital Sound Broadcasting GG 41534 at 3.2.2 on page 10

serve as a commercial incentive for current licensees to take up the technology and invest in new content for the platform. The Authority would appreciate that currently all focus on DSB has been on the technical aspects and capabilities of DSB and no insight or detail has been forthcoming on the actual commercial benefits of DSB for sound broadcasters. Primedia is of the view that the Authority should conduct a RIA to assess the viability of the introduction of DSB technologies from a commercial point of view. The Authority should further be mindful of the current state of the South African economy, which has seen a significant reduction in advertising spend due to the tough economic climate experienced by many companies. Sound broadcasters have lost their share of advertising to platforms such as Google, Facebook and other online publishers, any further fragmentation of the sector will see further declines in advertising spend as more advertisers move to advertising on digital platforms, which afford them a better opportunity to reach out to their target market better than what radio can offer. Therefore, investment into DSB technology by sound broadcasters may never see a return on investment.

3.3.3 We reiterate that the success of DSB in South Africa will be dependent on the uptake of the technology by the South African public. The RIA will provide the Authority with the necessary insight on whether general public is likely to adopt the more expensive DAB+ and DRM receiver which offers no significant consumer benefit over what can be gained by using a broadcasters OTT services at no extra cost to the consumer.

3.3.4 Commercially, there is currently no incentive for sound broadcasters to adopt DSB. It makes no sense for a broadcaster to take on signal additional

distribution over and above its current analogue signal distribution fees. Broadcasters need certainty that if they do invest in DSB technology, their investments would be protected for a set period of time prior to any new players being licensed in the sector. Part of the incentive could be the Authority playing a more significant role for example like in France where by regulations all radio receivers sold in the country must by law include a digital radio tuner, including in-car devices⁴. However, this did not result in significant uptake by consumers as sales of digital radio devices only accounted for less than 2% of total radio sales in 2015/16⁵. This was furthermore compounded by the fact that none of the French four major commercial radio groups applied for a DAB licence. Major radio groups continue to divert resources into competitive internet based offerings ⁶. Austria has also seen neither of its two nationwide players, the public ORF and the commercially owned Kronehit being involved as they would need specific incentives to participate.⁷

4. Additional Questions for Broadcasters

4.1 What is your understanding, expectations and concerns as broadcasters with respect to DSB?

4.1.1 Understanding and Expectations -

4.1.1.1 Primedia understands that the adoption of DSB will ensure that there is greater spectrum efficiencies and management.

⁴ *Supra* note 1 at page 27

⁵ *ibid*

⁶ *ibid*

⁷ *ibid*

4.1.1.2 The adoption of DSB will further enhance the objects set forth in the Broadcasting Act as we have alluded to at 3.1.4 above.

4.1.1.3 Audiences will have the benefit of a wider range of services.

4.1.1.4 From a commercial perspective, DSB ought to open up new revenue opportunities by enabling licensees to run multiple services without the need for multiple licences.

4.1.2 Concerns -

4.1.2.1 We reiterate our point at 3.3.4 above that costs of uptake are a concern for Primedia as a commercial sound broadcaster. The adoption of DSB will mean that Primedia will have to take on additional transmission costs in the interim until such time that there is analogue switch off.

4.1.2.2 Over and above the costs of transmission, sound broadcasters would have to deploy additional resources for channel and content costs. It would make no sense for broadcasters to be licensed on DSB and not use the platform. Therefore, we would be required to invest significant amounts of capital to produce content for the platform. This links back to our point at 3.3.2 that there needs to be a period of exclusivity for current licensees to enable a return on investment in the technology. There is no feasibility into audience take up. If there is a low audience take up there will be no commercial model to support media owners investing in the technology. The Authority should conduct a feasibility study and take into international precedent where consumers are

wealthier yet take up is low and more people use the internet to access audio services.

4.1.2.3 Furthermore, the Authority needs to set clear policy positions on issues of licensing and formats of the licensed services. Primedia is concerned that the introduction of DSB may lead to licensees deploying additional services with different formats to what they have been licensed for. This may lead to a situation where licensees with less financial backing lose their competitive edge to those with the financial ability to deploy services that would cater for all formats of sound broadcasting, thus in turn taking a significant chunk of listenership from smaller players in the sector.

4.2 How will DSB impact your sound broadcasting services business?

As already alluded to in 4.1.2 above, the concerns raised therein will suffice. There are also questions of competition in the sector; will DSB promote competition or will it stifle it. Sound Broadcasters with the financial backing will be able to deploy additional services aimed at targeting audiences from smaller sound broadcasters. DSB will dilute revenues and put pressure on profits as it promotes fragmentation of services and consumer take up is likely to be very low.

4.3 What are the projected financial implications associated with DSB, considering that Digital Terrestrial Television (DTT) is to be implemented prior to DSB?

4.3.1 Without a policy position it is difficult for Primedia as a commercial sound broadcaster to project what the financial implications associated with DSB will be. Policy will guide business on what new opportunities it can explore and what financial investment will be required.

4.3.2 What we currently know is that sound broadcasters will have to take on additional costs of transmission in the event that there is a period of dual illumination.

4.3.3 Over and above the transmission costs, there are costs of deploying new channels and content on DSB.

4.4 What issues of concern should the Authority be wary of when implementing and planning for the regulation of DSB, with respect to competition, spectrum concerns, financial considerations etc.?

4.4.1 We have already alluded to some of our concerns regarding competition matters and financial considerations in the preceding paragraphs.

4.4.2 At a high level there are concerns around:

- i. Regulation of licensees;
- ii. Issuing of new licenses; and
- iii. Geographical coverage

4.5 Do you believe DSB will encourage growth in your business or will it create unnecessary financial pressure on your business?

4.5.1 We reiterate that only a clear policy position will give guidance to sound broadcasters in terms of growth opportunities for the sector. We do however believe that DSB has potential of growing our business in the medium to long term. We reiterate that this position will depend entirely on the Authority's position on issues of dual illumination going forward. It is likely to create financial pressure in a market with declining advertising share for radio and declining adshare in general as money moves online.

4.5.2 The reality is that in the short term we see no commercial benefit of adopting DSB because of its limited audience reach due to DAB receiver availability and costs of purchase. We believe that once there is widespread access to DAB receivers and costs are significantly reduced, the commercial viability of DSB will be greatly improved. However, there is the possibility that it will be eclipsed by online audio options as broadband becomes more accessible to the ordinary man on the street.

4.6 Have you conducted research on DSB and the implementation and regulation of same that you can share with the Authority?

No. Primedia has not conducted any research on DSB implementation and regulation. However, we are aware of the pitfalls based on the experience of our European peers but investigations into the feasibility of the service is required from the Authority.

4.7 Please provide the Authority with any further information you deem necessary and asked herein.

We have no further information to provide to the Authority. However, we would like to reiterate our position that the Authority needs to give serious consideration to the commercial viability of DSB in South Africa, more so in the early stages of implementation.

4.8 How would the introduction of digital sound broadcasting benefit the service providers?

The Authority has not defined “service providers” therefore, it is difficult at this stage to respond to this question without knowing what is meant by service providers.

5. Conclusion

5.1 We would once more like to thank the Authority for the opportunity to comment on the Discussion Document and we hope that our input would be duly considered.

5.2 Primedia will make representations at any public hearing that is convened as part of the inquiry.