

# Aggregation: a progress report

**Bob Peters examines three recent reports and finds that regional broadcasters have been sacrificed by the government in pursuit of a popular policy objective**

## Introduction

**A** financial bloodbath in the regional television industry is a result of the Federal Government's decision to use aggregation as the means for providing increased commercial services to most country television viewers.

In her article, *The Economics of Aggregation* (*Communications Law Bulletin* Vol 10, No. 1 Autumn 1990), Ms Cass O'Connor forecast that the anticipated financial fiasco could have been avoided if the Government had selected the alternative multi-channel service ("MCS") method to deliver three commercial television services to regional areas under its Television Equalisation Plan ("the Equalisation Plan").

Regardless of the comparative merits of the MCS alternative, the Government appears to be irrevocably committed to its aggregation policy, which now has been in operation for more than 18 months in certain parts of the Southern New South Wales regional market (known as "Approved Market C" under the Equalisation Plan).

Thus, the relevant question in relation to aggregation no longer is whether it will proceed, but rather, whether its implementation will produce the dire financial consequences predicted by Ms O'Connor.

A preliminary assessment of those predictions recently has been made possible following the release of three reports dealing with various aspects of aggregation. Unfortunately, the early indications are not encouraging for country television and radio broadcasters.

## Recent aggregation research reports

**T**he first of the recent aggregation reports, *Attitudes to Television In The Southern NSW Aggregated Market* was released in September of last year. It was commissioned by the Australian Broadcasting Tribunal ("ABT") and dealt with viewer attitudes and perceptions in relation to the television aggregation in the Southern New South Wales regional television market (ie Approved Market C).

The second report *Television Licence Renewals, Financial Results 1986-90 For The Southern NSW Aggregated Market*, was released in October. It was conducted by the ABT and dealt with the financial performance, both pre-aggregation and post-aggregation,

of the commercial television and radio stations in Approved Market C.

The most recent of the three aggregation reports was released in mid-November and was conducted by the Bureau of Transport and Communications Economics ("BTCE"), *The Economic Effect of Commercial Television Aggregation on Commercial Radio Services in Approved Market C*.

## Audience attitudes

**N**ot surprisingly, aggregation appears to be very successful in terms of viewing audience attitudes and perceptions.

Market research conducted for the ABT by Reark Research indicated that 81 per cent of television viewers in Approved Market C now are receiving three commercial television services.

The results of this research showed that among those regional television viewers who are receiving three commercial services:

- 63 per cent felt that the variety of programming had improved as a result of aggregation;
  - 52 per cent believed that the overall quality of their television service was better under aggregation; and
  - 50 per cent felt that information about their local community area had improved since the commencement of aggregation.
- Moreover, only a small minority of viewers took contrary views.

Clearly, the results of this ABT research indicate that the introduction of two additional commercial television services under aggregation, to date, has been a positive development from a country viewer's perspective.

## Financial performance of regional television stations

**U**nfortunately, according to the ABT's Financial Results report, the early effects of aggregation on the financial performance of regional television operators in Approved Market C have been extremely negative and thus broadly consistent with Ms O'Connor's pessimistic predictions.

Between 1987/88, the last full financial year prior to aggregation, and 1989/90, the first full financial year of operation under aggregation, the commercial television stations in the Southern New South Wales aggregated market experienced a serious deterioration

in profitability, according to the financial research conducted by the ABT.

The financial results, which are summarised in Table One, show that although advertising and total broadcasting revenues increased by 27 per cent and 43 per cent respectively, over the two year period in question, this revenue growth was far outstripped by substantial increases in expenditure, a large portion of which was directly attributable to aggregation.

For example, total expenditure (excluding depreciation and interest), rose by 72 per cent between 1987/88 and 1989/90. This included increases of:

- 32 per cent for sales & marketing;
- 67 per cent for programming;
- 104 per cent for administration; and
- 111 per cent for technical & operational expenses.

The commercial television stations in Approved Market C also experienced a doubling of depreciation charges and a 5,785 per cent increase in interest expenses. These expenses largely were related to the sizeable capital expenditures made by the commercial television station operators to enable them to broadcast their respective television services throughout the aggregated market.

As a result of expenditure growth outpacing revenue growth, the regional television stations in Approved Market C experienced a dramatic decline in earnings, with broadcasting earnings before interest and tax falling by 59 per cent and broadcasting profits declining by 135 per cent.

In terms of dollar amounts, the ABT statistics show that, since the commencement of aggregation, the three regional television operators in Approved Market C collectively have experienced an \$18 million reversal in broadcasting profit.

Thus, it reasonably could be argued that, had aggregation not occurred, the three television operators in Approved Market C might well have enjoyed broadcasting profits which equalled, or even exceeded, the \$13 million which they generated in 1987/88, rather than suffering the \$5 million broadcasting loss which they actually incurred under aggregation last year.

If this \$18 million per annum aggregation-related profit reversal in the Southern New South Wales market were to be extrapolated across the other three soon-to-aggregate approved markets, then the regional television industry soon may be forgoing broadcasting profits of about \$70 million per annum, over a

number of years, to effectively finance the Government's Equalisation Plan.

Assuming that profit reversals of this order are experienced in each of the four approved markets for at least three years following aggregation, then the implementation of aggregation could cost the regional television industry in excess of \$200 million in foregone profits.

Given the magnitude of such numbers, it is not surprising that some regional television station owners continue to actively lobby the Government either to abandon its commitment to aggregation or at least to provide an increased level of financial assistance to the industry, as compensation for the substantial profit reversal to which it is being subjected as a result of aggregation.

### Financial performance of regional radio stations

**A**nother unfortunate, and somewhat unanticipated, effect on aggregation has been the adverse impact which it had on the financial performance of the commercial regional radio industry.

Both the ABT's Financial Results report and the BTCE report suggest that the revenue and profit growth of many country radio stations with Approved Market C has been negatively affected by television aggregation. This has occurred as a result of the operators of the new television services heavily discounting their advertising rates to levels which are extremely price competitive with radio advertising rates.

Table Two shows that, between 1987/88 and 1989/90, total broadcasting revenues for the 18 commercial radio stations operating in Approved Market C grew by only 13 per cent, which in real terms represented a decline, and which was well below the revenue growth experienced by the television stations operating in that market.

As total expenditure by these radio stations, grew by 19 per cent over the same period, their collective broadcasting profitability declined by 24 per cent on a pre-interest expense basis and by 53 per cent on a post-interest expense basis.

In the Canberra market, the financial difficulties of the local commercial radio broadcasters were compounded by the introduction of two new commercial FM radio services in March 1988.

Table Three shows that, between 1986/87, the last full financial year prior to the commencement of the two new commercial FM radio services in Canberra, and 1988/89, the first full financial year following the introduction of those services, the profitability of the local radio stations declined by 292 per cent on a pre-interest expense basis and by 323 per cent on a post-interest expense basis.

**Table 1 Financial performance of commercial television services in approved market C pre and post aggregation in current dollars**

	a.	b.	% CHANGE
	1987-88	1989-90	
	\$000's	\$000's	%
<b>REVENUE</b>			
A. Total Advertising Revenue	54,879	69,712	27
B. Other Broadcasting Revenue	1,576	11,034 d.	600
C. Total Broadcasting Revenue (A+B)	56,455	80,746	43
<b>EXPENDITURE</b>			
D. Total Expenditure (Excluding Depreciation & Interest)	40,518	70,290	73
E. Depreciation & Amortisation	2,498	4,997	100
F. Interest	172	10,122	5,785
G. Total Expenditure (D+E+F)	43,188	85,409	98
<b>PROFITABILITY</b>			
H. Broadcasting E.B.I.T. c. (C-(D+E))	13,439	5,459 d.	(59)
I. Broadcasting Profit (C - G)	13,267	(4,663) d.	(135)

**NOTES:**

- (a) Last full financial year prior to aggregation.
- (b) First full financial year of aggregation.
- (c) Earnings before deducting interest and tax.
- (d) Includes a partial Government rebate of broadcasting licence fees paid and therefore overstates broadcasting revenue and profits.

SOURCE: Australian Broadcasting Tribunal: *Financial Results 1986-90 for The Southern NSW Aggregated Market October 1990.*

**Table 2 Financial performance of commercial radio in approved market C pre and post aggregation in current dollars**

	a.	b.	% CHANGE
	1987-88	1989-90	
	\$000's	\$000's	%
<b>REVENUE</b>			
A. Total Advertising Revenue	26,153	29,218	12
B. Other Broadcasting Revenue	188	459 d.	144
C. Total Broadcasting Revenue (A+B)	26,341	29,677	13
<b>EXPENDITURE</b>			
D. Total Expenditure (Excluding Depreciation & Interest)	21,985	26,234	19
E. Depreciation & Amortisation	1,305	1,126	(14)
F. Interest	667	1,186	78
G. Total Expenditure (D+E+F)	23,957	28,546	19
<b>PROFITABILITY</b>			
H. Broadcasting E.B.I.T. c. (C-(D+E))	3,051	2,317	(24)
I. Broadcasting Profit (C - G)	2,384	1,131	(53)

**NOTES:**

- (a) Last full financial year prior to aggregation.
- (b) First full financial year of aggregation.
- (c) Earnings before deducting interest and tax.

SOURCE: Australian Broadcasting Tribunal: *Financial Results 1986-90 for The Southern NSW Aggregated Market October 1990.*

This substantial fall in profit occurred because total broadcasting revenues rose by only 11 per cent over the two year period while total expenditure grew by 59 per cent.

The current commercial radio broadcasters recently have used the Canberra experience to argue, with a considerable amount of commercial logic, that the Government needs to take into account the negative impact which television aggregation is likely to have on regional radio when assessing the capacity of individual regional radio markets to cope with new commercial radio competition in the near future.

### Conclusion

**R**ecent research indicates that while aggregation has been very popular with country television viewers, to date, it also has been a financial disaster for regional television and radio operators.

Previously profitable regional broadcasters recently have been plunged into losses as a direct result of the Government's television

really believe in Claus's innocence or can they justify their participation in the case on some other ground? This is, of course, the classic hired-gun dilemma. Does everyone deserve representation? Can despicable people come to represent important legal principles?

In the end, Dershowitz takes von Bulow's case, not because he likes Claus or believes in his innocence but because there is an important legal principle involved. And strangely enough, that legal principal is the importance of the public/private distinction. It becomes clear that Sunny's children and the maid have, in fact, engaged in a *private* investigation/prosecution of Claus, and for Dershowitz the liberal, this is intolerable. There cannot be one system of private justice for the wealthy and another system of public justice for the poor. So he takes the case and Claus's cash, which of course goes to subsidise Dershowitz's *pro-bono* efforts on behalf of the poor and oppressed. For some reason, this apparent contradiction in which Dershowitz recognises and denies the existence of public and private legal systems goes unnoticed by the Harvard intellectual who becomes our hero because he wins a great *legal victory*, leading to von Bulow's acquittal. As he tells Claus in their final meeting, however, on the moral question, von Bulow must stand alone.

In both *Presumed Innocent* and *Reversal of Fortune*, the moral, existential and ethical dilemmas of everyday life and everyday law practice can be ignored because in each case, issues of truth, justice, guilt or innocence are simply technical concerns solved by technical argument and mastery of the subtleties of the legal system.

### The role of women

**S**ome would argue that this amoral technocratic view of the legal system found in these two films is a distinctly "male" one. Whether this is necessarily the case with this point of view is immaterial here. What is important in each film, however, is the absence or subservience of women. In *Presumed Innocent*, Rusty's wife Barbara (Bonnie Bedelia) plays a key part but she remains defined by her traditional female role. A gifted mathematician, she gives up her promising career for marriage and a family. While a less qualified classmate "made professor", Barbara has to be content with "making beds". Worse yet, she has to be content with the knowledge that Rusty still lusts after the now-dead Carolyn, just as Sunny von Bulow is forced to tolerate an "arrangement" whereby Claus remains free to philander.

What the two films really share is the absence of the leading female protagonist. Carolyn is dead and is present only in flashbacks, flashbacks determined by the consciousness of the male leads. Sunny is comatose and present only in flashbacks and



**Ron Silver and Annabella Sciorra in *Reversal of Fortune*. Photo courtesy of Roadshow distributors.**

through the use of a bizarre narrative device in which she acts as our "guide" through the tangled web of competing versions of the "truth". But even in their absence they share another more powerful ideological message-bearing function. Like another Glenn Close character (*Fatal Attraction*), both Carolyn and Sunny (although somewhat more ambiguously in the latter case) symbolise the power of the untamed female. Carolyn "sleeps her way to the top", leaving in her wake a number of disgruntled but still passionate lovers. Her sexuality still controls them and in the end, it is this unbridled female sexuality which leads to her downfall and murder. Sunny falls not so much because of her sexuality but because of her failure to use her sexuality "properly". As her passion for Claus wanes, it is replaced by a desire to control him, to prevent him from fulfilling his manly role by getting a job and, in

the end, she enters the half-world of a vegetative state.

What these movies share as ideological artifacts and bearers of cultural messages is the primacy of the male - law, technical skill, amoral liberalism and the associated devaluation of the female - the dangerousness of unbridled or non-deferential sexuality. Unlike Perry Mason, modern lawyers in popular culture do have sex. But in the end, it only gets them in trouble. The only thing that can save them is law - a particularly un reassuring fate.

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aggregation and regional radio plans, which are designed to significantly increase commercial television and radio competition in many country areas.

While these Government plans also have the noble social and popular political objectives of giving non-metropolitan residents access to a wider range of commercial television and radio programming, it is the commercial broadcasters who are being forced to foot the sizeable bills associated with providing these increased services.

Thus, it could be argued that private sector profits are being pillaged in the pursuit of a popular public policy objective.

Although the regional broadcasting industry probably will return to some level of profitability after it has digested the Government's television aggregation and regional

radio plans, and although some individual broadcasters may eventually even prosper despite the introduction of increased competition, it is extremely unlikely that the regional television and radio industries as a whole will ever return the levels of profitability which they had achieved in the late 1980s.

Worse still, before that gestation period is completed, a number of regional television and radio stations could well follow their metropolitan counterparts and fall under the control of bank-appointed receivers and managers.

The Government needs to ask whether this is a socially and economically desirable outcome as it finalises its financial assistance package for the regional television industry.

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