



Forecast of Potential CBC/SRC Radio Advertising Revenues

November 2012

Introduction

1. CMRI was commissioned by the Friends of Canadian Broadcasting to forecast potential advertising revenues of the four main radio services of CBC/Radio Canada. CBC has requested that its licences be changed to allow advertising on its Radio 2 and Espace Musique channels and could in future years seek the same for its other two radio services. This brief report describes the methodology used to make this forecast as well as the results. Barry Kiefl prepared the report and his qualifications are set out in Schedule 1.

The Methodology

2. All of the data used in this analysis come from the CRTC's Monitoring Report, which has become an invaluable tool for understanding the Canadian broadcasting system and projecting the effects of changes in the system.

3. The latest CRTC revenue data at the time of the analysis for the private radio industry were obtained from the 2011 CRTC's Monitoring Report. All but a tiny percentage of private radio revenue comes from advertising, thus these data are an excellent surrogate for private radio ad revenues.

4. CMRI then obtained the CRTC's analysis of audience listening hours and audience share of CBC and major private radio station groups from the CRTC's Monitoring Report. For the purposes of this high-level analysis audience data from diary and PPM markets in 2010 were combined, as was the revenue from diary and meter markets.

5. The revenue and audience data were then used to calculate the revenue generated per listening hour of all major English and French radio groups in 2010. This **revenue index** has been used by CMRI many times in the past and been published in industry periodicals such as Marketing Magazine¹. The revenue per listening hour is a robust modeling instrument because it accounts for such factors as varying sell-out ratios, small-medium-large market variations and the index also averages differences in audience demographics across stations. Most importantly, the index encompasses natural supply and demand forces in the advertising marketplace. However, because there are significant differences in English and French language ad rates, English and French markets were analyzed separately.

6. CMRI then averaged the revenue per listening hour in private radio and using this average projected potential revenues of CBC/Radio Canada listening hours in 2013-2015.

7. Since there will likely be self-imposed restrictions on the amount and type of advertising CBC would sell and because CBC's audience skews older and is

¹ See, for example, "MuchCheaper," by Barry Kiefl, Marketing Magazine, June 20, 2005.

considered not as valuable to advertisers, it was assumed that CBC would generate only 60% of the private sector average revenue per hour. It was assumed that CBC would improve its sales by 10% in the second and third year, bringing it closer to the private industry average. CMRI looked at various scenarios but believes that ads sales at 60% of the average private station is a reasonable expectation, perhaps conservative. If CBC maintains its current audience levels, after two or three years CBC would likely sell its audience near the industry average.

8. CMRI estimated total radio ad revenues in 2013 would be 2% higher than in 2010 and assumed an annual increase of 2% in 2014 and 2015 and from this base calculated the impact of CBC commercialization on private radio groups, assuming that CBC revenues would be virtually all at the expense of private radio.

The Analysis and Results

9. The table below is taken from the 2011 CRTC Monitoring Report and shows the revenue of all major private radio station groups and total revenues for all English and French private radio in the years 2008 to 2010:

From CRTC Monitoring Report 2011:

Table 4.2.9 English-language, and French-language radio revenues and number of undertakings reporting for the largest radio operators in Canada

Corporation	Revenues (\$ thousands)			Number of radio undertakings reporting			Share of national revenue		
	2008	2009	2010	2008	2009	2010	2008	2009	2010
Largest private radio operators									
Astral1	325,292	317,461	326,494	80	81	82	21%	21%	21%
Corus2	266,363	240,580	248,052	53	52	52	17%	16%	16%
Rogers3	241,667	212,492	204,351	50	53	52	15%	14%	13%
BCE4	172,131	161,960	161,157	34	34	34	11%	11%	10%
Newcap5	95,785	96,452	104,677	61	62	59	6%	6%	7%
Total largest private radio operators	1,101,238	1,028,945	1,044,731	278	282	279	70%	68%	67%
Total private radio operators	1,593,679	1,507,732	1,551,759	631	646	654	100%	100%	100%
Largest English-language radio operators									
Astral1	217,980	209,013	216,768	59	60	61	17%	17%	17%
Rogers3	241,667	212,492	204,351	50	53	52	18%	17%	16%
Corus	217,245	190,134	192,575	41	40	40	17%	15%	15%
BCE4	172,131	161,960	161,157	34	34	34	13%	13%	13%
Newcap5	95,785	96,452	104,677	61	62	59	7%	8%	8%
Total English-language largest private	944,808	870,051	879,528	245	249	246	72%	71%	69%
Total English-language private radio	1,316,430	1,230,398	1,258,737	514	525	536	100%	100%	100%
Largest French-language radio corporations									
Astral	107,312	108,448	109,726	21	21	21	47%	45%	44%
Corus2	49,118	50,446	55,478	12	12	12	21%	21%	22%
Cogeco	33,174	36,280	41,780	5	5	5	14%	15%	17%
Total French-language largest private	189,604	195,174	206,984	38	38	38	82%	82%	82%
Total French-language private radio	237,924	238,396	251,139	97	99	96	100%	100%	100%

10. As shown in the table total private radio revenues have hovered around \$1.5-\$1.6 billion in recent years, the majority of which comes from English private radio (\$1.2-\$1.3 billion). The annual revenue of the station groups in Table 4.2.9 is the numerator used in the calculation of the revenue index.

11. The table below shows the average weekly listening hours for the same years 2008 to 2010 for all major English and French private radio station groups, as per CRTC's analysis in the 2011 CRTC Monitoring Report. CMRI added the final column combining the PPM/diary data, which reveals that listening hours of all station groups declined somewhat with the introduction of the PPM:

From CRTC Monitoring Report 2011:

Table 4.2.6 Fall tuning achieved by largest English- and French-language private commercial radio operators in Canada

Listening hours (thousands) per Corporation	2008	2009	2010		2010
			PPM	Diary	Total
Largest Canadian English-language radio operators					
Astral	59,836	58,846	29,381	20,367	49,748
<i>Share</i>	26%	26%	31%	22%	
BCE	38,047	36,867	13,250	16,815	30,065
<i>Share</i>	17%	16%	14%	18%	
Corus	60,417	58,968	26,616	18,671	45,287
<i>Share</i>	26%	26%	28%	20%	
Newcap	25,014	22,087	3,727	19,598	23,325
<i>Share</i>	11%	10%	4%	21%	
Rogers	46,053	49,513	21,888	19,091	40,979
<i>Share</i>	20%	22%	23%	20%	
Total listening hours for largest private English commercial operators	229,365	226,281	94,862	94,541	189,403
<i>Share</i>	100%	100%	100%	100%	
Largest Canadian French-language radio operators					
Astral	31,876	30,833	9,373	17,353	26,726
<i>Share</i>	47%	46%	32%	63%	
Cogeco	13,027	13,175	7,359	3,816	11,175
<i>Share</i>	19%	20%	25%	14%	
Corus	23,078	22,621	12,868	6,450	19,318
<i>Share</i>	34%	34%	43%	23%	
Total listening hours for largest private French commercial operators	67,981	66,629	29,600	27,619	57,219
<i>Share</i>	100%	100%	100%	100%	

12. The average weekly listening hours shown in the Table 4.2.6 above is the denominator used in the calculation of the revenue index, as explained below. The revenue index reveals how much a station sells its audience for in any given year.

13. The next step in the forecasting exercise was to calculate the revenue index, i.e., the revenue generated per thousand listening hours of all major English and French radio groups in 2008 to 2010, which is shown below. The index is the revenue of a given station group divided by the listening hours of that group:

CMRI Estimate:

English-language, and French-language radio revenues per '000 listening hours

Corporation	Revenue/Listening Hour		
	2008	2009	2010
Largest English-language radio operators			
<u>Astral1</u>	\$3.64	\$3.55	\$4.36
<u>Rogers3</u>	\$5.25	\$4.29	\$4.99
Corus	\$3.60	\$3.22	\$4.25
<u>BCE4</u>	\$4.52	\$4.39	\$5.36
<u>Newcap5</u>	\$3.83	\$4.37	\$4.49
Average	\$4.17	\$3.97	\$4.69
Largest French-language radio corporations			
Astral	\$3.37	\$3.52	\$4.11
<u>Corus2</u>	\$2.13	\$2.23	\$2.87
Cogeco	\$2.55	\$2.75	\$3.74
Average	\$2.68	\$2.83	\$3.57

14. For example, the revenue index for Astral English stations shown above was \$4.36 in 2010. This was calculated by dividing the Astral revenue in Table 4.2.9 by the listening hours in Table 4.2.6 ($\$216,768 / 49,748 \text{ hours} = \4.36). Put in another way, Astral sold a thousand listening hours for \$4.36 in 2010.

15. In 2010 English radio stations owned by BCE sold their audience for more than any other station group, \$5.36, almost twice as much as Corus French stations. Note that both English and French indexes increased in 2010, notably because while the PPM reported lower listening levels in metered markets, all station groups adjusted their rates to make up for lower reported audiences. As well, the effects of the 2008 recession were out of the market by 2010.

16. Interestingly, the average revenue index for English stations is considerably higher than for French stations in all three years. For example, in 2010 English stations generated \$4.69 per thousand listening hours vs. \$3.57 for French stations. The gap between private English and French stations has shrunk since 2008 but it is still significant. Only Astral French stations had an index above \$4.00 in 2010. Corus French stations had a revenue index of only \$2.87 that same year. In our forecast of ad revenues we applied the **average** index of private English radio to CBC Radio audiences. We applied the average of private French station groups to the audiences of Radio Canada radio services. Using the averages we would not exaggerate or underestimate what CBC revenues might be.

17. The final step in the forecast was to take the average revenue index for private radio stations and apply that index to the expected audience of CBC/Radio Canada. The CRTC Monitoring Report provides a thorough analysis of CBC/Radio Canada radio audiences and all English and French AM and FM stations, which

allows one to calculate the listening hours of CBC radio. The relevant CRTC analyses are shown in an appendix. In our forecast we assumed that CBC audiences would remain unchanged in the years 2013 to 2015, as they have in the past few years, according to CRTC reports. It was also assumed that CBC would be able to adjust its ad rates in metered markets to counter lower reported listening levels, just as private stations have. Differences in diary and PPM data are a minor factor in a high-level analysis such as this and would have little effect on the results (results are essentially the same using only diary data from 2008 and 2009). CMRI estimated total industry ad revenue in 2013 and to account for inflation CMRI estimated revenues would increase at a rate of 2% in the years 2013 to 2015.

18. As mentioned, CMRI assumed there will be self-imposed restrictions on the amount and type of advertising CBC would sell, at least initially. For this reason and because CBC's audience skews older and is considered not as valuable to advertisers, it was assumed that CBC would generate only **60%** of the private sector **average** revenue per listening hour. It was assumed that CBC would improve its sales by 10% in the second and third year, bringing it closer to the private industry average in year three. The results of the forecast are shown in the table below:

English-language, and French-language radio revenues for CBC and the largest radio operators in Canada

Corporation	Projected Radio Revenues Without CBC Ads(\$ thousands)			If CBC Radio Commercializes: Projected Revenues		
	2013	2014	2015	2013	2014	2015
Largest English-language radio operators						
Astral1	221,103	225,525	230,036	196,561	198,688	200,361
Rogers3	208,438	212,607	216,859	185,301	187,307	188,884
Corus	196,427	200,355	204,362	174,623	176,513	177,999
BCE4	164,380	167,668	171,021	146,134	147,715	148,959
Newcap5	106,771	108,906	111,084	94,919	95,946	96,754
Total English-language largest private	897,119	915,061	933,362	797,538	806,169	812,958
Total English-language private radio	1,283,912	1,309,590	1,335,782	1,141,398	1,153,749	1,163,466
CBC Radio 1				117,970	129,767	142,744
CBC Radio 2				24,226	26,649	29,313
All English Radio				1,283,912	1,309,590	1,335,782
Largest French-language radio corporations						
Astral	111,921	114,159	116,442	94,685	95,209	95,599
Corus2	56,588	57,719	58,874	47,873	48,138	48,335
Cogeco	42,616	43,468	44,337	36,053	36,252	36,401
Total French-language largest private radio operators	211,124	215,346	219,653	178,611	179,168	180,335
Total French-language private radio operators	256,162	261,285	266,511	216,713	217,912	218,805
La Premiere Chaîne				30,116	33,128	36,441
Espace Musique				9,196	10,115	11,127
All French Radio				256,162	261,285	266,511

19. CMRI estimates that Radio 2, if it sold ads at 60% of the average English private station, would generate **\$29.3 million** in ad revenues by year three. Were Radio 1 ever to commercialize as well, it could generate as much as \$142.7 million in

ad revenues after three years. Espace Musique would generate in the order of **\$11.1 million** by 2015, while Premiere Chaine, were it to commercialize and sell ads initially at 60% of the average French private station, could generate as much as \$36.4 million in year three. CBC radio commands large audiences and therefore commercial revenue would be substantial, not far below the revenues of CBC's main TV networks if it was allowed free rein in the market.

20. The impact of CBC commercialization on private radio groups, assuming that CBC revenues would be almost entirely at the expense of private radio, would be significant. New applicants invariably make the argument that they will expand the market and attract new advertisers but there is little proof of this in past experience. Specialty channels in TV, for example, have not only taken audience away from conventional networks, they have taken ad revenues as well². CBC radio already has a large audience and CMRI estimates that by 2015 English private radio stations would lose as much as \$172 million if CBC Radio 1 and 2 were to commercialize and French private radio stations would suffer losses as much as \$47 million if both Radio Canada radio services were to commercialize.

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President, CMRI
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² TVB data show that TV's share of ad revenue is smaller today than 10 years ago. TV has faced new competitors, especially the internet, which offsets efforts to grow the market:
<http://www.tvb.ca/pages/nav2.htm>

Appendix: CRTC Analysis of Radio Audiences

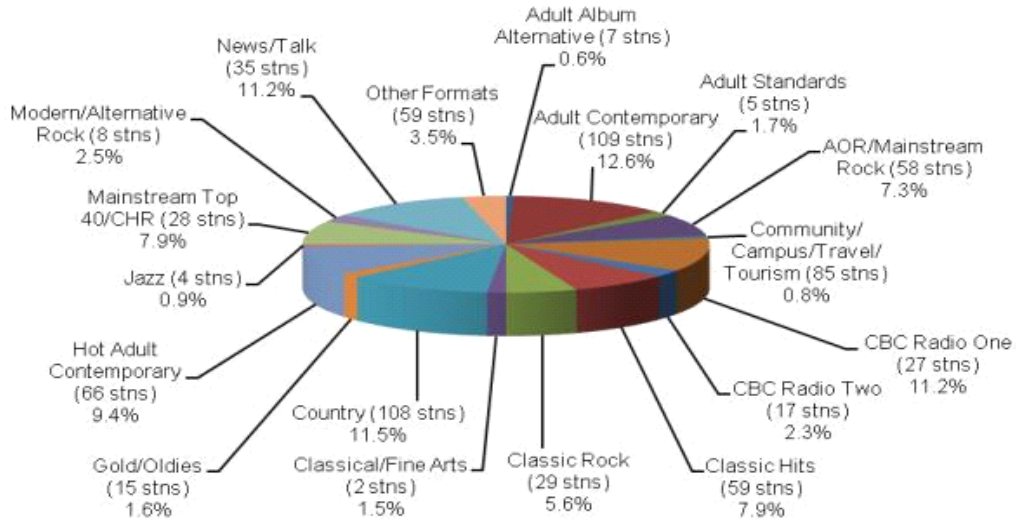
From CRTC Monitoring Report 2011:

Table 4.2.4 Radio tuning share in an average week and average weekly hours tuned by listener for English- and French-language AM and FM bands

	2006	2007	2008	2009	2010	% growth 2009- 2010
Percentage of Hours Tuned (%)						
English-language AM	19.3	19.1	18.7	17.7	17.4	-1.60%
English-language FM	55	54.8	54	54.9	55.3	0.70%
<i>Subtotal</i>	<i>74.3</i>	<i>73.9</i>	<i>72.7</i>	<i>72.6</i>	<i>72.6</i>	
<i>Annual Growth</i>	<i>0.80%</i>	<i>-0.50%</i>	<i>-1.60%</i>	<i>-0.10%</i>	<i>0.00%</i>	
French-language AM	1.6	0.9	0.9	1.1	0.8	-27.30%
French-language FM	17.9	18.7	19.9	19.6	20	2.00%
<i>Subtotal</i>	<i>19.5</i>	<i>19.6</i>	<i>20.8</i>	<i>20.7</i>	<i>20.8</i>	
<i>Annual Growth</i>	<i>-6.20%</i>	<i>0.50%</i>	<i>6.10%</i>	<i>-0.50%</i>	<i>0.50%</i>	
Other	6.2	6.5	6.5	6.7	6.6	
<i>Annual Growth</i>	<i>10.70%</i>	<i>4.80%</i>	<i>0.00%</i>	<i>3.10%</i>	<i>-1.50%</i>	
Average weekly hours per listener						
	20.4	20.2	20	19.5	19.4	
<i>Annual Growth</i>	<i>-1.40%</i>	<i>-1.00%</i>	<i>-1.00%</i>	<i>-2.50%</i>	<i>-0.50%</i>	
Total average national hours (millions)						
	525.5	521.3	530.6	525.1	515.7	
<i>Annual Growth</i>	<i>-1.10%</i>	<i>-0.80%</i>	<i>1.80%</i>	<i>-1.00%</i>	<i>-1.80%</i>	

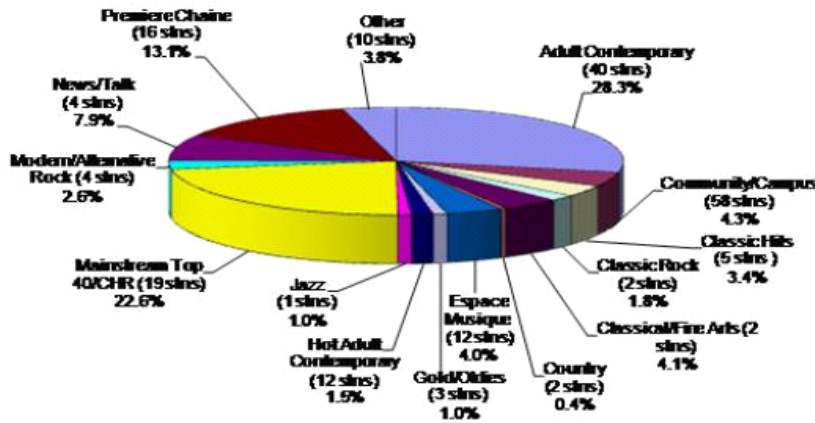
From CRTC Monitoring Report 2011:

Figure 4.2.3 Radio tuning shares - English-language station formats



Source: BBM Canada Fall 2010 Radio Diary Survey for all persons 12+, Monday to Sunday, 5 a.m. to 1 a.m. (Total Canada); and CRTC data collection

Figure 4.2.4 Radio tuning shares - French-language station formats



Source: BBM Canada Fall 2010 Radio Diary Survey for all persons 12+, Monday to Sunday, 5 a.m. to 1 a.m. (Total Canada); and CRTC data collection

Schedule 1

Barry Kiefl

Barry Kiefl is the president of Canadian Media Research Inc. (CMRI), an independent research company, established in 2001. Mr. Kiefl was Research Director for the CBC from 1983-2001. While with the CBC, he was responsible for all research services for CBC English and French radio and TV, which established the successful strategies of CBC/Radio Canada in the 1980's and 90's. He has written numerous articles and spoken at many professional research conferences on the issues surrounding audience research and the electronic media. He has conducted research for the CRTC, including a review of international trends in TV, a study of cable/DTH penetration vs. over-the-air television viewing and a study defining the meaning of 'audience success'. He has been a speaker at the annual conventions of the Canadian Association of Broadcasters, the Canadian Cable Television Association, the Law Society of Upper Canada, BBM's Annual Staying Tuned Conferences, the Advertising Research Foundation, the Professional Market Research Society and the Canadian Satellite Users' Association. Mr. Kiefl has been an expert witness in patent cases and has testified before the Copyright Board and other regulatory bodies.

Mr. Kiefl is an expert in all audience research methodologies, including surveys, market trials, content analyses, field experiments, focus groups and 'diary' and 'people meter' audience measurement systems. He was granted a patent for a PPM-like TV/radio audience measurement system by the U.S. Patent Office in 1995. The patent included the use of cellular technology to wirelessly collect research data. He has represented Canada on a number of international research projects, including the EBU's "Toward Global Guidelines for Television Audience Research," 1999, which he co-authored. He was Technical Research Director of the Canadian Advertising Research Foundation from 1994-1999 and authored CARF's "Research Guidelines for the Electronic Media in Canada," March 1997. He has been a member of the BBM Board of Directors and Nielsen's Advisory Board.