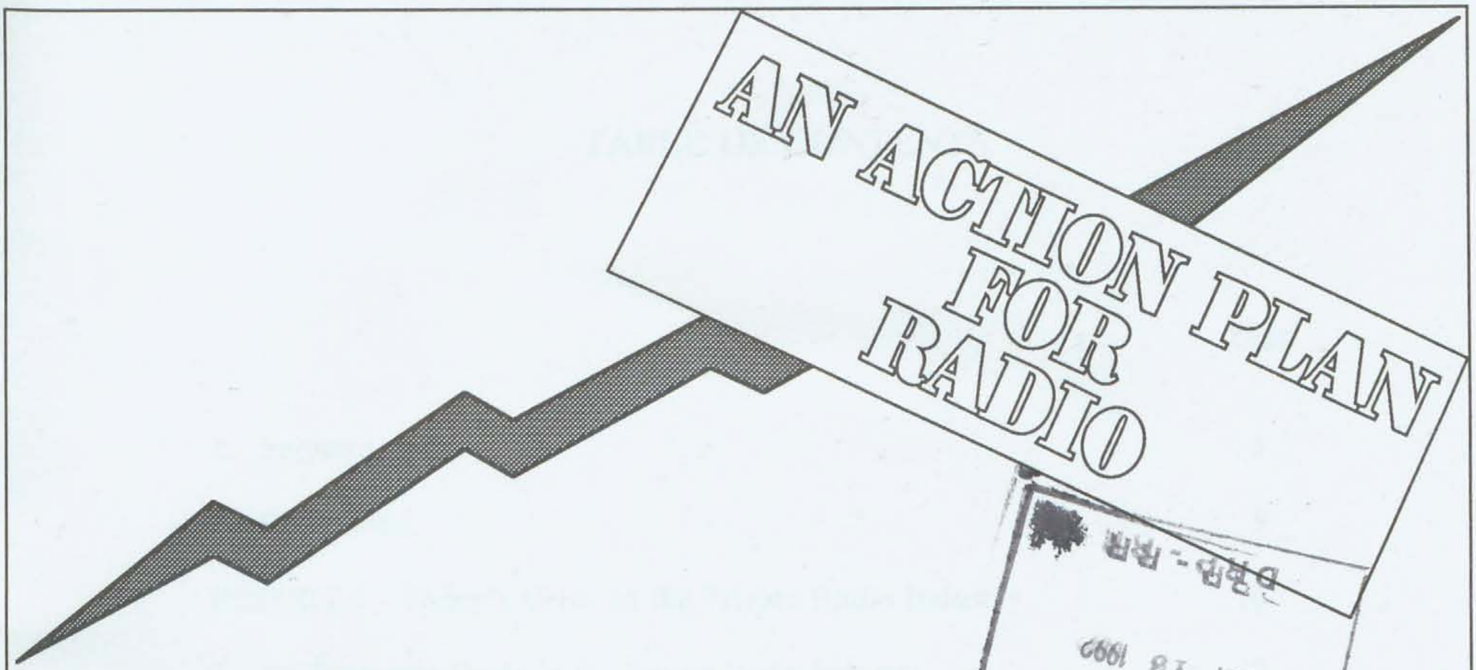
AN ACTION PLAN FOR RADIO

"TODAY'S CRISIS IN THE PRIVATE RADIO INDUSTRY" AND "TOMORROW'S OPPORTUNITIES FOR CANADIAN RADIO"

Submitted by
Radio Action Plan Consultative Group

to the
Minister of Communications

June 17th, 1992



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MEMBERS OF THE STEERING COMMITTEE

The Steering Committee of the Radio Action Plan Consultative Group comprised ten members and one observer.

Participants are presented hereafter.

Mr. Paul Racine (Chair)
Department of Communications

Mr. Michel Arpin (Member)
Radiomutuel Inc.

Ms. Liette Champagne (Member)
Communications Télémédia Inc.

Mr. Bill Coombes (Member)
Fraser Valley Radio Group

Mr. Allan Darling (Observer)
Canadian Radio-television and Telecommunications Commission

Mr. Terrence Flanagan (Member)
National Campus and Community Radio Association

Ms. Louise Hurtubise
Canadian Association of Broadcasters

Mr. Richard Matthews (Member)
Department of Communications

Mr. Robert Pilon (Member)*
Association québécoise de l'industrie du disque, du spectacle et de la vidéo

Mr. Alain Pineau (Member)
Canadian Broadcasting Corporation

Mr. Michel Tremblay (Member)
Canadian Association of Broadcasters

* See Special Note

1. INTRODUCTION

The radio industry is facing challenges of great magnitude that may jeopardize its future unless bold measures are taken to preserve the service it provides to Canadian listeners. Radio must be strengthened to enter the year 2000 as a viable medium delivering an essential service to local communities.

After 70 years of service to Canadians, private radio is going through a most severe and unprecedented economic crisis. Results for 1991 indicate that private radio, as a whole, lost $41 million dollars[1] after tax, which represents a 60 % increase over the 1990 loss of $26 million. It is estimated that almost 60% of all stations were not profitable in 1991. This situation is the culmination of a ten year trend of marginal profit levels. The economic crisis reaches deep in every region and in markets of all sizes. The crisis is not cyclical but structural, which means that the end of the recession will not, by itself, bring private radio back to health.

The private radio industry's survival is at stake and so is the survival of local services provided to hundreds of communities across Canada. Canadians rely on this service as the primary link to their community, as a key link to the rest of the country in these troubled times and as a window on the rest of the world.

Profound changes are needed to deal with this crisis within private radio and they are needed now!

CBC Radio services have also suffered from funding difficulties, as have all the services provided by the Corporation, due to cuts in the Parliamentary appropriation and sharp declines in the television advertising revenue which, as part of the CBC's overall revenue, helps to support radio. The Corporation has been able to protect its radio services from the worst effects of these shortfalls, but this protection cannot be guaranteed if the Corporation's overall funding situation does not improve.

With that as background, the Corporation notes that the Radio Action Plan Consultative Group (RAPCG), while capable of making a vital contribution to the security of CBC radio's future, is not the forum for a discussion of CBC's overall funding problems, since the Corporation's funding for all services is integrated. That discussion continues in other more appropriate venues.

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[1] Source: CRTC 1991 Financial Results

Community radio services are also experiencing acute financial difficulties. Community radio stations have been in a deficit position for the last five years. For example, in 1991, community radio stations across Canada suffered a deficit of $511,000 based on revenues of $6.3 million.[2]

This situation is critical. Community radio stations often have limited access to bank loans or any form of debt financing and the capacity of communities to contribute to stations' financing is limited. As far as government funding is concerned, it has been decreased for the last seven years and is not available to all stations. Community radio stations are attempting to diversify their revenues but some stations have reached the financial limits of their community. Therefore they are having great difficulties getting through the financial crisis they are experiencing.

While the radio industry is facing these difficult challenges, technological developments have given the world Digital Radio (DR). This new technology will revolutionize the radio industry. It opens the door to CD quality sound for all radio stations. This should provide some assistance in the battle to remain competitive in an environment where CD players and digital audio tapes are becoming the norm for listeners. It also opens the door to a new world of opportunities; making, for example, data broadcasting possible for radio broadcasters. Inasmuch as Canadian radio broadcasters see their future in digital radio, it is not a panacea that will resolve all of the difficulties, and the capacity of the industry to finance the transition remains a key issue in the current economic environment.

In this context, the Canadian Association of Broadcasters developed an industry Economic Recovery Plan, which it published in August 1991. The Minister of Communications responded to the serious economic crisis faced by private radio, and to the CAB Economic Recovery Plan, at the CAB Convention on October 22, 1991, in the following terms.

> Television has had at least three bad years and that is of great concern to me, but radio has experienced declining profits for more than ten.
>
> I am particularly encouraged to see that your industry has taken it upon itself to address the issue. Some of the problems can only be solved by industry action, but there is also a role for government to play and I intend to respond to the CAB Strategic Plan.

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[2] Based on the operating results of 20 stations in Québec, members of the Association des radios communautaires du Québec (ARCQ) and 5 member stations of the Alliance des radios communautaires du Canada (ARCC).

> Canada, to stimulate its long overdue recovery, and to establish the framework for radio's renewed success in the 90's and beyond. I have asked this group to work closely with radio broadcasters, the music industry and naturally the CRTC.

He also asked that Advanced Broadcast Systems of Canada (ABSOC) develop a technological framework for radio broadcasting to support the activities of the Radio Action Plan Consultative Group (RAPCG), and asked the Group to report back to him no later than June 1992.

During the following months, a Steering Committee, chaired by the Department of Communications (DOC) and comprising representatives of both English-language and French-language private broadcasters, the CBC, the music industry, campus/community and community radio, and one observer from the CRTC, developed an action plan to tackle this significant mandate.

At that time, it was decided that matters pertaining to Copyright reform would not be included in the discussions of the Radio Action Plan Consultative Group. Even though this subject is of critical importance to both the radio and the music industry, it was recognized that a separate forum already existed to address the related issues.

On March 19, 1992 the Minister launched the Radio Action Plan Consultative Group into full action and asked the two Working Groups that had been appointed to carry out the work to report back to him within three months with their recommendations. This would coincide with a similar process already underway concerning television.

The mandate of these working groups covered both the need to address the short-term economic crisis of private radio and the longer-term future for the whole radio industry.

(i) <u>The Working Group on the Economic Recovery of Private Radio</u> addressed the economic crisis the private radio industry is undergoing and made recommendations to stimulate its recovery.

(ii) <u>The Working Group on the Future of Radio</u> assessed the impact of new technologies on the radio industry and made recommendations on the future structuring and financing of the industry as a whole (both private and public) and the required future policy and regulatory frameworks.

At the time, the Hon. Perrin Beatty said:

> Canadians need a dynamic and healthy radio industry. To achieve this, radio, like television, must be able to meet the challenges it faces. I'm therefore delighted that these two groups will be working in parallel with the current initiatives to develop an action plan for Canada.

Representatives from various sectors of the radio industry, including senior private radio broadcasters, the Canadian Broadcasting Corporation (CBC), campus/community and community radio, the Radio Marketing Bureau, the music industry and ABSOC were assembled to take on these important tasks. They contributed actively to identifying both short-term and long-term solutions for the radio industry. CRTC representatives were observers on both Working Groups.

Working Group #1 was made up of ten members and two observers. The recovery of private radio was the sole focus of this group and eight members came from the ranks of private radio broadcasting, including the Chair. The Radio Marketing Bureau (RMB) and the music industry had one representative each. The CBC and the CRTC both had one observer on this group, while taking no part in the formulation of the recommendations.

The work of this group is presented in the attached report, "Today's Crisis in the Private Radio Industry". The recommendations within this report reflect the views of the private sector.

Working Group #2 was made up of fourteen members and one observer, coming from most sectors of the radio industry. It contained six private broadcasters, including the Chair, three representatives of the CBC, one each from campus/community radio, community radio, Advanced Broadcast Systems of Canada, the Radio Marketing Bureau as well as the music industry and one observer from the CRTC.

This group dealt with longer term all-industry issues. Its recommendations are presented in the attached report entitled "Tomorrow's Opportunities for Canadian Radio".

The Working Groups have completed their work on schedule and have tabled a series of recommendations to provide urgent assistance to private radio and to pave the way for a brighter future for the entire industry.

2. BACKGROUND

There are over 710 originating radio stations in Canada, including nearly 500 private stations, catering to the needs of listeners. Private broadcasters, CBC radio services and specialized services such as campus/community, community and native radio stations form this industry and complement one another in serving Canadians.

Table 1
Composition of Canadian Radio Industry

Type of Stations	# of stations	% total
Private	495	70%
CBC	65	9%
Campus/Community	38	5%
Community	36	5%
Remote Community / Native	68	10%
Ethnic	8	1%
	710	100%

Source: CRTC - The Year in Review 1990-1991

Canadians are usually modest and self-effacing about their national achievements. In spite of this, it is often said, and truly, that the Canadian radio broadcasting system is the best in the world. In many ways, our radio system is a microcosm of what is best about Canada: it blends service from the public and private sectors with a rare degree of harmony, while encouraging the unique contributions of volunteers at community, campus/community and native radio stations; it serves the needs of language and ethnic groups, without losing sight of the goal of "shared national consciousness"; it balances local, regional and national perspectives on the world; and it has a reputation for technical excellence and foresight that is unrivalled in the international community.

The success of the Canadian radio system is no accident. The efforts and forethought of generations of the radio industry workers have gone into creating something unique and special; the creative commitment of Canada's broadcasters plus the efforts and forethought of Canadian governments and regulatory bodies have guided the development of the system. Successive challenges have been encountered, considered and overcome. The development of a national public system, the challenge of television, the arrival of FM radio -- societal, economic, and technical challenges have all been met. Against all odds, new technologies and new services have not eroded radio tuning.

Radio is a vital part of the lives of Canadians, and has been for over seventy years. Day after day, virtually every Canadian listens to radio. We do so in our homes wherever we live, while we drive, in the workplace and even while we jog. In fact just about everyone in Canada has a radio in their home. The average number of radios per household is 2.81[3] and 80%[4] of Canadians also have a radio in their car.

We use radio for information, for weather, for the relaxation and the excitement of good music, for emotional contact with other human beings, for a sense of belonging to our community and to our country and, although often forgotten, it is the primary source of immediate communication in times of emergency. The average Canadian spends about 24 hours a week tuning to television.[5] Tuning to radio is almost as high, at more than 20 hours a week, a level which has been maintained over the last decade.[6] The amount of time spent listening to radio far exceeds the 5.7 hours Canadians spend each week with newspapers and periodicals.[7] If culture and common values are the ties that bind our country together, then radio is one of the prime means by which we create, celebrate and communicate that culture and those values. Radio does not only inform and entertain, it actively contributes to the quality of life in Canada. Radio celebrates the local events that make our towns and cities special; it celebrates the unique qualities of our regional and linguistic cultures, bringing pride of place to all Canadians; and it celebrates our common understandings as a nation, from sea to sea to sea. Radio celebrates our artists and entertainers. The Canadian music industry was virtually created by radio exposure of the work of Canadian musicians and composers.

Private broadcasters are 100% funded by advertising revenues and depend largely on local retail advertising to survive. In fact, local retail advertising is essential to private broadcasters as it represents 75% of their revenue base. This revenue source is under a substantial amount of competitive pressure from other media, attempting to increase their own share of advertising.

CBC radio stations are essentially non-commercial; campus/community, community and native radio are funded in a variety of ways including advertising revenue, community donations, some institutional funding for campus stations, as well as government subsidies for community and native radio.

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[3] Source: Statistics Canada, Survey of Households, Facilities & Equipment, 1991
[4] Source: BBM 1991-1992 Radio Data Book
[5] Source: BBM 1991-1992 TV Data Book
[6] Source: BBM 1991-1992 Radio Data Book
[7] Source: Reading in Canada 1991 - Highlights, Communications Canada
Weekly readership newspapers: 3.6 hrs/week
Weekly readership periodicals: 2.1 hrs/week

The radio industry also plays a significant economic role in this country. It employs more than 12,000 people. It generates over $750 million dollars in advertising revenue, accruing primarily to private radio, and it provides close to $500 million in salary and benefits. The advertising that it runs generates further hundreds of millions of dollars worth of economic activity at the local and national levels.[8]

The current period in radio's development sees an economic crisis, extensive technological developments and far-reaching changes in the way Canadians use media. The timing of these factors has created a crucial opportunity for change in the system.

Private radio has taken many initiatives to respond to these challenges and to deal with its economic decline. It has done so through the development of its strategic plan "TAKING THE LEAD", which has been the base of industry's action for the last three years and through the development of its Economic Recovery Plan of August, 1991. Recognizing that private radio's problem is mainly one of declining revenue, the Radio Marketing Bureau (RMB) has been re-organized and has developed an ambitious plan to help the industry gain an increased share of advertising revenue. This plan is beginning to take hold. Quebec is private radio industry has recently put in place the "Bureau de commercialisation de la radio du Québec" to complement the RMB in the French-language market. The Bureau of Broadcast Measurement (BBM), the industry's research arm, has recently established a special division called COMQUEST to deal with the industry's requests for special analysis of listening patterns.

Private broadcasters also recognized that radio in the 90's would be technology driven to a large extent and, through the Canadian Association of Broadcasters' Engineering and Technology Council (ETC), developed the first ever Technology Forecast to help broadcasters plan their capital expenditures. CAB helped found the Advanced Broadcasting Systems of Canada (ABSOC) to share its views of the future in an industry-wide forum. CAB has also provided strong leadership in digital radio and is a key participant in planning the transition to DR. It has developed a Human Resource Strategic Plan and has been instrumental in getting the Department of Employment and Immigration to undertake a major sector study to analyze broadcasting's human resource and training needs for the future.

Since the early 70's, community radio and campus/community radio have developed and become an essential part of the Canadian broadcasting system, adding to it in diversity and providing direct access to the airwaves to the members of the communities they serve. They too have helped develop Canadian leadership in communication development in the world.

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[8] Source: Statistics Canada

In 1983, AMARC (Association mondiale des radiodiffuseurs communautaires) was created in Quebec by members of the ARCQ (Association des radios communautaires du Québec). Its international conferences, held every two years, are forums for representatives of more than 50 countries. These conferences have helped greatly in establishing the Canadian leadership in training and technology development, now an important resource for the development of some radio services in Africa, South America and Asia.

Community radio is seeking greater financial autonomy and stability to better finance its operations and development. Already associations representing them have been working on diverse solutions such as better training for management and development of marketing tools and studies.

With the help of the provincial government, ARCQ has developed an audience polling tool and a marketing planning guide for a few urban stations. This is the kind of help that enables community radio stations to offer a better service in line with their community orientation, to identify more clearly their potential commercial clients and to aim fundraising with more efficiency.

Still, community radio needs to develop more management skills, new management tools, efficient marketing and audience research adapted to non-profit and community oriented broadcasting.

The CBC's four radio services have experienced continued growth in audience response over the last decade, reflecting the success of their distinctive approach to radio programming. They currently enjoy an unprecedented level of public support. Their programming has been recognized by the Corporation as a vital part of the service it gives to Canadians, and consequently the CBC has acted to protect those services through a period of extremely difficult finances, while, of course, continually improving their already efficient operations. The continued development of CBC's radio services is a vital part of the Corporation's overall corporate plan.

New technology is also seen as an essential part of the Corporation's future, and has been since the Corporation's own technology forecasts were developed in 1982 and 1986. The CBC has played a leading role in promoting the development of digital radio in Canada, and indeed, around the world. In doing so, it has co-operated extensively and amicably with private industry and with government. The contribution of CBC engineers to developing this medium has been long and significant, both at the technical level and at the level of the delicate negotiations that brought about the worldwide allocation of L-Band frequencies to digital radio at WARC-92.

The future of Canadian radio demands that the entire industry work co-operatively to develop an industrial strategy.

The industry, acting together, has already begun to meet the challenges of the future. The stunning success of the Canadian position on a digital radio spectrum allocation at WARC-92 provided incontrovertible proof of the immense strength that Canadian radio can generate when all parts of the system work together. The Minister's Radio Action Plan Consultative Process is the logical follow-up to this achievement. With the momentum we now have, we can design a strategy that will guide our radio system into the twenty-first century. With careful nurturing, radio can continue and even expand its vital and immensely valuable contribution to Canada and Canadians. From private radio's perspective, this can only happen if entrepreneurs can operate in an environment where they can earn a competitive rate of return on their investment and then be in a position to reinvest in their station, in the system and in their community.

But let us not underestimate the size of the task. The economic and technological environment we live in at the end of the twentieth century presents challenges that change even as we prepare to meet them. No plan will succeed that does not allow for flexibility to meet those challenges as they come. Given current knowledge, we can define an initial strategy for the radio industry as it exists at this point. As the environment evolves there must be a continuing process of revisiting and renewing the industry strategy for radio.

We know enough today to solve certain immediate problems and to prepare to face the known challenges of the next five years. A number of vital initial measures are presented in the two attached reports.

REPORT 1

"TODAY'S CRISIS IN THE PRIVATE RADIO INDUSTRY"

Submitted by the
Working Group on the Economic Recovery of Private Radio

to the
Steering Committee
RAPCG

June 17th, 1992

Report #1
Today's Crisis in the Private Radio Industry

Report #1 flows from the deliberations of the Working Group on the Economic Recovery of Private Radio, which addressed the economic crisis the private radio industry is undergoing and concludes with a series of recommendations to the industry, the government and the CRTC.

These analyses and recommendations represent the views of private broadcasters.

Participants in this Working Group are presented hereafter:

Ms. Liette Champagne (Chair)
Communications Télémédia Inc.

Mr. Michel Arpin (Member)
Radiomutuel Inc.

Mr. Hal Blackadar (Member)
Key Radio Limited.

Mr. René Bouchard
Department of Communications

Mr. Brian Chater (Member)*
Canadian Independent Record Production Association (CIRPA)

Mr. Elmer Hildebrand (Member)
Golden West Broadcasting Ltd.

Ms. Louise Hurtubise (Member)
Association Canadienne des Radiodiffuseurs

Mr. Tony Leadman (Member)
Radio Marketing Bureau

Mr. Jim MacLeod (Member)
NewCap Broadcasting Ltd.

Mr. Paul Monty (Observer)
Société Radio-Canada

Mr. Robert E. Redmond (Member)
Redmond Broadcasting Inc.

Ms. Diane Rhéaume (Observer)
Canadian Radio-television and Telecommunications Commission

Mr. J.E. (Ted) Smith (Member)
Westcom Radio Group Ltd.

* See special note.

3. AN ECONOMIC CRISIS IN THE PRIVATE RADIO INDUSTRY

Private broadcasters represent 70% of all the radio stations in this country and 83% of all the tuning.[9]

To fully grasp the challenges facing private radio, it is necessary to understand the structure of the industry.

1. Composition of the private radio industry

a) The majority of broadcast companies are small independent businesses:

- 155 companies operate radio stations in Canada;[10]
- 66% operate one or two radio stations;
- only ten broadcast companies own ten or more radio stations;
- no one broadcast group owns more than 5% of all radio stations in the country.

b) Whether as part of corporate groups or independents, the vast majority of radio stations operate in small communities:

- stations operate in 288 different communities in Canada;[11]
- 83% of these communities (i.e. 238) have population sizes of less than 50,000 people (1986 Census).

c) In 1990, over half of the radio stations in this country had revenues of under $1.1 million (Table 2).

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[9] Source: CRTC, The Year in Review 1990-1991
[10] Source: CAB
[11] Source: CAB

Table 2
Number of Stations by Revenue Group (1990)

Revenue Group (000,000$)	Total Station	% Total
<0.5	116	24%
0.5 - 1.1	156	32%
1.1 - 3.5	163	34%
>3.5	50	10%
	485	100%

Source: Statistics Canada
Note: Station figure of 485 is based on a special Statistics Canada survey and differs from CRTC figure of 495.

d) Again, using 1990 statistics: as a group, only stations with over 3.5 million dollars in sales were profitable (Table 3):

Table 3
After-tax Profit of Revenue Groups (1990)

Revenue Group (000,000$)	After tax profit (000$)
<0.5	($6,520.0)
0.5 - 1.1	($17,692.3)
1.1 - 3.5	($13,444.1)
>3.5	$13,766.7

Source: Statistics Canada

e) In 1990, only 33 radio stations, or 7% of all radio stations, had any sizeable profits (i.e. average station profit over $800,000).

f) Profitability is a function of station size (Table 4):

Table 4
Station Profitability by Revenue Group (1990)

Revenue Group (000,000$)	Total Stations	% Unprofitable
<0.5	116	66%
0.5 - 1.1	156	62%
1.1 - 3.5	163	52%
>3.5	50	34%
	485	56%

Source: Statistics Canada
Note: Station figure of 485 is based on a special Statistics Canada survey and differs from CRTC figure of 495.

In summary, radio stations are in fact small independent businesses or an amalgamation of small business units within a larger corporate group.

2. The 1991 results reflect an economic crisis

CRTC financial information on the operating results of the private radio industry for 1991 reveals that the industry overall lost an unprecedented $41 million, after taxes or a 60% increase over the 1990 less of $26 million.

It is now estimated that almost 60% of private radio stations are not profitable, up from 56% in 1990.

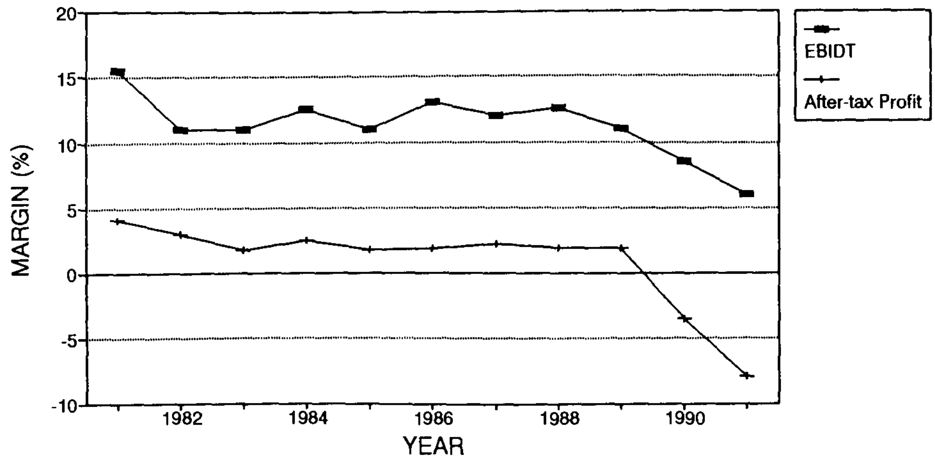
Results for the first half of 1992 show no improvement.

An economic crisis of this magnitude threatens the very survival of private radio and its service to local communities.

3. The 1991 financial results are a reflection of a 10 year trend

As noted in the CAB Economic Recovery Plan and recognized by the Minister of Communications at the CAB's 1991 convention, the 80's have been a decade of extremely low profitability for the private radio industry. The graph below illustrates the private radio industry's operating margin over the last decade (i.e. earnings before interest, depreciation and taxes (EBIDT). The industry's operating profit margin has declined from a high of 15.5% in 1981 to -7.9% in 1991. The net effect has been an after-tax profit margin of less than 2% for the 1980's and a drop into loss positions for 1990 and 1991.

Graphic 1
Financial Performance of the Radio Industry



Source: Statistics Canada

4. All regions are affected by the losses

An analysis of 1991 operating results of the industry demonstrate that the poor profit performance is not limited to one region or province but is widespread across the country (Table 5).

Table 5
Breakdown of Pre-tax Loss of Private Radio in 1991
as a Percentage of Operating Revenues

Atlantic Canada	-9.45%
Quebec	-8.02%
Ontario	-8.37%
Manitoba	-9.45%
Saskatchewan	-15.24%
Alberta	-4.52%
B.C.	-1.50%
Total Canada	-7.32%

Source: CRTC 1991 financial results

5. The problems are structural, not cyclical

It is clear from the record of the past 10 years that private radio's performance over the last two years reflects the impact of ongoing structural changes and is not simply the result of the recession. Results for 1990 were pre-recession and 1991 reflected the impact of the recession. While the bleak economy might have exacerbated the 1991 results, they nonetheless are part of a trend which promises to continue after the recession is over.

The most significant structural changes that have affected the private radio industry are:

1) a ten-year decline in radio's share of advertising as a result of increased competition from other media; and
2) a significant increase in the number of radio stations competing for a shrinking advertising pie.

The above two factors, combined with more recent recessionary pressures and trends, have produced revenues that are no longer sufficient to finance the industry at the current service level.

6. Increased pressures from competitive media

Radio has seen its share of advertising revenues decline steadily over the last ten years (Table 6).

Table 6
Share of Net Advertising by Outlets

	1970	1980	1985	1990
Radio	10.6%	10.4%	9.0%	7.7%
Television	12.4%	16.2%	16.6%	16.5%
Outdoor	9.2%	6.4%	7.5%	7.7%
Other print (eg. direct mail)	10.7%	19.7%	22.4%	22.3%
Newspapers	35.5%	32.5%	30.3%	29.7%
Magazines	11.4%	14.7%	14.2%	16.1%
Total Advertising	100%	100%	100%	100%

Source: Maclean Hunter Report on Advertising
Note: Figures for TV include private TV, CBC/SRC, specialty TV and Radio Québec

The increased pressure from other competitive media is illustrated by the growth in the number of media outlets over the last decade (Table 7).

Table 7
Growth in Advertising Outlets
from 1981 to 1990

	1981	1990	Growth
Private Television Stations	75	103	37%
Specialty Services	ø	11	100%
Outdoor	10,559[1]	24,396[2]	131%
Newspapers (daily & non-daily)	1327	1750	32%
Magazines	1128[3]	1500	33%
Radio	377	495	31%

Source: Statistics Canada
Canadian Outdoor Measurement Board
1. 1980 Data (Outdoor includes posters, bulletins & electronic signs)
2. 1991 Data (Outdoor includes posters, bulletins & electronic signs)
3. 1984 Data (first year of Periodical Publishing Survey-Statistics Canada)

The downward trend in advertising share due to growth in competitive outlets has been exacerbated by an increasing shift in marketing expenditures from media advertising to promotional activities. Media advertising now makes up only 35% of the total marketing expenditure, down from 40% five years ago (1990 Trade Marketing Services Survey). Consumer and trade promotion has grown from 60% in 1985 to 65% in 1990 and is expected to reach 68% by 1995.

While radio, has begun to make a concerted attack on promotional revenues, advertising still drives radio and promotional revenues have not made up for the downturn suffered in advertising.

7. Too many private radio stations chasing too few dollars

Low radio advertising growth has been compounded by a significant increase in the number of new private radio licences issued during the 1980's. There has been a net gain of 118 new licences during this period, mostly FM, for a 31% increase.

The net effect has been to reduce significantly the per station advertising revenue from 1981 to 1991 (Table 8).

Table 8
Average Per Station Airtime Revenues
(1981 constant dollars - millions)

	1981	1985	1990	1991*
Airtime revenues	$433.9	$440.5	$482.4	$441.9
Number of stations	377	446	495	495
Average revenue per station	$1.151	$0.988	$0.974	$0.893

Source: Statistics Canada 1981-1990
*CRTC 1991 Financial Results

8. Increased pressures on revenues

Traditionally, radio has relied on local advertising for the bulk of its revenues (approximately 75%); however, national advertising still represents a significant portion of the total (approximately 25%). National advertising levels are closely related to the size of market; it can represent anywhere from insignificant revenues in very small markets to roughly 28% to 30% in large markets (500,000 or more in population).

Revenue losses in recent years have occurred at both the local and the national level (Table 9).

Table 9
Average Annual Growth in Airtime Revenues
for the Private Radio Industry
1985 - 1991

Air Time Revenue Growth	Local	National
Industry Growth ($ 1981)	0.48%	-1.05%
Per station growth ($ 1981)	-1.32%	-2.81%

Source: Statistic Canada 1985
CRTC 1991 Financial Results

The local retail advertising market, particularly in smaller and medium-sized communities, is a fragile market in that, historically, there has been little real growth.

Revenue losses for the radio sector in recent years are a reflection of:

1) the move away from media advertising as the shorter-term outlook of advertisers led them to the more easily measurable impact of promotional expenditure;
2) the increased number of both licensed and unlicensed media vehicles competing for the same customer.
3) increase in radio and television commercial inventory sold locally;
4) the consolidation of retail outlets, moving dollars out of local sales;
5) the inability (to date) of independent radio stations to defend their efficiency as an advertising medium on the national front.
6) the increased amount of advertising bought by Canadian advertisers on U.S. radio stations to reach a Canadian audience;
7) the overflow of U.S. advertising into Canada;
8) cross-border shopping; and
9) recessionary pressures.

9. Local services at risk, as there is no room left to cut costs

Private radio stations have had to rationalize their operations wherever possible in order to try to lower costs; still, expenses have grown at a faster pace than revenues.

The reality is that there is nowhere left to cut expenses without endangering local services. In 1991, there were fewer dollars invested in programming and in technical facilities than a decade ago (per station basis, 1981 constant dollars). Both sales and administrative costs have been cut to the bone (Table 10).

Table 10
Comparison ($1981 Constant) Average Per Station Costs

	1981	1985	1990	1991*
Program	$354K	$317K	$317K	305K
Technical	$50K	$46K	$41K	39K
Sales & Promotion	$244K	$235K	$254K	234K
Administration	$337K	$297K	$296K	281K

Source: Statistics Canada (1981-1990)
*CRTC 1991 Financial Results

The number of recent station closures and staff lay-offs, as well as the number of stations up for sale that are not finding a purchaser, are clear indications that we have gone over the threshold and that local service is already suffering.

10. Needed capital is difficult to attract

The private radio industry must be in a position to invest in programming and to upgrade its technical facilities to maintain quality of service. It must also face the financial challenge of moving to digital radio to remain competitive in the long term.

Private broadcasters find themselves in a situation where they do not have the internally generated funds to meet these needs. They can absorb little new debt as a result of their poor financial performance nor can they easily raise new capital because of low or negative returns on equity.

Like any industry which competes for money, the risk/reward trade-off must be such that investors are willing to enter. Such is not the case and many operators are feeling the pinch as lenders review their exposure to risk. Without reasons to expect sufficient profit, financing will not be available to allow broadcasters to obtain the necessary funds to remain competitive and survive.

11. The revenue base cannot support the level of service

The consequence of declining revenues and the substantial increase in the number of stations is that the radio industry, as it is now structured, cannot be supported by the revenue base currently available to it. This would be the case even if the industry were to set as its target the modest after-tax profit level of 4.1% on revenues achieved in 1981, which is by no means acceptable, and assumes an increase in sales of over $100 million to maintain the number of stations in existence today. It is estimated that a substantially greater after-tax profit level would be required to attract capital investment. On the other hand, in order to attain that same 1981 profit level without a significant increase in revenues, over 100 stations with the highest loss levels would have to go silent.

Obviously, it is impracticable in the short term to increase industry revenues by $100 million. By the same token, it is unthinkable that Canadian communities would lose 100 radio stations. Some middle course must be found.

In order to survive, the radio industry must develop and pursue a two-part strategy:

a) to develop substantial revenue growth from existing and new services; and

b) to reduce both the number of stations and levels of services offered by the remaining stations, while still providing the highest possible level of local service.

The Radio Marketing Bureau (RMB) and the Bureau de commercialisation de la Radio du Québec (BCRQ) have already begun to pursue the first part of the strategy. Current initiatives must be vigorously undertaken and imaginative new ones developed. More particularly, the entire radio industry must get behind the effort of the RMB and their Quebec counterpart, the BCRQ, or more stations will be forced to either close or drastically reduce their service. New sources of revenue must be found. The most obvious of those sources of revenues are the growing promotional budgets of advertisers. In the longer term the radio industry must take full advantage of the new services and revenue opportunities that digital radio will bring.

The second part of the strategy is equally important. Radio broadcasters have already begun to make proposals to the CRTC to rationalize their operations to better match the available resources in their communities. The CRTC has shown itself open to imaginative and responsible proposals. The rationalization process must be expedited by the industry and further encouraged by the CRTC. The introduction of digital radio in an efficient and imaginative manner will contribute a further important step in the rationalization process.

12. <u>Regulation, too, must match available resources</u>

Regulatory requirements represent a very real cost for private radio broadcasters. The Commission has made progress, on a regular basis, in streamlining its policies, regulations and processes to deal with the evolving situation, but more must be done.

Many requirements and expectations of the Commission can no longer be borne by an industry which is in deep financial difficulty. The current crisis requires an emergency response.

There are three main policy changes which would provide immediate relief to the industry and upon which members of the Working Group on the Economic Recovery of Radio agree. Those relate to:

- (i) Canadian Talent Development obligations (CTD)
- (ii) the "Benefits Test" that applies when there is a transfer of ownership
- (iii) the "Spoken Word" requirement for FM which has been set at 15% of the broadcast week

CTD by itself represented in 1991 approximately $10 million in direct costs and over $10 million in indirect costs which are financed out of the station's programming budget. As a result of pressures from the CRTC, cash commitments have grown by nearly 70% between 1988 and 1991. Serious doubts have been expressed by some members of the music industry as to the value of certain of these initiatives in terms of developing new talent.

The benefits test has cost private radio $58.3 million for the period from 1985 to the first quarter of 1992 or about $8 million per year.[12] The rationale for the test is to ensure that the public benefits in an ownership transfer transaction. Today, the most significant benefit to the public in such transactions is almost always the continued existence of the station and the maintenance of local service. In requiring stations to make benefits payments this often forces them to make expenditures in areas or on items that they would not otherwise, and that are often untimely or imprudent in the circumstances. In so doing, the public interest is not enhanced but endangered.

Spoken word is a key element of the programming of any radio station and is one of the most costly. Private FM stations now have the requirement that 15% of their broadcast week be devoted to spoken word to comply with the FM policy. When this policy came into force in September 1991, a number of stations had to raise their level of spoken word to meet this requirement. They did so at significant cost, at a time when many were experiencing economic difficulties. For others, the spoken word requirement constitutes a rigid fixed item in their budgets that cannot be adjusted to cope with severe revenue shortfalls. Private broadcasters require the flexibility to set spoken word content at a realistic and economic level and perhaps more importantly, one which is in line with the needs and expectations of their audience.

13. Regulatory obstacles to prudent business decisions

The crisis in the industry and the rapidly evolving business environment require that the radio industry be able to respond in a prudent and timely fashion. There is an urgent need to enable radio to act in its own and the public interest in the current crisis. Delays in CRTC approval processes prevent normal business dealings and undermine essential transactions. Policies designed to ensure diversity at an earlier time are no longer relevant and serve only to prevent sensible business arrangements. Benefits tests can make transactions uneconomic. Other requirements impose unnecessary costs on operations. Effort have been made in recent years by both the CRTC and the industry to improve these regulations, policies and practices. There remains an urgent need to make a new and concerted effort to remove remaining roadblocks.

14. Private broadcasters face numerous other challenges

Private radio relies solely on advertising revenues to survive. Significant changes are happening in both retail and national advertising as well as in listening patterns.

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[12] Source: CRTC

(i) Changes in the retail world

Radio is highly dependent on retail advertising sales. Changes are occurring in retailing that have dramatically affected radio.

Chain-store operations are progressively replacing independent retailers. Their approach to advertising tends to be national and regional and they tend to see radio as essentially a local medium.

Retailing is increasingly concentrated in malls and shopping centres that rely heavily on promotional expenditures and direct mail.

Large surface discount stores, such as the Price Club, are emerging and are predicted to take an increasing share of the retail dollar. They make little use of media advertising.

Radio broadcasters who are dependent on retail sales must be prepared to face these challenges head on. The answer is improved marketing strategies, more training for sales, marketing and production staff and more research to better understand these developing trends.

(ii) Changes in National Advertising

The movement from media advertising to promotion is well documented. Radio is a natural promotional vehicle at the local level but will need to develop this strength at the national level. Strategies and skills will need to be developed to obtain promotional dollars, not always in the hands of advertising departments of clients or of agencies.

Restricted advertising dollars and a more demanding advertiser will make media choice more difficult; advertising agencies will want better data to defend media choices to advertisers and show results. More and better research will be required.

Globalization of media decisions by agencies and less national advertising revenue administered in Canada have already forced traditional national agencies into the local retail market. This combined with the threat of reduced retail budgets will force radio to spend more dollars in promoting radio's effectiveness as an advertising medium with agencies and advertisers.

Radio must improve its ability to attract national advertising dollars. This will require substantial investment over several years. It will require considerable effort to develop successful strategies to improve radio's image as a national advertising medium and to re-educate and reposition the industry's sales force. A strong commitment and substantial funding will be required.

(iii) <u>Changes in listeners' behaviour</u>

The population is aging; as people age they spend more time with all media, including radio. Older listeners, however, are also demanding listeners and seek substance and quality. Music, talk, information, news and current affairs programming designed for their needs will require creative talent supported by excellent research. This requires money. The squeeze on profits is making the resources needed to meet the high quality demanded by listeners extremely scarce. TV becomes an easy option for them as they are less mobile and, television choices are expanding.

To date, little research exists on the values, wants and needs of our aging population. They are more affluent, active and alert than previous generations and their wants and needs appear to be different to traditional perceptions.

The teen listener is a concern for radio. Teen tuning is substantially lower than all other age groups in Canada. Today's teen listener also appears to be substantially different from previous generations. Teens are our future listeners. Their perception of radio and how they consume radio and other media are keys to radio's long-term growth.

In both of these examples major research is required to better understand these listeners. Urgent current problems and limited resources have so far precluded such initiatives.

(iv) <u>Changes on the technology front</u>

Digital cable audio services have recently been successfully launched in the United States and an application is presently before the Commission for its launch in Canada. They may not attract huge audiences in the beginning, but they will eventually change the way radio is consumed and marketed.

Broadcasters will be forced to concentrate on their core competencies. Local service and the ability to target mobile listeners are the broadcasters' most significant strengths.

Digital cable audio will fragment listenership and result in decreased hours tuned for local broadcasters. It also can have an impact on programming costs where more investment may be required to obtain appropriate programming or maintain local distinctiveness in a market.

This development creates increased pressure for an industry move to digital radio.

Digital Video Compression is a technological advance that would allow conventional television broadcasters to offer multiple channel services. This extra channel capacity can be filled with more local production, time-shifting of popular services and consequently, and more importantly, more advertising opportunities.

The introduction of Digital Video Compression, hand-in-hand with increasing numbers of specialty television services, will increase television commercial inventory and will probably lower the price of television advertising and increase its attractiveness to both national and even small, local advertisers.

We know the challenge facing radio on the national front. At the local level, the downward pressure on television advertising rates could be such that they fall below radio rates, causing the weakening of local radio service in many communities.

The retail market is highly fragile. Private radio could be further endangered if substantial additional erosion of its local revenue base occurs.

4. THE BROADCASTING ACT AND PRIVATE RADIO

Broadcasters, both private and public, and campus/community and community radio stations recognize their obligations as users of the public airwaves under the Broadcasting Act.

The Broadcasting Act reflects the significance of the role radio broadcasting plays in Canada, in many ways, and provides the Minister and the CRTC the statutory basis to act upon the recommendations contained in this report.

Section 3 of the Broadcasting Act sets out a Broadcasting Policy for Canada for all elements of the broadcasting system: private broadcasters, the CBC, educational broadcasters, campus radio, community radio and native broadcasters.

It recognizes the central role that broadcasting plays for the country, for its audience and the significant contribution it makes to promoting Canadian expression. Section 3 of the Broadcasting Act is set out fully in Appendix A of this report.

Sub-section 3(s) of the Broadcasting Act is of particular importance to the work of the RAPCG in that it provides an unequivocal basis to support the rationalization of the industry and to ensure that regulatory requirements are matched to the economic capacity of private networks and programming undertakings:

> Private networks and programming undertakings should, to an extent consistent with the financial and other resources available to them:
>
> (i) contribute significantly to the creation and presentation of Canadian programming; and
> (ii) be responsive to the evolving demands of the public.

Sub-section 5(1) of the Act spells out the objects of the CRTC in the following terms:

Subject to this Act and the Radio-communications Act and to any directions to the Commission issued by the Governor in Council under this Act, the Commission shall regulate and supervise all aspects of the Canadian broadcasting system with a view to implementing the broadcasting policy set out in sub-section 3(1) and, in so doing, shall have regard to the regulatory policy set out in sub-section (2).

Sub-section 5(2) states:

The Canadian broadcasting system should be regulated and supervised in a flexible manner that:

> a) is readily adaptable to the difference characteristics of English-language and French-language broadcasting and to the different

conditions under which broadcasting undertakings that provide English-language or French-language programming operate;

b) takes into account regional needs and concerns;

c) is readily adaptable to scientific and technological change;

d) facilitates the provision of broadcasting to Canadians;

e) facilitates the provision of Canadian programs to Canadians;

f) does not inhibit the development of information technologies and their application or the delivery of resultant services to Canadians; and

g) is sensitive to the administrative burden that, as a consequence of such regulation and supervision, may be imposed on persons carrying on broadcasting undertakings.

We believe that the Minister of Communications and the CRTC have the statutory instruments required to assist private radio to regain economic viability and to support the industry initiatives required to achieve this objective. With these instruments public policy should be shaped in such a way as to:

i) <u>Return the Private Broadcasting Industry to Profitability Immediately</u>

The number one priority is to take immediate measures to relieve private radio from economic pressures that threaten its very survival and the survival of local service. This may mean taking extraordinary regulatory steps to do so, but this may be the only effective response when confronted with a crisis of such proportion.

However, it is recognized that regulatory relief by itself will not resolve the deeply rooted difficulties of private radio. While initiatives are being taken by the Radio Marketing Bureau and the Bureau de commercialisation de la radio du Québec to increase the advertising share of radio and to help address the revenue problems of the industry, results will not happen in the short term. Regulatory relief and a rapid, flexible response to rationalization proposals represent two avenues to make a difference to the economic crisis faced by money-losing stations.

ii) Recognize the Reduced Level of Resources Available to the Broadcasters for the Provision of Public Benefits

Canadian broadcasting policy has always been based on the concept that spectrum was a limited public resource, and that the private broadcaster, in return for the use of this limited spectrum, and in return for the protection from unrestricted competition within the regulated system, should contribute to public policy goals.

When radio is no longer profitable, the above equation needs to be re-examined. Therefore, new regulatory principles must be established which respond flexibly to the situation of the individual broadcaster or market. The public policy contribution demanded of private radio must be matched to the resources available to that broadcaster.

If the profit level of private radio is the same or less than that of unregulated industries, there is a decreasing justification to maintain public obligations that are no longer commensurate with the economic capacity of the industry. The provision of local service should be recognized as the central obligation of the broadcasters and benefit to the community.

iii) Allow Broadcasters to Respond to Change

In order to restore economic stability to the radio industry, the most appropriate nature and level of regulation and procedure must be sought. Broadcasters must have the ability to make responsible business decisions in a timely manner as change is relentless and increasing in speed. The regulatory process should be adapted to this reality.

We should celebrate success in the private sector and encourage excellence and innovation. Radio broadcasters must again become strong members of the Canadian business community. The public interest will best be served by fostering economic success.

The current circumstances present the industry, in conjunction with the CRTC and the Minister of Communications, with the opportunity to rebuild private radio and ultimately to allow it to prosper and to continue to serve its communities. What is needed is a climate of certainty -- a clear commitment to encourage the rationalization process, to update the regulatory process and to direct available resources to the survival and redevelopment of the industry.

5. RECOMMENDATIONS

Without immediate action by the industry, the Minister and the CRTC, losses will continue and the situation will worsen. The-long term economic recovery of private radio lies in addressing its revenue problems and in further service rationalization to deal with its structural problems and adjust services to the available revenue base. Short-term economic improvements will come from regulatory relief which translates into significant cost savings for the industry that could assist in maintaining local service.

The private radio industry has taken initiatives to increase its share of the advertising pie, but improvements will take time, commitment and financial resources. Radio will need to be repositioned as an advertising medium, to improve its sales and marketing skills and to demonstrate its effectiveness as a marketing tool.

Existing revenue sources and levels need protection especially at a time when advertising share is being lost. This must translate into government playing an active role to help curb the flow of advertising dollars across the border and by allowing private radio to be fully competitive with other media in its response to the demands of advertisers. This goal also requires that local retail advertising dollars, which are essential to the survival of private radio, must be protected by the CRTC in its current policies regarding access to local advertising as well as in the context of future technological developments such as digital video compression.

Because revenues have not kept up with rising costs, private radio has begun to respond by rationalizing its services in order to survive. This has led to a range of initiatives from consolidation of stations under larger groups, to the streamlining of operations and, in some extreme cases, to station closures. The CRTC has been very sensitive to the difficulties of the industry and in many instances has approved proposals aimed at maintaining local service in a community even at reduced levels. The only clear prospect for the future is that, until such time as advertising starts to grow again to an adequate level, the economics of stations will only be maintained through reducing costs and rationalizing service. The CRTC will need to continue to show understanding of these situations and be ready to react to innovative proposals to maintain local service even though they may challenge its existing policies. The speed of the reaction of the regulator will also have to respond to the needs of an ailing industry. The industry will need to expedite and the CRTC will need to encourage these essential initiatives.

Finally, the Commission will need to re-examine some of its current policies which, although they do not hold the key to solving all of private radio's difficulties, could bring some immediate economic relief. This could make the difference between losing or maintaining local service. Even though these measures may not represent a panacea, they will provide some relief and bring a note of encouragement to the industry as it begins to resolve its structural problems and work toward a more favourable economic environment.

The recommendations in this report are grouped into three sections:

(i) Industry Initiatives
(ii) Government Initiatives
(iii) CRTC Initiatives

INDUSTRY INITIATIVES

Without doubt, radio's greatest challenge over the next few years will be reversing the 10-year trend of a declining advertising share. The key elements for change, however, are in place.

1) Broadcasters know the problem.
2) Broadcasters have a strengthened Radio Marketing Bureau
3) A *Bureau de commercialisation de la radio* has recently been established in the province of Quebec.
4) The Bureau of Broadcast Measurement (BBM), the broadcasters' research arm, is attuned and open to the latest research techniques.
5) A human resources audit is presently underway, in co-operation with the Department of Employment and Immigration, to assess the future training and development needs of our industry.

More Research/Repositioning

What is needed is substantial research, the retooling of BBM, and training programs for our sales, creative and administrative personnel.

Targeted, strategic research is needed to assist:

a) in demonstrating radio's effectiveness and advertising impact to advertising agencies;
b) targeted new client research to convince clients to use radio as an advertising medium; and
c) audience research to analyze the ever-changing needs and expectations of Canadians.

In the Autumn of 1991, the CAB asked Decima Research to survey several key decision makers in the industry to assess research needs. Demonstrating radio's effectiveness at the agency level was highlighted by Decima as critical to reversing the ten-year trend of declining advertising share. An effective way to demonstrate this is through a multi-campaign tracking study which links advertising strategy to campaign results. The outcome of such a study would be the distilling of the information obtained into "how-to" guidelines for advertising agencies and their clients. The objective would be to demonstrate how best to use radio in national advertising campaigns, ideas for creative, effective media mix, effective media weight, etc.

Campaign tracking studies are expensive and must be conducted over several years to be effective. The estimated costs for such studies would be as follows:

National Campaign Tracking Study	$200,000	year 1
	$ 75,000	year 3
	$ 75,000	year 5

The repositioning of radio was noted as a second important area where efforts must be concentrated if broadcasters hope to increase revenues. Radio is seen as a "second-class citizen" in the eyes of many advertisers. The pervasive nature of radio and its influence as a communication tool will need to be demonstrated. This can be done in several ways. One way considered is through original advertising impact (cross-media) studies. This type of research attempts to establish how the various media reach and motivate consumers. These studies are complex in design and require high research costs but would be a most persuasive tool to influence and change radio's position in the marketplace. We estimate such a study would cost half a million dollars.

Advertising Impact (Cross-Media) Studies: $500,000

The erosion of radio's share of advertising has occurred through limited knowledge of the effectiveness of the medium at the agency level but also through lack of research tools, which other media offer to the advertiser at both the agency and advertiser level. Newspapers, for example, have their Newspaper Audience Data Bank study (NADBANK) upgraded on an annual basis. This study links a number of consumer products with newspaper readership. It costs the newspaper industry approximately $1 million per year to produce. A similar study is also available for magazines through the Print Measurement Bureau (PMB). It costs $2 million per year.

Broadcasters have developed a similar research tool, called Radio Product Measurement (RPM). Due to lack of funds this study was never conducted on a national basis and recently even the Montreal and Toronto studies have been placed on hold. What is desperately needed is an RPM for radio on a national basis (10 cities). Such a study would cost approximately $1 million. A minimum of three studies should be conducted over the next five years.

Radio Product Measurement Studies: $3,000,000

A number of other more topical studies would also need to be conducted for both new client research and audience trends. New client research would need to be assessed on a case by case basis. Audience trends studies would also need to be reassessed. Cost pressures have sorely affected the study of emerging consumer trends for both the greying population as well as youth, who both use media very differently than other generations. Other research that would be required includes:

1) an assessment of the retail changes occurring and their future impact on radio revenues;
2) studies on working women and how they use radio;
3) station format studies.

Some of the studies would be quite simple to conduct; others would require substantial investment. An estimated $100,000 over five years would be required for topical client research or audience trends analyses.

Topical research:	$500,000

The Radio Marketing Bureau's Radio Research Committee identified two studies; multiple week reach and effective frequency, as essential.

The multiple week reach study would estimate the impact of a radio campaign over several weeks. Current audience surveys measure respondent tuning on a weekly basis only. Multiple week reach statistics exist for other media and should be available for radio. This research is fairly straightforward with clear criteria.

Cost estimate:	$200,000

An effective frequency study would measure the frequency at which commercial messages must be aired in order to generate awareness. Effective frequency guidelines for radio have not been established. Media weight for radio is often planned at up to twice the frequency level of TV. This may or may not be a fair assessment. Radio, even sold at half the cost of TV, loses its competitive advantage if planned at twice the media weight level of TV.

An effective frequency study would be ground breaking research that would generate world wide attention. A pilot project is highly desirable to ensure that the design of the study is feasible and that differences in the results are measurable.

Cost estimate, pilot project:	$50,000
Full study cost:	$250,000 to $500,000

The research program set out above would require a total of $5,100,000 over the next five years.

Total research needs for next five years:	$5,100,000

The Radio Marketing Bureau, BBM and the CAB have recently agreed to join forces as an industry to assess and prioritize research needs. It is expected that the Bureau de commercialisation de la radio will form part of this arrangement. All research monies available would be pooled to concentrate efforts (both time and money) on the most urgent research requirements.

Recommendation #1.1

Broadcasters must recognize national industry research as a basic strategy in the economic recovery of radio. Efforts to work co-operatively should be encouraged and pursued. Funds must be found to finance essential projects.

Bureau of Broadcast Measurement (BBM)

The Bureau of Broadcast Measurement is a co-operative owned by its member broadcasters, advertisers and agencies. BBM revenues consist of membership dues and cover operating costs only. BBM survey systems, data processing, software and fundamental business processes have not been overhauled for 20 to 25 years. The financial state of the broadcast industry in the past decade did not allow BBM to raise the capital required from its members to make needed upgrades. As a result, the analysis of the information is cumbersome, time-consuming and costly.

Most research studies conducted for radio require special analysis of basic BBM numbers. Recent studies demonstrate that a full re-engineering of BBM equipment and system for radio would cost approximately $1.5 million over three to five years. A further half million dollars would be required to analyze and participate in U.S. studies on how to measure radio more effectively, and provide new measurement services to members. The full re-engineering of BBM survey systems, data processing software and fundamental business processes along with new survey methodologies is estimated to cost $2 million.

Recommendation #1.2

Broadcasters, with BBM management, must find creative means to help finance the retooling of BBM systems, data processing software and fundamental business processes.

Human Resource Development

One of the biggest problems the radio industry has had in increasing revenue share is its severe case of "tunnel vision" where the enemy is perceived as the radio station down the street. Broadcasters spend far too much time and energy fighting for a share of a budget that has already been earmarked for radio and not enough time creatively and aggressively pursuing revenue that is headed for print, television, other media or promotion. The industry must address the quality and training of its front line sales people. It must also reassess creative, promotion and cross-media services provided to clients. The Radio Marketing Bureau has already begun this process through its certified Radio Marketer Diploma Course and in market radio sales training. The Bureau de commercialisation de la radio is also putting together training programs aimed at Quebec radio broadcasters.

Technical training and staffing is another key area needing close scrutiny in radio broadcast operations. Technological advances are upon us and there must be a capacity to analyze the impact of such advances on radio broadcasting, assess their usefulness and implement where appropriate.

The CAB has stimulated the launch of an industry-wide sector study by Canada Employment and Immigration to identify emerging trends and their impact on human resources and human resource development. The final report, which is due in the Autumn, is expected to represent a consensus view on the future course of the broadcast industry, human resource needs and areas where opportunities and problems exist.

It will then be up to broadcasters to make best use of the results and develop appropriate recruitment, training and retraining programs.

> Recommendation #1.3
>
> Broadcasters must seriously assess human resource development needs for the industry, seek out creative financing, and proceed with appropriate training programs for their employees, particularly in the areas of management, marketing and technical development.

GOVERNMENT INITIATIVES

The Minister stated at the outset that he wanted to stimulate the long overdue recovery of private radio. The Working Group on the Economic Recovery of Private Radio has identified a number of areas as set out in recommendations 1.4 to 1.11 inclusively where it is felt the Government can help provide immediate relief that would have a significant bearing on the financial situation of private radio. These measures represent a combination of savings and lost revenues totalling tens of millions of dollars.

Recommendation #1.4

The Minister should publicly state that he recognizes that the radio industry in Canada is undergoing fundamental changes and that private radio is in an economic crisis caused primarily by structural factors and that the Government of Canada is committed to the recovery and strengthening of the radio industry as a significant contributor to the life of the country.

CRTC Licence Fees and Spectrum Management Costs

Licence fees collected by the CRTC from radio broadcasters, television and cable operators totalled $59.7 million for the year ending August 31, 1991. The reported cost of CRTC broadcast operations and of the Department of Communications for spectrum management was approximately $37 million. The remainder of the funds collected by the CRTC, approximately $23 million, goes to the Government's Consolidated Revenue Fund.

The current schedule for radio licence fees has been in place since September 18, 1985. It was established at a basic rate of $25 and 1.8% of revenues over and above an exemption of $500,000. Radio fees generated $10.7 million in 1991.

Few broadcasters in this country can manage to earn a profit at the best of times if their revenue base is below the $1 million mark. In its Economic Recovery Plan for Radio, the CAB called for increasing the exemption level from $500,000 to $1 million as a means of providing economic relief to radio stations with revenues of less than $1 million (which account for over two-thirds of all money losing stations) as well as to the rest of the private radio industry which is largely unprofitable. Such an increase in the exemption level would represent a loss of $2.1 million to the Consolidated Revenue Fund.

Since this proposal was made in 1991, based on 1990 financial data for private radio, the situation has worsened and reached crisis proportion. As a result, we believe that extraordinary measures are now needed and that Government should provide significant and immediate temporary relief to help private radio survive by removing the fee entirely.

Recommendation #1.5

Government should contribute to the survival of local private radio with immediate economic relief by exempting all stations from the payment of CRTC licence fees for a period of three years.

Recommendation #1.6

Government should immediately institute a review of its fee schedules aimed at providing private radio with long-term relief on a permanent basis.

C-58 (Section 19.1 of the Income Tax Act)

A CAB survey of private broadcasters conducted in 1990 estimated that approximately $8 million was spent by Canadian advertisers across Canada on U.S. radio stations. In markets affected, the revenue loss represented 8% of total sales.

Section 19.1 of the Income Tax Act (Bill C-58) states that advertising expenditures cannot be claimed as an eligible business expense if the advertisement placed on a U.S. station is directed toward Canadian audiences.

There has been on-going concern expressed with regard to the fact that Canadian advertisers have been claiming such expenses for tax purposes even though they were attempting to reach Canadian listeners through a U.S. station.

As a result of monitoring of Canadian advertising on U.S. stations in Autumn of 1990 and of 1991 by the CAB, and of more targeted audits, Revenue Canada has confirmed that there is evidence of non-compliance.

Revenue Canada has confirmed its intent to act on their findings through continued monitoring of advertiser compliance and efforts to increase awareness. Private broadcasters in border markets continue to press for a vigilant attitude by Revenue Canada so that advertising revenues are not eroded further.

Recommendation #1.7

Government should enforce C-58 provisions vigorously by stepping up both selected audits of annual returns and on-going effort to communicate the goals of the Act to specific businesses and individuals.

Government Advertising

Government currently uses newspapers, extensively and exclusively, to release public notices of its departments and agencies. Because of legislative or regulatory requirements, radio cannot be used as a medium to communicate these notices. While it is recognized that not all types of matters would be suitable to present on radio, steps could be taken by Government to examine the possibility of amending legislative or regulatory requirements to reallocate a portion of those funds to private radio.

Furthermore, Government should ensure that radio gets its fair share of its general media spending. There have been improvements, but too often radio is expected to make airtime available free of charge while other media receive advertising budgets for the same campaign.

> Recommendation #1.8
>
> Government departments should identify and amend legislation or regulations which prevent the use of radio for communicating government public notices.
>
> Recommendation #1.9
>
> The Minister should encourage government departments to continue to increase their use of radio for advertising purposes and establish a government wide process to identify and remove the roadblocks to greater use of radio for government advertising.
>
> Recommendation #1.10
>
> Government should insist that, where other media are purchased to present its Public Service Announcements, radio should be treated in a similar way and not be expected to make air time available free of charge.

Commercial Pre-Clearance

In 1990, the Minister of Consumer and Corporate Affairs established a Working Group to review the pre-clearance process for advertising of food and beverage products.

This action was in response to serious concerns expressed by private broadcasters and other interested parties (the Grocery Products Manufacturers of Canada, the Institute of Canadian Advertising and the Association of Canadian Advertisers) with the time delays caused by the pre-clearance process and the appropriateness of much of the regulation.

Time delays were the source of great frustration for private broadcasters who quite often lost much needed advertising revenues to other media like print, where no such requirement exists. It is a certainty that millions of dollars in radio advertising is lost each year. The frustration is even greater when those revenues flow to U.S. border stations.

The Working Group's initial mandate was to examine means to speed up the process. Their report has been tabled with the Minister and calls for the transfer of this responsibility to the Canadian Advertising Foundation (CAF) which already has responsibility for pre-clearance of certain commercials (e.g. advertising to children).

We understand that the report has received a positive response from CCAC and that, providing the Minister agrees, the transfer of responsibility could happen by Autumn 1992.

Furthermore, we understand that the Minister of Health and Welfare has asked the CRTC to amend its regulations with a view to eliminating the requirement to pre-clear cosmetics commercials.

Private broadcasters are pleased with this response. However, it is vital to now go on to the next stage and move to minimize the need to pre-clear. There are many reported instances of private radio stations having to refuse certain types of messages because of the nature of the content. This translates into revenue losses to the private radio industry at a time when every dollar counts. What is extremely frustrating is that foreign radio and television stations available to Canadians off-air or through cable, or other media like newspapers, weeklies or outdoor outlets can carry the same commercial without the same constraints.

We believe that Government must now proceed immediately with an in-depth review of all existing requirements to pre-clear commercials in order to re-establish balance among media and to allow private broadcasters to compete equally with other media for advertising revenue.

Recommendation #1.11

Government should immediately proceed to the next stage of the advertising pre-clearance review process involving representation from the Ministries of Consumer and Corporate Affairs, Health and Welfare, the CRTC and industry representatives, and review the statute and regulations governing the pre-clearance of commercials for food and beverage, drugs, beer and wine with a view to removing outdated requirements affecting the purchase of air time.

CRTC INITIATIVES

Rationalization

The severe economic pressures that are affecting private radio have led broadcasters to seek to rationalize their operations as a means to survive and to continue to provide local service.

In its economic recovery plan "A Strategy for the Survival of Private Radio" prepared by the CAB, the industry expressed the need to use its business ingenuity to adjust service levels to match the resources available to it, so that it could sustain local service.

It described a range of measures that would allow companies and stations to rationalize their business activities.

1) multiple stations ownership in a market beyond AM/FM combinations;
2) changing levels of program origination;
3) changing originating stations to rebroadcasters;
4) optimum use of networking and syndication;
5) station automation;
6) brokering program time; and
7) closing stations.

At that time, it asked the CRTC to provide support to the rationalization of the system, to make it clear that stations would not be penalized in seeking to rationalize their activities and to communicate its willingness to accept sensible responsible business proposals for change.

The Commission agreed that it would support the industry's initiatives on a case-by-case basis.

Since then, broadcasters have pursued many of these initiatives and others that were not included in the list. The Commission has been broadly receptive to numerous innovative proposals to help maintain local service and, in a number of instances, has accepted the closing of stations. It is about to make decisions on a number of applications that propose new ways of doing things.

Because of the urgency of pursuing rationalization strategies on an industry wide basis, there is the necessity for private radio to understand the expectations of the Commission when it deals with such applications. It is vital, therefore that the Commission seek means to provide guidance to the industry rather than requiring it to interpret decisions made on a case-by-case basis. This will serve to expedite the process.

Furthermore, there may be a requirement to address those elements of the Commission's policy which might hinder the capacity of the industry to adapt to the economic environment (e.g. limitation on multiple stations ownership, simulcast limitations between AM and FM, the limitations imposed upon FM stations which prevent the use of networking to a greater extent).

Recommendation #1.12

The Commission should continue to encourage and facilitate rationalization by private broadcasters by:

a) engaging in a process with the broadcasters to ensure a full understanding of the approach the Commission is taking with regard to rationalization proposals and its expectations of private broadcasters;
b) carrying out an exchange with broadcasters on means of more effectively pursuing the rationalization process; and
c) reconsidering those policies which may prevent a station from finding innovative means to maintain the service it offers to its community.

Procedures and Timeliness of Responses

Exceptional economic circumstances have led broadcasters to consider exceptional measures to protect their local service. Applications will continue to flow to the Commission as a result of the economic situation. There will be tremendous pressures on radio stations to make essential business decisions on a timely basis. There will be tremendous pressures on the resources of the Commission. Although the required amount of time for processing amendments, applications for new licenses and renewals has improved in recent years, it does still take an average of nearly six months for amendments to licenses to be processed, close to nine months for new applications, and a little over seven months for renewals. (Table 11)

Table 11
Average Processing Times of Applications by CRTC

From 01/04/91 To 31/03/92	Number of applications	Average # of calendar days
Amendments	86	178
New applications	71	261
Renewals	202	218
From 01/04/90 To 31/03/91	**Number of applications**	**Average # of calendar days**
Amendments	114	209
New applications	79	273
Renewals	218	240

Source: CRTC

A particular source of concern for private broadcasters is the time required to approve applications for transfer of ownership. A new streamlined procedure has been put into place at the CRTC since March 1992 to help accelerate the processing of these applications. Timing however, is still of the essence and up to six months, or more in some cases, is still a very long time for stations to operate in a climate of uncertainty. In such a period the circumstances of stations can change and transactions can be substantially undermined.

The requirements contained in the Commission's Rules of Procedures and other administrative practices contribute to the average processing time of applications. Bold and innovative measures need to be adopted by the Commission to change the way these applications are dealt with in response to a fast changing broadcasting world. For example, as a means to reduce the time required to approve transfers of ownership, the CRTC should consider advising an applicant as soon as the Commission has reached a decision subject to issuing a more detailed decision at a later time. The length of the intervention period in the context of public hearings might also be shortened.

Recommendation #1.13

The CRTC should endeavour to:

a) significantly improve the time required to process all applications with particular attention to be paid to amendments of licenses and transfer of ownership; and

b) carry out an in-depth review of its Rules of Procedures and of its administrative practices with a view to increasing the speed of the decision-making process and to provide any possible relief from administrative requirements that are no longer essential.

Significant Benefits

Private broadcasters have for some time expressed very deep concerns with respect to the Commission's policy which requires substantial cash expenditures as significant benefits upon transfer of ownership. It is their belief that the policy is much too narrowly conceived and that it forces business expenditures that are often inappropriate and imprudent in the current circumstances.

As the industry moves toward greater consolidation as a result of competitive and economic pressures over the last several years, the Commission has exerted increasing pressures on purchasers to provide incremental benefits to the system despite the fact that it has judged at the time of renewal that the station is already providing a satisfactory level of benefits to the community.

It is estimated that from 1985 to the end of the first quarter of 1992, private radio broadcasters committed themselves to "benefits packages" the total value of which reached $58.3 million or an average of $8 million per year. A significant portion of this money was in the form of cash expenditures at a time when private radio was struggling to maintain a very marginal profit level (1988 and 1989) or was in a significant loss position (1990 and 1991).

At a time when it is a major achievement to keep a station alive and able to serve its local community, this is the single most important benefit a purchaser can provide. Members of the Working Group on the Economic Recovery of Private Radio believe that the policy of routinely extracting additional financial commitments from a purchaser is no longer warranted as the industry is in such a precarious economic state. This policy should be eliminated immediately and replaced by one that recognizes that continuing service to the community is the primary benefit.

Recommendation #1.14

Recognizing that the CRTC has announced it has undertaken an internal study of the Significant Benefits Test and will soon be calling for public comments, it is recommended that:

a) the public review should be undertaken immediately, be in-depth and should have as its central objective, the strengthening of the radio industry's capacity to continue and improve its service to its communities; and

b) it should be completed during 1992 so as to help deal with the current economic crisis.

Recommendation #1.15

The CRTC should provide all private broadcasters with immediate relief from having to make the monetary commitments they were required to undertake under the policy, and suspend the application of the policy until the review is completed.

Canadian Talent Development (CTD)

The responsibility of private broadcasters to contribute to the development of Canadian talent is realized in each station's commitment to program at least 30% Canadian content and in its expenditures on the talented creative staffs they employ. It is, after all, airplay on radio that is largely responsible for the development of the Canadian music industry.

Over the years, private broadcasters have introduced, on a voluntary basis and as part of the service to their communities, initiatives to help support and develop Canadian talent, primarily in the area of music but also in other areas such as comedy, drama and journalism. This support has taken the form of direct cash contributions as well as indirect expenditures such as free air time to promote recording artists, concerts and special events and the involvement of station staff to support these activities.

At one point, the CRTC embodied these voluntary initiatives in a policy. Since then, it has systematically expected private radio stations to make firm commitments to the level at which they are going to contribute to Canadian talent development, both in terms of direct cash contributions and indirect operating expenditures. For private FM stations, these commitments form part of their Promise of Performance and, therefore, become a condition of licence.

Private broadcasters have expressed major concern with the Commission's policy which requires stations to make direct cash contributions to CTD, with the continual pressure to increase the size of these contributions and with the lack of recognition of the voluntary nature of their origin. However, the indirect expenditures of private broadcasters remains unquestioned.

In 1991, CTD commitments accounted for approximately $10 million in cash contributions and over $10 million in indirect expenses.

The concerns of broadcasters are:

i) CTD initiatives have grown substantially during the period 1988 to 1991 as private broadcasters were forced, often, in the context of public hearings, to increase their commitments. All indications point to further substantial increases for the year 1992. The resulting growth in CTD initiatives for the period 1988 to 1991 is simply astounding at a time when private broadcasters were losing money (Table 12).

Table 12
Growth in Canadian Talent Development Commitments
1988 - 1991

	1988 '000	1991 '000	Growth 88-91
Cash contributions	$5,880	$9,962	69%
Indirect expenses	$1,849	$10,112	447%

Source: CRTC

Some would suggest that this substantial growth was a result of new licence applications. There is no doubt that some commitments were made by private broadcasters who feared that failing to commit to CTD would substantially reduce the possibility of obtaining a licence. However, an analysis of the 1992 renewals demonstrate that growth is not solely related to new licences. For example, the 42 radio licence renewals analyzed in British Columbia in 1992, most stations proposed increased commitments. As well, the renewal process boosted the number of stations that had cash contributions prior to September 1992 from 22 to 39.

Broadcasters increased their contribution to CTD as a direct result of the Commission's actions and indications that an increased commitment is expected in almost all circumstances. Recent efforts by the CRTC to reverse this perception have not yet had significant results.

ii) Private broadcasters also hold a strong view that the commitments are unreasonable in light of their significant contribution to the promotion of Canadian music through air play of Canadian content, which has been the most important factor in the growth of the Canadian music industry. Since September 1991, FM radio has increased its Canadian content level by 50%, to a level of 30%, matching AM.

iii) Many representatives of the music industry have questioned the effectiveness of these initiatives in developing new Canadian talent. It simply does not make business sense to forcibly extract these dollars from a money-losing industry when some in the music industry have expressed such doubts.

iv) CTD commitments are financed out of the programming budget of a radio station. In many cases, radio stations have had to lay off staff and, at the same time, issue cheques to cover contributions to CTD initiatives. A station's ability to provide local programming is affected by its obligations to both direct contributions and indirect expenditures.

Private broadcasters recognize the important role that FACTOR and MusicAction have in the development of new talent. It was private radio and the music industry that founded these two organizations and, currently, private radio supports them to the level of $1.4 million a year. However valuable these initiatives may be, many broadcasters feel that they are no longer in a position to fund these organizations at a time when programming content may be compromised by doing so. Other broadcasters may, of course, continue to maintain their support.

<u>Recommendation #1.16</u>

It is recommended to the CRTC to provide all private radio stations who have completed their first licence term with immediate relief from having to make direct cash contributions to Canadian Talent Development.

<u>Recommendation #1.17</u>

Recognizing that the CRTC has indicated its intention to undertake a review of its policy regarding Canadian Talent Development, it is recommended that the Commission conduct this review on an urgent basis.

<u>Spoken Word Requirement for FM Stations</u>

A "Spoken Word" requirement only applies to FM stations.

During the FM Policy review, private broadcasters recommended that the spoken word level be set at 10%. This was based on the understanding that all stations were at least above that line and so there would be no need for stations to increase their level of spoken word. The Commission responded by setting a spoken word requirement of 15% in its new policy. It is worth underlining that prior to September 1991, there was no set rule and stations made commitments in their Promise of Performance that responded to the requirements of their format and audience.

Spoken word is the most costly element of programming for a radio station. Stations whose spoken word obligations were around the 10% to 12% mark previous to the implementation of the new FM Policy, were obligated to increase their oral content to 15%. A five percentage point increase in spoken word represents an additional 6.3 hours per week. Producing 6.3 hours of quality spoken word, particularly in a musical environment, requires research, additional quality scripts, and announcers whose interventions must be appropriate to maintain listener interest, otherwise the scan button is not very far away! It is estimated that the cost of producing six hours per week of quality spoken word is significant and could vary from $200,000 a year for large market stations to $25,000 for small market stations.

Spoken word strategies are a function of competitive pressures. Some AM stations, for example, who have no spoken word obligations, have for competitive reasons chosen the All-Talk format. Other AM stations have remained Top 40 with little spoken word.

FM stations are no different than AM stations. If competitive pressures or a particular format requires spoken word, it will be provided. If, however, the ideal format for a particular market suggests the way to go is more music and less talk, why should the Commission require the stations in this market to increase their spoken word content?

As indicated, spoken word is extremely costly. We need not further emphasize the economic state of private broadcasting in this country. For those stations who were producing good quality programming at 10% to 12% spoken word, the additional cost to go to 15% spoken word is simply not required by their audience.

A number of private radio broadcasters would prefer that no mandatory level be imposed. Failing that, it is strongly felt that 10% should be the absolute maximum for stations not faced with exceptional circumstances (e.g. border markets).

We must remember that a commitment to provide local service assumes that spoken word will be an integral component of morning and afternoon drive, even in the absence of any formal requirement and that an imposed level could be an obstacle to the integrity of a radio format. Perhaps most importantly, it constitutes a fixed cost element that cannot be easily adjusted, even when economic circumstances require rapid action.

Recommendation #1.18

The CRTC should recognize the significant economic impact that the new spoken word requirements have upon FM broadcasters and give immediate economic relief to private FM stations by reducing the spoken word requirement to 10%.

REPORT 2

"TOMORROW'S OPPORTUNITIES FOR CANADIAN RADIO"

Submitted by the
Working Group on the Future of Radio

to the
Steering Committee
RAPCG

June 17th, 1992

Report #2

Tomorrow's Opportunities for Canadian Radio

Report #2 reflects the deliberations of the Working Group on the Future of Radio and, as such, is an all-industry initiative.

Participants in this Working Group are presented hereafter:

Mr. Bill Coombes (Chair)
Fraser Valley Radio Group

Ms. Carol Darling (Member)
Advanced Broadcasting Systems of Canada

Mr. Steve Edwards (Member)
Rogers Broadcasting Ltd.

Mr. Terrence Flanagan (Member)
National Campus and Community Radio Association

Ms. Lucie Gagnon (Member)
Association des radiodiffuseurs communautaires du Québec

Mr. Brian Jones (Member)
Radio Bureau of Canada

Mr. David Keeble (Member)
Canadian Broadcasting Corporation

Mr. Peter Kruyt (Member)
Power Broadcasting Inc.

Mr. Sylvain Lafrance (Member)
Société Radio-Canada

Mr. Ted Ledingham
Department of Communications

Mr. Paul Mills (Member)
Canadian Broadcasting Corporation

Mr. Pierre Morrissette (Member)
Pelmorex Communications Inc.

Mr. Brian Robertson (Member)*
Canadian Recording Industry Association

Mr. Duff Roman (Member)
CHUM Limited

Mr. Michel Tremblay (Member)
Association Canadienne des Radiodiffuseurs

Ms. Martine Vallée (Observer)
Canadian Radio-television and Telecommunications Commission

* See special note.

While the report of the Working Group on the Economic Survival of Radio focuses on the needs of private radio operators in the short term, the Future of Radio Working Group report is concerned with the success of the entire industry in the environment of the future. It is expected that the major contributor to change in this environment will be the introduction of digital transmission methods for radio. There will be multiple effects on the radio industry

1) Digital radio will enhance the competitiveness of radio as the audio quality expectations of listeners continue to rise.

2) Digital technologies will make all signals "addressable" and "encryptable", opening the door to new ways of doing business and to new services such as pay radio.

3) Digital radio will open the door to new business opportunities since the 'bitstream' emitted by a station could carry audio, video and computerized information.

4) Digital radio will eventually open the door to direct reception from satellite to a personal receiver with the possibility of increasing services to remote areas.

The radio industry's response has been to embrace these changes in view of the advantages they offer and the opportunities they bring. Therefore, the recommendations contained in this section reflect the consensus developed within the industry that there is a need to move speedily toward the digital environment. However, there are concerns raised by the substantial capital investment which digital radio will require, and this comes at a time when the radio industry is under severe economic stress. The first set of recommendations under the heading "Paving the way for a brighter future" deal with these questions.

Beyond technological developments, the industry will be operating in an increasingly complex and competitive environment where both users and advertiser will continue to expect more from radio. In this context, there will be a need to ensure that the radio industry has the economic capacity to tackle these challenges and to continue to succeed as a primary medium for listeners and as an advertising vehicle.

The second set of recommendations within this section called "Funding the Future" addresses the need for the CBC to access stable long-term funding, for community radio to stabilize its sources of financing and for private radio to have access to the financial resources necessary to carry out the essential research and training activities required for its long-term survival.

Obviously, many other future-oriented issues will need to be addressed to develop a comprehensive strategic vision for the industry. However, it is felt that the Working Group dealing with the Future of Radio has tackled some of the most pressing decisions that are required to ensure our future as an industry.

6. PAVING THE WAY FOR THE FUTURE WITH DIGITAL RADIO

Over two years ago, private broadcasters, the CBC and the Department of Communications recognized the enormous potential that the emerging digital radio technology promised to bring to the future of radio. They saw in it a means to ensure that radio remained technically competitive with the sound quality provided by CDs, DAT and digital audio services that are forthcoming through cable and, at a later stage, through satellite.

Currently, the only working example of this technology has been developed by a European consortium grouping government, research institutes and manufacturers of consumers electronics under Eureka Project-147.

Prototypes of the technology were demonstrated in Europe for the first time in 1988 and in 1989. The technology enabled broadcasts of a high quality digital signal surpassing that offered by conventional analog AM and FM radio services. Some of its key characteristics are: the robustness of the signal to multipath and fading in built-up areas; the possibility of having many users share a radio transmitter -- currently the technology allows to carry six stereo signals within 1.5 MHz; and the possibility of using "gap-fillers" on the same channel to complement the coverage within a given area.

Besides these intrinsic qualities, digital radio technology opens the door to the development of very reliable "smart" radio receivers that can be made to address many purposes such as pay radio, selective data transmission and information retrieval for gathering data about listeners' tuning behaviour.

Broadcasters will continue to offer conventional radio services in the future but they will also offer a range of other services such as data transmission, which will provide them access to a new source of revenue. As some have said, they will become "data bits" broadcasters.

Having recognized this potential early on, Canadian radio broadcasters staged the first series of tests and demonstrations of the new technology in North America in the summer of 1990. These tests had a determinant impact on the development of a significant interest in digital radio through the Americas, and proved without a doubt the capacity of the Eureka-developed technology to deliver on its promises.

Strengthened in the knowledge that the technology worked, Canadians turned their attention to preparing a very solid case for the allocation of appropriate spectrum for the new technology at the World Administrative Radio Conference (WARC) in Spain in 1992.

It is worth underlining at this stage that an early and broad consensus had been emerging in Canada among broadcasters, both public and private, that although digital radio needed its own segment of spectrum, it would be a replacement technology and not another layer of service in the system on top of the AM and FM bands. It was anticipated that AM and FM services would migrate to the new spectrum after a multi-year period of simulcast coverage and that simulcast would cease as receiver penetration reached an acceptable level.

Canada, under the leadership of the officials of the Department of Communications, played the central role at WARC '92 in obtaining a world-wide allocation of 40 MHz of new spectrum for digital radio in the range 1452 to 1492 MHz (L-Band) for both terrestrial and satellite services. This allocation opened the door to the development of an implementation plan for digital radio in Canada.

The outcome of WARC '92 and the world-wide allocation of 40 MHz in L-Band for digital radio broadcasting has confirmed the leadership role of Canada and stunned many countries who held entrenched and differing views on the appropriate spectrum for this new technology. Many countries are now under pressure to re-examine their position on the use of L-Band whether they registered an exception to the allocation, as the U.S did, or whether they have accepted it, but only as a secondary allocation.

The CBC's role in this activity is crucial. Throughout the digital radio testing and demonstrations, and as the Canadian position for WARC '92 was being prepared, the CBC provided valuable expertise and research and development effort. Continuing support for the Corporation's research and development role, and its engineering expertise, will be even more critical as the implementation of digital radio in Canada gets under way.

The CAB and its Engineering and Technology Council (ETC) played an early and central role in the Canadian digital radio initiative. Individual private broadcasters contributed substantial financial and human resources to get the project off the ground. Private broadcasters, led by the ETC and the CAB Digital Radio Policy Task Force, will need to step up their role in the period ahead.

Planning the implementation of digital radio, facilitating and financing the transition for all radio broadcasters, and developing an adequate regulatory framework for the new environment are now the priorities.

Canadian radio broadcasters believe that the best and probably the only strategy that should be adopted at this stage to achieve our goal is to continue to aggressively pursue an early implementation of digital radio broadcasting in Canada. This strategy will ensure that broadcasters remain technically competitive as new digital audio services become available to Canadians via cable or satellite.

The probable sequence of events that must unfold for an early introduction is as follows:

• Establishment of semi-permanent experimental DR stations (Toronto-Montreal-Vancouver)	Fall '92/Spring '93
• Establishment of transmission standards by CCIR/EIA[13]	Fall '93
• Development of domestic allocation and allotment plan	1992 - 1994
• Development of domestic DR licensing policies and regulations	1992 - 1994
• Receiver and transmission equipment development	1992 - 1994
• Licensing and building of 1st group of permanent DR terrestrial stations	1995
• DR receivers become available on the retail market	1995 - 1996

There are 3 main reasons why we believe an aggressive implementation strategy is the best one to pursue.

(i) If Canada proceeds with the implementation of digital radio, our domestic allotment plan would be, for the first time, developed without the constraints of working around an existing U.S. allotment plan.

Traditionally, Canadians have been forced to develop their allotment plan for new bands, like the FM band, after the U.S. had reserved many frequencies in the key border areas. The consequence has been to limit the availability of frequencies for Canada, to reduce the number of desirable positions on the dial and to increase the difficulties and length of bi-lateral discussions.

Moving first will also have a dynamic effect on the U.S. attitude toward L-Band as they will be faced with the possibility that we would be limiting their capacity to develop a domestic allotment plan.

[13] CCIR - Comité Consultatif International sur la Radio
EIA - Electronic Industries Association

(ii) Canadian equipment manufacturers of transmission equipment and broadcast antennas would have a 12 to 18-month advance on competitors.

A number of Canadian manufacturers have participated in the demonstrations and testing of the digital radio technology in Canada. In doing so, they have had the opportunity to experiment with the EU-147 technology and gained access to a substantial amount of information about the characteristics and performance of the technology.

Ultimately, when all private radio, CBC radio, community and campus/community radio have migrated to the L-Band, a large number of new transmitters and antennas will have been sold and installed across the country. This will represent a very significant potential market for Canadian manufacturers.

(iii) The sooner Canada, Mexico and other American countries move to implement DR, the more pressure this will exercise on the U.S. to reconsider their current position which is to use the S-Band for digital transmission.

There is mounting pressure from the broadcasting community in the U.S. to adopt a position compatible with its neighbours and the rest of the world. There are serious political obstacles to be surmounted before a consensus view emerges on this question. It is assumed that changes in outlook will happen as soon as it becomes clear that the so-called "in-band" technologies are less than satisfactory in fully utilizing the potential of this technology. The current process that has been put in place to arrive at the establishment of a technical standard for transmission by Autumn 1993 and the related tight timeframe set by both the Electronics Industry Association (EIA) in the U.S. and the CCIR will force an early resolution.

Another key reason to proceed as soon as possible is to ensure that the momentum that has been created within the broadcasting industry is not lost.

A report entitled "Digital Radio Broadcasting: A Technology Development Strategy for Canada" was prepared by the Joint Technical Committee on Advanced Broadcasting (JTCAB) for ABSOC to help define the technological framework to guide the work of the RAPCG. This report identifies four basic ingredients for digital radio implementation:

- suitable spectrum for domestic DR must be allocated by each administration, preferably on a co-ordinated, worldwide basis;
- a technical standard for digital transmission must be adopted, again preferably on a worldwide basis;

- domestic frequency allotment plans must be developed along with international agreements specifying carriage and interference protection criteria; and
- suitable broadcast transmitting equipment and affordable consumer receivers must be developed and marketed.

Beyond these basic steps to make DR happen in Canada, there is a need to address rapidly the following key related questions.

1) How do we plan the transition of the existing analog AM and FM services to digital?

2) How will we finance the significant capital requirements of the radio industry at a time when private broadcasters are in an economic crisis, the CBC long-term funding of capital requirements is uncertain and when community and campus/community radio will not be able to make the transition without significant assistance?

3) What kind of regulatory framework is needed during the transition to DR and following?

4) How do we best co-ordinate the efforts of all broadcasters private, public, community, campus/community and native with those of Department of Communications, the CRTC, and Canadian equipment manufacturers to achieve our collective goals?

7. RECOMMENDATIONS

The following recommendations deal with those decisions that need to be made to keep our competitive edge, to continue to exercise our worldwide leadership and to carry out an aggressive implementation strategy.

Recommendations #2.1

As a result of the consensus developed among industry and in view of the leadership role played by Canada in obtaining a worldwide allocation for digital radio, the Government of Canada should commit to proceeding rapidly with the introduction of digital radio in Canada with the target date set for 1995.

Recommendation #2.2

The Government should endorse the consensus vision of the industry as to how digital radio will be introduced in Canada. In the national interest, DR should:

(i) be introduced in a non-disruptive, evolutionary manner;

(ii) provide a level of technical quality and signal reliability that is strikingly superior to current AM and FM systems;

(iii) achieve the maximum possible spectrum efficiency consistent with the stated technical quality and reliability objectives;

(iv) serve as a direct terrestrial-based replacement for existing AM and FM radio broadcasting services;

(v) accommodate a future complementary direct satellite delivery component; and

(vi) be implemented outside the current AM and FM bands, at the L-Band allocation, thus ensuring the freedom to achieve an optimal system.

Recommendation #2.3

The Minister of Communications should endeavour to keep Canada in the forefront of digital radio by establishing and funding a national all-industry/government strategic advisory body called the Digital Radio National Advisory Committee (DRNAC) to advise on the planning, co-ordination and implementation of all forms of digital radio in Canada.

- Its mandate should be:

(i) in conjunction with DOC and the CRTC to recommend a policy and regulatory framework for both the transition period and the period after;

(ii) to advise on the technical architecture of a new system and to propose solutions to the key implementation issues;

(iii) to advise on the establishment of technical standards for receivers and for signal transmission;

(iv) to assist in the development of a Canada-wide domestic frequency allotment plan;

(v) to advise on positions for bi-lateral Canada-U.S. negotiations;

(vi) to recommend policies to the Minister for the licensing and regulation of the transmission infrastructure, following the principle that such regulation should be designed both to ensure efficient use of spectrum and to ensure fair and affordable access by all broadcasters to the transmission resources needed to meet their coverage objectives; both those of individual broadcasters for their licensed areas and the overall coverage objectives mandated to the CBC by the Broadcasting Act.

(vii) to identify the economic implications of a transition to digital radio for all radio broadcasters, to provide an assessment of the capital requirements of private radio, the CBC, community, campus/community, and native radio, and to make recommendations to the Minister with regard to helping them meet those requirement;

(viii) to advise on means to protect the interests of campus/community, community and native stations in planning the transition;

(ix) to advise on the promotion and demonstration of the technology in Canada; and

(x) to be a resource for all broadcasters and the general public.

Proposed membership would include management, financial and technical representatives from the CAB on behalf of the private sector, CBC, DOC, CRCI, campus/community, community, educational and native radio, the CRTC and Canadian equipment manufacturers.

Recommendation #2.4

Government should introduce tax-based incentives and loans at a preferred rate for encouraging capital equipment investment by the industry for upgrading facilities or investing in new technologies. Digital radio research dollars should be allowed as part of Revenue Canada tax deductions for scientific research projects. The private radio industry would welcome the opportunity to discuss with government appropriate programs or incentives.

Recommendation #2.5

During the gradual transition to digital radio, Government should protect the existing over-the-air delivery methods for radio.

Recommendation #2.6

Recognizing that the future of the radio industry will depend on both existing revenue sources and on the development of new ones, Government and CRTC should encourage the industry to go beyond its traditional role and to fully explore new revenue sources (e.g. data broadcasting) and should state that DOC policies on spectrum use and management will support this goal.

Even with the rapid DR implementation schedule that is contemplated, existing AM and FM broadcasting will continue for at least another 10 to 15 years. The current level of technology used in AM antennas has remained unchanged since the 1930's. One of the major problems with AM antennas is their large size and the amount of land they occupy. As a result, it costs a great deal of money to design, install and maintain them. Increasingly, AM stations are operating under very severe economic difficulties and will no longer be able to support such costs. There is a need to revisit this technology with a view to improving the technology and to reducing the related costs. For example, small-sized antennas could be developed that would be easier and less costly to install, operate and relocate. Government, through the Communications Research Centre Institute (CRCI), could play a significant role in exploring further improvement to AM technology.

It is worth noting that the National Association of Broadcasters (NAB) has undertaken a significant amount of research in this area.

Recommendation #2.7

The Communications Research Centre Institute should consider undertaking research aimed at exploring means to improve coverage and signal strength of AM stations and to make the technology more cost effective.

8. FUNDING FOR THE FUTURE/RECOMMENDATIONS

The radio industry faces unprecedented challenges and many initiatives will need to be taken to restore its economic health and to prepare it for the digital era. There is a willingness, indeed, an eagerness to seek new solutions and to develop effective strategies for the future.

Our industry has demonstrated an ability to develop co-operative solutions. We have the imagination and the commitment needed to overcome the immediate challenges and to pursue a successful future.

Each sector of the radio industry will need dedicated resources that can be applied to their individual needs and to those of the industry as a whole.

The CBC requires multi-year stable funding. The full potential of the Corporation's contribution to a revitalized industry will be realized only if there is financial stability.

Recommendation #2.8

The entire radio industry recognizes the importance of CBC's contribution to the development of the industry's future. Stable, adequate, multi-year funding should be provided to the CBC, which would allow it to maintain and develop its distinctive radio services and thus benefit the entire industry. In addition, the Minister should support CBC requests for special capital funding to permit the development of digital radio.

Community stations and native radio also face financial pressures. Their sources of revenue are diverse and at times uncertain. They will undoubtedly require special financial assistance to implement digital radio.

Recommendation #2.9

Community radio will need to expand revenues to ensure greater stability and generate some of the funds needed to implement digital radio. In order to help community radio stations to develop their financing, the Minister should help them access government programs usually aimed at small private enterprises, such as the Federal Business Development Bank (FBDB) programs and training programs. Community radio associations could work with government officials to identify the programs that would be helpful.

The Private Radio sector must establish a means of funding a variety of activities aimed at both short-term and long-term recovery and development strategies. These include strategic research, human resources development, training and upgrading, sales and marketing strategies plus a range of initiatives relating to technological development and the transition to digital radio broadcasting. The private industry has identified the need to spend $10 million over the next five years and the requirement may be greater.

Under the auspices of the Canadian Association of Broadcasters, the private sector will establish the Radio Future Fund to help the private radio industry undertake much needed research, provide funding for recovery strategies and support the research and development of digital radio.

The ability of the industry to support such a fund is limited and efforts are needed to allow available resources to be accessed on an entirely voluntary basis. In order to generate sufficient capital it will be necessary to identify outside funding sources and develop incentives for attracting contributions.

Recommendation #2.10

The Minister is asked to support the establishment of the Radio Future Fund by the Canadian Association of Broadcasters. Recognizing that the private radio industry is limited in its ability to direct resources into this fund, we request that the Minister investigate ways in which additional funds might be made available to the Radio Future Fund.

A FINAL WORD

There is an urgent need to return radio to economic health. The future of local radio and of the Canadian radio system is at stake.

The participants in this consultative process have contributed freely to the development of these recommendations. We appreciate the active support of the Minister and the Department of Communications in facilitating the process.

SPECIAL NOTE

Although the Radio Action Plan Consultative Group was designed for the radio industry, the Canadian music industry has participated in the process with a representative on each of the Working Groups as well as on the Steering Committee.

The music industry, as represented by the trade associations sitting on the Group, while generally supportive of most of the initiatives in this report, cannot support the entire document in its present form as it disagrees with the conclusions which provide the basis for some of the recommendations contained in this document.

The music industry points out that the current economic problems facing many radio broadcasters are not caused by programs aimed at assisting the music industry. Moreover, at the outset of this process "it was decided that matters pertaining to Copyright reform would not be included in the discussion of the Radio Action Plan Consultative Group." As the music industry believes the two questions are related, it cannot support in its present form the recommendation which calls for "immediate relief [of private broadcasters] from having to make direct cash contributions to Canadian Talent Development" (CTD) initiatives, and is particularly concerned with the part of the report that suggests some stations may need to eliminate their contributions to FACTOR/Musicaction.

Appendix A

Broadcasting Policy for Canada

3.(1) It is hereby declared as the broadcasting policy for Canada that

(a) the Canadian broadcasting system shall be effectively owned and controlled by Canadians;

(b) the Canadian broadcasting system, operating primarily in the English and French languages and comprising public, private and community elements, makes use of radio frequencies that are public property and provides, through its programming, a public service essential to the maintenance and enhancement of national identity and cultural sovereignty;

(c) English-language and French language broadcasting, while sharing common aspects, operate under different conditions and may have different requirements;

(d) the Canadian broadcasting system should

(i) serve to safeguard, enrich and strengthen the cultural, political, social and economic fabric of Canada,

(ii) encourage the development of Canadian expression by providing a wide range of programming that reflects Canadian attitudes, opinions, ideas, values and artistic creativity, by displaying Canadian talent in entertainment programming and by offering information and analysis concerning Canada and other countries from a Canadian point of view,

(iii) through its programming and the employment opportunities arising out of its operations, serve the needs and interests, and reflect the circumstances and aspirations, of Canadian men, women and children, including equal rights, the linguistic duality and multicultural and multiracial nature of Canadian society and the special place of aboriginal peoples within that society, and

(iv) be readily adaptable to scientific and technological change;

(e) each element of the Canadian broadcasting system shall contribute in an appropriate manner to the creation and presentation of Canadian programming;

(f) each broadcasting undertaking shall make maximum use, and in no case less than predominant use, of Canadian creative and other resources in the creation and presentation of programming, unless the nature of the service provided by the undertaking, such as specialized content or format or the use of languages other than French and English, renders that use impracticable, in which case the undertaking shall make the greatest practicable use of those resources;

(g) the programming originated by broadcasting undertakings should be of high standard;

(h) all persons who are licensed to carry on broadcasting undertakings have a responsibility for the programs they broadcast;

(i) the programming provided by the Canadian broadcasting system should

(i) be varied and comprehensive, providing a balance of information, enlightenment and entertainment for men, women and children of all ages, interests and tastes,

(ii) be drawn from local, regional, national and international sources,

(iii) include educational and community programs,

(iv) provide a reasonable opportunity for the public to be exposed to the expression of differing views on matters of public concern, and

(v) include a significant contribution from the Canadian independent production sector;

(j) educational programming, particularly where provided through the facilities of an independent educational authority, is an integral part of the Canadian broadcasting system;

(k) a range of broadcasting services in English and in French shall be extended to all Canadians as resources become available;

(l) the Canadian Broadcasting Corporation, as the national public broadcaster, should provide radio and television services incorporating a wide range of programming that informs, enlightens and entertains;

(m) the programming provided by the Corporation should

(i) be predominantly and distinctively Canadian,

(ii) reflect Canada and its regions to national and regional audiences, while serving the special needs of those regions,

(iii) actively contribute to the flow and exchange of cultural expression,

(iv) be in English and French, reflecting the different needs and circumstances of each official language community, including the particular needs of English and French linguistic minorities,

(v) strive to be of equivalent quality in English and French,

(vi) contribute to shared national consciousness and identity,

(vii) be made available throughout Canada by the most appropriate and efficient means and as resources become available for the purpose, and

(viii) reflect the multicultural and multiracial nature of Canada;

(n) where any conflict arises between the objectives of the Corporation set out in paragraphs (l) and (m) and the interests of any other broadcasting undertaking of the Canadian broadcasting system, it shall be resolved in the public interest, and where the public interest would be equally served be resolving the conflict in favour of either, it shall be resolved in favour of the objectives set out in paragraphs (l) and (m);

(o) programming that reflects the aboriginal cultures of Canada should be provided within the Canadian broadcasting system as resources become available for the purpose;

(p) programming accessible by disabled persons should be provided within the Canadian broadcasting system as resources become available for the purpose;

(q) without limiting any obligation of a broadcasting undertaking to provide the programming contemplated by paragraph (i), alternative television programming services in English and in French should be provided where necessary to ensure that the full range of programming contemplated by that paragraph is made available through the Canadian broadcasting system;

(r) the programming provided by alternative television programming services should

(i) be innovative and be complementary to the programming provided for mass audiences,

(ii) cater to tastes and interests not adequately provided for by the programming provided for mass audiences, and include programming devoted to culture and the arts,

(iii) reflect Canada's regions and multicultural nature,

(iv) as far as possible, be acquired rather than produced by those services, and

(v) be made available throughout Canada by the most cost-efficient means;

(s) private networks and programming undertakings should, to an extent consistent with the financial and other resources available to them,

(i) contribute significantly to the creation and presentation of Canadian programming, and

(ii) be responsive to the evolving demands of the public; and

(t) distribution undertakings

(i) should give priority to the carriage of Canadian programming services and in particular, to the carriage of local Canadian stations,

(ii) should provide efficient delivery of programming at affordable rates, using the most effective technologies available at reasonable cost,

(iii) should, where programming services are supplied to them by broadcasting undertakings pursuant to contractual arrangement, provide reasonable terms for the carriage, packaging and retailing of those programming services, and

(iv) may, where the Commission considers it appropriate, originate programming, including local programming, on such terms as are conducive to the achievement of the objectives of the broadcasting policy set out in this sub-section, and in particular provide access for underserved linguistic and cultural minority communities.

(2) It is further declared that the Canadian broadcasting system constitutes a single system and that the objectives of the broadcasting policy set out in subsection (1) can best be achieved by providing for the regulation and supervision of the Canadian broadcasting system by a single independent public authority.

Appendix B

List of Graphics and Tables