

Then... Now

PRIVATE RADIO'S  
CHANGING REALITIES

D'hier... à aujourd'hui

RADIOS PRIVÉES  
PAYSAGE EN MUTATION

# CRTC Review of the Commercial Radio Policy

## CAB Presentation to the Public Hearing

May 15, 2006



Check against delivery

**CAB ORAL PRESENTATION**

**[Glenn O'Farrell]**

Good Morning, Mr. Chairman and members of the Commission. My name is Glenn O'Farrell, President and CEO of the Canadian Association of Broadcasters. The CAB is pleased to appear before you today to talk about the future of radio broadcasting and the regulatory conditions to ensure its continued vitality and significant role in local communities across Canada.

I have the privilege of appearing before you today with a group consisting of some of the most talented and capable radio executives and programmers in Canada. This group of radio broadcasters is representative of the women and men who work in the 600 and more private radio stations across the country - operating in small, mid-size and large markets - all of whom are dedicated and passionate about the work they do every day and the future of local private radio in Canada. On behalf of Canada's private radio broadcasters, we appreciate the opportunity to be the first to appear before you as you commence the important work of this proceeding.

First, I would like to introduce the members of our panel:

In the first row from my left:

- **Rob Braide** – Chair, CAB Board of Directors, Vice-President & General Manager CJAD/Mix96/CHOM-FM (Standard Radio)
- **Rael Merson** – Chair, CAB Radio Board, President & CEO, Rogers Broadcasting Limited
- **Jacques Parisien** – Président du Comité de stratégie radio, marché francophone de l'ACR, et Président d'Astral Média Radio

**CAB ORAL PRESENTATION**

- **Lilianne Randall** – Membre du comité des questions musicales de l'ACR et Directrice musicale, Réseau Rythme FM, Cogeco

In the second row, from the left:

- **Sarah Crawford** – Chair, CAB Diversity in Radio Working Group, and Vice-President Public Affairs, CHUM Limited
- **Elmer Hildebrand** – Radio Strategy Committee member and President & CEO Golden West Broadcasting
- **Mark Maheu** – Member of the CAB Radio Board and Executive Vice-President & COO, NewCap Radio
- **Pierre-Louis Smith** – Vice-President, Radio, CAB
- **Susan Wheeler** – Senior Director, Policy & Regulatory Affairs, CAB

In the third row, we have our panel of experts

- **Ken Goldstein** – President, Communications Management Inc. is the CAB's Economic Trend Expert
- **Pat Grierson** – President, Canadian Broadcast Sales and an expert in Advertising Trends
- **Wayne Stacey** – President, Wayne Stacey & Associates Ltd., the CAB's Technical Advisor and a leading expert on digital radio

We will keep our opening remarks brief and focus on three areas of discussion:

- 1) The need to adopt the closed market regulatory model to an open market model;
- 2) The CAB's transitional regulatory proposals regarding music exhibition and Canadian Talent Development focused on emerging Canadian artists; and

**CAB ORAL PRESENTATION**

- 3) The CAB's recommendation to measure the impact of its proposals and monitor the first phase of the transition.

***1. Closed to Open***

First, we must preface our comments by suggesting that to move forward we need to share a common assumption: The radio market is now an open system.

The written brief we submitted on March 15<sup>th</sup> is entitled "Then... Now". The title was inspired by a very clear sense of the starting point for this discussion. As is demonstrated in the slide, digital technology has changed everything: for content creators, distributors, consumers and regulators. There's no turning back. And as a result, we no longer have a single and regulated system of radio services, delivered over the public airwaves and free of charge to Canadians.

Instead, we have both a regulated system developed over the past 80 years, and a largely unregulated, parallel system of new delivery options for audio content. The key point in all of this is that CRTC licensing and regulation no longer serve as the single and exclusive point of control of market entry for content providers seeking to offer service to Canadians in the audio space once occupied only by licensed radio services. That was "Then" and this is "Now".

So where do we go from here? The way forward is one that will require managing a transition – a transition to be largely defined by even more change than we have already seen. As a case in point, two years ago how many of us here today were users, or better yet, had even heard about the iPod? Yet within approximately 24 months, the iPod has become the dominant force in the consumer electronics audio space.

**CAB ORAL PRESENTATION**

Who among us here today can predict what will dominate that same consumer audio space 24 months from now? How will all the new digital technologies impact Canadian private radio? These are not easy questions. Yet, radio broadcasters represented by the CAB, while concerned by the transition challenges that lie ahead, are equally passionate about the future of private radio in Canada, and have demonstrated they are committed to making the necessary investments in technology, marketing and talent to keep re-inventing their businesses.

**[Rael Merson]**

The Commercial Private Radio data recently released by the CRTC covering 2001-2005, present an overall positive financial picture of private radio in Canada. In 2005, the private radio industry in Canada achieved healthy financial returns, reporting aggregate increased profitability for the sector. These are significant results that clearly strengthen the industry's financial position to absorb the economic impact of the unregulated content providers who are entering the market in growing numbers.

However, if you take a closer look and drill down into radio's revenue numbers, you will find that the industry, as a whole, is as the boxing expression goes, "punching above its weight". While the industry has seen year over year revenue increases, since 1998, audience numbers reveal a very disturbing and steady year over year decrease in tuning to radio across all demographic segments. The decrease in tuning is greatest in the youth market.

## CAB ORAL PRESENTATION

More recent tuning statistics indicate that the decline in radio usage is both entrenched and accelerating, as the slide demonstrates. The word of caution on point is that overall radio revenue and profitability appear untouched by tuning declines; revenues and profitability on a per station basis are now showing signs of decline.

When taken in isolation, the situation in the French radio market may serve as an advance warning of what might happen across the radio sector as technologies multiply new unregulated audio content choices for the Canadian consumer.

### **[Jacques Parisien]**

Dans ce contexte, l'expérience du secteur de la radio privée de langue française pourrait très bien s'avérer un signe avant-coureur des défis auxquels l'ensemble de l'industrie radiophonique sera confrontée en raison de la révolution technologique.

Le BAI des stations de langue française s'explique en partie du fait que les stations de langue française exploitées dans les marchés bilingues de Montréal et d'Ottawa/Gatineau doivent partager avec les stations de langue anglaise, l'attention des auditeurs francophones. Dans ces marchés dits bilingues, mais considérés comme distincts aux yeux de la réglementation des contenus musicaux, le consommateur peut librement écouter la radio de son choix peu importe la langue de diffusion de celle-ci.

Or, les marchés de Montréal et de Gatineau représentent à eux seuls 50 % de la population du Québec. Par comparaison, c'est comme si les stations de radio des 10 plus grandes agglomérations du Canada anglais, comme Toronto, Vancouver, Calgary, Edmonton ou Winnipeg se retrouvaient du jour au lendemain dans la situation de

## CAB ORAL PRESENTATION

Windsor, où le consommateur peut choisir à son gré d'écouter les stations locales ou les stations de Détroit.

Confrontée à cette réalité, la radio privée de langue française a choisi d'adopter de plus en plus des stratégies axées sur le développement de contenus radiophoniques exclusifs. Pour assurer le succès de cette approche de différenciation entreprise au cours des dernières années, la radio privée de langue française a dû et doit encore dépenser une part nettement plus élevée de ses revenus en coûts de programmation que ne le fait la radio de langue anglaise.

Le rendement financier nettement moins reluisant du secteur de la radio francophone se résume donc en bonne partie par :

- la perte de revenus potentiels découlant du transfert de l'écoute non monnayable d'une partie importante de l'auditoire francophone vers les stations musicales anglophones; et
- la nécessité d'investir davantage dans les émissions de contenus exclusifs à prédominance verbale pour se démarquer les unes des autres et mieux résister à l'attrait que représentent pour le public francophone les stations musicales de langue anglaise.

Pour le moment, ce phénomène est dans une large mesure limité au secteur francophone de l'industrie. Toutefois, il ne faudra pas se surprendre si, à mesure que la révolution technologique prendra assise auprès des consommateurs, modifiant en profondeur leurs habitudes d'écoute, que le rendement financier observé dans le secteur francophone s'étende à l'ensemble de la radio privée canadienne.

**CAB ORAL PRESENTATION****[Rob Braide]**

The bottom line in all of this is that the going forward model for an open market system needs to be focused on a multiple phase transition. In what we consider to be the first phase, we propose to maintain the fundamental principle of regulation with only modest amendments.

***2. Transitional Regulatory Proposals for Music Exhibition and Canadian Talent Development***

Our second point for this morning's comments relates to complementary transitional regulatory proposals for music exhibition and Canadian talent development. In short, these proposals are designed to increase the exposure of emerging Canadian artists through a combination of incentive for airplay and directing radio's CTD contributions to marketing and promotion assistance.

Canadian private radio has a unique relationship with Canadian music in that it has the highest music exhibition quotas in the world, and is required by regulation – unlike any other jurisdiction – to directly subsidize the domestic music industry. As you see, since 1998 private radio has committed over \$168 million to Canadian talent development initiatives of which 60% is directed towards national funding agencies in the French and English markets. Specifically, private radio's contribution to national funding agencies went from \$1.4M in 1998 to \$16.1M in 2005. This represents a staggering increase of 1170%.

Put another way, if you combine the copyright payments and CTD funding, private radio's contributions to the music industry went from \$24M in 1995 to more than \$85M in 2005.

**CAB ORAL PRESENTATION**

It is clear that the Commission's 1998 policy yielded many positive results for both the radio and music industries including historic contributions to CTD.

The Commission's 1998 policy also called for the creation of a Canadian music marketing and promotion fund to support co-operative activities by broadcasters and the music industry in marketing and promoting Canadian music which by all accounts has produced tremendous success. There is no doubt that in a very short period of time, both the Radio Starmaker Fund and Fond Radiostar have had a significant impact on the careers of Canadian artists. These commercial funds have cemented a place in the larger funding environment by providing touring and marketing assistance of critical importance at key stages in artist development.

However, the Commission's decision in 1998 to increase Canadian content levels from 30 to 35% and require 55% of French Vocal music in day parts may not have produced some of the desired outcomes. For instance, we did not see any marked increase in Canadian music sales, which have remained stable at 16% since 1998, and that's unfortunate.

Radio's ability to respond to listeners' demands has never been more important given its new reality of unprecedented competition from a variety of audio content platforms. The CAB's bonus system is aimed at increasing the exposure of emerging Canadian artists who, according to the Commission's analysis, do not materially benefit under a traditional quota system.

## CAB ORAL PRESENTATION

We propose to do this by providing programmers with an incentive to play new and unfamiliar tracks by emerging artists, both in day and evening parts, which we believe will significantly increase the exposure of these artists to a greater number of listeners. Unlike the quota system, programmers will be engaged in actively seeking out and fostering new talent in a manner that responds to the demands of their listeners and is conducive to their market and the supply of Canadian music available for their format.

**[Lilianne Randall]**

### **Musique francophone**

Dans la période de transition que nous traversons, ce qu'il faut pour atteindre les objectifs politiques du Conseil, c'est régler *plus efficacement*.

Notre proposition à l'égard du contenu canadien et de la musique vocale de langue française reflète avant tout notre engagement à respecter les quotas actuels de diffusion, sans oublier toutefois que la radio est en concurrence directe avec d'autres modes de distribution de contenu musical qui ne sont assujettis à aucun.

Dans ce contexte, il nous faut tenir compte davantage de la plus grande liberté de choix du consommateur.

Au fil des ans la radio privée francophone a accru de façon remarquable la présence de la chanson québécoise et canadienne à l'antenne. À tel point qu'aujourd'hui, la chanson d'ici occupe en moyenne plus de 80 % de la musique francophone diffusée par la radio privée de langue française et presque la totalité (95 %) de toutes les nouveautés francophones présentées sur ses ondes.

## CAB ORAL PRESENTATION

Par contre, le consommateur québécois nous dit également que lorsqu'il a le choix entre écouter de la musique francophone ou anglophone, il a une préférence nettement plus marquée pour les chansons de langue anglaise que pour celles de langue française. Les résultats d'un sondage réalisé en juillet 2005 par la firme Decima pour le compte du ministère du Patrimoine canadien le confirment.

Les Québécois sondés par Decima ont indiqué consacrer 36% de leur temps d'écoute à la musique de langue française, 45% à l'écoute de la musique de langue anglaise, 13% à la musique instrumentale, et seulement 7% à la musique en langues étrangères.

C'est donc dire que le quota de musique vocale de langue française imposée à la radio privée de langue française est à toute fin pratique deux fois plus élevé que le niveau d'intérêt du consommateur québécois à l'égard de la chanson d'expression française.

Dans ce contexte, pour accroître la diversité musicale à l'antenne, l'ACR propose un système de primes dont le but est de favoriser la diffusion des artistes canadiens de la relève en offrant aux programmeurs des incitatifs pour compenser les risques associés à la diffusion des chansons d'artistes peu ou pas connus du public.

Dans le marché francophone, le système de primes aurait pour résultats de :

- faire plus de place aux nouvelles pièces musicales et aux artistes de la relève;
- donner la chance aux stations de radio de langue française de se démarquer les unes des autres par leur contenu musical; et

## CAB ORAL PRESENTATION

- permettre à la radio de langue française de mieux résister à la concurrence des stations de langue anglaise et des nouveaux modes de distribution du contenu musical, tout en continuant d'assumer un rôle majeur dans l'enrichissement de l'expression culturelle francophone.

### **[Rob Braide]**

In the English market the CAB believes this incentive system will encourage music programmers to:

- Take risks by playing more emerging artists;
- Move off gold or recurrent tracks sooner thereby reducing artist burn; and
- Increase the effectiveness of exhibition quotas by focusing on quality – who is getting played - over quantity.

Preliminary testing done by select stations of various formats in different markets indicate that a modest application of the bonus system, adding one single every other hour between 6am and 6pm, would result in approximately 6 more spins a day for emerging artists or an additional 30 spins a week.

We believe radio can maximize the impact of its exhibition quotas and CTD requirements by providing increased exposure to emerging artists on air while at the same time focusing funding on marketing and touring initiatives that assist artists in promoting their first or second albums.

## CAB ORAL PRESENTATION

For these reasons we've proposed consolidating radio's CTD funding into commercial funds aimed exclusively at marketing, touring and promotion activities which have proven to be of direct benefit to Canadian artists in establishing and furthering their careers.

It is our hope that when harmonized, radio's commitment to Canadian content, French Vocal music and CTD will foster more music that responds to listener demands and allows radio to leverage its promotional strength in support of Canadian artists.

That leads us to the third point of our presentation; a recommendation to measure the impact of our proposals and monitor the transition to an open market.

**[Rael Merson]**

### ***3. Measure the Impact of Our Proposals and Monitor Transition to Open Market***

Given the rapid pace of change in the audio landscape, the CAB believes it makes more sense to review policies of this significance in cycles that are shorter than seven years. We also believe it no longer makes sense for this responsibility to fall exclusively on the regulator.

As a first step, the CAB commits to filing a report three years from today, May 15<sup>th</sup> 2009, that measures the impact of its proposals on 1) increasing the amount of airplay dedicated to emerging artists and 2) the effectiveness of its funding in supporting Canadian talent development.

## CAB ORAL PRESENTATION

Why three years? We believe that at that time programmers will have had enough experience with the bonus system to consider and evaluate its application in the French and English markets and suggest changes that might be required to increase its effectiveness and impact on emerging Canadian artists.

We believe a report of this nature will also provide an opportunity for all interested stakeholders – CRTC, Canadian Heritage, SODEC, and the music industry – to engage in an open dialogue on the level and effectiveness of radio's CTD commitments. This discussion will be of critical importance since radio and other interested parties will have the benefit of certain facts that at this time can only be left to conjecture including:

- The total level of CTD funding from additional sources including contributions from subscription radio services, new licences, transactional benefits, and federal and provincial funding;
- The health of commercial radio sector; and
- The impact of changes to funding structures resulting from introduction of new programs like the MEC.

Armed with this information, private radio will be in a better position to consider its future commitments to Canadian talent development based on its evaluation of the effectiveness of its funding to date, the demonstrable demand for music initiatives and ensuring its competitive equity with the unregulated sector.

**CAB ORAL PRESENTATION**

We also note that in order for radio to properly evaluate the effectiveness its CTD funding, it is absolutely imperative that all funding mechanisms provide publicly available, detailed and accurate information on a per project basis that ensures maximum transparency and accountability.

We strongly believe that our proposed reporting exercise would be a positive step to ensuring regulation keeps pace with changing market realities and is consistent with the Commission's intention to regularly monitor and review its policies as provided for in its 3 year work plan under "compliance, research and monitoring".

**[Glenn O'Farrell]**

**Conclusion**

There is no doubt that private radio has a good story. However, over the course of its 80 year history, radio has faced many challenges, through both boom and bust economic cycles. In fact, at various times, radio has been written off as an obvious casualty of changing circumstances in the media landscape. Meanwhile, the regulated environment of radio has prospered at certain times and not at others. That was "Then". We respectfully suggest the fundamental difference we "Now" must recognize is that the cornerstone assumption of the environment that brought us this far – controlled market entry – will no longer regulate the audio services space as it has for all these years. And that changes everything.

However, we cannot state with unassailable certainty how quickly the landscape will change in reflecting the reality of an open market as opposed to a controlled market. What is certain is that it will change, profoundly, and the evidence of impact is mounting, rapidly.

**CAB ORAL PRESENTATION**

Our position before you today can perhaps be summarized as follows: A financially healthy radio industry, supported by good public policy since the last radio review, is positioned to face these new challenges and continue to serve the cultural and social policy objectives this Commission is entrusted to uphold. We have not proposed wholesale change to radio regulation. We have instead submitted proposals to maintain the principles of Canadian music exhibition requirements and Canadian Talent Development contributions, in addition to reconfirming the radio sector's commitment to the broad regulatory contract with government, notwithstanding the technological undoing of its cornerstone assumption - controlled market entry. And given the changing circumstances in the environment, we propose to assess and monitor the impact of our proposals in three years from today, against the backdrop of hopefully, a clearer understanding of the appropriate regulatory directions for private radio.

Mr. Chairman and members of the Commission, this completes our presentation and we welcome your questions.