



COMMONWEALTH OF AUSTRALIA

## Official Committee Hansard

# HOUSE OF REPRESENTATIVES

STANDING COMMITTEE ON COMMUNICATIONS, TRANSPORT  
AND THE ARTS

**Reference: Adequacy of radio services in non-metropolitan Australia**

FRIDAY, 11 MAY 2001

MELBOURNE

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**HOUSE OF REPRESENTATIVES**  
**STANDING COMMITTEE ON COMMUNICATIONS, TRANSPORT AND THE ARTS**  
**Friday, 11 May 2001**

**Members:** Mr Neville (*Chair*), Mr Gibbons, Mr Hardgrave, Mr Hollis, Mr Jull, Mr Lindsay, Mr McArthur, Mr Mossfield, Mr Murphy, and Mr St Clair

**Members in attendance:** Mr Gibbons, Mr Hardgrave, Mr Jull, Ms Livermore, Mr McArthur, Mr Mossfield and Mr Neville

**Terms of reference for the inquiry:**

To inquire into and report on the adequacy of radio services in regional and rural Australia and the extent to which there is a need for the Government to take action in relation to the quantity and the quality of radio services in regional and rural Australia, having particular regard to the following:

- The social benefits and influence on the general public of radio broadcasting in non-metropolitan Australia in comparison to other media sectors;
- Future trends in radio broadcasting, including employment and career opportunities, in non-metropolitan Australia;
- The effect on individuals, families and small business in non-metropolitan Australia of networking of radio programming, particularly in relation to local news services, sport, community service announcements and other forms of local content, and;
- The potential for new technologies such as digital radio to provide enhanced and more localised radio services in metropolitan, regional and rural areas.

**WITNESSES**

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**Committee met at 9.10 a.m.**

**CHAIR**—Welcome to the public hearing of the Standing Committee on Communication, Transport and the Arts inquiry into regional radio. The House of Representatives committee has carried out a number of important studies in the fields of transport and communications in particular, and indeed this morning at 11 o'clock we will be tabling our next report, *Back on track*, which is the sequel to our first report on rail called *Tracking Australia*.

This morning also we are conducting the third last day of our hearings into the inquiry into regional radio. It has been a very comprehensive inquiry that has taken 280 written submissions. We have held several days of public hearings in centres as diverse as Melbourne, where we started our hearings, Canberra, Tamworth, Bathurst, Townsville, Longreach, Logan City—encompassing Brisbane and the Gold Coast—Darwin, Geraldton, Albany, Walpole, back to Canberra and now back to Melbourne.

As I said, we are in the penultimate stage of completing our inquiry and we have been focusing on four terms of reference; the social benefits and the part that regional radio plays in the fabric of country communities, the effect of regional radio on employment, both within the industry and outside the industry, and it is probably appropriate today that we look at a third sector of that employment reference, the advertising industry, which has a strong affiliation with the radio industry.

The third and seminal term of reference was to look at the effects of current trends in regional radio on localism, local news, local sport, local community announcements, local talkback and the like, and the extent to which networking has affected that. Finally, the minister has asked us in our fourth term of reference to look at technologies such as digital radio and at the part that they might play in delivering services to regional Australia.

Today, as I said, we come to an important phase in our deliberations, and that is to talk to the advertising industry. Hand in hand with the changing trends in radio, the FM stations and the part that they play in regional radio, and the fact that so many networks have developed, the whole relationship of the advertising industry to the radio industry has changed. There are avenues now not just for individual buying of stations but for the group buying of stations. While we acknowledge that that has always occurred through various representatives in the capital cities, it is a much more formalised arrangement than it has been in the past.

Today we have a very interesting agenda ahead of us and this morning we will be talking to Mr Harold Mitchell from Mitchell and Partners and Mr Russell Norton-Old from Optimum Media Direction, if I could call those two gentlemen to the table. Mr Alderton, you would like to join us too? Thank you. Mr Russell Norton-Old has been delayed and will be joining us shortly.

[9.15 a.m.]

**ALDERTON, Mr John, Strategy Director, Mitchell and Partners**

**MITCHELL, Mr Harold Charles, Chairman and Chief Executive Officer, Mitchell and Partners**

**NORTON-OLD, Mr Russell Ernest, Managing Director, Optimum Media Direction**

**CHAIR**—Mr Mitchell, could you give us a five to seven minute overview of the position of your company and the advertising industry in general to this matter of regional radio.

**Mr Mitchell**—Thank you, Chair, and thank you to the committee for allowing us to provide input. We hope it is of some use. The brief opening statement I would like to give covers a number of points. We are happy to take questions either during the statement or at the end of it. Firstly, a little background on our company; Mitchell and Partners is a wholly Australian owned company. That is of some use, we think, in the way we look at this issue. It is a provider of professional consultation on strategic media planning and buying for advertising. We have over 500 advertiser clients. We are the largest independent media buying company in Australia and we are second largest to a company called Zenith. Our clients spend over \$790 million in media throughout Australia and we use all the available media. In various media, the air media in particular, our group controls up to 20 per cent of the total advertising that is available. We are, we think, of some use to this committee because of the size and the diversity of our client base.

On the issue of non-metropolitan radio, our viewpoint is that of a specialist company whose business it is to understand the qualitative as well as the quantitative aspects of all media. Whilst you hear of media people that measure by the ratings, we and others who are our competitors also look at the qualitative measure, and that in part is what I will comment on today. Our job is to recommend successful advertising media strategies for our clients' advertising campaigns. We live or die by our ability to deliver results to our clients, so it is important that what we do works and, therefore, we think that is of use to the committee.

Our primary belief is that unfettered networking is causing a decline in the inherent quality we look for in non-metropolitan radio. Involvement in and with local communities is important to their daily life and their activities. We believe that if networking continues unregulated it will ultimately result in a decline in national advertising support from the media, from our perspective. This potentially puts in jeopardy some 25 to 35 per cent of non-metropolitan radio advertising revenue. It could put in train a cycle of cost cutting—that would not be a concern to us but it would be to others, we think—delivered through networking economies of scale. Individual radio stations we know in regional markets that employ up to 20 people would be reduced to four. The result will be a further deterioration of the medium's quality, and that is the point we make in that regard: to be involved with and participate in the local communities.

From a social perspective, which is also our concern, there will be a permanent and negative change in the nature and quality of the medium. The quality of the medium affects advertising effectiveness. The populace of these regional towns and cities will be taking away another

service to their communities. Whilst our task is to be concerned on behalf of our advertisers, we think that is a social consequence.

On the question of cost we make these points. You have three tables with you, tables 1, 2 and 3. I can speak to them so you do not have to chase them all the way through. As the first of these three tables clearly demonstrates, regional radio cost per thousand, which is a measure that we use to compare one radio station to another, one medium to another, defines the metropolitan cost paradigm where metropolitan radio is one-quarter the cost of metropolitan television. To speak to the table there, it is double the cost of regional television, so it is the opposite of what happens in the metropolitan markets. The point to take from there is that cost is not a principal concern as it is elsewhere. Regional market costs also vary considerably from market to market and, as you will see, there are variations. In Colac \$55.24 is the cost per thousand, which compares with Warrnambool at \$19.50, Bendigo at \$6.90 and so on. If that was in a metropolitan market, you would expect those almost to be exactly the same, or the prices would reduce.

**CHAIR**—What would the figure be in a metropolitan market in round figures?

**Mr Alderton**—It would be in the region of \$22 per thousand in metropolitan Sydney or Melbourne.

**Mr Mitchell**—It is based on the target of people 18 plus. In a business where cost efficiency is a major factor in every media buying decision, regional radio simply does not stack up in that regard. That does not mean it is a failure. It just means that it is a variation, one which is accepted. We buy regional radio to enable our advertisers to identify themselves with and to integrate into the local communities by involving our clients in the activities of those local stations. We know from research how important the media environment is to advertising effectiveness. People are parochial. Research has proven that people prefer media that reflect their local community best, whether that be their local regional community, their local big city or their local community of Australia versus international. That is the first point we make. Regional radio is not justified on cost, nor is it inhibited because of it.

There are two examples where networking had a significant detrimental effect on audiences. I draw the committee's attention to the Triple M stations in each mainland capital city. At the end of 1995 they were broadcasting the same music format, using local personalities and news teams in each metropolitan market. They were particularly successful in attracting their target, which was the male 16-to-30-year-old demographic. In early 1996, the management of Austereo decided to network the programming of all major sessions from either Sydney or Melbourne. As can be seen from the fourth table, the result was that there was an immediate 23 per cent drop in their audience across the country. Remember, we are talking about taking away the localism. You might say, 'What's rock-and-roll music? Surely it's all the same?' After six costly months of persevering with the network's format, they reverted to the previous localised format. It took the Triple M stations around 12 months to recover the ground they had lost to their competitor stations through that networking experiment.

In non-metropolitan markets, the listeners in the towns and cities will not have an alternative to turn to like their metropolitan cousins. They will not be able to express their dissatisfaction by moving to another station. Regional radio audiences do not have regular audience research of

a comparable reliability—perhaps the committee has been able to look a little further into that—so the change in listening patterns will be easily masked, if surveys are taken at all. As buyers, we know the change will be present. Even if it is not measured in surveys, it will affect our buying recommendations to our clients. It will affect the revenues, perhaps, of regional stations.

In the mid-eighties, shortly after Fairfax purchased the Seven television network, the station management decided to network their news nationally from Sydney. The result had a disastrous impact on ratings, which fell from around 12 per cent of the people viewing to around four per cent. Same news! Nine Network were largely the beneficiaries of those costly networking experiments and, in some measures, has actually stayed ahead ever since.

I leave two anecdotes with the committee. I use, by way of an example of localism, 4BU Bundaberg last weekend. Radio frequencies for local shipping had been inadvertently blocked by a user of the local shipping network. 4BU was contacted and immediately broadcast messages to alert all shipping in the area to change their reception channel to ensure any urgent messages could be received. 4BU told us that the network station was unable to move this quickly and would have needed some hours to implement placing the messages through the Gold Coast.

An example of a commercial nature is that the local police rely entirely on 3NE Wangaratta to broadcast a continuous communication about road conditions during the snow season. One of our own company clients wanted to place outdoor billboard advertising in the 3NE coverage area in snowfields. Due to local regulation, there were no outdoor advertising sites available. Mitchell and Partners purchased advertising on 3NE and, as a bonus, were able to take outdoor advertising on the sides of the 3NE double-decker bus which is used regularly in the area for product sampling and coverage, et cetera. Local radio was the only medium that could deliver our requirements in that regard.

In conclusion, our concern is that the element of localism does not disappear from non-metropolitan radio. We do not want to prevent or block the profitability or technological progress of regional radio. We want to ensure that the localised personality of regional radio is preserved in whatever way it can be. To this end, we believe that it will be necessary to introduce regulation perhaps to ensure that the local community involvement aspects of regional radio stations are preserved and protected. The benefits are well-served and satisfied listeners and communities in regional Australia and, hopefully, a profitable and progressive regional radio industry, well supported by national advertisers.

**CHAIR**—Thank you, Mr Mitchell. I note that you also chair the board of the National Gallery. If we had known that, we might have talked to you about indemnity, which we are also looking into at present, but that might be at some future occasion. Thank you for that presentation. Before we go any further, I welcome Mr Russell Norton-Old to the table. Mr Mitchell has given an opening overview about the way he and his company sees the industry. Would you like to give an overview of how your company sees it?

**Mr Norton-Old**—I have not prepared anything.

**CHAIR**—Just a five-minute overview of the things that you think are seminal to our inquiry.



**Mr Norton-Old**—On behalf of OMD, we are totally in support of localism. We believe that the medium of regional radio is very much part and parcel of that delivery to the audiences that we seek. We have a number of major advertisers at a national level and retail local level, and the medium of the local radio stations is particularly valuable in seeking to reach the audiences of those local communities. I can cite examples like McDonald's restaurants, which I am sure you are all familiar with, in terms of its coverage across the country, and another client, Pacific Access, which you would more familiarly know as Yellow Pages. Local radio has been a very keen way of reaching local people. When you consider what is happening with the television medium, localism is virtually a thing of the past, apart from very occasional news services.

Radio has been the answer to maintaining the local access that television has really lost for us. Local newspapers or regional newspapers are also a valuable way of reaching the local communities and, of course, you have the more ambient media in terms of outdoor advertising, mobile billboards and that sort of thing, which of course has built up to be more valuable lately, as contractors have been able to deliver that sort of opportunity for us.

**CHAIR**—Could you give us an idea of how your company sees networking impacting on localism.

**Mr Norton-Old**—Networking is of some concern to us, clearly. We understand the needs of networking in terms of the ability for companies to deliver services more economically for themselves but it does have some effect in terms of taking away local programming opportunities. But then again there is a positive side to that, in bringing to the local communities services that are appearing or being heard in the larger cities of the metropolitan areas. A case in point would be the John Laws program, for example, which is networked around the country. People find that, from our knowledge, something that they would like to hear. Without the networking possibilities, sometimes that is not possible.

**CHAIR**—When we went to 2BS at Bathurst we were discussing the matter of how group buying has affected the industry. This is to all three of you: how do you see that impacting on the radio industry? Is it advantageous for a radio station to be part of a group buy in the sense that they get an assured income, or does that sometimes mean that the local radio station can be squeezed, because to get the group buy you have to offer the advertising client some advantage in taking six or seven or eight or 10 radio stations as a group? Just give us a bit of a feel for that.

**Mr Norton-Old**—I think the view in terms of networking has some pluses and minuses. At the end of the day the answer is that it depends on your client and it depends on the audience you are trying to reach. There are many positive examples where networking or group buying of radio stations and other media, in fact, has been a very valuable way of those stations making the schedule, as we would call it.

**CHAIR**—In other words, getting advertising which they might not—

**Mr Norton-Old**—Normally receive. These tend to be the more fringe situations where you could well exist and, in budgetary terms, determine that it is not worth having that station on the schedule which is in one of those fringe areas of coverage of your essential marketplace. In terms of greater economies of scale we might indeed negotiate the opportunity for that station to be part and parcel of it. But every medium earns its right and every part of that medium earns its

right to be on the schedule ultimately. We are looking at budgets. We are looking at reach coverage. We are looking at frequency issues, effective frequency issues. A lot of these sorts of aspects of the buy or the purchase are part and parcel of the valuation that takes place within the media.

**Mr JULL**—Conversely, just on this issue, if you were looking at a market like Mackay, to say the competition is fierce for a very small audience would be an understatement. In such a market, has there been any evidence of price slashing to the point where some of the possible buys are almost ridiculous in terms of the station's revenue?

**Mr Norton-Old**—I do not have any examples of it being so-called ridiculous.

**Mr JULL**—Is there price cutting going on out there in some of these oversaturated markets?

**Mr Mitchell**—Yes. As a former owner of 4MK Mackay, when it was a single station, I can speak with a little authority. The answer is that if you have a lot of radio stations in a market—a lot might mean two, three or four, depending on the size of the market, but anything above one—you will get price competition. From time to time, just checking with Mr Alderton, Mackay is certainly a case where you will get quite savage rate cutting, which is probably detrimental.

If you were to look at the charts that I put before you there, price finally is not the arbiter of what we always look for. We look for localism and we are objective in that. We look for quality and we will pay the price. We represent advertisers who want economy, of course. The final price cutting is necessary for that to happen, but it rather suggests an oversupply in one area which could lead—and we have said it elsewhere—to the lowest common denominator occurring. That therefore leads to the dilemma for the radio stations and other media in the market who are trying to offer a quality service, that they have to come down to that lower price. Quality will reduce across the whole range then if that is to occur.

It is up to the committee to look forward, I know, from that point of view. Regrettably, we are on the other side of the equation in that we will help drive the price down, because that is the marketplace. It is a very fragile market in many of these regional markets. If you come, as I do, from under the stick of 3LK Lubeck—a little country town in Victoria—you know all too well what a great thing the local radio station can be in helping to build a community, to build the fabric of our society, in regional Australia. If you start to cut into that and you let monsters like us at it, we will cut it all the way down. That is simply because that is the commercial marketplace which is available. It possibly needs some looking at.

**CHAIR**—Let us pursue this just a little further. Where you are buying on behalf of a national corporate identity and are looking to go into an area of Australia or more widely, perhaps right across the country, who comes out better? Do you negotiate a rate with the network, act as an intermediary between the network and the advertiser? What about a group of radio stations; how do the independents or the small networks survive in that atmosphere? Do some of the national advertisers also want part of their money to get coverage to go to all radio stations, or do they tend to pick the network with the best coverage and feed their funds through that particular outlet?

**Mr Norton-Old**—Yes, I think I get the gist of it.

**CHAIR**—Do you take the point I am trying to make?

**Mr Norton-Old**—Yes, of course.

**CHAIR**—The third point of that question is: how does the independent survive in that type of market?

**Mr Mitchell**—Firstly, we should not be confused. You mentioned the earlier case, one of networking, that Mr Norton-Old was addressing. That is a commercial arrangement which has been going on, I suspect, since regional radio stations commenced. I can remember the unusual networking of Mount Isa, Longreach and Ipswich which worked because it was a commercial arrangement in Queensland. Those types of networks have come together to sell themselves to people like us because we look for simplicity. That is the first part.

The commercial arrangement of networking can occur at any place at any time, and has for the past 30 years, and should not be confused with, 'We've got a whole network against us now and so a little old radio station can't survive.' It will always be possible for radio stations to group together in the sales operation back to us. We always look for simplicity, certainly, and it is in the realms of these radio stations to put themselves together in such groups that they can sell themselves back to us. I would not be concerned about an argument from a radio station in a regional market that says, 'We are all left alone,' because it is up to them in a commercial field to put themselves together with others to make themselves simple for us to buy. That is the key point of it. We look for some relative levels of simplicity.

Yes, it can bring economy. It does not have to, I might say. If you refer to the charts that we showed you earlier, the underlying statement there is that we are looking for individual markets rather than a cost per 1,000—that is, economy. I think that would rather blow apart the entire argument—which is, 'We cannot compete on cost efficiency'—because we have shown you tables there which compare cost efficiencies Australia-wide, which show that they are more costly than television and that they are much more costly, sometimes, from each other. If cost efficiency were the final arbiter, they would all be the same and they would all be cheaper than television. That is the point of it: it is within the realms of individual radio stations to assemble together in whatever way they want to, to make themselves simple for us to buy.

Then there is the question of individual radio stations somewhere and how will they get by if they are individual and alone? They will do that because they represent their market, they do it well and they are able to present a sales story in some manner to their local market—which presumably they can do easily enough—and to the bigger markets essentially out of Melbourne and Sydney and people such as ourselves. Within the realm of that there has always been a very efficient networking sales organisation—this is nothing to do with programming—which will put together all types of radio stations and so you can buy all of the radio stations in Victoria, or just western Victoria, or this particular group. That happens with radio stations and it can occur. There is not an argument from our view that says, 'You're all alone out there.' You do not have to be.

This happened also with regional newspapers who very effectively got together to represent themselves back to us in very efficient and, I might say, very powerful groups and they survive

in exactly the same way. Regional radio stations can do that, too. It is not a question of there being an overflow of size and, if you do not join the biggest, you are in real trouble.

**CHAIR**—Mr Norton-Old, I presume from your earlier comments, you represent McDonald's.

**Mr Norton-Old**—Yes, we do.

**CHAIR**—How do McDonald's deal with the situation if they come to you for a group buy? Do they buy networks? How would they go with the 2BSs and the 4BUs of the world, independent stations, in whose towns there are perhaps one or two McDonald stores? What would their modus operandi be?

**Mr Norton-Old**—I am not entirely familiar with the McDonald's account. It is run out of our Sydney office. From the information I do know about it, to help the committee, the approach is to reach that local community, so each and every radio station is very important to them. Obviously where you have some competition between two stations in a given city or area then it will be a matter of trying, as Harold says, to reach them at the most economical rate. At the end of the day that is entirely what we are acting on behalf of our client McDonald's to do. We will so-called 'pitch the business' to see exactly what those two stations will do for us in terms of rate and added value in terms of other opportunities for perhaps outside broadcasts, promotions on the station and that sort of thing.

**Mr McARTHUR**—The committee has been watching the John Laws operation in regional Australia and I just wanted to pursue the line of discussion of how you, as advertisers, sell the John Laws program which is networked right across the eastern seaboard. We have had a bit of difficulty in understanding why, in some of the regional radio stations, two hours of John Laws is attractive to advertisers when he is networking out of Sydney, say to western Victoria and northern New South Wales. Could you just give us a feel for why the advertisers follow John Laws and what is the methodology, from your point of view, in following that advertising dollar in the John Laws program.

**Mr Mitchell**—Yes, I can help the committee with that. Firstly, we do use some of the Laws program, I think in some 67 regional radio stations now, so it is a considerable number. It seems a dichotomy from the other things I have been saying about localism. It is, however, only two hours a day. When we present to advertisers the fact that we will be taking spots in the Laws program across Australia there is total acceptance. There is total acceptance simply because he is a known commodity. That must be a great strength.

In radio station markets where there is more than one station—sometimes there is only one, but rarely—it is known that that will probably be the biggest audience of that time slot and so, for that reason, it is an easy decision for an advertiser to make. If, on the other hand, it was John Laws type programming 24 hours a day, it would be a very different matter. But for the two hours of John Laws it is quite an accepted alternative of great strength because it is a known commodity. Our advertisers have no trouble at all with that, for just that particular part of the day.

**Mr McARTHUR**—Do you check the listening audience from, say, the nine to 11 program in regional Australia, taking John Laws out of Sydney?

**Mr Mitchell**—No, we do not. We are great believers, I would have to say. We know that Laws is such a strength because of what happens in Sydney and we assume that that happens elsewhere. Have we looked at that particularly in recent times? No, we have not, but we have not had any reason to doubt it. If it did not work, I think it would be pretty quickly pointed out to us, or we would have discovered it. We have assumed that it is effective.

**Mr McARTHUR**—So the advertisers, say, in western Victoria and in Gippsland in this state are happy to take Laws out of Sydney.

**Mr Mitchell**—Yes.

**Mr McARTHUR**—What is the localism of that?

**Mr Mitchell**—I should say that the advertisers that we are talking about more often than not are national advertisers. A couple that I am thinking of have an almost national campaign using radio everywhere.

**Mr JULL**—Toyota?

**Mr Mitchell**—Toyota, yes, would be one. They are not particularly looking, as I was talking about before in relation to the 3NE Wangaratta case. It will happen from time to time. The exception I make is that if that were more than two hours a day we might start to look at it a little bit more.

**Mr McARTHUR**—How do you make the judgment of one hour of Laws or two hours, instead of having the nine till 12 that he runs from Sydney?

**Mr Mitchell**—We do not have to make that judgment. We just buy spots in whatever it is that is running.

**Mr HARDGRAVE**—It is still the quality argument, though, that you were talking about before.

**Mr Mitchell**—I would say it is known—put in quotes—quality, yes. It is quality.

**Mr MOSSFIELD**—You have indicated that you support localism.

**Mr Mitchell**—Yes.

**Mr MOSSFIELD**—Is that really based on a commercial consideration or is it a community value arrangement?

**Mr Mitchell**—Yes. I mentioned partly the background of myself, I suppose, in running an independent company. I come from a little country town where I know the strength of radio. But

that is the emotional part of it. The practical part of it is that from time to time and perhaps more often than not we will be buying individual radio stations in regional markets because of that particular region. An advertiser will say, 'There are six country towns, or regions, we want to advertise in. We would prefer to have the local radio station, which is truly the local radio station, than the transmitter that is in the area that comes from somewhere else. We would have a greater belief that we were getting to the people.'

Of course, people will listen to a networked medium. I made some points about what has happened where there have been comparisons in other media with earlier radio stations and metropolitan markets and television news, so that all goes to the make-up of the decision that we are making about the quality of the local radio station.

**Mr MOSSFIELD**—I think you also indicated that you felt some regulation should be introduced to protect localism.

**Mr Mitchell**—Yes. That is probably going well and truly beyond my brief.

**Mr MOSSFIELD**—Do you have any suggestions as to the extent to which those regulations should be introduced?

**Mr Mitchell**—That would be presumptuous of me, I would have to say.

**Mr MOSSFIELD**—No.

**CHAIR**—No, we would like to hear you.

**Mr Mitchell**—I could not take it too far because I think it would have to be carefully done, otherwise it could be a rather heavy hand. I would be happy, from the point of view of the very large advertising-buying company that we have, to see a level of protection of the interests of the local radio station.

**Mr MOSSFIELD**—In principle you would agree, without being prepared to spell out what those details might be?

**Mr Mitchell**—Not being an expert draftsman in matters like that, I am happy to leave it as the principle.

**Mr MOSSFIELD**—We have seen a growth in independently owned radio stations, according to some figures given to us by the ABA, in the medium regional areas. The growth has gone from four to nine in each area, I would suppose; in small regional areas from six to 17. That seems to be a big growth in a barely confined market.

**Mr Mitchell**—I had not looked at those particular numbers, but I am broadly aware of the introduction of those radio stations and, from the point of view of advertisers and the general thrust of what I have been arguing, we would applaud that. Australia, being the nation that it is, needs something that draws back to individual areas, and local radio can do that so expertly and well—as can local newspapers, I might say. If it cannot do that, we will continue to see people,

as I did, leave little country areas and go and live in the big city. We need to have, as I said, in the fabric of our nation as many things as we can to make it worthwhile living where we originally were born, in those little country towns, and to keep them together. Sadly, the one that I came from kept getting smaller and smaller. Each time I go back it seems to look smaller, but perhaps that happens everywhere.

**Mr MOSSFIELD**—We have heard from the small, independent operators how difficult it is to operate in a confined market area.

**Mr Mitchell**—Yes.

**Mr MOSSFIELD**—Is it viable to continue to allow more radio stations to come into existence?

**Mr Mitchell**—I am a little old-fashioned. I grew up in an era where there were 114 radio stations and I knew the name of every one. I would have to say: not necessarily from the advertising point of view because, as Mr Norton-Old has said, if there are more of them, it makes for a competitive marketplace and people like us would carve them up. But there has to be a certain level where it has a difficulty, otherwise the marketplace takes over—and that perhaps is acceptable. It is a licence and, therefore, it has a measure of control and perhaps the marketplace does not have to take over. There is no doubt that in any market in the field of endeavour that we operate in, the commercial marketplace allows new operators. If they cannot survive or if they replace others, the marketplace takes over and people fall by the wayside. I do not think that is the best thing to happen in a licensed area in which we are dealing with the radio stations here. I think there can be too many radio stations and it puts pressure on the system.

**CHAIR**—Would you like to comment on that, Mr Alderton, or Mr Norton-Old?

**Mr Mitchell**—I should say I brought Mr Alderton along because we have lots of facts and figures and I cannot remember them all. From time to time I look like an expert simply because I ask him.

**Mr HARDGRAVE**—I want to go through a few things to do with this viability question, because if the radio marketplace has many players you could theoretically come in in a buyer's market concept and seek the best price. But isn't there also in the advertising industry a question of a too diverse marketplace making it difficult for you to get your audience reach? If you have too many stations it is very hard for each of those stations to say to you, 'I can give you all of the people in the marketplace.' Doesn't that in fact work in the reverse in one sense, in that the marketplace can become less viable as a place to buy if you have too many stations?

**Mr Mitchell**—Yes, that is true and, from the sheets that I was looking at today, it occurs from place to place. It does not hold us back from going to the marketplace. It simply makes it more costly for us to do it. Ultimately it might occur, and I will come to a little story on that later, but for the moment if there are too many radio stations in someone's measure we say, 'Well, there's too many,' but we say we will simply have to use four instead of two to do the job and it costs twice as much. We will probably do it if the brief from our advertiser is, 'You must advertise in Wangaratta to promote the local McDonald's.'

There is a further point from that, which I have seen over time, where regional television stations would come to us with arguments in the seventies, which ultimately proved to be very effective. BDB6 Ballarat, which those that are in that particular region would know, would come to us with an argument which said, 'There are seven radio stations underneath our mast and it costs this. You might as well go on to television,' which is the very point that you make. That continues to this day, of course; if it is too expensive ultimately to do it and you can use the bigger, some might argue more powerful, medium of television, sometimes that will occur. If the thrust of the question was that this can create a problem that ultimately will mean that we will not advertise there, in the short term we will. Over time, if it was to continue, they would lose revenue. That would be bad.

**Mr HARDGRAVE**—Looking at your tables, is that what is reflected in the one labelled 'Metropolitan TV-radio/regional TV-radio comparison' of people 18-plus?

**Mr Mitchell**—Yes.

**Mr HARDGRAVE**—Are we seeing in regional radio a \$21.73 buy? I take it these are current figures?

**Mr Mitchell**—A good point. Yes, they are. Mr Alderton has put these together.

**Mr HARDGRAVE**—Is that \$21.73 versus \$11.08 on regional TV a reflection that you may have to buy more of them to reach the same audience?

**Mr Mitchell**—That is exactly what would happen—not to reach the same audience; it costs you more. That is what that says. To reach 1,000 people it would cost \$21, whereas in Queensland it would only cost \$8.59.

**Mr HARDGRAVE**—The \$21.73 does not reflect the fact that to reach 1,000 people you have to buy two radio stations?

**Mr Mitchell**—It might be an outworking of it, I might say, because there were a lot of radio stations and they did not have an audience big enough and it cost too much.

**Mr HARDGRAVE**—It might have had an impact on that in particular? Is that what you are saying?

**Mr Mitchell**—Yes.

**Mr Alderton**—It is costing you twice as much to reach the same number of people through radio as it is through television.

**Mr HARDGRAVE**—Is that in part because of the fact there are probably about 10 times the number of radio stations? Does that have any impact?

**Mr Alderton**—No, not directly, but the more stations there are, the more fragmented the audience becomes and the net result of that reflects in that cost.



**Mr HARDGRAVE**—Looking at the variations of radio cost per 1,000 people 18-plus, why is Traralgon a pretty cheap buy? Are there 10 stations beaming into Traralgon? Bendigo is one that might go to the heart of the member for Bendigo sitting at the table. That seems to be a pretty cheap buy as well and yet Colac seems to be doing pretty well. I do not know whether it is getting much advertising revenue.

**Mr McARTHUR**—There is a good member down there! That is why it is costly.

**Mr Alderton**—Generally, the smaller the market, the higher the CPM, as a rule of thumb; the more those markets depend on other reasons for you to buy them. In other words, we would not put a client in Colac unless he really wanted to be there. That is the reality of it.

**Mr McARTHUR**—It is very important to be in Colac.

**Mr HARDGRAVE**—What other stations are in those markets? Are they local stations or are they stations that are on some sort of network? Is there any correlation between the types of stations and, again, the cost per 1,000 in reaching people in those areas?

**Mr Alderton**—The stations that were used there, for instance in Colac, were 3CS and Mix FM106.3.

**Mr HARDGRAVE**—Are they both local stations?

**Mr Alderton**—There are actually two stations there. I cannot be 100 per cent sure. This was given to me by the organisation that represents a network, so I believe at least one of those stations is network, but I cannot tell you which one.

**Mr Mitchell**—Chairman, it might be of use to the committee if we were to do some further work on that because, if the thrust of the point is what stands behind those figures, sometimes there will be a mixture of radio stations where you might well see the point that too much is enough.

**CHAIR**—Could you come back to us on that?

**Mr Mitchell**—Yes, I will happily send that forward to the officials.

**Mr McARTHUR**—The link between Colac, Horsham and Warrnambool is quite well known—the group that runs those three stations.

**Mr Alderton**—Yes.

**Mr HARDGRAVE**—The reason I raised this was to try to get into this question of what dollars drive it and how the dollars are allocated by the advertising industry. As you said, Mr Mitchell, in your opening comments, there is a certain sense of jeopardy that faces regional radio, the quality of their programming, their ability to participate in their local community, if the commercial viability question is not satisfied.

**Mr Mitchell**—Yes.

**Mr HARDGRAVE**—I will now step to the right of this to the question of smaller operators. The power relationship between smaller operation and advertiser gives more power into the hands of the smaller operator if there are fewer in the marketplace than the reverse being the case, doesn't it? This is what you were talking about before. You have the potential to come in and wipe a marketplace clean, but if you have too many stations in one market there is almost no point in going into the marketplace at all.

**Mr Mitchell**—Yes, that is the point I was making before, because an alternative medium will probably arise and that could almost happen over a short space of time. In the Victorian example I used with radio and television, it took probably a number of years. That would be the dilemma, I would imagine, of the committee in the work that it is doing. Where are these sensitive points? Diversity is good and I have argued for that. The committee, I am sure, would argue for that. But at a certain point when there is too much of it, it makes it just too fragile, and commercially from our end it has a detrimental effect, in that in the beginning we will push very hard to induce rate cutting. That is just a normal commercial factor.

Ultimately, with rate cutting, there will be distress in various areas. You say, 'Well, that's the market at work,' but in a regulated market I do not know that it should be the case that that has to work in that manner. That is the cycle that takes place. You have a radio station in a market doing very well. You put another one in and neither does well for a while and then they both do okay. You put a third one in; ultimately all three do badly. One, two or three then become networked and the economies of scale take place. What does suffer is the community involvement and the quality that we are talking about, which is what we would find hard to protect in regional Australia.

**Mr HARDGRAVE**—It strikes me that the advertising industry does have some generous concern for the radio industry, because clients are necessarily not going to get the impact they need to get their message across if that point—whatever it is—is in fact reached and we start to see a real decline in the marketplace. That is a real problem for your sector.

**Mr Mitchell**—It is. I am in a fortunate position, having run our business for 25 years and been involved day to day with it. It is not, I would rush to suggest, that we have in any way a conscience about matters like that, but we do have—

**Mr HARDGRAVE**—I was giving you the chance.

**Mr Mitchell**—Of course. But we do have the ability to stand back from it and to understand that there needs to be a very healthy media that we are dealing with. An unhealthy media can be bad, if media operators become too large and too gross and too overpowering—and that is another argument for another day. But this is at the smaller end of all of that and, equally, we are concerned about that. We think it is a 'fair go' arrangement that should occur.

**Mr HARDGRAVE**—I have one or two very quick questions on the question of size. Does it suit a big advertising agency to deal with a big comparative radio representative, who maybe group buys, rather than dealing with smaller stations? Do you mind dealing with smaller stations?

**Mr Mitchell**—I would have to say it is more practical and it suits us, because there is economy of scale, but it would be wrong of us not to bring a balance. We need to understand that it takes more time, care and energy sometimes to deal with smaller matters. It is not as if we are gross and overpowering and say, 'We're not happy until one person owns everything and we only have to deal with them.' We understand the complexity of Australia and the way that it should operate. It is, in the end, not of great concern. We will deal with all of these radio stations. I think my company is in the top three users certainly, if not the biggest user, of the national part of the media that we are looking at this morning.

**Mr HARDGRAVE**—A lot of the smaller operators that have appeared before this committee—and it may well be a traditional thing from my days in radio; there always was the same complaint—say they do not get enough national clients. The big Sydney and Melbourne based advertising agencies do not know about the smaller stations.

**Mr Mitchell**—Yes.

**Mr HARDGRAVE**—An extreme example I can think of is 4LG Longreach.

**Mr Mitchell**—A good example. I have visited there on a number of occasions.

**Mr HARDGRAVE**—It is proudly independent.

**Mr Mitchell**—Yes. To explain what happens with the national money and why people have said that to you in the past: a big advertiser of products or services—let us say products—has a number of ways of promoting to their customer base Australia wide. Initially they will do it through brand advertising, all of which you see on radio and television or in newspapers and magazines, and then ultimately, through a distribution network, they will allocate out other advertising funds, more commonly known as cooperative dollars, as we are cooperating with you. The retail market in the local town gets the money from somewhere. I can tell you, it all ultimately comes from whoever made the product. What happens in the case of Longreach perhaps is that the local Beaurepaire dealer—should there be one, and I hope they do have one—would get the money from Beaurepaire, ultimately, rather than a big national campaign. They get their money but the argument would be, 'We don't get enough of the big national money.' Yes, they do. They get it through another means, which is called cooperative dollars.

**Mr HARDGRAVE**—If you have a networked operation hubbed out of, say, Townsville or Albury which is coming in as a competitor to a local radio station which is not getting its share of national dollars for one reason or another—perhaps it is trying to sell to you that it can reach 8½ thousand people whereas the big network station says, 'Look, I can reach 108,000 people,' and understandably someone will say, 'We'll go with the 108,000' regardless of what the marketplace share of the network versus the local station is, they still get the national dollars. Isn't that decision inadvertently, in fact, putting regional radio in jeopardy—its quality, its ability to participate in the local community?

**Mr Mitchell**—Yes, I support the question and, almost, the answer. It is exactly true. If we have a hubbed station with five in the area and we want three of them, we will leave out the smaller local ones, and so will every other commercial operator, I imagine. That would put great pressure on whichever was the smaller local radio station representing that community. The

thrust of my argument this morning is that the community would suffer. It would suffer sadly at the hands of people like ourselves. Many parts of myself would not want to do that but the commercial aspect of Australia would force it to happen.

**Mr HARDGRAVE**—Inadvertently, as I said, the quality thing does not matter as much as the quantity versus the cost—

**Mr Mitchell**—That is exactly right in a case like that. We would like to think we have an element of care and we would worry about the local radio station breakfast announcer being more in tune with that little local community but, I am sad to say, the argument would fall by the wayside.

**Mr HARDGRAVE**—Then the power relationship changes because the power then is in the hands of a big network that can actually dictate price to you, can't it?

**Mr Mitchell**—Not me.

**Mr HARDGRAVE**—To your clients, I mean.

**Mr Mitchell**—To some extent, yes, I would have to say. But it is still the case that we are very big and they are relatively smaller. That is the problem of it. Could I help the committee by making the further point that this is a slow process. It starts a little bit as you were talking about and gets bigger and bigger until ultimately it has happened. It is probably very wise for the committee to be considering it at this point, to say, 'Let's draw a line. Let's stand back from it. What is really occurring has occurred and will occur into the future.'

**Mr HARDGRAVE**—We are not quite at that point that you were talking about before?

**Mr Mitchell**—No, I do not think so. There would be others who might have argued before this committee and said they have well and truly gone beyond it and life is all over.

**Mr McARTHUR**—You mentioned the words 'too big' and 'overbearing' in terms of some of the proprietors.

**Mr Mitchell**—Yes.

**Mr McARTHUR**—I notice that Southern Cross Broadcasters have now taken over 2UE so it gives them a strength in the New South Wales market and the Victorian market. As an advertiser, do you see that to be an unfortunate trend or a good trend, or becoming too overbearing, to use your words?

**Mr Mitchell**—It is a question of relativity. In that instance, that still does not put them into any overbearing or gross position, as far as we are concerned. That is a natural efficiency of a marketplace and we have no concern about that at all. I had in the back of my mind the others that we deal with, of course, where there are three major television networks, essentially. That is a market of three that we have to operate within. They operate into an advertising market of some 5,000 and a buying community, represented by Mr Norton-Old and myself, of probably

only some 30 to 40. But it is a dangerous equation to have three operators spread across 30 to 40.

**Mr McARTHUR**—What about the DMG group that we have had evidence from?

**Mr Mitchell**—Yes, they are reaching a point of being relatively large. Equally, over time they could reach a point where, to accept Mr Hardgrave's point, they could be able to reverse the trend. At the moment we have not noticed that but, ultimately, that could occur.

**Mr McARTHUR**—You think you are a good buffer for your clients against some of these bigger—

**Mr Mitchell**—Yes. To explain that very briefly, what has occurred in Australian advertising over a period of probably some 20 years is the emergence of very large groups. Mr Norton-Old represents one, I represent another. There are now four to five groups that represent around 70 per cent of the national advertising dollars so each of us are 15 to 20 per cent of the natural income of the major networks. That is simply a marketplace at work. If those very big network owners—you know them and their names—were to operate in a market where it was widespread, the market would be fairly easy prey. What has emerged is that companies such as ours and Mr Norton-Old's and others represent, as I say, 15 to 20 per cent of the income of those networks, and that makes a real difference. That follows across to radio, to a slightly lesser extent, too. That is simply a marketplace at work, while I understand the thrust of this morning has been dealing with the very precious part of the edge, the smaller part of these markets, which is the radio stations.

**Mr McARTHUR**—Do you think that your existence does help the smaller commercial radio stations to maintain their local identity because you are a buffer between them and the power of some of the advertisers?

**Mr Mitchell**—Yes, that is possible, but I have answered separately elsewhere and I will come back to that. We could be a buffer against the very big ones because we are still much bigger than they are and we could influence things. Nevertheless, we work in a market where we, too, are forced to find the lowest price. In a market, if it is highly competitive and there are three or four radio stations, such as in Albury, we would probably make it worse for the smaller local stations simply because we are acting in the interests of our client. Much as we might not want that to happen, we could see progressively that, in a market of rate cutting, we would not make it easy for the very small and they could not compete.

**Mr JULL**—Do you keep an eye on community radio?

**Mr Mitchell**—Yes, I do, actually.

**Mr JULL**—Is it fair to say that in some markets community radio may be emerging as the voice of localism and, more and more, will play a role in promotion of some of those communities? Do you, in fact, buy community radio?

**Mr Mitchell**—We buy a little of it; not as much as ultimately we may because right at the moment they are very small. But it is a very good point you make. I listen to it principally here

in Melbourne, and in Victoria I travel a bit throughout the state, not elsewhere, but I know of its occurrence elsewhere. There is no doubt that there is something occurring in our society. They are tending a little bit more to be the edge of young or youth community stations, so you get the rock-and-roll you might not have got on the mainstream one.

At the other end of the scale are the good old records—that I like, anyway—which might appeal to the 55-plus, should anyone own up to being 55-plus. We are seeing that emerge. With the ageing of the country, there is no doubt that that will be a little bigger, and I am finding that they are getting better at running their radio stations. They are starting to get more than just the public announcement, they are getting a commercial, and much of what I have heard said here this morning is that nothing happens overnight in the market we are dealing with, it happens piece by piece. But it is a very good point you make, that something is going on out there and that means there is a gap and it is getting filled.

**Mr JULL**—We hear stories of community stations—I think it was in Tamworth—who, with the change of the networking arrangements, actually took Laws legally or illegally and went to air on community radio because they could provide the service. Some of the locals I think now are taking or are looking at taking racing services.

**Mr Mitchell**—Yes.

**Mr JULL**—I think it is an interesting procedure.

**Mr Mitchell**—Yes.

**Mr JULL**—Just on that line, if I can go back to what you said before, what happens if we do not draw a line now? Can you crystal ball? If we do not draw a line now, how do you see the industry in 10 or 20 years time?

**Mr Mitchell**—It is probably easier from our perspective because we have seen it elsewhere, in television. It will be in the hands of very few. It will be networked very largely. It will have almost no single smaller operators. It will have a few of the community radio stations around the edges. That is quite simple. This is the great concern. In a land as big as the United States, with a population of 19 million people, what do we do with it? That is the great care of duty that we all have: how we look after our society so that, in this case, the communications are properly handled. Otherwise what can take over in the might of a marketplace is simplicity and things that are large.

I should argue this. I built a company up from one person to a turnover of over \$700 million on the basis that large is good but that is because, on the other side of the equation, we are dealing with some very big commercial operators—Mr Packer, Mr Stokes, et cetera. If we were to look forward, it is easy, because we can simply look backwards at what happened with television and history is always a great way of knowing what is going to happen in the future.

**Ms LIVERMORE**—Mr Mitchell, we heard from a number of witnesses from the radio industry that the expansion in the number of licences has been beneficial because of the extra choice that has meant for consumers. From an advertiser's perspective, does that ring true for

you? When you are analysing markets does the increase in the number of licences necessarily mean an increase in different styles and choice for listeners?

**Mr Mitchell**—Yes, it certainly does. It is question then of whether it is commercially practical for that to be the case. But by and large we look for audiences by what we call age demographic break up. Broadly that could be put as under 30s, 18 to 24 or 25, which is a bit of an overlap, up to maybe 50 and then 55-plus. That is middle aged, younger and older. If more radio stations emerge, there will be variations within that, so 18 to 30 might become 18 to 24, there might be some 10-to 17-year-olds and so on. There will always be another niche available and that could go on endlessly. I can see that when a new operator comes in they have to find another niche, and there is always one there. It is a question of whether it is a commercial one. What we do know is that the largest and the best are the middle range of the ages, which is about 25 up to 54. Those in that area, in the main, tend to buy goods and services. That is the one that most of the radio stations in the metropolitan markets fight for.

It is not so much a question for us, as advertisers, as to whether there is a niche and another reason to be there. Of course there is, and they will find it. It is a question of commercial practicality, which I imagine the community is partly served with, and is not of much concern to us other than the conscience aspect of it, as we would rather deal with people who are healthy and profitable than not.

**Ms LIVERMORE**—But in a regional market where there has been the expansion from AM stations to the section 39 FM stations, anecdotally in Queensland it seems that the FM stations are carbon copies of each other. You are saying that in metropolitan markets where there are more licences, people are carving out niches for themselves with those licences.

**Mr Mitchell**—Yes.

**Ms LIVERMORE**—Are you seeing the same thing in regional areas?

**Mr Mitchell**—In any market the pattern would follow. Again, the history is quite easy. It is a question of the commercial viability of it. You would probably find arguments in metropolitan Melbourne and Sydney where they say they are not all commercially viable, even in those great big cities, and in fact it is the case. I say to the committee that this is the great problem that we will always have in Australia, that we are only 19 million people in a land mass as big as it is, and we quite rightly have to take care with the resources that we have—in this case, radio.

**CHAIR**—Mr Norton-Old, did you want to make any comment on that?

**Mr Norton-Old**—Really what it comes back to, as Mr Mitchell was saying, is the opportunity for a commercial product to be put forward with that licence, and it is a business decision as to what part of the market you choose to broadcast to. Where you have a multiple-licence city or town, there is a choice to be made about which part of the community you want to program to.

**CHAIR**—Are you aware of that? Taking my home town, for example, you would nominate 4BU for the more middle-of-the-road stuff and HITS FM for the—

**Mr Norton-Old**—That is the choice that has been made over time in terms of the programming niche or direction that a station manager wants for the station.

**CHAIR**—But when you are buying the advertising, are you aware of the different dynamics in the country areas?

**Mr Norton-Old**—Yes. Certainly our buyers who are very close to this medium would be. The analysis is taken as to what the audience is actually after and which are the better stations to deliver the audience.

**CHAIR**—Just before we move on, there are a couple of things I am still not quite clear on. How many companies like yours are in the market?

**Mr Mitchell**—There are probably a dozen.

**CHAIR**—And you say you have about 20 per cent of the market.

**Mr Mitchell**—There are a dozen of a certain size. They tend to be large international organisations that have bought advertising agencies here over time, and they have got names like Mr Norton-Old's OMD, Zenith, who I understand has put a submission before you here, my own company Mitchell and Partners, and others. There are about a dozen but they break down into four major buying groups.

**CHAIR**—How much of the market do those—

**Mr Mitchell**—It is measured principally by metropolitan television, as it is easier in larger numbers. About 70 per cent of the total. Then in the rest of the market there are probably half a dozen smaller ones that might make up the next 10 to 15 per cent and then the local market makes up the remainder.

**CHAIR**—The last 20 per cent, some direct buyers.

**Mr Mitchell**—And some direct.

**CHAIR**—That is the local salesmen.

**Mr Mitchell**—Yes, of course.

**CHAIR**—Even in a country station you guys represent about 80 per cent of the market.

**Mr Mitchell**—No, we would not. No, it is very different in the regional markets.

**CHAIR**—Just explain the regional market for the committee.

**Mr Mitchell**—I think Mr Norton-Old did some work on this yesterday. He might correct me. In the regional market I think it is probably up to 35 per cent. It is very different.



**CHAIR**—Could you give us a paper on that?

**Mr Mitchell**—Yes, happily so.

**CHAIR**—Just the one sheet.

**Mr Mitchell**—Yes, of course. We might contrast it with what happens in the metropolitan markets and the regional markets.

**CHAIR**—In the metropolitan markets you guys control about 80 per cent of it.

**Mr Mitchell**—Television, I should say. That is metropolitan and regional television.

**CHAIR**—Why don't you nominate radio?

**Mr Mitchell**—We are not as big in radio because of the complexity, the size and, as I was explaining to Mr Hardgrave, the flow of money that quite often goes from the product advertiser—

**CHAIR**—Give us a stab at what percentage of the metropolitan radio market you control and a stab at what proportion of the country radio market you control.

**Mr Mitchell**—I can do that now and we can follow with a short paper.

**CHAIR**—Can you give us that now?

**Mr Mitchell**—Yes, I can give it to you now. I believe that the bigger people such as ourselves in the metropolitan markets would be around 65 to 70 per cent, and in the regional markets probably 25 to 35 per cent.

**Mr Norton-Old**—Yes, depending on the market.

**CHAIR**—Direct selling by the local radio station is a very important aspect.

**Mr Mitchell**—Very important.

**CHAIR**—Let me ask you another question then. Do any of the networks have network sales managers who try to sell into the network?

**Mr Mitchell**—By the networks you mean the hubs of fours and fives?

**CHAIR**—Yes.

**Mr Mitchell**—Selling into the network, being us?

**CHAIR**—No, quite independent of you. Do any of the networks have their own sales teams selling into their own networks? Would DMG, for example, try to do a deal with something that might go to Beaurepaire, for example?

**Mr Mitchell**—The answer is probably no. They would always come through people such as ourselves.

**CHAIR**—Tell me another thing then. I just want to clarify this. Taking John Laws, for example, did 2UE get involved in the sales dynamic at all? Why I ask the question is, John Laws does a lot of the voice-overs for the advertisers.

**Mr Mitchell**—Yes

**CHAIR**—How is that arranged? Do 2UE offer that as a separate side deal?

**Mr Mitchell**—I believe it is so. I have got so many people in Sydney that do it. I should have checked that with them.

**CHAIR**—You do not negotiate that part of it at all.

**Mr Mitchell**—No, not directly with Mr Laws. We buy the time.

**CHAIR**—You buy the slots.

**Mr Mitchell**—Yes, we buy the time. I am aware that the other matter takes place, but I am not sure how.

**Mr Norton-Old**—It is a private arrangement.

**Mr Mitchell**—Possibly.

**Mr GIBBONS**—I would like you to go back to the little graphs and explain it a bit more clearly. I take it the variation in radio cost per 1,000 is per 1,000 people.

**Mr Mitchell**—Yes.

**Mr GIBBONS**—Are these figures down the left-hand side costs per unit or 15-second spots or something?

**Mr Mitchell**—We are talking about 10, 20, 30, 40, 60 on No. 1?

**Mr GIBBONS**—Yes.

**Mr Mitchell**—No, that is simply a scale. This is a way of comparing apples with apples. That is 1,000 people—cost per 1,000—which we have always used. This happens to be people 18 plus. There are many variations of target audience, et cetera.

**CHAIR**—Is that 1,000 people under the stick or 1,000 people known to be listening to that station at any given time?

**Mr Mitchell**—In this case it is known to be listening and it is measured in how much we pay to do it. To explain, down the left-hand side there is simply a scale that goes from \$60 down to nought. In Bendigo it costs \$6.90 to reach 1,000 people, and you would say, ‘Well, that is very interesting, isn’t it? What does it mean?’ It means that in Colac, for whatever unusual reasons—I am sure we will look into that after this meeting—it is \$55.24.

**CHAIR**—There will be a lot of money spent there in December by a certain member of parliament, I imagine.

**Mr Mitchell**—The community did offer us some of its members. I understand that they are very special people in Colac. We obviously agree!

**CHAIR**—I think another member will not be using Colac!

**Mr Mitchell**—That is the nature of committees, I think. That simply allows us to compare one to the other. The point we make out of it is that if cost efficiency—which is simply, ‘Lower is better, more efficient’—is a matter that has been argued before this committee, and I suspect it has been, long and hard, up and down the country, here is a chart that says it does not mean a hoot, simply because there are such variations. If it were such a critical factor, that would almost be identical. I could take you to tables in metropolitan television and metropolitan radio where there would be almost no variation because the marketplace has been so vicious in its approach to it that it has driven it to a certain point of supply and demand. At other times when the demand is bigger it goes up a little.

**Mr McARTHUR**—What is the relative unit here? Is that 30 seconds?

**Mr Mitchell**—That is a 30-second.

**Mr Alderton**—It is a packaged spot: breakfast, morning, afternoon and drive.

**Mr McARTHUR**—So right across the board you are using a 30-second spot.

**Mr Mitchell**—Apples and apples.

**Mr Alderton**—But an important point to note is that the quality and frequency of surveying of regional radio audiences is not comparable with a measurement of metropolitan radio audiences. These sorts of figures that we use to calculate these costs are much more generalised than the sorts of figures we look at in metropolitan markets where the survey reliability is much higher.

**Mr McARTHUR**—They leave their radio on, too. Isn’t that the other factor in the regional?

**Mr Mitchell**—No, it is the same. I think what Mr Alderton is saying is that the measurement system is less sophisticated in regional markets. There is, nevertheless, a system and we have

been able to use one regional market to the other, but it is not quite comparable with what happens in the metropolitan markets.

**CHAIR**—Are they your figures or your industry group figures?

**Mr Mitchell**—They are industry figures accepted by us.

**CHAIR**—You would agree with these, Mr Norton-Old?

**Mr Norton-Old**—I do not know what the basis of them is.

**Mr Mitchell**—These were various local surveys undertaken by Nielsen from time to time by individual radio stations.

**CHAIR**—They are fairly generic?

**Mr Alderton**—These are generic.

**Mr Mitchell**—And I think you would find accepted by the industry.

**Mr McARTHUR**—You do accept the AC Nielsen figures though, do you?

**Mr Mitchell**—Yes, we do.

**Mr McARTHUR**—Your whole industry is based on that, as we hear it?

**Mr Mitchell**—Yes, it is. As we say, in the land of the blind, ‘the one-eyed man is king’. There is no other.

**Mr HARDGRAVE**—Mitchell’s web site quotes media exposure: radio listening, three hours 23 minutes daily; television viewing, three hours 11 minutes daily; and press reading, one hour nine minutes daily. Obviously, they are marketplaces other than the *Courier-Mail*, which takes approximately five minutes to read on any given day. What I wonder is, why is radio such a good media buy? Is it because of the fact that so many people listen to it each day or are there other factors that make radio such a good buy?

**Mr Mitchell**—No. If I may answer that in part, there are many reasons. First is targeting by a demographic. Radio is able to divide into young people, other people, women only, men only, et cetera. Second is economy. It is cheaper than television and allied to that is the fact that the production of television commercials is very expensive and sometimes unnecessary. Third is that it can be regionally important, in that if we simply want to pick out a dozen markets it is more practical to do it, and may be only possible to do it, with radio.

Aside from the numeric figures and reasons is the question of quality of the market and of the product and of the radio station itself. There is a belief that there are some particular radio stations which have a very high level of intense listening, such as talkback radio stations and night-time on rock-and-roll stations; it varies by different stations. It is a combination of all

those factors, but it is alluded to there in our own figures taken from the industry that radio is also of considerable importance to Australians, because if they think watching television is important, they listen to radio at about the same level and that, I do not think, has varied over many years.

**Mr HARDGRAVE**—The Australian Radio Network in May 1999 produced a paper called *Economic impact study of FM radio licensing in Australia: an update* which took into account the ABA broadcasting financial results for 1997-98, access economic indicators and various other bits and pieces. In the summary page they say:

Advertising agencies have stated that more commercial radio players will make the medium harder to buy and less cost effective. In the face of television's privileged position of no competition, advertisers suggest radio becomes less attractive again.

Is that a reasonable point?

**Mr Mitchell**—I would divide it up into a couple of points. The first one is the point you were making earlier. It is true that more radio stations would make it less attractive because it would become more expensive and ultimately we would have to consider whether to pay the extra cost or go to another choice.

**Mr HARDGRAVE**—That is city and regional, I take it.

**Mr Mitchell**—City and regional. Could you repeat the second point they made.

**Mr HARDGRAVE**—It begins:

In the face of television's privileged position of no competition ...

I think that means no additional competition.

**Mr Mitchell**—I think that would be right. That would be a fairly sweeping statement, because there is relative competition in the television medium itself. At times of high demand it lessens but, right at the very minute, I can tell you that they are as competitive as any market that we have ever dealt with.

**Mr HARDGRAVE**—You would support the concern of the commercial radio industry that all these additional new licences into metropolitan and regional areas are not really helping their industry because it is making it harder to buy?

**Mr Mitchell**—Yes. From the evidence this morning, absolutely.

**CHAIR**—Mr Norton-Old, is that the experience of your company as well?

**Mr Norton-Old**—Yes, it is, generally speaking. We are concerned about the further fragmentation of audiences on one hand, in terms of making it more expensive for the advertiser to purchase in that particular community, yet, depending on the programming approach taken, it

might well suit that particular client, in many cases, that it delivers an audience that was not available in a defined sense or in a precise way.

**CHAIR**—Where you had an AM station, a general middle-of-the-road—

**Mr Norton-Old**—The development of FM in regional areas—a case in point—has allowed programming options to be expressed in that community. Previously they were not allowed or were not available across the day. They might have been programmed at certain hours of the day but, once you have another 24-hour service available in that community, it allows that operator to target a new audience, and it might be the under-25s, for example.

**CHAIR**—The young rock-and-rollers, yes.

**Mr Norton-Old**—Exactly.

**CHAIR**—Let me take that a step further. We have the AM stations, which are generally middle-of-the-road, some with a bit of local talkback or Laws or someone like that. Then we had these FMs—the HOT FMs, the HITS FMs, et cetera. We are now going through the phenomenon of the second FM player, who is quite often the network. What are they doing to the market?

**Mr Norton-Old**—They are aiming for what is a similar audience.

**CHAIR**—They are splitting the FM market up.

**Mr Norton-Old**—The advertising community is generally interested in the 18 to 39 audience or the 25- to 39-year-old audience and determination of its spending power.

**CHAIR**—My observation—and it is purely anecdotal—is that these third stations are not as hot rock or heavy metal as the original FM stations. They have moved a little bit to the right.

**Mr Norton-Old**—Yes.

**CHAIR**—Does that open a new market or are they largely duplicating the FM market?

**Mr Norton-Old**—It is opening up another opportunity to target a separate group in terms of a different music choice; softer, as you put it, or moving more to the older age group's choice of media styles.

**CHAIR**—Let me take you both a step further. You may not wish to answer this. With the talk now of fourth stations in some areas, have we reached saturation point? Will the fourth be too much in most of these markets? You have been in Mackay—

**Mr Norton-Old**—It comes back to population sizes. Mr Mitchell mentioned earlier that we are only 19 million people. When you get down into smaller communities, it simply isn't viable to have a lot more options of a commercial nature. That is going to have enormous competition about it. Yes, there is a limit.

**CHAIR**—Even before we got around to calling this inquiry, when members of the three political parties were starting to express concerns about this, the very earliest vibe we got—and Mr Hardgrave probably was the first one to identify it—was that country radio stations were becoming unviable or, alternatively, were becoming an easy mark for the networks. Is that a fair comment?

**Mr Mitchell**—I might go back on one point for the value of the committee. You make the point about the third radio station with rock-and-roll coming in; that there is a third station, a second one with rock-and-roll. I would be slightly varied in my view, Mr Norton-Old. It is not a new market at all. They simply divide the market that is already there and which was held with the other station.

**CHAIR**—That was the Geraldton experience, wasn't it?

**Mr Mitchell**—Yes, that is right, and elsewhere I would not possibly imagine. A third radio station there: did it really add or did it divide? It divided. You then make a point about a third and then perhaps a fourth station. I would counter with the point that sometimes the third was one too many and the fourth would be the station too far, I would have to say. That may be the view which the industry would not like to hear, but I think that it is quite clear.

**CHAIR**—Can I pick you up on that Geraldton experience. We went to Geraldton, and I am speaking very broadly now, but my understanding of the evidence we received was that they had an AM with pretty fair coverage. For some reason the local station did not get the section 39 licence. A new operator started up, presenting the hits, a Triple M type format. The AM station surrendered its AM licence in favour of a second FM and went after the same market and they both got into difficulties. Is there a danger that that pattern could be repeated in third and fourth radio stations in country areas?

**Mr Mitchell**—Absolutely.

**Mr Norton-Old**—Yes.

**CHAIR**—You both agree?

**Mr Mitchell**—Yes, no doubt at all. Whilst you say, 'We'll encourage that because that's good and it makes it a very low-cost spot for advertising because they have to do it,' it is pretty clear from other things we are saying—perhaps the community agrees—that it is only a matter of time before a station falls by the wayside and perhaps another operator takes up, and so on. It is not a good thing from our point of view.

**CHAIR**—Is this feeding networking?

**Mr Mitchell**—Completely, yes.

**Mr McARTHUR**—Could you expand on that whole argument?

**Mr Mitchell**—Yes, of course. In the case of Geraldton ultimately, probably all three stations would finish up falling into the hands of something which offered them a way to survive—that is, lower costs. Networking is lower costs. They would have no choice but to do it. It might be one, then two, then ultimately three in markets which are fragile like that and, as Mr Norton-Old says, there is the question of size because Australia is made up of areas of such different sizes. It is not as if there is quite one answer for all, because there is not. I never thought that regional markets could carry much more than its original AM station perhaps converting to FM, and a second FM station.

**Mr McARTHUR**—Why would the ABA then attempt to put a third station in? It is crucial to our whole argument.

**Mr Mitchell**—You need to ask them that.

**Mr McARTHUR**—I am asking you why they would even contemplate it, from an advertising point of view.

**Mr Mitchell**—Perhaps they did not seek information widely enough. It has been known to operators such as myself for a long time.

**Mr McARTHUR**—In my local area in Geelong they were contemplating putting a third radio station in. We had, in fact, the scenario that you and the chairman have described, where the two FM and AM stations had to combine to remain viable, and yet the ABA—

**Mr Norton-Old**—They also get overlap from Melbourne.

**Mr JULL**—Does the ABA ever consult with the advertising industry?

**Mr Norton-Old**—I think, Mr Jull, a long time ago, but I cannot recall appearing before them. I am in the top four or five people that I reckon they would be talking to, and the last time I remember being asked to appear was in relation to 3MA Mildura, that went to a second station. I boned up on it and knew it backwards, and reckoned they could perhaps get a second station, and I do not know what they have now but—

**Mr MOSSFIELD**—Mr Chairman, on the viability of radio in the regions, is foreign ownership likely to play a part or is there a danger there that foreign ownership would come in? We are talking about the viability of too many radio stations in regions. We are talking about the increase in radio stations being controlled by groups. Is it a danger? Do you see it as a danger or not?

**Mr Mitchell**—We have some ability to look at this because there are American commercial interests now in Australia, through some parts of the network known here as Double T, and there is enough experience elsewhere of the people that we talk to, principally in television and elsewhere, to know that if it were a completely open country we would be flooded immediately by foreign ownership of the Australian radio media. There are other rules which stop that happening.



**Mr MOSSFELD**—There is no restriction at the moment, is there? The foreign ownership control was abolished in 1993.

**Mr Mitchell**—It was on radio, yes.

**CHAIR**—Subject to the normal FARB—

**Mr Mitchell**—Yes. That soon held them back.

**CHAIR**—I would like to stay on this point. I think it is important.

**Mr McARTHUR**—Chairman, can I pursue this point of you not being called before the ABA on potential new licences, because it gets back to this financial viability. If they do not have advertiser revenue, if they have not asked you people who are the experts in the industry, how can they make top-of-the-head judgments that extra stations should be in listening areas?

**Mr Mitchell**—How can they make judgments? Badly, because this is an industry which is reliant upon advertising income 100 per cent.

**Mr McARTHUR**—How could they overlook talking to you people?

**Mr Mitchell**—They have not talked to me.

**CHAIR**—Mr Hardgrave had a point on this issue.

**Mr HARDGRAVE**—Can I try and define this further. I don't expect anybody at the table, no matter how well briefed, from the advertising industry, to carry the Broadcasting Services Act around in their back pocket, but the act talks about adequate and comprehensive services; it does not talk about that from a specific radio station's efforts in its community but, rather, the marketplace. It is making marketplace judgments. We have talked a lot this morning, rightly so, about radio being able to segment and provide target audiences to the advertising industry and yet we are now hearing the ABA does not consult with you, which I would have thought would have been the absolute arbiters, using market forces that could tell whether or not there are adequate and comprehensive services in any given marketplace. Do you think the ABA needs to define better their approach to determining how many new licences go into a marketplace because of, from your point of view, the potential for this to reach a critical mass and the whole thing to fall over?

**Mr Mitchell**—It would be very wise for them to take a complete view of current advertising thinking as represented by the major media buyers of Australia. Other judgments I would leave entirely to them but I have been called before special inquiries in New Zealand who were prepared to look more broadly than just at New Zealand on how things were going.

**Mr HARDGRAVE**—This is in recent times?

**Mr Mitchell**—Not for a little while but certainly more recently than I have ever appeared before an ABA inquiry, the last one of which was in Mildura, probably 18 years ago.

**Mr HARDGRAVE**—The advertising industry would probably be best-placed to determine whether or not a marketplace was reaching its full potential as far as that incomprehensiveness was concerned?

**Mr Mitchell**—Clearly, that would be our view, but I would think that, because advertising is such a critical part of it, it would be a vital input to securing it, especially since what has occurred in more recent times is that the advertising volumes and therefore understanding is in the hands of a few. It is an easier way to get to it, via Mr Norton-Old and myself, and there are probably only about three others.

**Mr McARTHUR**—Could you, Mr Norton-Old, comment on this whole argument and give us your assessment about the advertisers not being consulted by the ABA?

**Mr Norton-Old**—Certainly our company has not been contacted to appear before the ABA. From what I understand, they simply have submissions from the proposed operators and the current operators. Vested interests and commercial opportunities will prevail, obviously.

**Mr McARTHUR**—Surely your contribution to that debate would be significant?

**Mr Norton-Old**—We would think so, definitely. It presents another view beyond the vested parties who have an interest in maintaining access to a given community. What we like is competition but we also like opportunities to reach audiences of a defined nature. More is often seen to be better, but not always, in terms of fragmentation.

**Mr McARTHUR**—Viability of these stations is important, from your point of view, because if they are not viable you will not get any advertising space, will you?

**Mr Norton-Old**—That is exactly right. Ultimately, profitable organisations are healthy organisations, generally speaking. We look for long-term opportunities with our client base.

**Mr McARTHUR**—Do you think we ought to draw to the attention of the ABA that maybe some of their judgments are not reflecting the financial viability of the extra stations in listening areas?

**Mr Norton-Old**—The determination is for the committee, ultimately. My company would certainly suggest that we would be happy to be consulted on ABA matters in the future, and I would recommend that we are.

**Mr HARDGRAVE**—Particularly on the types of stations that potentially could survive or not survive in each marketplace?

**Mr Norton-Old**—Yes.

**Mr McARTHUR**—You would have the best knowledge of that situation, would you not, as advertised on a month-by-month basis?

**Mr Norton-Old**—Definitely, yes.

**Mr McARTHUR**—You would know, in each particular listening area, how the advertising volumes are going?

**Mr Mitchell**—May I carry on from Mr Norton-Old. First, we have a wider coverage of all of Australia; second, we are in the marketplace every day and need to be aware of all of that; third, we have the opportunity to look at other media, all of which are critical to what might happen in any particular region.

**Ms LIVERMORE**—Following on from that, you said that the ABA does not routinely consult the advertising industry if a new licence is going into a market. Does the potential or prospective owner of that licence consult with you? Do they go touting their wares?

**Mr Mitchell**—I will answer first. I should say that I am fairly heavily lobbied by a few early on and they get lobbied back but, yes, we are consulted.

**Ms LIVERMORE**—The prospective owner of the licence would be working out for themselves whether or not it is going to be commercially viable.

**Mr Mitchell**—I suspect they are looking for input and help, as much as anything, and if we say it is a good idea they will probably take that argument forward.

**CHAIR**—I hate to wind this up because it has been very stimulating. In fact, in the last quarter of an hour we have probably got to the nub of what we are on about. We might call you back to Canberra. I would like to thank you all, Mr Norton-Old, Mr Mitchell and Mr Alderton; even though your statistical wizardry was called on we did not get a chance to hear from you a lot. Nevertheless, it has been a very valuable and stimulating session and has given us a better understanding of how the advertising representatives work in the market. I would like you to come back to us, Mr Mitchell, and could you too, Mr Norton-Old. I will have similar statistics that you could give us. If you would like to source those generically from your association, I do not particularly mind, but we would like to get a feel for it. All three of you will receive a copy of the *Hansard* draft of today's proceedings.

Resolved (on motion by **Mr Neville**, seconded by **Mr Hardgrave**):

That this committee authorises the broadcasting of this public hearing and the publication of evidence given before it this day.

**Committee adjourned at 10.48 a.m.**