

The Future of the South African Broadcasting Industry

October 2000

Introduction & Background

Introduction

- The National Association of Broadcasters (NAB) wishes to thank you for the opportunity to make this presentation on the future of broadcasting in South Africa
- This presentation is made at a time when South African broadcasting is not growing as it should
- After the transformation of the industry post-94, it is our view that a second wave of intervention is needed to foster growth and development
- This intervention could see the broadcasting sector realising its potential and driving our country into the new economy

Background to the presentation

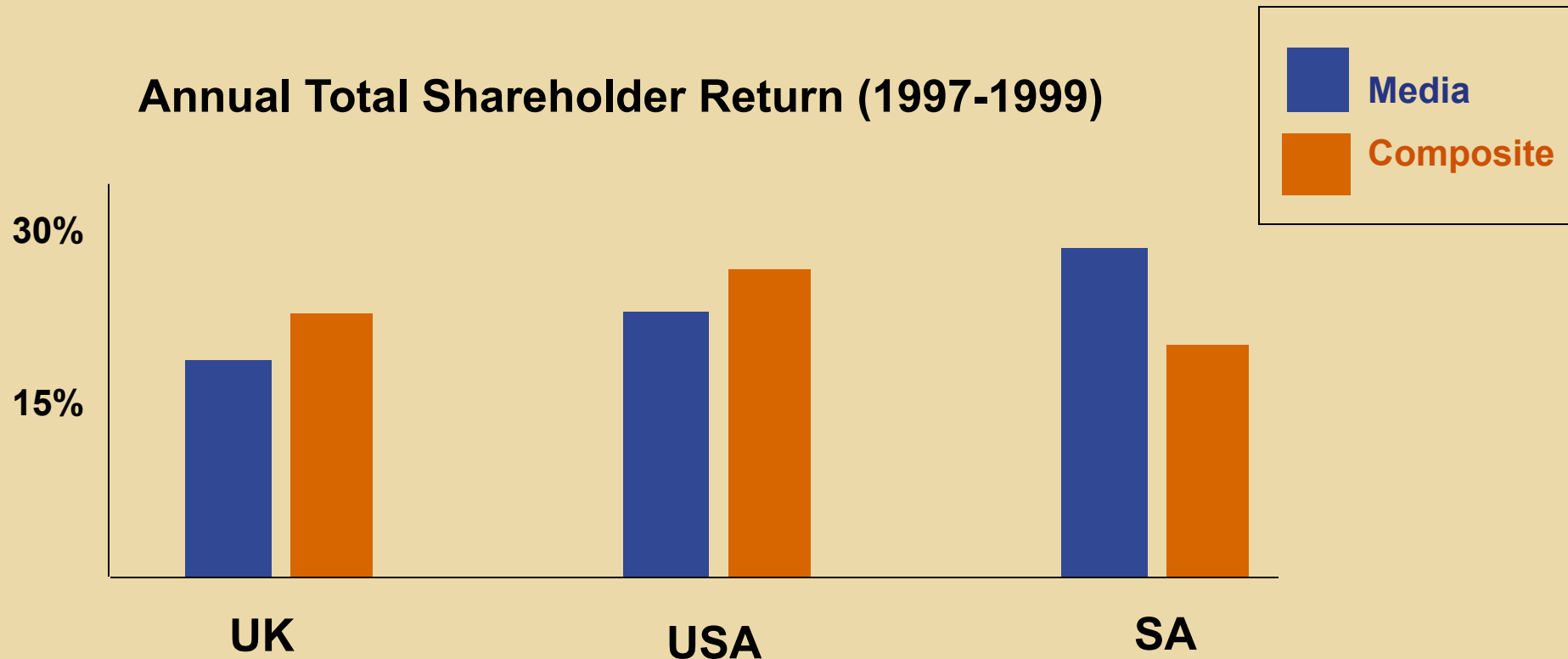
- The NAB, in conjunction with PricewaterhouseCoopers, have:
 - Conducted a survey amongst the television and radio broadcasters, as well as members of the investor community in South Africa and abroad;
 - Examined the key trends in media and broadcasting internationally;
 - Examined the status quo of the SA broadcasting industry;
 - Identified the critical success factors needed to promote growth in this industry; and finally
 - Made recommendations on the way forward
- This presentation sets out our findings and attempts to address the key requirements to achieve growth in the broadcasting industry

The SA Broadcasting Industry

The status quo of the South African broadcasting industry

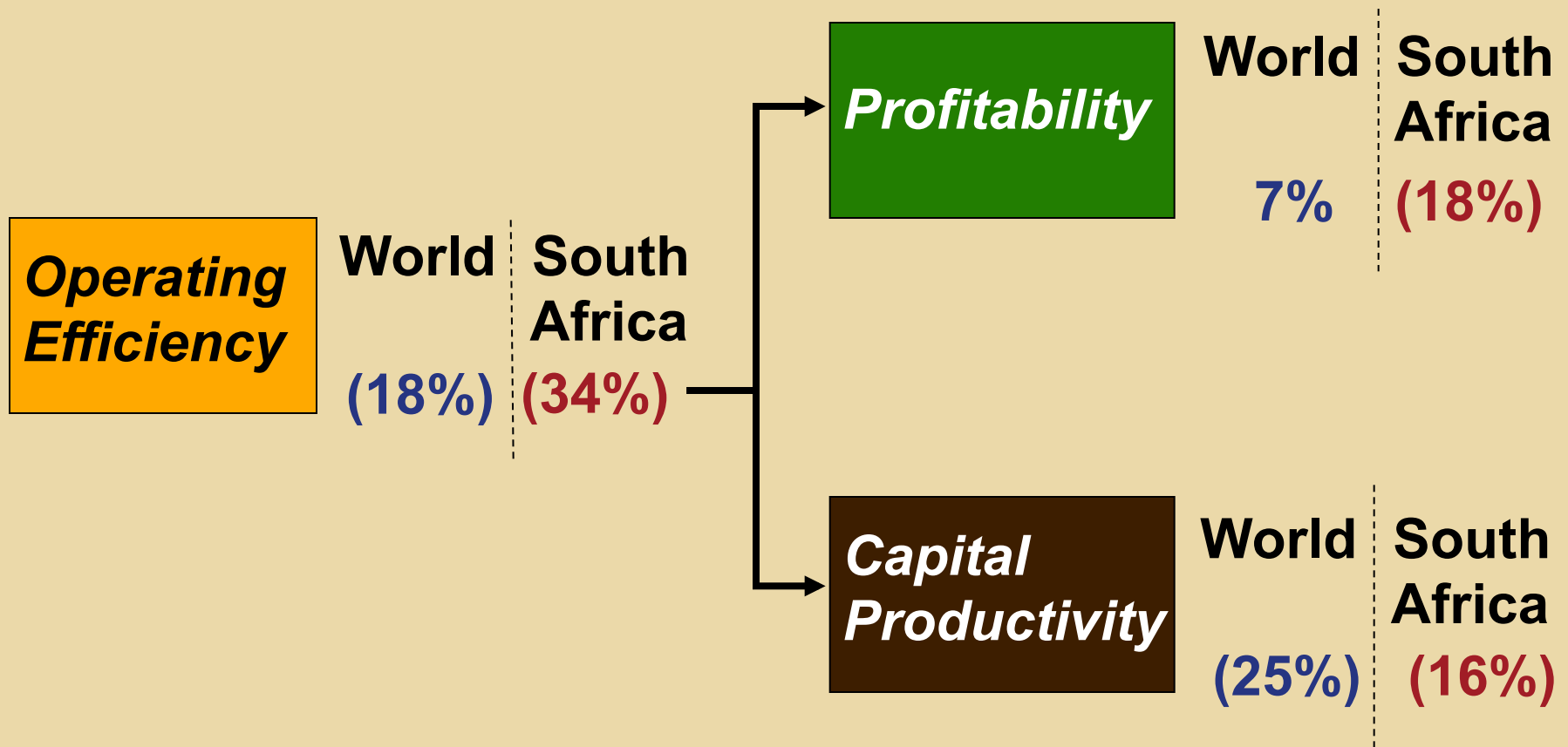
- The media industry as a whole has been going through difficult times of late
- Stock prices of media companies on the JSE have been depressed, a number of business failures have been reported and institutional investors seem reluctant to invest further capital into the industry
- Since re-regulation there have been a number of changes in ownership, sometimes because assets were not delivering the returns anticipated. In fact, a recent survey by PwC confirmed that the majority of media companies in South Africa were destroying value
- The public broadcaster has been going through a difficult financial period in the last couple of years
- The regulator has sometimes not been able to meet the turnaround times in decisions called for by the marketplace

The SA media industry has out-performed because of a “first wave” of intervention, IPO’s and technology adoption



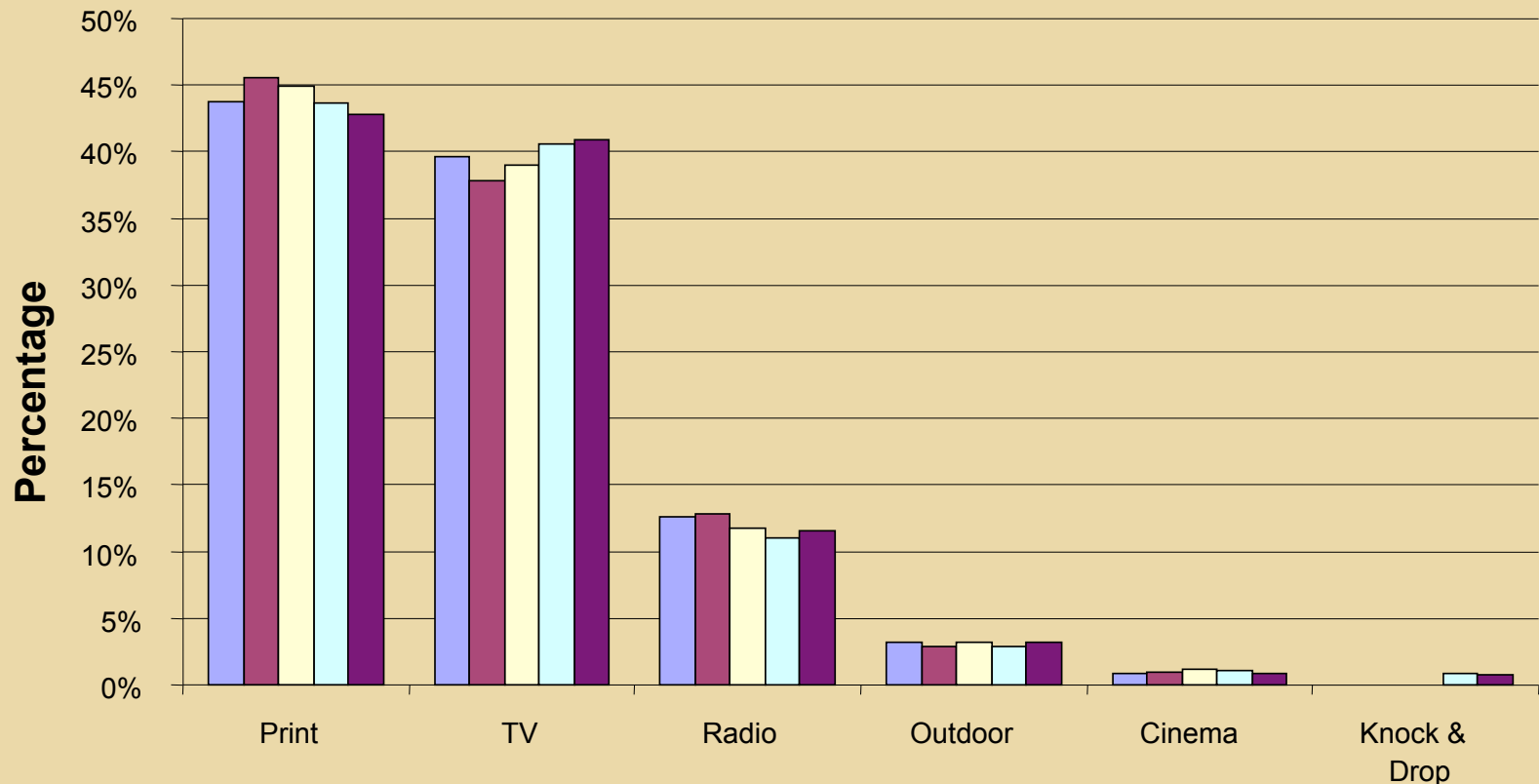
However, this will only go so far...

Future value creation relies on a combination of growth and operating efficiency, which shows a “second wave” of intervention is required

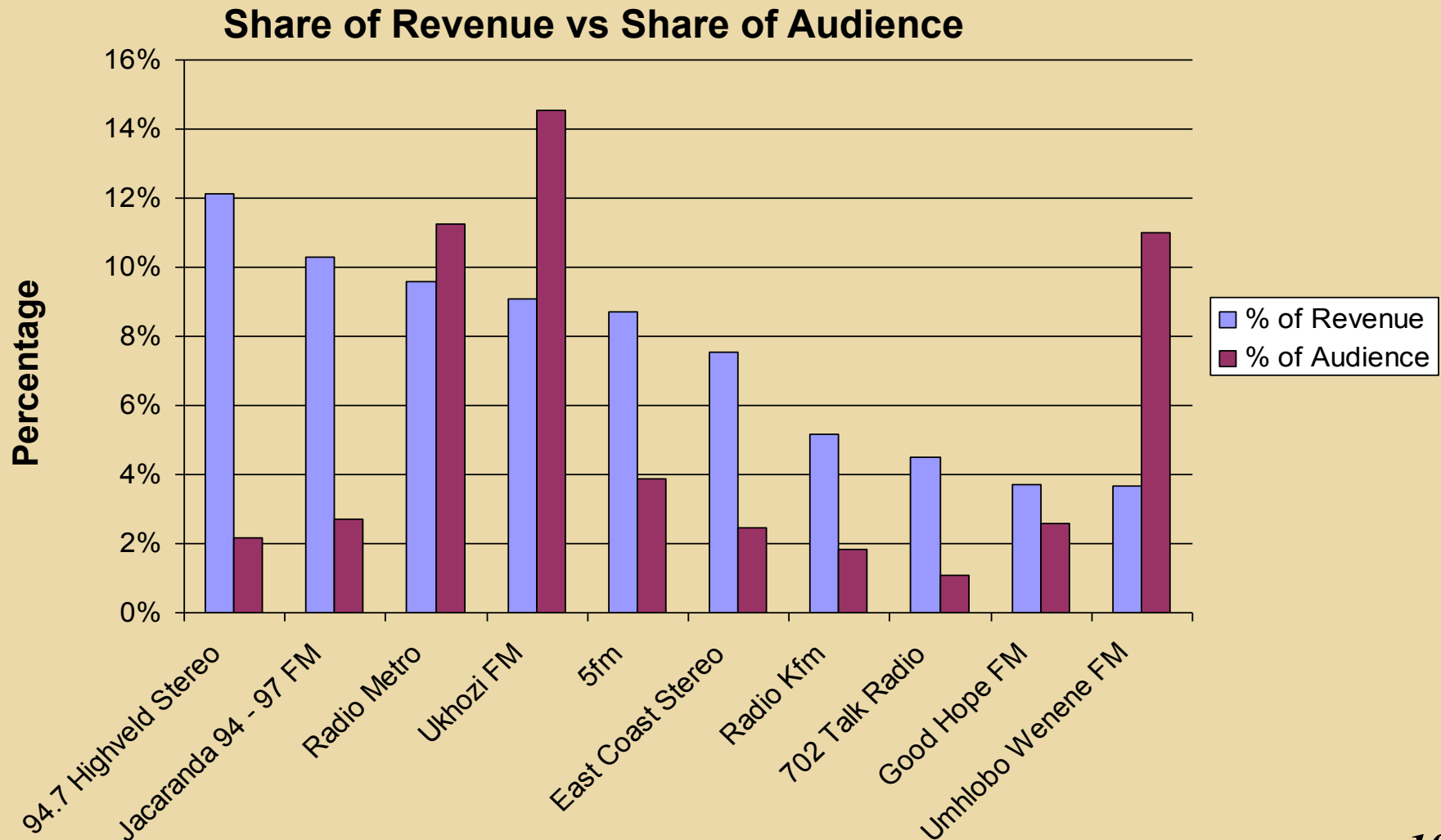


Total adspend in SA has remained relatively unchanged over the last 5 years between the various mediums...

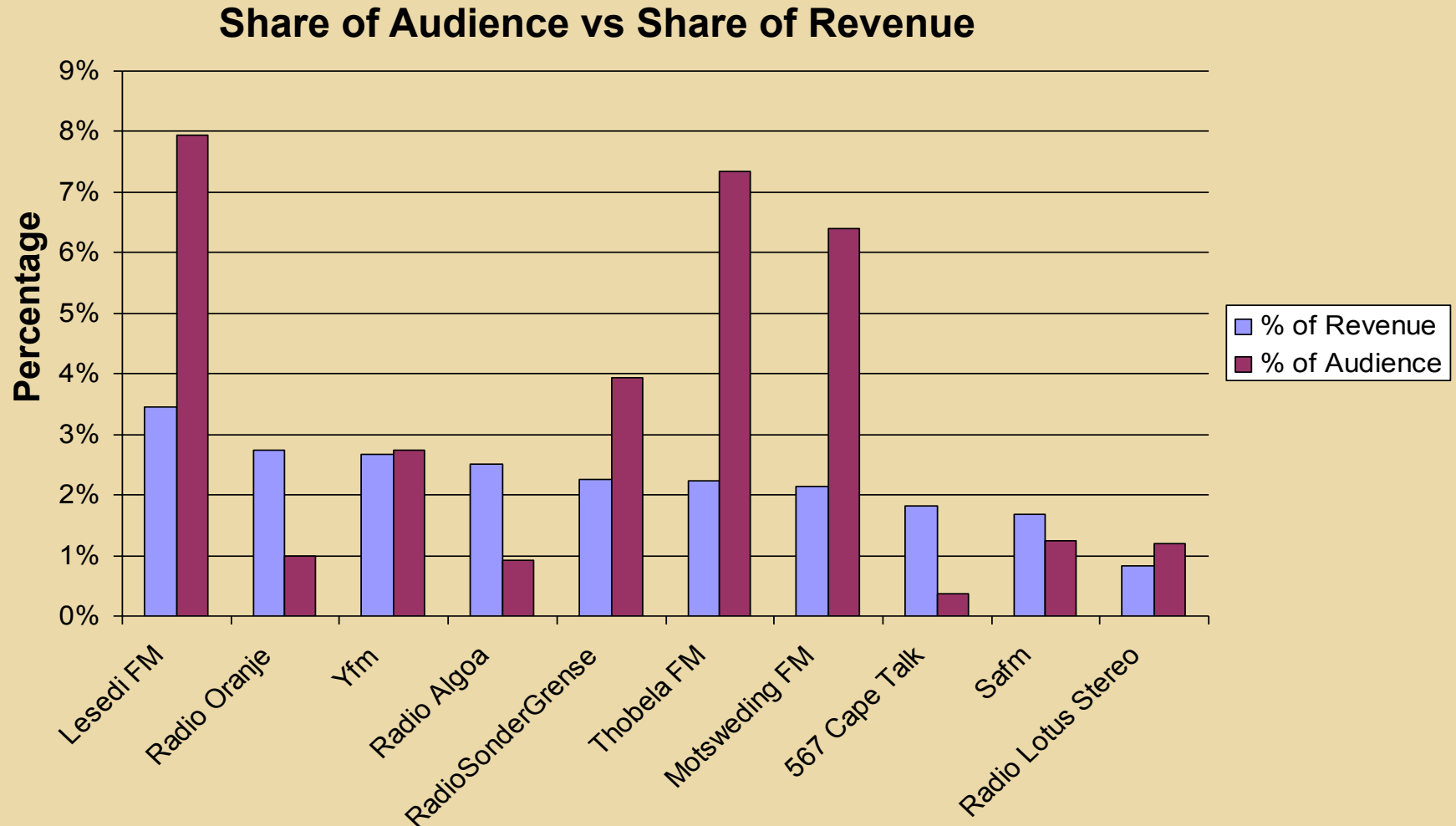
Adspend by medium: (last 5 years)



It is evident that the radio stations focusing on the upper LSMs have the highest share of revenue vs share of audience



Radio Stations in the lower LSM groups have a large audience but generate a low share of revenue vs share of audience



Which leads to a lot of questions for South African media players

- What room is there to improve margins given that we are now equivalent to global benchmarks?
- What can be done to drive more sales from the same capital base or reduce the capital base?
- How can the market optimise returns of current and future capital outlays?
- Can the media market sustain all the listed players?
- How can regulation assist future growth and success for the market?
- How do we achieve the objectives of empowerment, diversity and growth & investment?

Stakeholder Survey & Legislative Goals

From the survey, industry players believe that relatively little attention has been paid to growth and investment as a national goal



Factors impacting on industry growth

- Broadcasters identified the following factors as impacting negatively on industry growth:
 - Outdated ownership restrictions
 - Lack of transformation in the advertising industry
 - Sponsorship restrictions
 - Lack of flexibility and consistency in regulatory processes
 - Lack of viable licence opportunities for radio
 - Continued uncertainty about the SABC restructuring

Growth and investment is key for the achievement of national goals

- South Africa's broadcasting policy framework rests on the assumption that with a vibrant broadcasting industry, broader goals of diversity, empowerment, access, nation building, democratisation, education and foundation for a new economy will be established
- It is the shared responsibility of government, the regulator and the different sectors of the broadcasting industry to meet these goals

Growth and investment and national goals

- **There is a commitment in national policy and legislation to:**
 - Promoting free and fair competition so that the SA broadcasting system can be globally competitive (White paper, p11)
 - Encouraging investments in the broadcasting sector (White paper, p17)
- **The Competition Act also emphasises growth and investment in striving to:**
 - Achieve a more effective and efficient economy in South Africa
 - Create greater capability and an environment for South Africans to compete effectively in international markets

Key International Trends

Globalisation and technological convergence are transforming the industry

- Proliferation of media channels and formats have escalated the importance of content creation and ownership
- Relaxed government rules and regulations have contributed to a wave of acquisitions and players have benefited by exploiting the cost and revenue opportunities from consolidation
- There is increasing competition for advertising revenues from other media platforms, such as the Internet and outdoor advertising
- Globally, there has also been an increasing demand for more niche oriented programmes

Based on global research, the following have been identified as critical success factors for broadcasters

Technology & Synergy

Ability to drive content through multiple and/or improved delivery systems and formats is necessary for maximising revenues off sunk development costs

Managing Risk

Larger, diversified revenue streams and asset bases offset risk and overhead expenses typical of the broadcasting industry

Scale

Larger firms have stronger purchasing power and greater clout with consumers, to stand up against international competition

Quality of Assets

Access to talent and quality of content determine revenue potential

Capital Investment

Access to equity financing and ability to service debt necessary for financing expansion programs and new product developments

For developing economies, however, the challenges are greater...

This is because of:

- The scale of the market
- The maturity of the media
- Limited technology and infrastructure development
- Scarcity of skills
- Pressing social objectives which must also be achieved

Which implies that:

- Consolidation is likely
- Partnerships need to be explored
- Additional markets should be identified
- A flexible and stable regulatory environment is essential

How does South Africa measure against the global critical success factors?

Technology & Synergy

- A number of platforms but no licensing framework for multi-channel broadcasting
- Unclear whether the ownership restrictions still apply
- Foreign ownership is still capped at 20%
- There is no roll-out plan for digital services

Managing risk

- Concentration limits impede investors
- Non-tradability of assets increase risk

How does South Africa measure against the global critical success factors?

Quality of assets

- Local content quotas have seen a commitment to South African content
- SA broadcasters' access to quality content is affected by the prohibitive cost of local content
- The local music industry does also not produce sufficient local music to accommodate the formats of stations
- Human resource development has been prioritised -greater pool of available talent for broadcasters
- May need more co-ordinated strategies

How does South Africa measure against the global critical success factors?

Scale

- Growth restricted by concentration limits and the cross-media limitations.
- Regulator sometimes reluctant to licence up to maximum limit
- In radio, no new licensing opportunities

Capital Investment

- Empowerment groups have sometimes found it difficult to access capital
- There is no clear direction from policy makers on what is meant by empowerment

The Way Forward



PwC

What are the interventions needed to promote growth for the industry? Flexibility, responsiveness and predictability of national policy

“In a fast moving area such as communications, it makes sense to have a regulatory framework that sets out key principles but can then adapt to circumstance” (UK Dept. of Culture, Media and Sport, 1999)

- Other countries have recognised that this balance between flexibility and stability in broadcasting policy is key to meeting the challenges of the digital age:
 - In the US the FCC has a duty to review all telecommunications regulations every two years and repeal or modify rules no longer necessary
 - In Germany new laws must be tested one year after enactment to determine whether they are achieving their objectives
- In this light, we have ten ideas intended to start dialogue on what could be done

The interventions needed to promote growth for the industry

1. Review the ownership restrictions

- South Africa has companies with the capital to invest - they are discouraged
- Best investors in broadcasting are broadcasters
- Limitations conceived in 1993 - possibly outdated
- Reviewing concentration restrictions would allow consolidation particularly among exiting radio players
- Reviewing foreign ownership limitations would attract foreign investment particularly in capital intensive sectors

Interventions needed...

2. A plan for licensing of commercial radio

- Greenfields licences were granted \pm four years ago - still only 6% market share
- A creative new licensing effort could stimulate growth:
 - Could make available regional licences which combine viable areas with less viable, underserved areas
 - Could link licences to underused formats
- A plan would give clarity on which licences, if any, will be issued over the next few years
- Must be seen in tandem with ownership review - many existing players would not be able to participate if concentration limits aren't reviewed

Interventions needed...

3. New options for local content rules

- Broadcasters support SA content and the observation of quotas
- When the quotas are reviewed there will be room for more flexibility in devising the kind of contribution broadcasters make to local content
 - Incremental increases over a period of years
 - Pay or play options
 - Staggered increases according to the type of service, format, genre and coverage
 - Credits for African content

Interventions needed...

4. Protection from additional levies

- Broadcasters currently pay a number of levies
- Proposed needletime levy will not solve problems of SA music industry
- NAB committed to finding other solutions

5. Regulatory criteria and position on empowerment

- Broadcasting industry has led empowerment
- Recent setbacks - now only 5.9% of firms on JSE are black controlled
- Need clear direction and criteria taking changed economic climate into account

Interventions needed...

6. Support for community radio

- Community radio contributes to development, diversity and training
- Has struggled to access financing
- Pace of issuing 4 year licences has compounded difficulties
- Need further strategies to alleviate burden

7. Framework for satellite broadcasting

- Legal obstacles to regulation must be removed
- Lack of regulatory certainty leads to instability in broader industry

Interventions needed...

8. Plan for digital services

- Digital divide a threat to development
- Broadcasting can assist in bridging the divide
- Crucial that we develop a strategic framework sooner rather than later
- SA has “e-leadership” - must maximise this to move forward on digitisation

9. Allow networking and syndication arrangements

- A practical way for broadcasters to exploit synergies
- Broadcasters are currently unable to fully exploit these possibilities
- Could improve programme quality

Interventions needed...

10. Streamlining of regulatory processes

- Awarding, amending and renewing of licences is time-consuming
- Monitoring commitments are currently a burden to industry and regulator
- Streamlining of these processes would be in everyone's interests
- Needs to be seen in the context of the adequate resourcing of the regulator

What about the industry's responsibility?

- The broadcasting industry is committed to working as a partner with policymakers in driving growth and transformation in this industry.
- We, as industry representatives, therefore commit to:
 - Support policymakers in the achievement of the national goals for broadcasting
 - Work with policymakers on a job creation strategy for the industry
 - Support policymakers in a plan for digitisation
 - Produce internal codes and standards in line with the IBA's recommendation of 1998

Conclusions & Discussions