

14 May 1999

Broadcasting Inquiry  
Locked Bag 2  
Collins St East Post Office  
Melbourne Vic 8003

Via fax: 03 9653 2305



Dear Sirs,

This submission to the Productivity Commission inquiry into Australia's broadcasting services is made on behalf of Malbend Pty Ltd, owners and operators of 1377 3MP, Melbourne.

It does not attempt to address all the issues outlined in your Issues Paper of March, 1999. Rather, it limits its focus to the issues we see affecting commercial radio broadcasting in the early years of the 21st century.

If the Commission wishes us to expand on these views at a public hearing, we are willing and prepared to do so.

Overview:

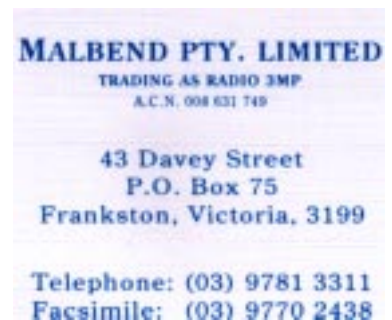
As the Commission has noted, technological advances in the current era have created the potential for a greatly extended range and quality of services.

Markets such as Melbourne, which were once served by seven commercial AM stations, now have five commercial AM services, and four commercial FM services, with two more FM services anticipated within the next two years.

The introduction of Digital Radio Broadcasting, scheduled to begin with simulcasting in 2001, will exponentially increase the capacity for audio channels. Some estimates put the number of channels potentially available as high as 150.

In addition, the Internet is making available hundreds of services from anywhere in the world.

So, an era of spectrum scarcity is transforming into an era of spectrum abundance.



### The nature of radio:

Radio broadcasters seek to make a profit by attracting the greatest possible number of listeners, and selling advertising to organisations which want to promote their products to those listeners.

It is fashionable to criticise the industry for its similarities in formats. But it is one of the most intimately researched industries in the world, and its formats are tailored to what research reveals are the major potential clusters of listeners.

Listeners, through research, tell radio operators that the most important thing they want is consistency. In other words, they want to know, when they tune to a station, they will hear the format they expect.

This process limits the number and variety of formats. Ownership groups will compete for the largest demographic segments, and those most desirable to advertisers. For instance, in Melbourne, broadly speaking, Fox FM and TT FM compete head-to-head with adult contemporary formats; Gold FM and MMM compete head-to-head with male-oriented rock formats, while 3MP and Magic compete for the 40-plus easy listening audience.

3AW's only competitor for the talk audience is non-commercial; Sport 927 fills the sports niche, and 3AK is struggling to find an audience with its non-specific programming.

Among the music stations, nobody finds it economically viable to provide services for the niche groups who may want to hear non-mainstream formats, such as teenage pop music, heavy metal, country, techno, zydeco, gospel or organ music, to name just a few.

This will change in a world of spectrum abundance.

### Greater consumer choice:

With the advent of new digital broadcasting channels, it is logical that there will be a rush to provide non-mainstream formats for identifiable niches. This, in turn, means that mass audiences will fracture into the many niches which give greater consumer choice.

It also means that it will be harder for advertisers to reach a critical mass of listeners, unless they advertise on more channels.

The Broadcasting Services Act 1992 recognised that greater choice made it more difficult for advertisers to reach a critical mass of listeners, and allowed individual owners to operate two stations in each market. In this way, operators were able to serve complementary markets and remain economically viable.

It is difficult for single station owners to compete in this environment. 3MP finds it necessary to sell advertising jointly with competitor Magic 693 to enable advertisers to reach a sufficiently large 40-plus audience.

In an environment of greatly expanded choice provided by digital broadcasting, it will be economically impossible for solus broadcasters to survive.

What will be needed is a regulatory framework which allows audio program providers to produce many different formats – some mainstream, some niche – and to deliver them via multiple platforms.

#### The Internet:

The Internet has the potential to deliver a myriad of audio formats. But until high bandwidth cable or fibre delivery systems become the standard, quality will not be sufficient to attract a major audience. Current Internet standards are too low for CD quality listening.

#### Technology:

Computer capacities and software now allow the highly efficient delivery of music formats. As Internet and DRB delivery systems proliferate, the business of “broadcasting” will become redefined as “audio programming.”

To maintain economic viability, we believe it will be essential for incumbent broadcasters, who have many millions of dollars invested in their businesses, to be allowed access to multiple digital channels.

There are currently six owners of the nine commercial signals in Melbourne. If each of the current incumbents were allowed, say, 15 digital channels from a potential 150, there would still be enough channels available for expanded public sector broadcasting, community stations, and new players.

The incumbents could then program a variety of formats to appeal to all tastes, and to sell advertising on groups of complementary channels to meet the advertisers’ demand of reaching a critical audience mass via both digital broadcasting and Internet delivery.

The net result would be a far greater audience choice, the maintenance of competition between various operators, the capacity for new players to emerge, and the prospect of economic survival for incumbents.

Wider issues:

We do not believe there is a need to change current laws allowing unfettered foreign ownership.

We see no logic in cross-media restrictions, although we have no ambition to operate TV services or to publish newspapers.

We believe a world of spectrum abundance lessens any requirement for regulation because audience fragmentation reduces capacity to influence masses of people. Current self-regulation policies are sufficient.

We believe there is no need to impose regulations relating to the preservation of Australian cultural values. Some formats will be exclusively Australian; others might feature African tribal songs. Audiences will decide what they wish to listen to.

We believe it is fair to charge, via licence fees, for the use of a public asset such as the broadcast spectrum, and the scale of fees should continue to be based on the revenue generated by each channel. Logically, the fee per channel will reduce from current levels, but the number of channels will increase.

Conclusion:

As stated earlier, this submission has not been an attempt to canvass all the issues outlined in the Issues Paper. However, we believe the critical issue for companies such as Malbend Pty Ltd is that we are allowed a wide range of choices to tailor our programming services to as many market segments as possible. A single signal in an environment of spectrum abundance will not allow economic survival.

Thankyou for the invitation to put forward our views,

Yours sincerely

A handwritten signature in black ink, appearing to read 'Mark Day', written in a cursive style.

Mark Day  
DIRECTOR  
MALBEND PTY LTD