SUBMISSIONS ON THE ICASA DISCUSSION DOCUMENT ON DIGITAL SOUND BROADCASTING

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PANEL

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INTRODUCTION

- Joint submission by iGagasi and Heart
- Both broadcasters hold a commercial sound broadcasting service licence
- Issues regarding both broadcasters are substantially similar

ABOUT IGAGASI 99.5

- Licensed in 1997
- Operates in Kwa-Zulu Natal
- Target Market is the young Black market aged between 18 and 35
- Current listenership approximately 1.78 million, of which more than 98% are Black

ABOUT HEART 104.9

- Licensed in 1997
- Operates in the Western Cape
- Family orientated station targeting the Coloured market aged between 24 and 49
- Listenership is approximately 716 000

OUTLINE OF SUBMISSION

- Submission deals with only limited issues being:
  - Should there be a total switch-off of analogue services with the move to digital broadcasting services?
  - Competition related issues
  - Recommendations

A TOTAL SWITCH-OFF?

- A total switch-off will require listeners to buy a digital receiver
- Cost of digital receivers is currently unknown
- Estimated cost will be out of reach for a great part of the population
- Conversion must take into account all income levels and the demographics existing in South Africa
- Current cost of receivers is still out of reach of many South Africans
- DSB receiver will be more expensive
- Other jurisdictions such as the UK demonstrate this

A Total Switch-off Cont.

- Experience in the UK shows that:

  "People on lower incomes are less likely to be using digital radio than people on higher incomes, so the cost will fall disproportionately on the people with lower incomes"

- Disparities in income levels in South Africa are substantially worse and position thus exacerbated.

- Rural areas need to be accounted for where costs of receivers will be more pronounced than in urban areas

- Unfair to deny a sector of the population access to digital radio

- In many areas radio serves an important and often the primary mode of communication

A Total Switch-Off - Conclusion

- Despite additional costs for broadcasters, after the introduction of DSB and for a period of time thereafter, there should not be a total switch-off of analogue services.

COMPETITION RELATED ISSUES

- Competition issues remain a concern for certain broadcasters
- There are financial implications associated with DSB
- DSB may create unnecessary financial pressure on certain broadcasters
- DSB may impact on competition between sound broadcasting licensees

Introduction to Competition Issues

- DSB creates a greater opportunity for sound broadcasters
- DSB leads to increased capacity and improved spectrum efficiency
- Licensees capable of transmitting more data per unit bandwidth thus may have more than one station

Cost of Transition and Impact on Broadcasters

- Initial transition costs to DSB are substantial
- Creates greater opportunity for those with more to spend
- More established broadcasters thus have an advantage gained over time
- These are licensees licensed prior to the licensing of the Greenfields licensees in 1997. These include East Coast Radio in KZN and KFM in the Western Cape
- The privatised SABC stations were “six lucrative SABC stations” (per NAB)
- When iGagasi / Heart were licensed ECR and KFM had a substantial head-start

Cost of Transition and Impact on Broadcasters Cont.

- ECR and KFM started from an advantageous position as:

  - Took over lucrative existing stations

  - Stations had an established audience and advertising base

  - They took over profitable businesses and therefore no initial losses compared to the establishment of a new broadcasting service

- Had cash flow from day one to fund any capital outlay required

- Avoided the “J Curve”.

Establishment of a New Radio Broadcasting Service

- Initial years not profitable

- Incur losses due to capital outlay and starting from a zero audience and advertising base – May take seven to ten years before an upward trend in the "J Curve".

- Due to head-start of existing licensees, difficult to convince advertisers to shift their allegiances.

Case Study : KZN – iGagasi and East Coast Radio

- Estimated that ECR’s profitability is seven times higher than iGagasi
- Vuma, as most recent licensee, still making losses
- ECR revenue estimated to be 3.4 to 4 times higher than iGagasi and ten times higher than Vuma
- Fixed costs of running a licensee similar between licensees
- Result is that ECR has advantage in generating greater revenue resulting in disproportionate profitability

Anomaly Between iGagasi and ECR

- iGagasi has a greater listenership than ECR

- Despite this, ECR has greater revenue and profitability

Why is This the Case?

- Target market ECR largely Indian and White
- Approximately 330 000 Black listeners
- 85 000 Black listeners are in metro areas
- Advertising has tended to favour White and privileged listeners notwithstanding their constituting less than 5% of the population in KZN.

Audience Measurements

- Previous SAARF measurements skewed
- ECR shown to have 2.1 million listeners of which 900 000 were Black
- Gross over-statement of Black audiences
- Measurements recognised as inaccurate and now replaced by BRCSA measurements

Audience Measurements Cont.

- Previous measurements had unrepresentative samples.
  - Whites over-sampled
  - Blacks under-sampled
  - Where Blacks sampled, the measurements showed favouritism to Blacks in affluent areas

- Distortion of figures for ECR in respect of Black listenership resulted in greater ad-spend on ECR.

- ECR in fact has approximately 330 000 Black listeners

Change in audience figures

- Audience measurements conducted by BRCSA are considered to be more accurate
- Implemented two years ago
- Despite this, ad-spend continues to follow previous skewed audience figures
- Advertisers are set in their ways meaning it will take time to move advertisers away from ECR and ensure ad-spend is proportionate to listenership.

Implications

- As fixed costs of running a licensee are similar between licensees, disproportionate ad-spend means disproportionate profitability.

2011 Census

2011 census shows that 10.2 million people live in KZN, of which

- 429 000 - White
- 757 000 - Indian
- 142 000 - Coloured
- Remainder and vast majority are Black

Target Markets

- iGagasi focusses on the young-Black market aged between 18 and 35 years.

- ECR has targeted primarily Whites and Indians between the ages of 25 and 49 years

- Given demographics of KZN with decreasing numbers of Whites and Indians, ECR needs to increase Black listenership.

- Vuma also focusses on Black listeners between 30 and 50 years of age

How Can ECR Attract Black Listeners?

- ECR can only attract greater Black audiences if it changes its format and the music it broadcasts
- A change of format in the current analogue market would alienate ECR’s existing listeners.
- DSB will allow licensees to have multiple stations
- If not regulated, ECR could maintain its existing format and use a second station to target and churn audiences away from iGagasi or Vuma
- This would severely impact on the profitability of these stations

ECR’s Competitive Advantage

- While iGagasi and Vuma could eat into the ECR audiences, ECR maintains a substantial advantage due to its revenue base and profitability
- Given costs of moving to DSB, in the early phase, only ECR would have the financial ability to quickly and easily establish a new station
- By establishing a new station before its competitors, ECR would gain a substantial, long-term competitive advantage.

RECOMMENDATIONS

- Have a period of dual illumination with both analogue and digital services until such time as digital radios are accessible by the majority of the population

- In the short instance, to enable existing licensees to deal with costs of moving to DSB, no new licences should be issued

- Need to create regulatory and licensing framework with the transition to DSB which does not entrench the bigger and longer-standing licensees

- Regulations cannot ignore current trends

Recommendations Cont.

- Regulations should therefore provide that existing broadcasters be limited to one station under DSB for ten to fifteen years

- Alternatively, if existing licensees permitted to operate more than one radio station, they need to be limited to their existing formats as contained in their licences for a period of ten to fifteen years

- Prohibit cross-selling or cross-subsidising of advertising where a licensee holds more than one licence

THANK YOU

- iGagasi and Radio Heart thank the Authority for giving them the opportunity to make these representations and to deal with any questions