Communic@tions Management Inc.

The crisis in Canadian media and the future of local broadcasting

Prepared for the Canadian Association of Broadcasters

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- A combination of long-term trends and the economic shock of the COVID-19 pandemic could lead to an advertising revenue shortfall exceeding $1 billion for Canada's local private broadcasters, between 2020 and 2022
- By 2025, many markets could be without local print newspapers, leaving private local broadcasters as the main providers of local news – but those local broadcasters (radio and television) also face economic challenges
- For much of the 20th Century, media benefited from scarcity, and the ability to internally cross-subsidize, to support non-profitable parts of the media "bundle"
- The Internet has disrupted that long-standing media model
- In the 21st Century, the media "market" has changed, and consumers choose from content in a relevant market that includes far more than just local or national broadcasters
- One result of that increased competition is that traditional advertising-based media no longer grow in tandem with general economic indicators – a "danger signal" for the future of those media
- Local journalism is challenged because it can no longer benefit from internal cross-subsidies to the same degree as in the past
- The impact of the COVID-19 pandemic on broadcasting has been severe and abrupt, and has accelerated negative trends that were already in place

II. Private radio

- In 2019, Canadian private radio accounted for just over 50 per cent of the relevant audio market in Canada
- Market shares of broadcasters are much lower in the total audio market than they are in the private radio market only
- Canadian radio advertising has been declining in recent years

- Radio advertising as a function of retail trade was relatively constant from 1993 to 2012, but has declined significantly since 2013

- The number of employees in private radio has declined since 2011, but broadcasters have endeavoured to limit declines in programming functions

- Stations under group ownership were able to use technology to share administrative costs, in order to limit reductions in programming

- Although private radio overall had a positive PBIT percentage (profit before interest and taxes, as a percentage of total operating revenue), <u>40 per cent of Canada's private radio stations had negative PBIT percentages in 2019</u>

- The projected advertising revenue for Canadian private radio in 2020 is expected to be $383 million lower than it was in 2019

- The projection for 2020 is that more than 50 per cent of stations will have negative PBIT – 396 out of 737 stations

- As many as half of those 396 stations might be at risk of closure – 50 in the next four to six months, and then 100-150 more in the next six to 18 months

- The most vulnerable are AM stations, independent stations in smaller markets, and some money-losing stations within groups, for which profits in some stations will no longer be able to compensate for losses in others

- Staff reductions and/or station closures could have a serious negative impact on the ability to sustain current levels of local radio news and community information

III. Private conventional television

- Private conventional television advertising revenue in Canada declined in six of the eight years after 2011

- According to Statistics Canada, between 2015 and 2019, private conventional television had a cumulative negative PBIT of -$681 million

- The growth rate for private conventional television advertising in Canada fell below the growth rate for Gross Domestic Product in 2000; the growth rate for all television advertising on Canadian services fell below the growth rate for GDP in 2011

- The total number of employees in private conventional television fell from 8,307 in 2006 to 4,779 in 2019

- As was the case with radio, stations under group ownership were able to use technology to share administrative costs, in order to limit reductions in programming

- According to Statistics Canada, 70 per cent of private conventional TV reporting units had negative PBIT in 2019

- The projected advertising revenue for private conventional television in 2020 is expected to be $276 million lower than the actual results for 2019

- The percentage of stations with negative PBIT could grow from 70 per cent in 2019 to over 80 per cent in 2020

- Almost half of the stations could be at risk of closure in the next 12 to 36 months – perhaps more than 40 stations – depending on licence conditions and the timing of licence renewals

- The most likely closures will take place in single-station smaller markets in Western Canada, Atlantic Canada, and Ontario

- Reductions could also occur in larger markets; for example, a four-station market could become a three-station market

- In the case of station groups, profitable operating units, either within private conventional TV, or in adjacent services (e.g., discretionary) might not be sufficiently profitable to cover continuing losses

- Private conventional television is a major spender on local news for Canadians, and the main viewing choice for news by Canadians; the ability to maintain that local news is challenged by both the short-term and long-term economic trends

IV. The shock to the system

- The COVID-19 pandemic has led to severe reductions in advertising revenue

- For April-June 2020, private radio experienced a 63.5 per cent drop in advertising revenue, compared with the same months in the previous year

- For April-June 2020, private conventional television experienced a 43.8 per cent drop in advertising revenue, compared with the same months in the previous year

- While emergency assistance programs have helped, such programs appear to cover only part of the revenue losses noted above

- Looking at the current and next two broadcast fiscal years (2020-2022), the projected cumulative advertising revenue losses for Canada's local private broadcasters could total $1.06 billion

V. What comes next?

We have set out a very brief outline that describes immediate measures needed to sustain the industry, and also noted the need for a holistic review of the future of media in Canada.

Canadian media in crisis

Canada's traditional media industries are in crisis.

A combination of long-term trends and the economic shock of the COVID-19 pandemic could lead to an advertising revenue shortfall exceeding $1 billion for Canada's local private broadcasters, between 2020 and 2022.

And one of the most serious consequences could be a reduction in the resources available for local journalism – the stories of our communities, the scrutiny of our institutions, and an important ingredient in the functioning of our local, provincial and national democracies.

The crisis has affected both print and broadcast media, and the economic impact of the COVD-19 pandemic has accelerated previous, longer-term, negative trends.

This report has been prepared to help place those trends into context, with a focus on local broadcast media. It deals with those longer-term trends, and also quantifies the most recent data for the size and structure of the broader markets within which Canadian broadcast media now operate.

Understanding trends, measuring markets

This report starts with a general outline of the macro-economic trends affecting media – and local media in particular – and then focuses on providing accurate measurements of the full extent of the competition faced by Canadian broadcasters.

Those measurements are important, for at least two main reasons:

1. First, they help us create benchmarks against which we can assess any short-term assistance measures proposed in response to the pandemic; and

2. Second, they help us to better understand the actual position of Canadian industries (such as private radio or private conventional television) and organizations within the rapidly-expanding number of choices from which Canadian consumers now access information and entertainment.

In other words, an accurate measurement of markets and market shares can be a valuable tool in informing public policy. As will be documented below, something that might seem to be a "large" market share if viewed only within the Canadian-owned component of a market might actually have a very modest share of the total relevant market as defined by Canadian consumers.

Sources and methodology

The main sources of data in this report are Statistics Canada and the CRTC, along with industry tracking data.[1] In addition to published data, we have been able to access a number of custom tabulations from Statistics Canada, which provide additional insights into the operational results for local broadcasting.

Where projections have been used, they have been based on recent trends within each industry sector, and benchmarked to broader indicators like retail trade and Gross Domestic Product (GDP).

Media in the 20th Century: Scarcity, bundling, and cross-subsidies

For most of the 20th Century, media were intermediaries based on scarcity, which led to their development as “bundled” products. Newspapers, for example, were a product that bundled news, opinion, entertainment, display advertising and classified advertising – and a product that was able to use profitable parts of the bundle to internally cross-subsidize unprofitable parts of the bundle.

Newspapers also had a “gatekeeper” function – they contained news from other places that was not easily-available to their local audiences.

But the Internet changed that:

1. It offered far more competition for consumers’ time and attention, thereby reducing the time and attention paid to traditional media; and

2. It made it possible to strip out profitable parts of the bundle and offer those parts in competition with local media. An early example is classified advertising, as online-only services like Craigslist and Kijiji were able to strip those revenues away from newspapers.[2]

When conventional (over-the-air) television first started, the local television station had the benefit of its own type of bundling. All genres of programming flowed to consumers through those local stations – news, entertainment, sports, etc. – and the profits from some genres helped to subsidize losses on other genres.

In the case of Canadian private conventional television in particular, for many years, part of the underlying business model was to use the margins earned on broadcasting U.S. programs to help to subsidize the revenue shortfall in Canadian programming, which has become much more difficult with the recent rapid growth of Internet-delivered “over-the-top” (OTT) alternatives.

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[1] Please note that economic data for broadcasters are for years ending August 31st.

[2] The combined classified advertising revenue of Canadian daily newspapers was $875 million in 2005. By 2018, that had been reduced to only $77 million – a decline of over 90 per cent, which was also greater than the decline in circulation over the same period. (Source: Classified revenue data from ThinkTV; circulation analysis from Communications Management Inc.)

Private radio is also subject to increasing competition from online alternatives, both in terms of programming choices and targeted advertising. Moreover, there are serious warning signs contained within the data for radio's economic performance.

Media in the 21st Century: The "market" has changed

In addition to altering the ability of media to cross-subsidize, technology has also changed the definition of a media "market".

For most of the 20th Century, consumers generally purchased, read, listened and watched media located in their local market, even for content that originated elsewhere. Some media (e.g., magazines) were national in nature, and there was some consumption of cross-border or international media.

For the most part, however, the definition of the media "market" was relatively straightforward, as was the calculation of market shares.

That is no longer the case. Any market definition today must include digitally-delivered competing print, audio and video media that originate elsewhere, but take time, attention, and dollars away from our traditional local and national media.

Thus, our definition of media market economics must evolve to take that into account, with proper parameters for defining what is called the "relevant market". According to the European Union:

> A relevant product market comprises all those products and/or services which are regarded as interchangeable or substitutable by the consumer, by reason of the products' characteristics, their prices and their intended use.[3]

In other words, the consumer is at the centre of this definition.

When we count all of the competing sources used by Canadian consumers, we find that the relevant market is much larger than just Canadian media. As a result, the nature of the market itself has changed, and the market shares for Canadian media companies are much lower than they would be if those non-Canadian media were not part of the market.[4]

As will be indicated below, in the total relevant market for television/video in 2019, the entire Canadian private conventional television industry only had a 13.2 per cent share of the total relevant market.[5]

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[3] *Official Journal of the European Communities*, "Commission Notice on the definition of relevant market for the purposes of Community competition law" (97/C 372/03), 9 December 1997 [accessed online at http://eur-lex.europa.eu].

[4] That change also challenges many of the regulatory tools that originated in the context of a different economic structure.

[5] In its 2017 *Communications Monitoring Report*, on page 152, the CRTC included a useful diagram indicating the greatly-expanded number of sources of content in the television/video market.

Competition for advertising has also intensified

In addition to an expanded number of competitors for Canadians' time and attention within audio or video markets, those markets are also facing increased competition for advertising dollars from other media, particularly from digital alternatives, many of which are not based in Canada.

The relationship between internal cross-subsidies and market structure

The role of internal cross-subsidies in the traditional media business is reflected in both the functions of an individual operating unit, and also in the joining together of a number of operating units into groups.

As long as individual operating units had the benefit of internal cross-subsidization, it was possible to combine profit and public service, with a net positive result.

When new technologies changed the balance between revenues and costs within individual operations, one of the responses was consolidation, which allowed sharing of a number of common expenses as a way of reducing administration costs, with less of an impact on content-related costs.

The data in subsequent sections will demonstrate how, in the face of declining revenues, both Canadian private radio and private conventional television have, in fact, reduced administrative functions more sharply than reductions in programming.

But, as the data also indicate, we appear to be approaching the point at which the profits in some functions or units will no longer be sufficient to compensate for the increasing losses in other functions or units, and the balance could shift toward unacceptably-low profit margins or even permanent losses.

The relationship between media advertising and broader economic indicators

As one tracks the economic performance of traditional media, one finds changes in the long-standing links between broader economic indicators and advertising on those media. Private radio, for example, used to have a fairly consistent relationship with retail trade, but that is no longer the case.

And the altering of that relationship is both a reflection of the growth of competing online digital alternatives, and a danger signal for future advertising expectations.

The challenge for local journalism

While the trends described above obviously have broader business implications, they should be a major concern for public policy because of the potential impact on local journalism.

In other words, the reduction in media's ability to cross-subsidize creates a significant economic challenge to their ability to maintain local journalism.

A small number of national or international, general and/or special interest, media may still be able to aggregate audiences across wider territories for their content or opinion, but they do not answer some fundamental local questions: Who will cover the Legislature? Who will cover City Hall? Who will cover the School Board?

In local communities across Canada, those questions now take on added urgency, particularly with the accelerated negative results for newspapers. We could be five years or less away from a situation in which many local communities will be depending primarily on local broadcasting for local coverage, in the absence of a printed local newspaper.

The impact of the COVID-19 pandemic

Clearly, these questions now have become more urgent because of the COVID-19 pandemic. But it is necessary to understand two important points:

1. The pandemic did not cause many of the current problems; it accelerated the negative trends that were already in place.

2. When the pandemic ends, it is unrealistic to expect traditional media to immediately jump back to the pre-pandemic economic levels.

There has been much speculation in the last few months about the "shape" of the economic recovery. Will it be a "V" (a rebound from the low point, back to the previous level) or a "U" (a slower and longer process)? As will be indicated below, it appears that the most likely pattern for the revenue of Canadian private radio and private conventional television will resemble "a V with an incomplete rebound". In other words, some of the revenue will come back, but not all of it.

The severity of the pandemic shock cannot be overstated. Since March, private local broadcasters in Canada have experienced severe monthly declines in revenue, with assistance programs likely able to replace only part of those losses.

The focus of this report

The focus of this report is mainly on two components of the Canadian broadcasting industry – private radio and private conventional television – because those two components:

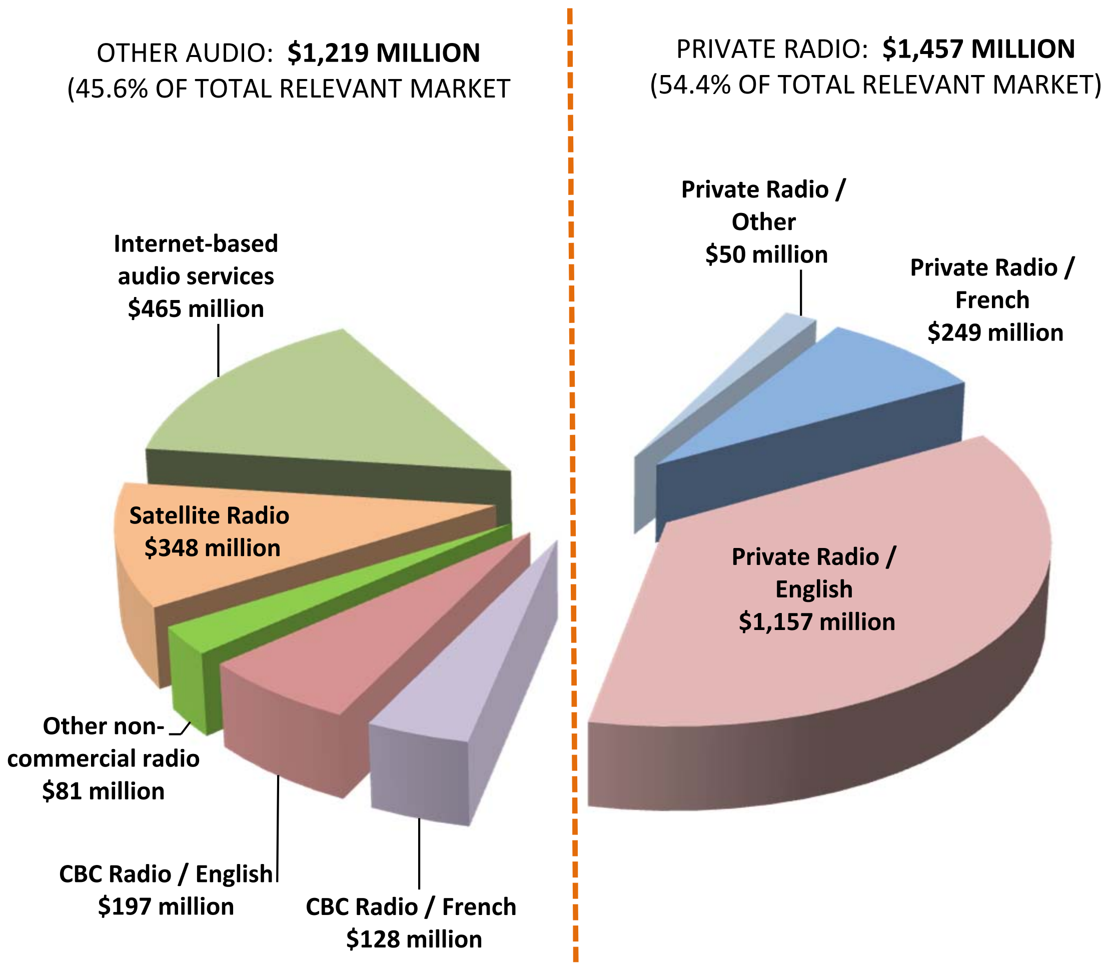
- Are the main broadcast vehicles for local news in Canada;
- Rely almost totally on advertising for their revenue;
- Were already facing downturns in revenue and/or profitability; and
- Are likely to have the most urgent need for assistance.

The Canadian audio market in 2019

In Figure 1, we have summarized the main components that made up the Canadian audio market in 2019.

Figure 1.
The Canadian audio market in 2019:

[TOTAL RELEVANT MARKET: **$2,676 MILLION**]



MARKET SHARE CALCULATION FOR FIVE LARGEST PRIVATE RADIO GROUPS (TOTAL REVENUE: $930 MILLION):

AS % OF PRIVATE RADIO	64%
AS % OF TOTAL RELEVANT MARKET	35%

SOURCE: CRTC; Statistics Canada; Communications Management Inc.

As indicated in Figure 1, the total Canadian revenue for those components in 2019 was about $2.7 billion, with Canadian private radio accounting for just over half that total – a reduction from its pre-Internet share of the audio market.[6]

Figure 1 also allows us to refine the calculation of the market share held by a specific group or organization. If one were to total the 2019 revenues of the five largest private radio groups in Canada, their combined market share of just the private radio component would be 64 per cent. However, if the market share is calculated using the entire relevant market as the base, their combined market share would only be 35 per cent – a much more realistic assessment of their actual competitive position.

Trends and projections for the Canadian private radio market

In Figure 2, we have tracked private radio's total revenue, total advertising sales, and profit before interest and taxes (PBIT), from 1999 to 2019.[7]

As can be seen in Figure 2, with the exception of a cyclical dip due to the 2008-2009 economic downturn, private radio revenues in Canada grew in most years from 1999 to 2013. However, those revenues began to decline in 2014, and were almost $160 million lower in 2019 than they were in 2014.

In Figures 3 and 4, we present data for the number of private radio stations in Canada over the same time period, and for the average revenue per station. The number of private radio stations grew from 493 in 1999 to 737 in 2019. As indicated in Figure 4, the average revenue per station was approximately the same in 2019 as it was in 1999 – about $1.98 million.

Because of the local nature of the medium, radio advertising has historically been linked to retail trade. The linkage can be expressed as radio advertising revenues per $1,000 of retail trade. As indicated in Figure 5, those linkages stayed within relatively narrow ranges from 1979-1992 (about $4.00 per $1,000), and from 1993-2012 (about $3.50 per $1,000). However, the linkage fell sharply after 2012, from $3.31 per $1,000 in 2013 to $2.33 per $1,000 in 2019.

That change helps to explain the revenue decline over the same time period, and is an indicator of a) the changing structure of the retail market; and b) the increase in the number of competitors for local advertising, particularly from online digital alternatives.

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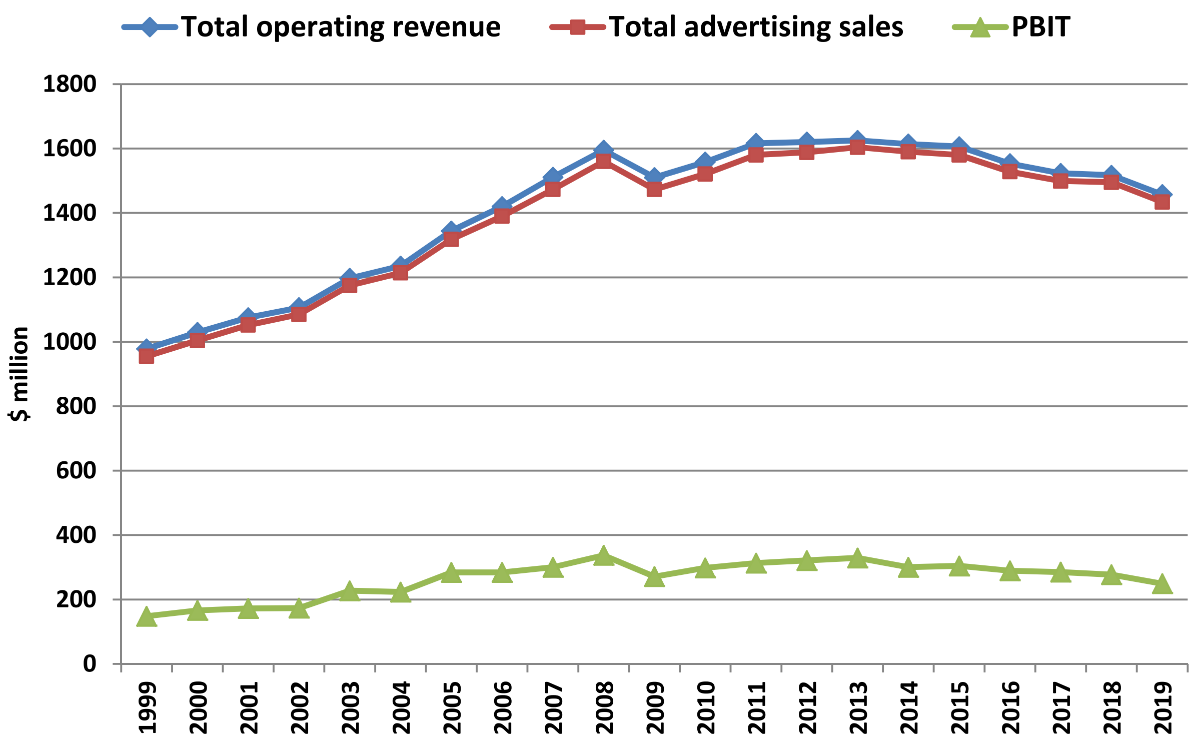
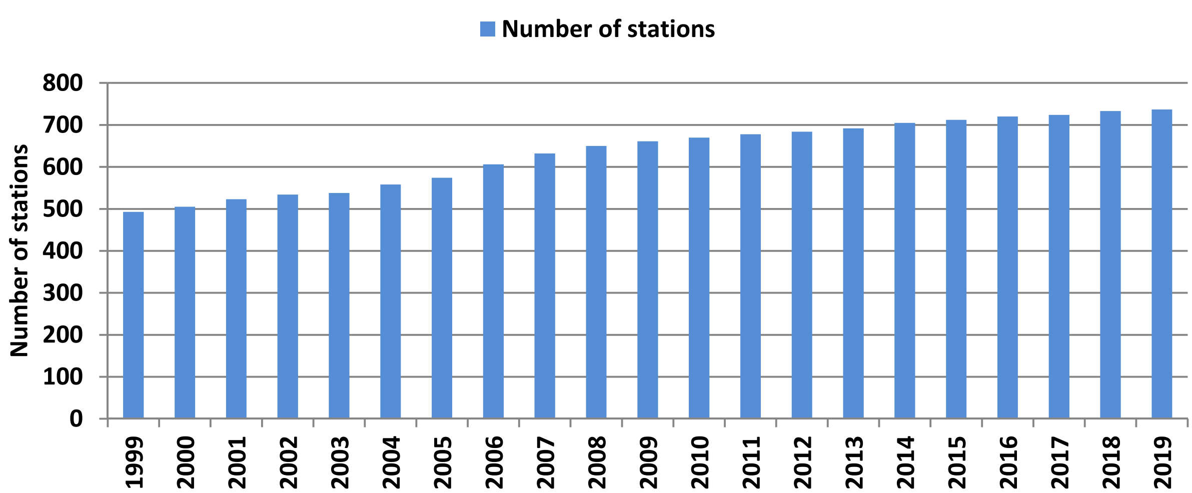
[6] We have developed estimates for the main components in the relevant market. It should be noted that there may be some smaller components that have not been included. For example, although declining, there were still some sales of physical recorded music in 2019. Thus, the estimate for the size of the total relevant market might be slightly understated.
[7] Please note that the data on private radio in this section are based on data from Statistics Canada. The CRTC also produces data for private radio, and the broad trends in data from the two sources are similar.

Figure 2.
Private radio – trends in total operating revenue, total advertising sales, and PBIT, Canada, 1999-2019:



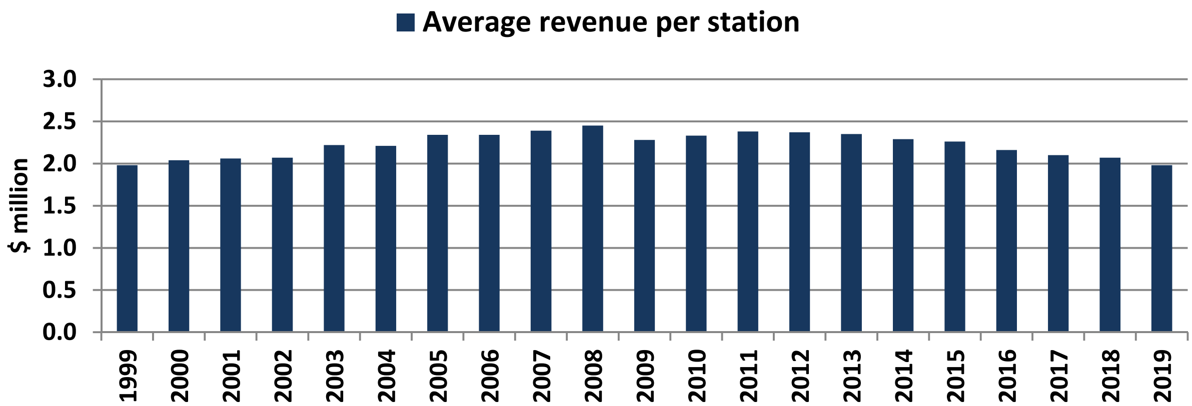
SOURCE: Statistics Canada.

Figure 3.
Number of private radio stations, Canada, 1999-2019:



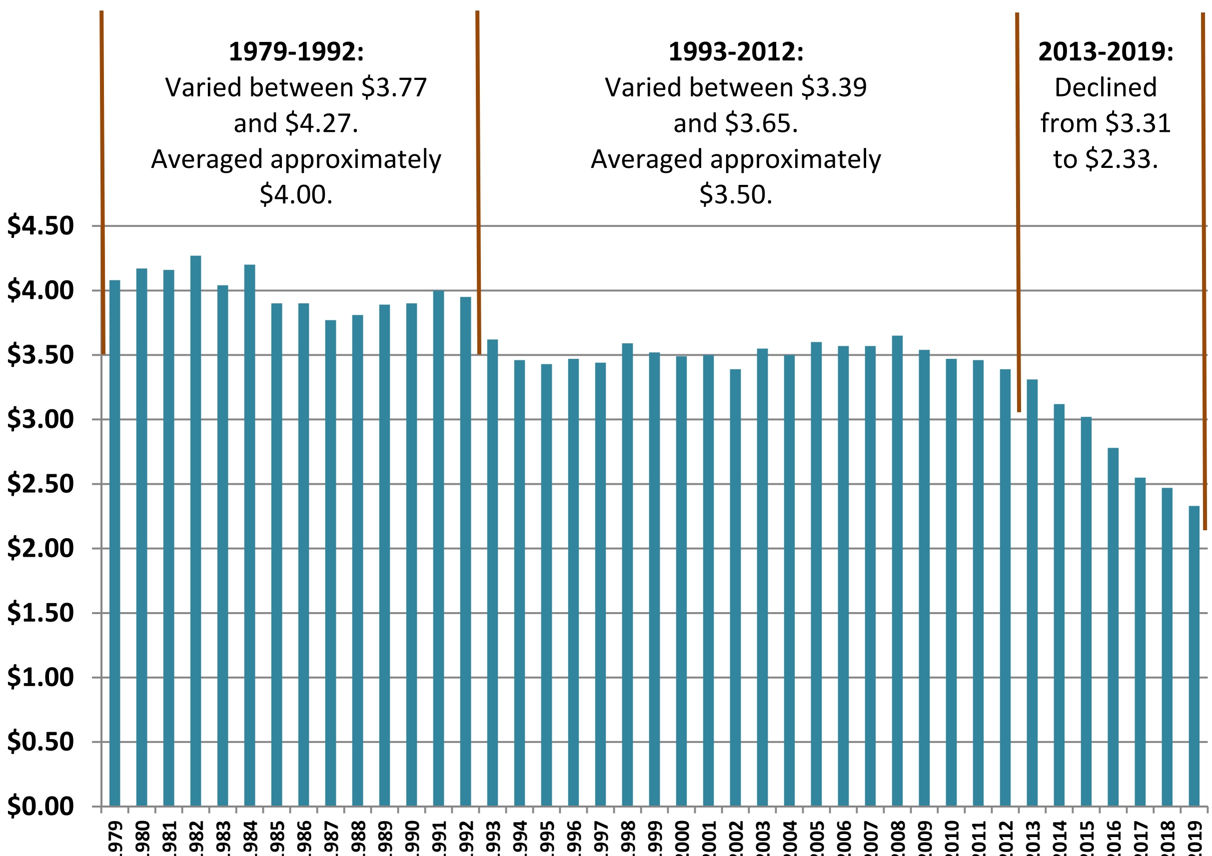
SOURCE: Statistics Canada.

Figure 4.
Average revenue per private radio station, Canada, 1999-2019:



SOURCE: Statistics Canada; Communications Management Inc.

Figure 5.
Private radio advertising revenues per $1,000 of retail trade, Canada, 1979-2019:



SOURCE: Statistics Canada; Communications Management Inc.

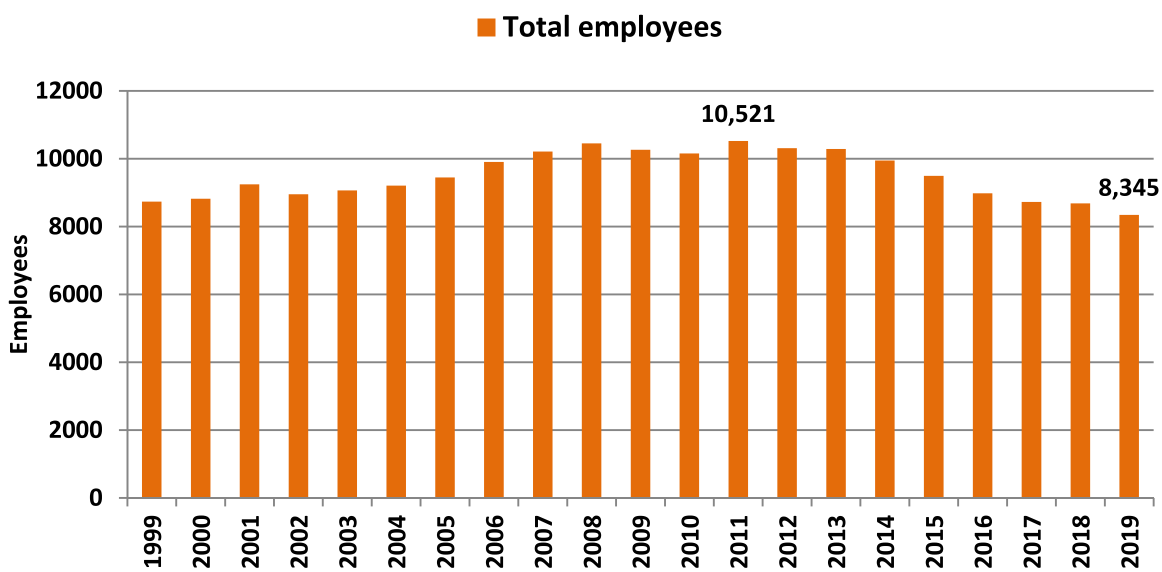
The change in the relationship between radio advertising and retail trade might also be signalling serious concerns about future trends in radio advertising.

Private radio – changes in employment levels

As indicated in Figure 6, in the period between 1999 and 2019, the number of employees in Canadian private radio peaked in 2011, at 10,521. By 2019, the figure stood at 8,345, which was lower than it had been in 1999.

The reduction in the number of employees after 2011 was, unfortunately, part of the response to the decline in advertising revenues noted above.

Figure 6.
Total employees in private radio, Canada, 1999-2019:



SOURCE: Statistics Canada.

However, it is interesting to note that the changes in employment levels were not proportional across all expense categories. Table 1 summarizes the employment data for private radio, for the years 2014-2019, by expense category. And Figure 7 indicates the changes in employment levels on an Index basis, using the levels in 2014 as the base.

As indicated in Table 1 and Figure 7, the steepest relative decrease took place in the Administration category, with a much lower relative decline for Programming. In other words, radio management attempted to realize cost savings with as little disruption as possible to the audience-facing activities of the stations.

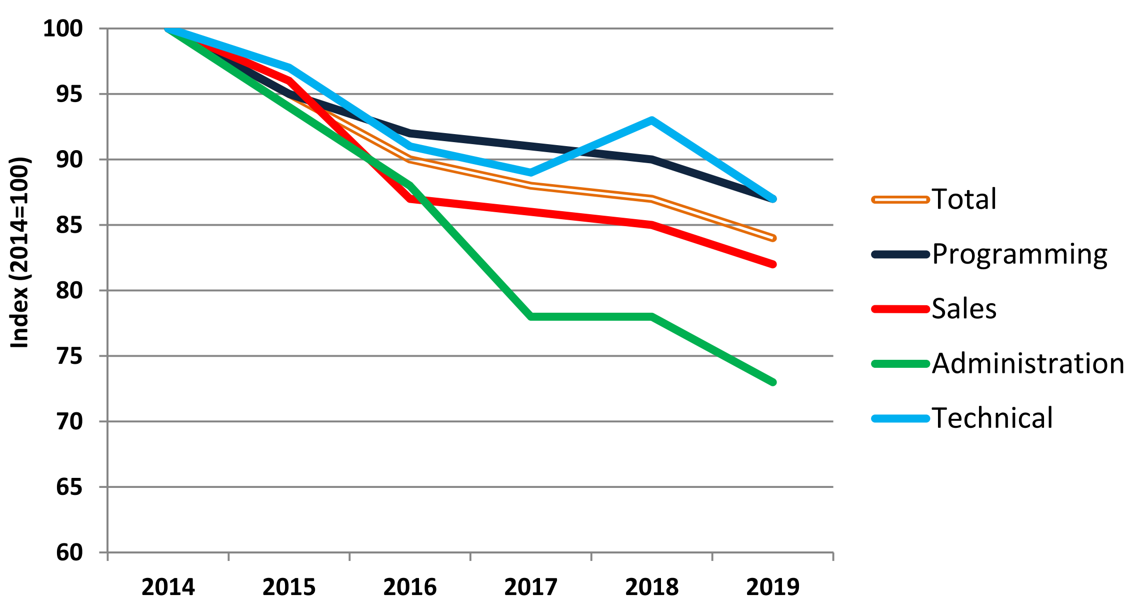
Table 1.
Numbers of employees, by expense category, private radio, Canada, 2014-2019:

	Programming and Production	Technical	Sales and Promotion	Administration and General	**Total**
2014	5,319	352	3,016	1,262	**9,949**
2015	5,063	342	2,904	1,186	**9,494**
2016	4,917	321	2,635	1,107	**8,979**
2017	4,839	315	2,584	988	**8,726**
2018	4,812	327	2,555	988	**8,682**
2019	4,643	307	2,480	915	**8,345**
% change, 2014-2019	*-12.7%*	*-12.8%*	*-17.8%*	*-27.5%*	***-16.1%***

SOURCE: Statistics Canada.

(**Note:** See Appendix for additional data on employment trends by language of broadcast.)

Figure 7.
Private radio, total employment, by expense category, 2014-2019, Index basis (2014=100):



SOURCE: Statistics Canada; Communications Management Inc.

In some cases, these employment level changes took place on an individual station basis, and, in other cases, stations under group ownership were able to use technology to centralize some administrative functions without cutting as deeply into programming.

However, the data also indicate that, if further cuts are required, it will be more difficult to cut mainly inward-facing functions in the future.

Forty per cent of private radio stations had negative PBIT in 2019

Although private radio overall had positive PBIT, 40 per cent of Canadian private radio stations had negative PBIT in 2019.

The data are summarized in Table 2, which is based on a custom tabulation from Statistics Canada.

How did those stations remain in business? In addition to the employment reductions noted above, it is likely that station groups were able to use profits in some stations to cover the losses in other stations.

Table 2.
Private radio by total operating revenue, PBIT, and by groups of stations within selected ranges of positive and negative PBIT, Canada, 2019:

2019 DATA: (Statistics Canada)	**Number of stations**	**Total operating revenue ($'000)**	**Profit before interest and taxes (PBIT) ($'000)**	**PBIT as % of total operating revenue**
Total private radio stations	**737**	**1,457,280**	**248,914**	**17.1%**
Private FM stations	619	1,205,108	240,422	20.0%
Private AM stations	118	252,172	8,492	3.4%
Stations grouped by PBIT as % of total operating revenue:				
+20% or greater	230	738,318	268,690	36.4%
10% up to 20%	111	280,188	42,665	15.2%
0% up to 10%	101	145,236	7,557	5.2%
-10% up to 0%	109	129,805	-6,013	-4.6%
-20% up to -10%	53	49,612	-7,391	-14.9%
-20% or worse	133	114,121	-56,593	-49.6%
Total stations with negative PBIT	***295***			

SOURCE: Statistics Canada.

As indicated in Table 3, the greatest economic vulnerability can be found in AM stations, stations broadcasting in non-official languages, and stations in smaller (non-metro) markets.

Table 3.
Private radio by total operating revenue, PBIT, and by selected groups of stations, Canada, 2019:

2019 DATA: (Statistics Canada)	**Number of stations**	**Total operating revenue ($'000)**	**Profit before interest and taxes (PBIT) ($'000)**	**PBIT as % of total operating revenue**
Total private radio stations	**737**	**1,457,280**	**248,914**	**17.1%**
Private FM stations	619	1,205,108	240,422	20.0%
Private AM stations	118	252,172	8,492	3.4%
English	605	1,157,496	198,361	17.1%
French	101	249,483	46,435	18.6%
Other language	31	50,300	4,118	8.2%
Top 5 CMAs[8]	130	668,605	150,100	22.4%
Other CMAs	159	377,510	49,743	13.2%
Non-CMAs	448	411,164	49,071	11.9%

SOURCE: Statistics Canada.

Projected impact of the pandemic on Canadian private radio advertising revenues

Figure 8 compares the actual advertising revenues from 2015-2019, and the previously-projected revenues for 2020-2025, with the revised COVID-impacted projections.

As can be seen in Figure 8, the "shape of the curve" might be called a "V with an incomplete rebound".[9]

In dollar terms, the projected advertising revenue for Canadian private radio in 2020 is expected to be $383 million lower than the actual results for 2019.

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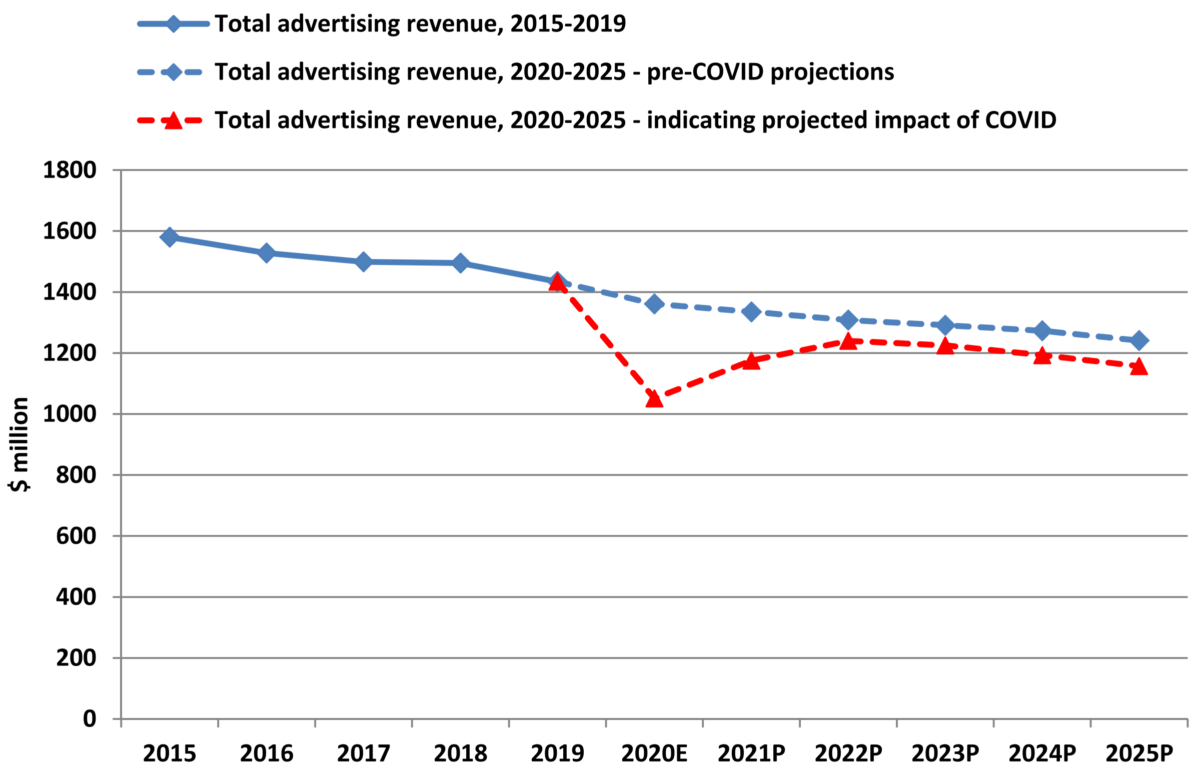
[8] Census Metropolitan Areas, as defined by Statistics Canada.
[9] The incomplete rebound also reflects the continuing impact of online digital alternatives on traditional media.

Figure 8.
Actual advertising revenue, private radio, Canada, 2015-2019, and projected advertising revenue to 2025, indicating pre-pandemic and post-pandemic projections:



SOURCE: Statistics Canada; Communications Management Inc.

Estimates for 2020, and the potential for station closures[10]

In Table 4, we have combined data from previous years with the most recent industry tracking data to create a possible scenario for private radio in 2020.

The basic assumption is that the drop in revenue would result in a negative 10 percentage point shift in PBIT for each of the groups in the table, and is based on previous trends in revenues and PBIT when revenues were disrupted.

Thus, for example, if all FM stations combined had a 20 per cent PBIT margin in 2019, that margin might be reduced to 10 per cent in 2020. The result of this scenario is that the number of stations with negative PBIT would rise to 396, or about 54 per cent of the total.

[10] The degree to which these potential reductions become actual reductions will also be related to the nature and quantum of short-term assistance programs, and the nature and timing of longer-term regulatory reforms.

Should that occur, it is likely that staff reductions would not be enough to cover all the losses, and station reductions would also be necessary.

With 396 stations in a negative PBIT position, the continued operation of as many as half of those stations – almost 200 stations – could be in jeopardy. In the short term – the next four to six months – as many as 50 of those stations could go silent; and, over the next six to 18 months, a further 100-150 might join them. Total job losses from reductions in staff and reductions in stations could be as many as 2,000 jobs.

Where are the greatest risks of station closures? As indicated above, AM stations, and independent stations in many smaller markets appear vulnerable. Within station groups, units with negative PBIT have had that balanced by positive PBIT elsewhere in the group. But an overall reduction in both revenues and PBIT levels could put that "balancing act" in jeopardy, with fewer plusses available to completely balance an increasing number of minuses.

Table 4.
Estimated operating revenue and PBIT, Canadian private radio, 2020:

	ESTIMATED DATA (COVID-IMPACTED)			
Based on projected data for 2020:	**Number of stations***	**Total operating revenue ($'000)**	**Profit before interest and taxes (PBIT) ($'000)**	**PBIT as % of total operating revenue**
Total private radio stations	**737**	**1,071,000**	**76,000**	**7.1%**
Private FM stations	619	885,700	88,600	10.0%
Private AM stations	118	185,300	-12,200	-6.6%
Stations grouped by 2019 data for PBIT as % of total operating revenue:				
+20% or greater	230	542,600	143,200	26.4%
10% up to 20%	111	205,900	10,700	5.2%
0% up to 10%	101	106,700	-5,100	-4.8%
-10% up to 0%	109	95,400	-13,900	-14.6%
-20% up to -10%	53	36,500	-9,100	-24.9%
-20% or worse	133	83,900	-50,000	-59.6%
Total stations with negative PBIT	***396***			

* Assumes same number of stations as in 2019.

SOURCE: Communications Management Inc.

The impact on radio news

While the annual spending on news is not published for all private radio stations by either Statistics Canada or the CRTC, it is clear that reductions in stations and/or reductions in personnel could have a serious negative impact on the ability to maintain current levels of local radio news.

And we think it is important to remember that radio news is not only formal newscasts. There are, of course, formal newscasts on a regular basis, but there are also the ongoing updates on local events and developments interspersed in spoken word portions in music programming, in addition to the material covered in formal newscasts.

Pandemic-related assistance programs

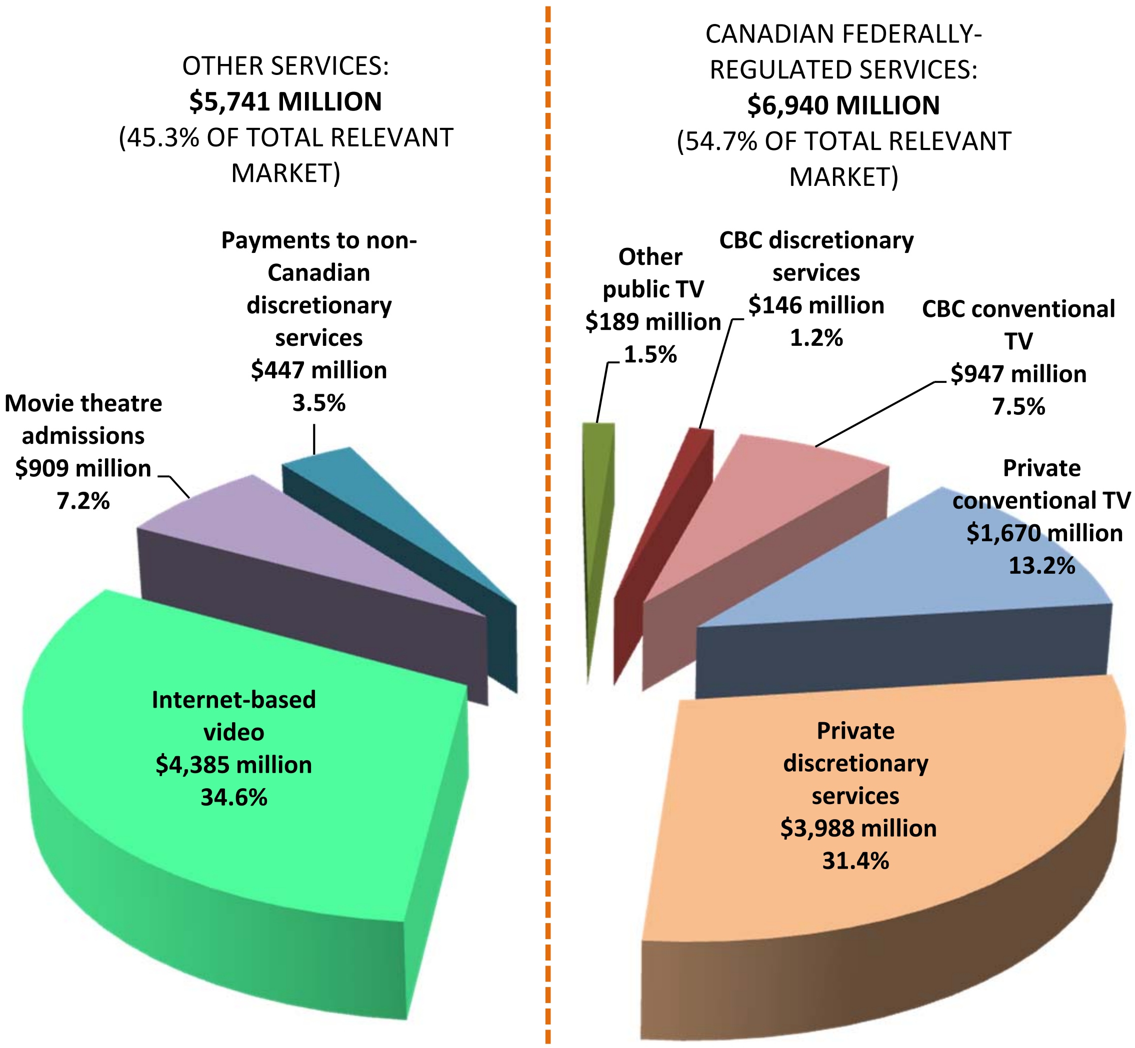
In Section IV of this report, we have summarized data for the pandemic-related broadcast revenue losses, to help assess current and longer-term remedies.

The Canadian television/video market in 2019

In Figure 9, we have summarized the main components that made up the Canadian television/video market in 2019.

Figure 9.
The Canadian television/video market in 2019:

[TOTAL RELEVANT MARKET: **$12,681 MILLION**]



MARKET SHARE CALCULATION FOR A HYPOTHETICAL CANADIAN REGULATED GROUP OWNER WITH REVENUE OF $1,500 MILLION:

AS % OF REGULATED MARKET	21.6%
AS % OF TOTAL RELEVANT MARKET	11.8%

SOURCE: CRTC; Statistics Canada; Communications Management Inc.

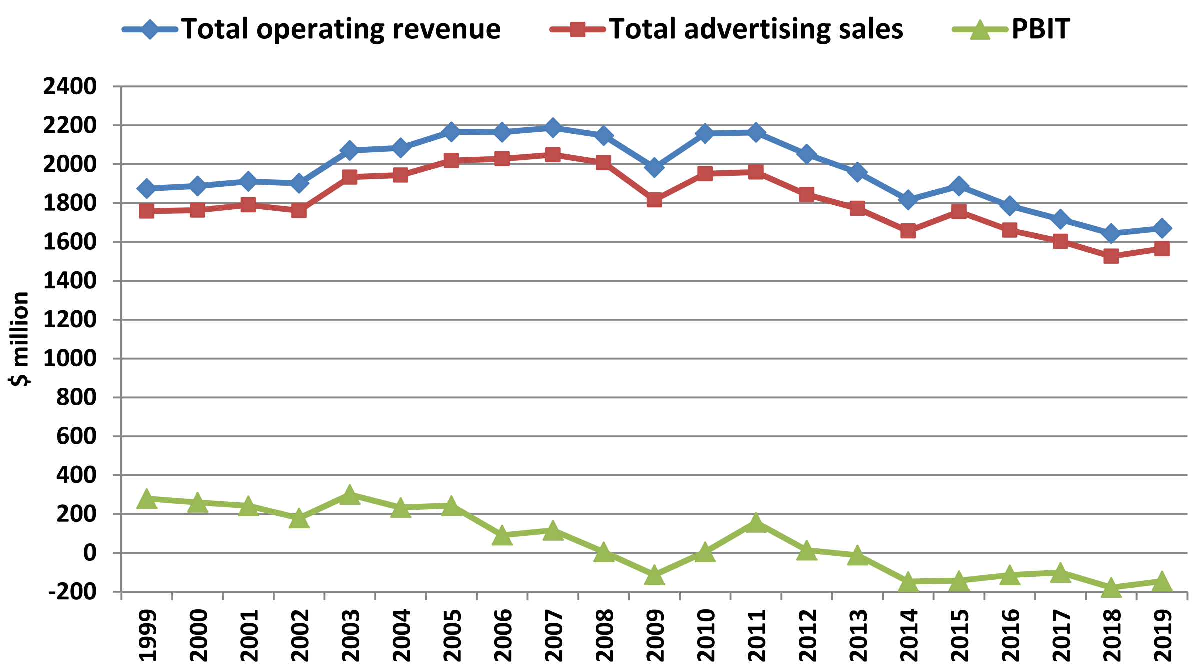
As indicated in Figure 9, the total Canadian revenue for those components in 2019 was about $12.7 billion, with Canadian private conventional television accounting for 13.2 per cent of that total.[11]

Figure 9 also allows us to refine the calculation of the market share held by a specific group or organization. For example, if one were to focus on a particular organization that had revenue of $1.5 billion, that would be 21.6 per cent of the Canadian regulated market, but only 11.6 per cent of the total relevant market – a much more realistic assessment of the organization's actual competitive position.

Trends and projections for Canadian private conventional television

As indicated in Figure 10, private conventional TV revenues in Canada declined in six of the eight years after 2011, and PBIT (profit before interest and taxes) has been negative in every year since 2013. Based on the data from Statistics Canada, the cumulative PBIT from 2015 to 2019 was -$681 million.

Figure 10.
Private conventional television – trends in total operating revenue, total advertising sales, and PBIT, Canada, 1999-2019:



SOURCE: Statistics Canada.

[11] As was the case with radio, we have developed estimates for the main components in the relevant market. It should be noted that there may be some smaller components that have not been included. Thus, the estimate for the size of the total relevant market might be slightly understated. In the case of "Internet-based video", the estimate for 2019 is based on the CRTC's published figure for 2018, but corrected for an overestimate of Netflix's Canadian revenues in the CRTC data.

Clearly, the trends summarized in Figure 10 indicate a challenged business model for private conventional television.[12]

Given the levels of losses, how did those stations remain in business? In many cases, it is likely that stations in a loss position were part of larger groups that were able to use profits in some areas to cover the losses in other areas. However, given the magnitude of the losses, such internal cross-subsidies may be increasingly difficult in the future.

Private conventional television advertising is no longer tracking GDP

In Figure 11, we have presented data that tracks the trends for private conventional TV advertising, total TV advertising on Canadian services, and GDP.

As indicated in Figure 11, the growth rate for private conventional TV advertising fell below the GDP growth rate in 2000, and has continued to lag. In fact, based on our projections, the advertising revenue for private conventional TV in Canada is likely to be lower in 2020 than it was 25 years ago, in 1995.

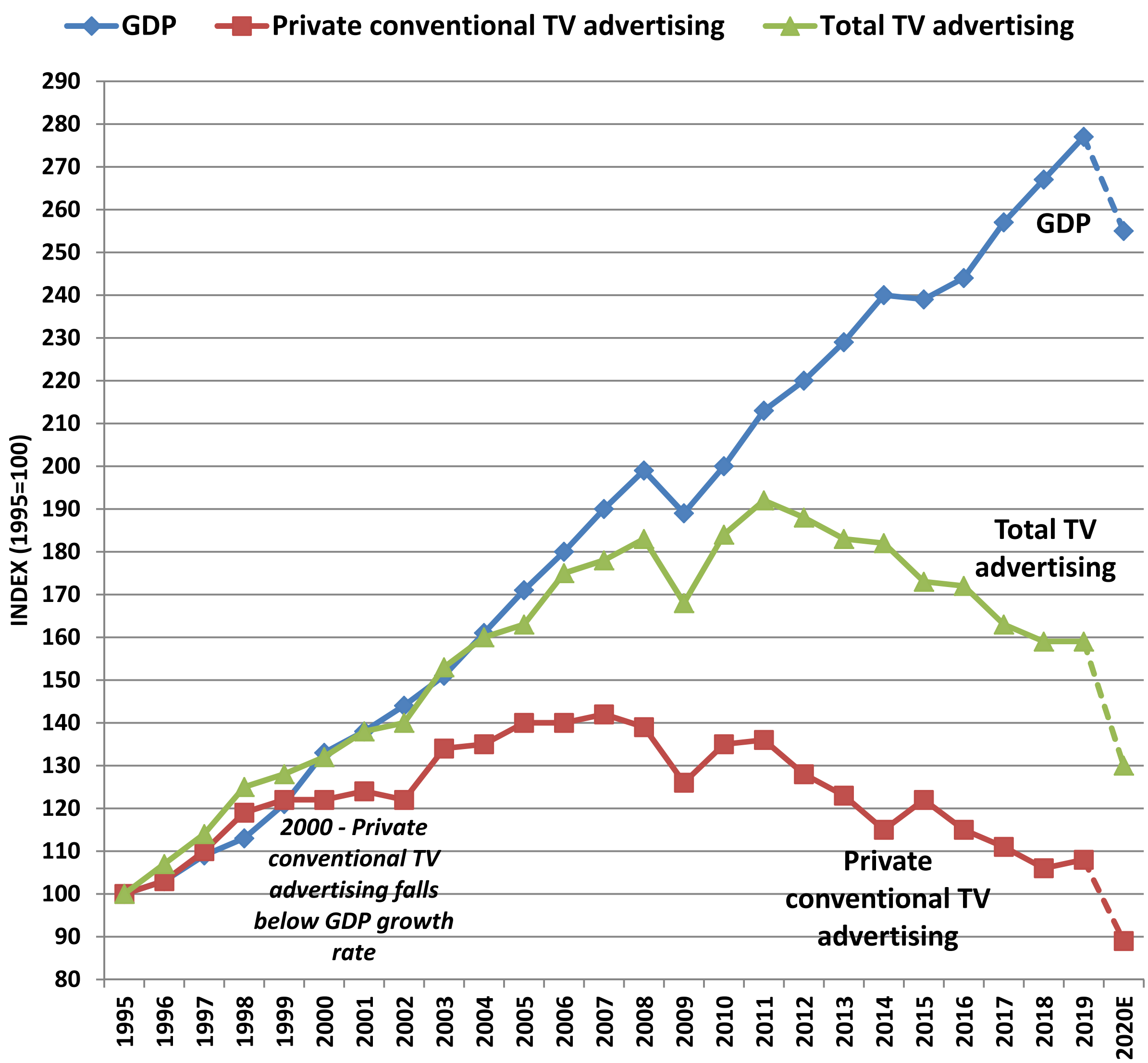
The advertising-GDP linkage shown here helps to explain the difficult economic trends for private conventional television, and is an indicator of:

1. The changing structure of the television market; and

2. The increase in the number of competitors, first from discretionary services (pay and specialty channels), and more recently from digital OTT alternatives.

[12] As indicated in Figure 10, we have used the Statistics Canada data as the basis for the trend analysis. The CRTC also publishes data for private conventional television. However, there are differences between the way the two sources classify some reporting units, and also differences in the way PBIT is calculated. Where appropriate, we have indicated data from both sources to enable comparisons.

Figure 11.
GDP and advertising on Canadian television services, 1995-2000,
Index basis (1995=100):



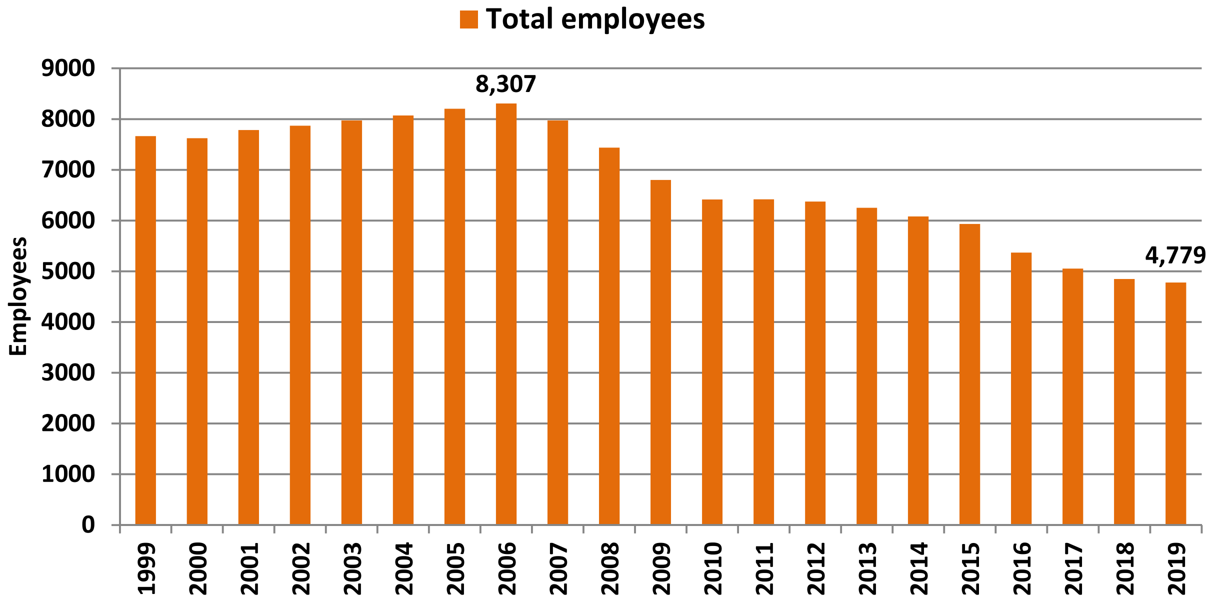
SOURCE: Statistics Canada; Communications Management Inc.

Private conventional TV – changes in employment levels

As indicated in Figure 12, in the period between 1999 and 2019, the number of employees in Canadian private conventional TV peaked in 2011, at 8,307. By 2019, the figure stood at 4,779 – a decline of more than 40 per cent.

The reduction in the number of employees was one of the responses to the decline in advertising revenues noted above.

Figure 12.
Total employees in private conventional television, Canada, 1999-2019:



Source: Statistics Canada.

As was the case with private radio, it is interesting to note that the changes in employment levels were not proportional across all expense categories. Table 5 summarizes the employment data for private conventional TV, for the years 2014-2019, by expense category. And Figure 13 indicates the changes in employment levels on an Index basis, using the levels in 2014 as the base.

As indicated in Table 5 and Figure 13, the steepest relative decrease took place in the Administration category, with a much lower relative decline for Programming. In other words, station management attempted to realize cost savings with as little disruption as possible to the audience-facing activities of the stations.

(In the case of local conventional television, we might also note that a major component within the Programming category would be News.)

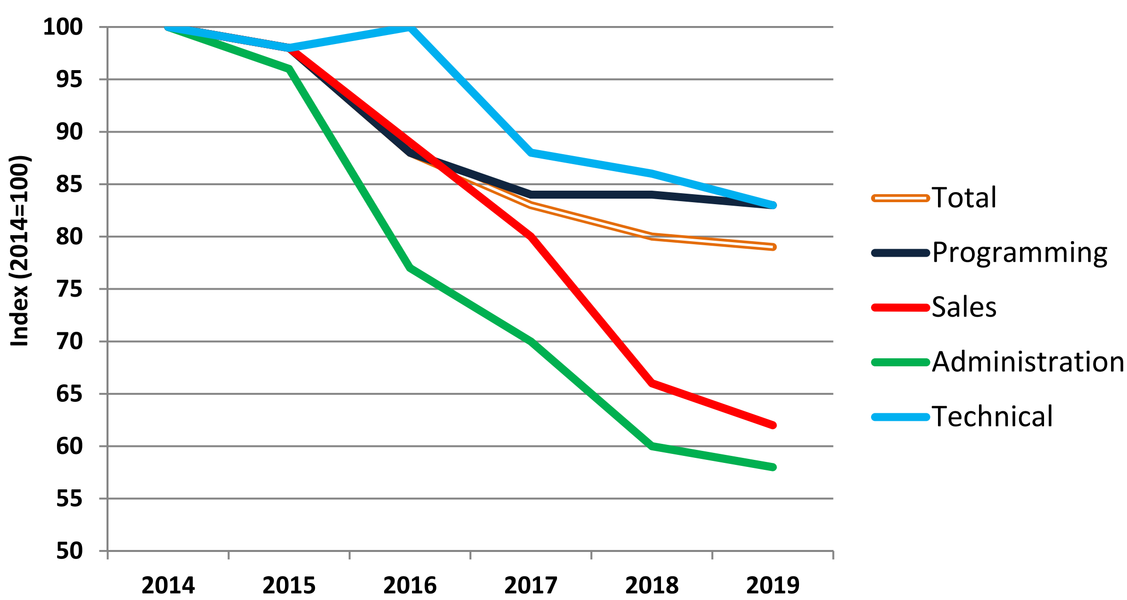
However, the data also indicate that, if further cuts are required, it will be difficult to cut inward-facing functions much further, or to avoid cutting programming functions more deeply.

Table 5.
Numbers of employees, by expense category, private conventional television, Canada, 2014-2019:

	Programming and Production	Technical	Sales and Promotion	Administration and General	**Total**
2014	4,265	521	858	436	6,080
2015	4,168	513	837	417	5,935
2016	3,749	519	765	335	5,368
2017	3,603	458	686	307	5,054
2018	3,570	448	569	261	4,848
2019	3,554	434	536	255	4,779
% change, 2014-2019	*-16.7%*	*-16.7%*	*-37.5%*	*-41.5%*	***-21.4%***

SOURCE: Statistics Canada.

Figure 13.
Private conventional TV, total employment, by expense category, 2014-2019, Index basis (2014=100)



SOURCE: Statistics Canada; Communications Management Inc.

Seventy per cent of private conventional television reporting units had negative PBIT in 2019

As noted above, private conventional television overall was in a negative PBIT position in every year from 2015 to 2019.

According to a custom tabulation from Statistics Canada, 70 per cent of private conventional TV reporting units had negative PBIT in 2019. The data are summarized in Table 6.

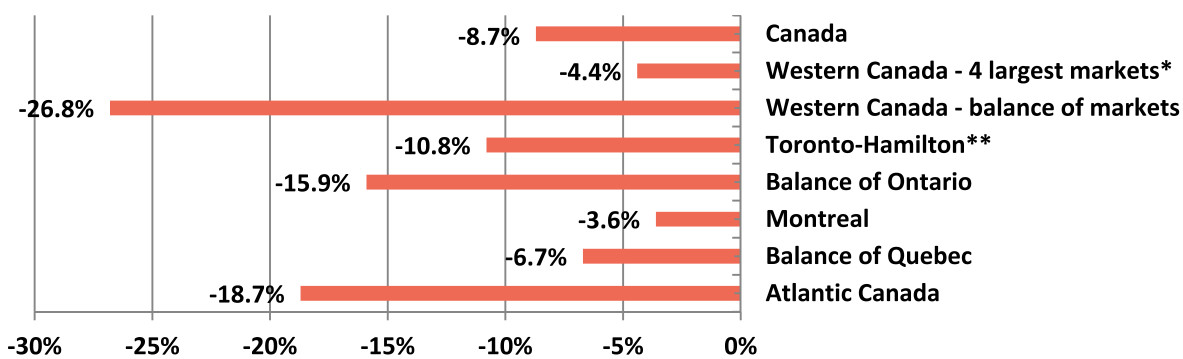
Table 6.
Private conventional television by total operating revenue, indicating positive and negative PBIT percentages, Canada, 2019:

2019 DATA: (Statistics Canada)	Percentage of reporting units	Total operating revenue ($'000)	Profit before interest and taxes (PBIT) ($'000)	PBIT as % of total operating revenue
Total private conventional TV	**100.0%**	**1,669,786**	**-144,983**	**-8.7%**
% with positive PBIT	29.5%	611,922	61,090	10.0%
% with negative PBIT	70.5%	1,057,864	-206,073	-19.5%

SOURCE: Statistics Canada.

Figure 14 indicates the PBIT percentages for selected markets across Canada.

Figure 14.
PBIT as % of total operating revenue, private conventional TV, selected areas, 2019:



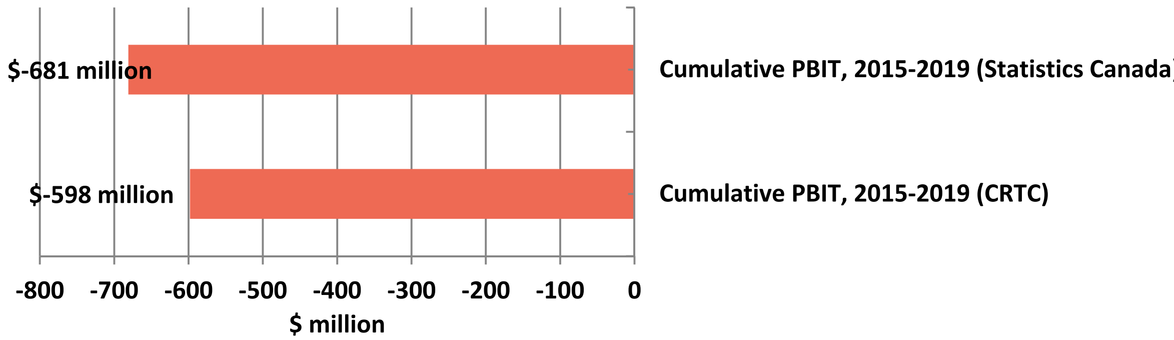
* The 4 markets are Vancouver-Victoria, Calgary, Edmonton, and Winnipeg.
** Data for Toronto-Hamilton include some regional services.

SOURCE: Statistics Canada; Communications Management Inc.

Based on the data in Figure 14, one can see that non-metropolitan (smaller) markets are doing worse than metro markets, and that French-language stations might be doing slightly better than English or multilingual stations.

Figure 15 indicates the cumulative PBIT losses for private conventional television from 2015 to 2019.

Figure 15.
Cumulative PBIT losses, private conventional television, Canada, 2015-2019:



SOURCE: Statistics Canada; CRTC.

Projected impact of the pandemic on Canadian private conventional television advertising revenues

Figure 16 compares the actual advertising revenues from 2015-2019, and the previously-projected revenues for 2020-2025, with the revised COVID-impacted projections.

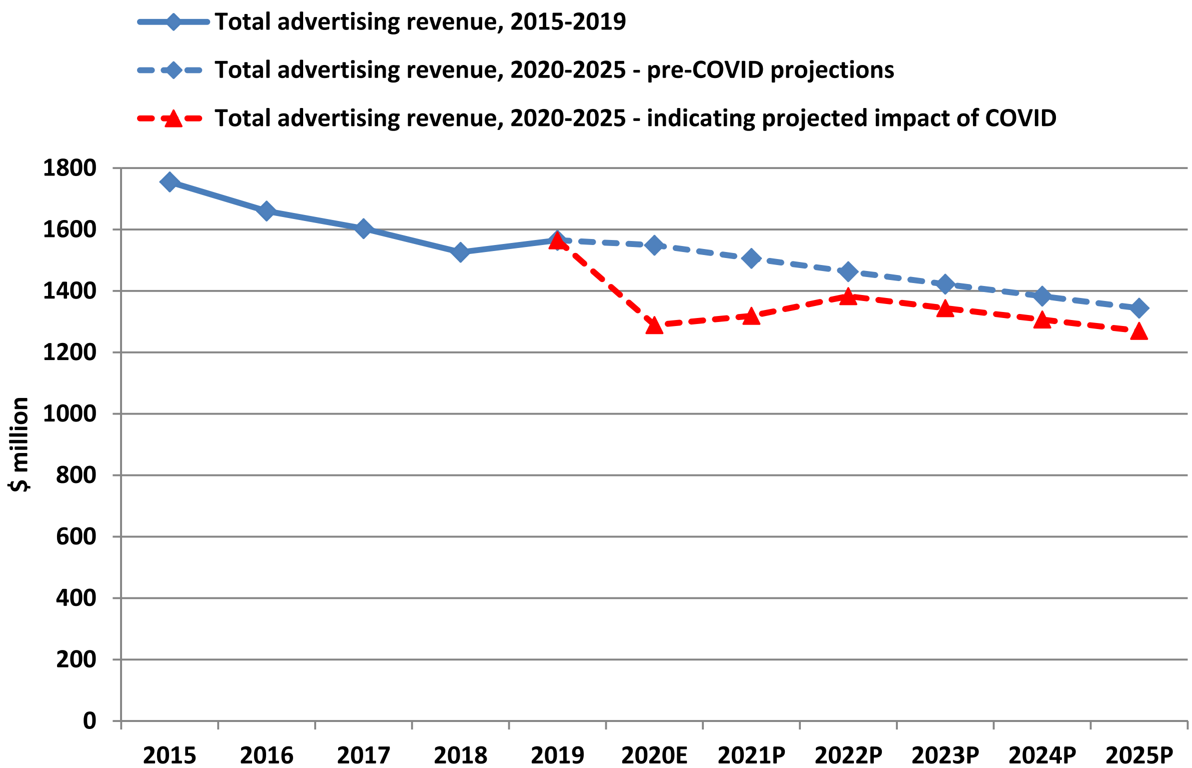
As can be seen in Figure 16, the "shape of the curve" might be called a "V with an incomplete rebound".[13]

In dollar terms, the projected advertising revenue for Canadian private conventional television in 2020 is expected to be $276 million lower than the actual results for 2019.

[13] The incomplete rebound also reflects the continuing impact of online digital alternatives on traditional media.

Figure 16.

Actual advertising revenue, private conventional TV, Canada, 2015-2019, and projected advertising revenue to 2025, indicating pre-pandemic and post-pandemic projections:



SOURCE: Statistics Canada; Communications Management Inc.

Estimates for 2020, and the potential for station closures[14]

As indicated in Figure 16, private conventional television revenues in 2020 could be almost $300 million lower than they were in 2019. And that, in turn, might increase the percentage of private stations with negative PBIT from 70 per cent to 80 per cent or more.

As the ongoing sustainability problem for private conventional television continues, it is faced with difficult choices:

1. Profitable operating units, either within private conventional TV, or under the same ownership in adjacent services, might not be sufficiently profitable to continue to cover the losses in private conventional television;

[14] The degree to which these potential reductions become actual reductions will also be related to the nature and quantum of short-term assistance programs, and the nature and timing of longer-term regulatory reforms.

2. Further reductions in employment may be required; and/or
3. Stations might have to be closed.

One cannot set a precise timeline for conventional television station closures, in part because some current licences have conditions requiring owners to keep those stations in operation for a set period of time.

But, as it gets more difficult to balance losses against profits, the risk of station closures will likely increase over the next 36 months. Based on the PBIT data in Figure 14, the most likely closures could be in single-station smaller markets in Western Canada, Atlantic Canada, and Ontario. Other reductions might also occur in larger markets – a four-station market could become a three-station market, or a three-station market could become a two-station market.

While Statistics Canada and the CRTC include slightly different groups of reporting units in their data for private conventional television, one can estimate that there are about 95 private conventional television reporting units in Canada. Three years from now, that could be down to between 50 and 60.

Pandemic-related assistance programs

In Section IV of this report, we have summarized data for the pandemic-related broadcast revenue losses, to help assess current and longer-term remedies.

The impact on local television news

If spending cuts or station closures threaten the continued provision of local television news, it would likely represent the most serious negative impact on what is currently one of the most important – and most efficient – sources of local news for Canadians.

Table 7 presents data for the spending on news by private and public Canadian television services, and for the shares of viewing to those television services. In 2019, in the news category that includes local news – conventional television – private conventional TV accounted for 75 per cent of the spending and 85 per cent of the viewing by Canadians.

This has important implications for public policy aimed at sustaining and enhancing local news: Support mechanisms that use private conventional television as the vehicle to do that will be more efficient and more effective – and reach larger audiences – than any other conventional television alternative.

And while Canadians overwhelmingly prefer to watch Canadian television news, the data in Table 8 indicate that non-Canadian sources have a material audience in Canada – a further reflection of the degree to which the relevant market for television consumed by Canadians extends well beyond Canadian services.

Table 7.
Spending on News by Canadian television services, and shares of news viewing by Canadians to those television services, 2019:

	Spending on News		Share of news viewing to Canadian services (%)
	($ million)	%	
Private conventional television	374	75.4	85.1
CBC/SRC conventional TV	122	24.6	14.9
Conventional television	496	100.0	100.0
Private discretionary services	157	64.9	64.2
CBC/SRC discretionary services	85	35.1	35.8
Discretionary services	242	100.0	100.0
Private services - total	531	72.0	75.9
CBC/SRC services - total	207	28.0	24.1
Total services	738	100.0	100.0

NOTES:

1. Spending data are for the 2019 broadcast fiscal year.
2. Viewing data are for the 2019 calendar year, for all persons 2+.

SOURCE: CRTC; Numeris; Communications Management Inc.

Table 8.
Shares of news viewing by Canadians to news on selected television services, 2019:

	Share of news viewing (%)
Private conventional television	38.7
CBC/SRC conventional television	6.8
Private discretionary services	22.9
CBC/SRC discretionary services	12.8
Private services - total	61.6
CBC/SRC services - total	19.5
Total Canadian services	81.1
CNN	13.2
Other non-Cdn. discretionary	5.7
Total non-Canadian discretionary	18.9
Total	100.0

SOURCE: Numeris; Communications Management Inc.

As documented above, private radio and private conventional television were already facing downturns in revenue and/or profitability – before the pandemic started.

In this section, we focus on the size of the pandemic-related "shock to the system" for private radio and private conventional television, in two ways:

1. First, an estimate of what might have happened to revenue and employment for an "average" month, based on industry tracking data for the revenue experience in April, May and June 2020; and

2. Second, an estimate of the total projected loss in revenue for three full broadcast fiscal years – 2020 to 2022.

While one cannot know the specific experience of each station or group, the estimates provide a benchmark against which one can assess the relative size of possible forms of assistance, both short-term financial assistance, and possible longer-term regulatory relief.

Short-term assistance

In response to the pandemic-related economic downturn, the Government of Canada introduced a number of emergency measures. One of the most wide-reaching is the Canada Emergency Wage Subsidy (CEWS), which provides government assistance to help pay employees, to a maximum of $847 per employee per week, subject to a number of terms and conditions.

We do not know if all private broadcasters met all of the terms and conditions, nor do we know if all of them applied for the CEWS assistance. However, it is possible to estimate how that assistance might compare in size to the economic impact felt by private broadcasters, by comparing the results for an average month in 2019 with an average COVID-impacted month in 2020.

In this case, we have averaged the revenue declines for April-June 2020. In the case of private radio, the industry tracking data tell us the average monthly advertising revenue decline (compared to a year earlier) was 63.5 per cent. For private conventional television, the average monthly advertising revenue decline (compared to a year earlier) was 43.8 per cent.

Table 9 summarizes the data for private radio, and gives us the basis for calculating the possible assistance from CEWS – if every station qualified, the likely range of assistance would be based on applying the formula to an employee count that ranges between a low of 5,392 and an estimated pre-COVID high of 8,345.

Table 9.
Private radio, Canada – summary data for "average" month in 2019
compared to data for COVID-impacted month in 2020:

	2019 annual data	2019 "average" month (Note 1)	2020 COVID-impacted month (Note 2)	Change in monthly revenues
Advertising revenue ($ million)	1,434	120	44	**-76**
Total revenue ($ million)	1,457	121	44	**-77**
Total operating expenses ($ million)	1,165	97	62	
Operating income ($million)	292	24	**-18**	
Number of employees (Note 3)	*8,345*	*8,345*	*5,392*	
Total remuneration ($ million)	621	52	33	
Remuneration % of total operating expenses	*53%*	*53%*	*53%*	

NOTES:

1. The financial data in this column have been derived by dividing the annual totals by 12. Because some advertising is seasonal, this "average" might be slightly higher or slightly lower than the results for a specific month.
2. These data are based on the revenue decline indicated in the industry tracking data for the months of April, May and June 2020.
3. The reduced number of employees for the "COVID-impacted month" is an estimate that reflects reductions that could result from the sudden reduction in revenue.

SOURCE: Statistics Canada; Communications Management Inc.

For private radio, it appears that the CEWS assistance could make up between 25-39 per cent of the lost revenue, but the impact on operating deficits would depend on the degree to which stations are able to continue to pay regular salaries (of which CEWS would be part), and the degree to which there have been layoffs or furloughs.

(We are advised by CAB that there have been an increasing number of layoffs/furloughs at a number of private radio and television broadcasters, but that most broadcasters report paying full salaries to remaining employees, at least during the early months of the crisis.)

Table 10.
Private conventional television, Canada – summary data for "average" month in 2019 compared to data for COVID-impacted month in 2020:

	2019 annual data	2019 "average" month (Note 1)	2020 COVID-impacted month (Note 2)	Change in monthly revenues
Advertising revenue ($ million)	1,565	130	73	**-57**
Total revenue ($ million)	1,670	139	78	**-61**
Total operating expenses ($ million)	1,742	145	102	
Operating income ($million)	**-72**	**-6**	**-24**	
Number of employees (Note 3)	*4,779*	*4,779*	*3,345*	
Total remuneration ($ million)	466	39	27	
Remuneration % of total operating expenses	*27%*	*27%*	*27%*	

NOTES:

1. The financial data in this column have been derived by dividing the annual totals by 12. Because some advertising is seasonal, this "average" might be slightly higher or slightly lower than the results for a specific month.
2. These data are based on the revenue decline indicated in the industry tracking data for the months of April, May and June 2020.
3. The reduced number of employees for the "COVID-impacted month" is an estimate that reflects reductions that could result from the sudden reduction in revenue.

SOURCE: Statistics Canada; Communications Management Inc.

Table 10 summarizes the data for private conventional television, and gives us the basis for calculating the possible assistance from CEWS – if every station qualified, the likely range of assistance would be based on applying the formula to an employee count that ranges between a low of 3,345 and an estimated pre-COVID high of 4,779.

For private conventional television, it appears that the CEWS assistance could make up between 20-28 per cent of the lost revenue, but the impact on operating deficits would depend on the degree to which stations are able to continue to pay regular salaries (of which CEWS would be part), and the degree to which there have been layoffs or furloughs.

One additional targeted assistance program that might be relevant for at least some private radio and private conventional TV stations is an announced $25 million in emergency assistance for independent broadcasters.[15] If, say, $10 million of the $25 million went to private radio, that would still only represent 13 per cent of the lost revenue in a single month; $10 million directed to private conventional television would only represent 16 per cent of the lost revenue in a single month.

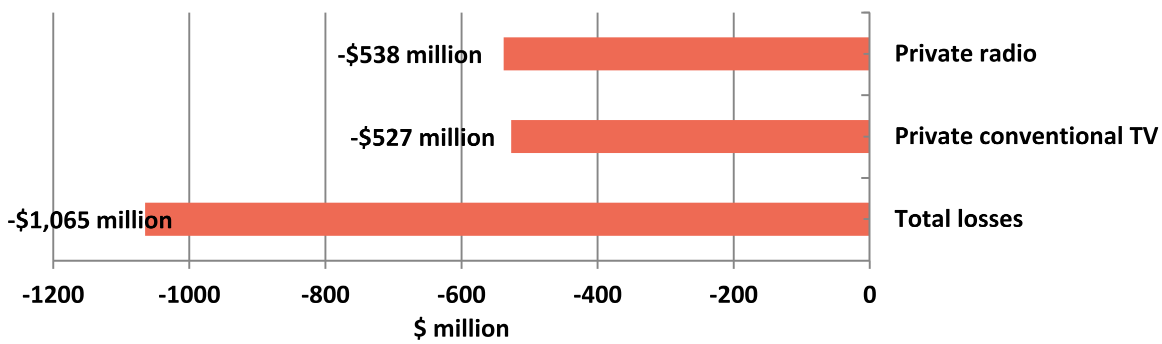
The longer-term revenue challenge

As noted above, the pandemic has accelerated a number of negative trends that were already facing private radio and private conventional television.

Using the data in Figures 8 and 16, we can see that the pandemic is likely to have an impact on private radio and private conventional television not just in the 2020 broadcast fiscal year, but also in the 2021 broadcast fiscal year, before resuming (in 2022) slightly-lower versions of their previously-predicted advertising revenue trends.

We can also project the cumulative losses for 2020 to 2022, and those data are summarized in Figure 17.[16]

Figure 17.
Projected cumulative advertising revenue losses (compared to pre-COVID projections), for private local broadcasting, Canada, 2020-2022:



SOURCE: Communications Management Inc.

Clearly, the potential for over $1 billion in cumulative advertising revenue losses by Canada's private local broadcasters should inform – and add urgency to – considerations of public policy for the industry.

[15] https://www.canada.ca/en/canadian-heritage/news/2020/07/backgrounder-final-component-of-phase-2-of-the-covid-19-emergency-support-fund-for-culture-heritage-and-sport-organizations.html.
[16] The losses are based on a comparison of pre-pandemic and post-pandemic revenue projections.

V. What comes next?

Given the difficult economic realities described above, what, then, should we do about it?

To start the discussion, here are three possible suggested actions. Given the urgency of the situation, two of the three need to be done almost immediately, and the third needs to start almost immediately, but will likely have a 12-month timeline.

1. First, we have seen that current federal government pandemic economic assistance programs might cover only part of the monthly revenue losses hitting private radio and private conventional television. Additional forms of assistance should be devised and implemented as quickly as possible, because those local stations are an important – and in some cases, the only – source of local news.

2. Second, starting immediately, and to cover at least the next two broadcast fiscal years, there must be regulatory relief for private radio and television stations, to recognize the impact of the economic disruption on their ability to fulfill certain conditions of licence, and to recognize the need for modifications in operating arrangements that might help to realize cost-savings.

3. And third, starting immediately, and to be ready for consideration in 12 months, a thorough, holistic, review of the future of media in Canada – in other words, a realistic plan for "what comes next", and how we can best achieve it. Such a plan might include:

a) A range of “possible futures” – where the industry might be in five years;

b) Determining which of those possible futures are best for public policy goals (like local news); and

c) Determining the best combination of corporate structures and public intervention that might bring us closer to the most positive of the possible futures that appears to be achievable.

In short, we must sustain community assets – and local news in particular – while planning for an organized, measurable, transition to “what comes next”.

Additional data on employee trends for private radio, by language

Table A-1.
Numbers of employees, by expense category, private radio, Canada, 2014-2019:
TOTAL

	Programming and Production	Technical	Sales and Promotion	Administration and General	**Total**
2014	5,319	352	3,016	1,262	**9,949**
2015	5,063	342	2,904	1,186	**9,494**
2016	4,917	321	2,635	1,107	**8,979**
2017	4,839	315	2,584	988	**8,726**
2018	4,812	327	2,555	988	**8,682**
2019	4,643	307	2,480	915	**8,345**
% change, 2014-2019	*-12.7%*	*-12.8%*	*-17.8%*	*-27.5%*	***-16.1%***

SOURCE: Statistics Canada.

Table A-2.
Numbers of employees, by expense category, private radio, Canada, 2014-2019:
ENGLISH

	Programming and Production	Technical	Sales and Promotion	Administration and General	**Total**
2014	3,984	247	2,438	924	**7,594**
2015	3,792	239	2,355	882	**7,268**
2016	3,688	220	2,155	821	**6,883**
2017	3,618	225	2,097	719	**6,659**
2018	3,585	228	2,080	719	**6,611**
2019	3,393	216	1,983	635	**6,227**
% change, 2014-2019	*-14.8%*	*-12.6%*	*-18.7%*	*-31.3%*	***-18.0%***

SOURCE: Statistics Canada.

Table A-3.
Numbers of employees, by expense category, private radio, Canada, 2014-2019:
FRENCH

	Programming and Production	Technical	Sales and Promotion	Administration and General	**Total**
2014	853	61	464	206	**1,584**
2015	835	62	448	195	**1,540**
2016	789	64	375	178	**1,406**
2017	770	54	384	159	**1,366**
2018	771	60	370	158	**1,360**
2019	746	51	371	169	**1,337**
% change, 2014-2019	*-12.5%*	*-16.4%*	*-20.0%*	*-18.0%*	***-15.6%***

SOURCE: Statistics Canada.

Table A-4.
Numbers of employees, by expense category, private radio, Canada, 2014-2019:
OTHER LANGUAGES

	Programming and Production	Technical	Sales and Promotion	Administration and General	**Total**
2014	481	45	113	132	**771**
2015	435	41	101	110	**687**
2016	440	38	105	108	**690**
2017	450	37	103	111	**700**
2018	456	39	105	111	**711**
2019	503	40	126	111	**780**
% change, 2014-2019	*+4.6%*	*-11.1%*	*+11.5%*	*-15.9%*	***+1.2%***

SOURCE: Statistics Canada.