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Commercial Television Industry Financial Trends 1978–79 to 2005–06

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Executive summary

In 2001, the Australian Broadcasting Authority (ABA) released a financial analysis of the Australian commercial television licensees, *Commercial Television Industry 1978–79 to 1997–98*. Six years later, the industry is experiencing a period of rapid change, with the introduction of digital broadcasting and increasing competition for audiences in the communications and screen content sectors.

Historically, a commercial television broadcasting licence gave its owner unprecedented access to the Australian public and the right to sell that access to advertisers. Advertising timeslots were constrained in line with regulated supply of broadcasting services. During this time, commercial television revenues grew at a faster rate than the Australian economy and commercial television licensees achieved financial returns well above those of other industries.

Since 2000, however, alternatives to television, including the internet, subscription television, DVDs and games, have gained in popularity, attracting both new audiences and advertisers. Revenue growth for the commercial television industry has slowed, despite continued increases in expenditure, with profitability (measured as profit before interest and tax) declining.

Key results

The report reveals the following financial results for the commercial television industry.

REVENUE

- Between 1978–79 and 2005–06, revenue per licensee grew in real terms at an average of 3.5 per cent per annum in capital cities and at 4.3 per cent per annum in non-capital areas.
- In 2005–06, the commercial television industry reported total revenues of $3,989.7 million. Licensees in capital cities reported total revenue of $3,062.1 million and those in non-capital cities reported $927.6 million.
- In 2005–06, capital city licensees generated a total of $2,653.2 million in agency advertising and non-capital city licensees generated $484.3 million.
- Since 1979–80, GDP has grown by a per annum average of 3.2 per cent in real terms, while commercial television revenues have grown by 3.8 per cent.

EXPENDITURE

- Between 1978–79 and 2005–06, total expenses grew by 2.7 per cent in capital cities and 3.1 per cent per annum in non-capital city areas.

- In 2005–06, commercial television licensees reported total expenditures of $3,623.3 million. Capital city licensees incurred $2,899.2 million in total expenses and non-capital city licensees incurred $724.1 million.
- In 2005–06, Australian programming usage and amortisation ($869 million) was the largest expense for commercial television licensees. Foreign programming usage and amortisation ($352.7 million) was the next largest expense, followed by salaries and wages ($335.3 million).
- Since 1999–2000, growth in licence fee payments to government has been negligible—licence fees are based on revenues and revenue growth has been low.

ASSETS AND LIABILITIES

- The asset and liability balances of licensees and networks reflect the history of the industry and licensees' responses to change. The 1990s was a period of relative stability, but the late 1990s saw increases in non-current liabilities and intangible assets, including television license values. Since 1997–98, non-current assets and liabilities have increased by about $3,000 million. Non-current assets have increased by an annual average of 10.7 per cent and non-current liabilities by 4.7 per cent.
- One of the most significant changes in the balance sheets of licensees in recent years is a devaluation of the value of commercial television licences.

PROFITABILITY

- In 2005–06, total commercial television industry profit, measured as Profit Before Interest and Tax (PBIT), was $620.4 million. Licensees in capital cities generated profits of $392.7 million and profits for non-capital city licensees were $227.7 million.
- Between 1986–87, when the data first allowed profits to be calculated, and 2005–06 capital city PBIT grew by 27.8 per cent per annum, and non-capital profits by 4.6 per cent per annum. Over the last two years, however, PBIT has fallen by 29.2 per cent per annum in capital cities and 4.7 per cent per annum in non-capital city areas.
- Recent falls in profit coincide with devaluations of commercial television licences.

Commercial television in Australia

The commercial television industry has been subject to significant change since the 1970s as a result of new media developments, changing audience preferences and changes in government regulation. Regulatory changes have included how commercial television licences are allocated, the allowable audience reach of licensees, ownership limitations and how licensees may use the broadcasting services bands of the radiofrequency spectrum. The changing regulatory and commercial landscape has affected ownership structures, program content and the financial status of the industry.

About the data

The Broadcasting Financial Results (BFR) have been collected annually since 1978–79. At the time this report was prepared, 2005–06 was the most recent year for which BFR data was available. Under Part 14A of the *Broadcasting Services Act 1992* (the Act), all holders of commercial radio and television broadcasting licences must provide broadcasting licence fee returns, supporting documentation and broadcasting licence fees payment to the Australian Communications and Media Authority (ACMA) by 31 December each year.

From the financial information provided, ACMA prepares its annual BFR. This provides public information on the financial state of the commercial radio and television industries in Australia. All BFR data are released in aggregated form to maintain the confidentiality of individual licensees. The data used in the production of the figures for this report are derived primarily from the information provided by commercial television licensees in Form ACMA B10.

Some care should be taken in interpreting the data derived from the BFR collection. While ACMA provides guidance to licensees on how to complete the forms, it does not verify the information reported by individual licensees, nor does it stipulate accounting standards to licensees. For these reasons, there may be differences in accounting practices between licensees in any one year and differences in accounting practices by a licensee from year to year. It is, however, a statutory requirement under section 205B of the Act that licensees keep accounts.

For the purposes of preparing this report, additional information has also been collected from other sources, including the Australian Bureau of Statistics. In all cases, where comparisons are made over time, they encompass the longest period for which data are available.

Regulatory change

The *Broadcasting Services Act 1992* (the Act) is the primary instrument for regulating broadcasting in Australia. Before the introduction of the Act, the *Broadcasting Act 1942* (the Broadcasting Act) regulated radio and television services. The Broadcasting Act:

- mandated local ownership for commercial television services;
- limited control by media proprietors with a mixture of interests;
- restricted television broadcasters to owning no more than two television stations located anywhere in Australia; and
- contained no cross-media rules.

In 1987, the federal government decided to aggregate licences in some regional areas and introduce competition, combining several solus markets into larger markets with up to three licences each. In addition, the ownership rules under the Broadcasting Act were changed to limit the audience reach of licences held by one person to 60 per cent of the Australian population, and to introduce cross-media and foreign ownership restrictions.[1,2]

The 1987 ownership rules drove significant changes in the structure of the commercial television industry. Until then, major media groups had formed regional conglomerates, combining interests in television, newspapers and radio. The new cross-media and population reach limit rules encouraged owners to redirect their resources into the development of national commercial television networks. Together with the deregulation of the financial system and the resulting ready availability of credit, the rule changes facilitated speculative, debt-funded takeovers at high prices as new owners sought to control and build networks.

Under their new owners, who had little previous experience in the broadcasting industry, the capital city networks increased expenditure levels as they competed for market share. Revenues, however, did not increase commensurably, forcing another round of ownership changes. By 1991, both the Seven Network and Network Ten were controlled by creditors, and the Nine Network was back in the hands of its original owner.[3,4]

In 1992, the Act introduced further changes to the ownership rules, limiting any one party to owning one television licence in the same licence area and increasing the maximum audience reach of licences held by one person to 75 per cent of the Australian population. These changes encouraged further consolidation of the networks and their regional affiliates.

As a result of solus market aggregation, there are now aggregated markets with three commercial television licences each in regional Queensland, northern NSW and southern NSW; four licences in regional Victoria; and an aggregated market with two licences and one digital-only licence in Tasmania. Affiliation agreements between the three major commercial television networks and the licensees in the aggregated markets extend the

[1] The ownership amendments to the Broadcasting Act prevented control of more than one commercial television station, commercial radio station or daily newspaper in the same licence area, and limited the interests of a foreign person to 15 per cent and of all foreign persons to 20 per cent.
[2] Australian Broadcasting Tribunal (ABT) 1988, *Broadcasting in Australia 1988*, ABT, p.7.
[3] Bureau of Transport and Communications Economics (BTCE) 1996, *Australian Commercial Television 1986–1995*, pp.59-60.
[4] Flew, T. and Gilmour, C. 2006, ‘Television and Pay TV’, *The Media and Communications in Australia*, Allen & Unwin, p.181.

audience reach of the major networks to more than 90 per cent of the Australian population. All solus licence areas have now been converted into multi-station regional (MSR) areas through licence auctions.

In 2007, the federal government introduced new media ownership rules. The changes specify that a minimum of six different organisations should own or control licences in Sydney and Melbourne, five in other capital cities and four for regional markets in other areas. No more than two of the three regulated platforms (that is, commercial radio, commercial television and Associated Newspapers) can be controlled by the same person or organisation in any one licence area.[5]

The effects of these changes on the BFR data will not be apparent before 2008, when the 2006–07 data should become available.

[5] Coonan, H. 2006, *Media Reform—Moving to the Digital Age*, <http://www.minister.dcita.gov.au/media/media_releases/media_reform_-_moving_into_the_digital_age>, accessed 27 October 2007.

Table 1: Summary of significant events in the Australian television industry

1956	TCN broadcasts first television in Australia on 16 September in time for the Melbourne Olympic Games
1957	Two commercial stations and the ABC broadcasting in both Sydney and Melbourne
1959	Commencement of ABC and two commercial services in Brisbane and Adelaide
1960	Commencement of first commercial service in Perth
1960–64	Solus stations start up in 16 larger regional centres
1964–65	Commencement of third commercial channel in Sydney, Melbourne, Brisbane and Adelaide, and second commercial channel in Perth
1965–68	Solus stations in another 14 regional areas
1974	Abolition of radio and television receiver licences and fees
1975	Introduction of colour television after restricted broadcasts in 1974
1976	Introduction of video cassette recorders
1980	Commencement of SBS television
1985	Rupert Murdoch becomes a US citizen, one of a number of catalysts for sales of television licences
1986	Commencement of remote commercial television services by satellite
1987	Changes to ownership rules in the *Broadcasting Act 1942*
	Alan Bond purchases the Sydney and Melbourne Nine Network stations to add to Bond Media's Brisbane and Perth stations
	Westfield subsidiary Northern Star acquires the Sydney, Melbourne, Perth and Adelaide Ten Network stations
	Qintex acquires Sydney, Melbourne and Brisbane Seven Network stations
1988	Commencement of third commercial channel in Perth
	At June 1988, there are 42 commercial television licences and 39 ABC television stations
	Qintex acquires the Perth and Adelaide Seven Network stations
1989	Northern Star buys the Brisbane Ten Network station
	Severe financial problems for all three networks, leading to changes of ownership
	Commencement of southern NSW aggregation for Canberra and Wollongong
	Dubbo joins southern NSW aggregation
	Qintex placed in receivership
	Northern Star placed in receivership
1990	Commencement of regional Queensland aggregation
	Sydney, Melbourne and Brisbane Nine Network stations sold back to Kerry Packer for $565m less than he had received for the Sydney and Melbourne stations in 1987
1991	Commencement of northern NSW aggregation
	Commencement of regional Victoria aggregation

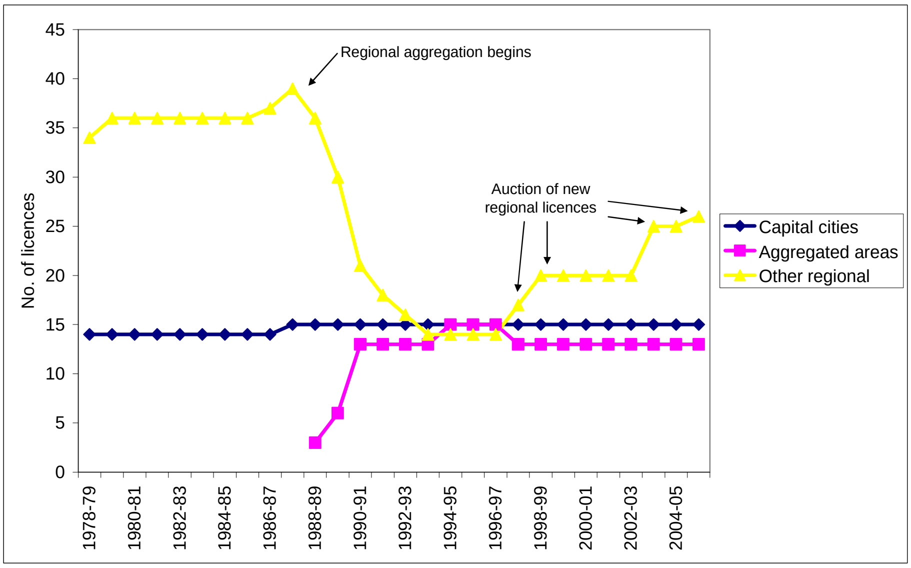
1992	Introduction of the *Broadcasting Services Act 1992*
1993	Seven lists on the Australian stock exchange
1994	Commencement of Tasmania aggregation—two channels only
1995	Commencement of subscription television (pay TV)
1997	Auction of second commercial television licences in Darwin and Mildura
1998	Ten Network Holdings (the holding company for the Ten Group) floated on the Australian Stock Exchange
2000	Regional equalisation program announced under the 2000–2001 budget
2001	Introduction of digital television in capital cities and some regional areas
2002	Further introduction of digital television services in regional areas
	Commercial television broadcasting licence issued to TasTV Pty Ltd to provide a third, digital-only commercial television service
2007	Changes to the ownership rules

Source ABA Annual Reports; ACMA Annual Reports; Bureau of Transport and Communications Economics (BTCE), Australian Commercial Television 1986–1995, 1996, p.36; Dunn, J 1998, ‘Float Review’, *Business Review Weekly*, 23 March.

The industry in 2005–06

In 2005–06, there were 54 commercial television licences, including 15 capital city licences; 13 licences in aggregated, multi-station markets and 26 licences in other solus and multi-station markets. The number of capital city licences has been stable throughout the period, increasing only from 14 to 15 in 1987–88. Regional aggregation resulted in the total number of solus, multi-station and aggregated licensees falling from 39 in 1988–89 to 27 in 1993–94, as licences were consolidated to form larger licence areas (Figure 1).

Figure 1: Commercial television licences by market, 1978–79 to 2005–06



Capital city and aggregated markets cover a larger proportion of the Australian population than remote and solus markets; their licensees therefore have access to more potential viewers. For example, based on census figures in 2001, capital city licensees could access, on average, 2.5 million people. This was nearly twice as many as aggregated market licensees (average of 1.4 million per licence area) and more than 10 times other licensees (0.2 million per licence area).

As a point of comparison, in 1999, eight different ownership groups each controlled more than one commercial television licence. Four groups controlled only one commercial television licence. By June 2006, most ownership groups are public companies under the control of a manager with a history of involvement in the media industry (Table 2).

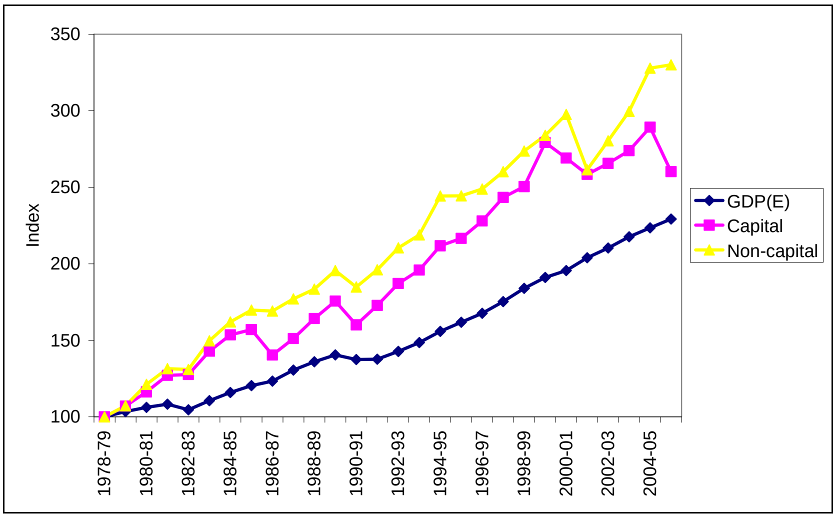
Table 2: Number of stations owned by and affiliated with commercial television networks, June 2006

Network	Ownership	Number of stations	
		Owned	**Affiliated**
Seven Network Ltd	Public company controlled by Kerry Stokes	5 capital 1 regional	12 regional 4 remote
Nine Network Pty Ltd	Wholly owned by Publishing and Broadcasting Limited and ultimately controlled by James Packer	3 capital 1 regional	10 regional 2 remote 1 capital
Network Ten Pty Ltd	Wholly owned by The Ten Group Pty Ltd (which is 84 per cent owned by public company Ten Network Holdings Pty Ltd)	5 capital	12 regional 2 remote
WIN Television Network Pty Ltd	Ultimately controlled by Bruce Gordon	12 regional 1 remote	Affiliated with Nine Network and Network Ten
Prime Television Ltd	Public company controlled by Paul Ramsey	7 regional 1 remote	Affiliated with Seven Network
Southern Cross Broadcasting (Australia) Ltd	Public company controlled by various shareholders	12 regional 1 capital 2 remote	Affiliated with Seven, Ten and Nine networks
Imparja Television Pty Ltd	Company controlled by the Central Australian Aboriginal Media Association, and the Aboriginal and Torres Strait Islander Commission	1 remote	Affiliated with Nine Network and Network Ten
NBN Enterprises Pty Ltd	Wholly owned by Washington H Soul Pattinson	1 regional	Affiliated with Nine Network
Swan Television & Radio Broadcasters Pty Ltd	Public company controlled jointly by Sunraysia Television Ltd (Eva Presser) and Win Television Network Pty Ltd (Bruce Gordon)	1 capital	Affiliated with Nine Network

Revenue

Historically, commercial television in Australia has achieved revenue growth well above the rest of the economy (Figure 2). Since 1979–80 (the period of time for which BFR data is available), GDP for example grew by a per annum average of 3.2 per cent in real terms, while commercial television revenues grew by 3.8 per cent. Since 1999–2000, however, commercial television growth has slowed to an annual average of 0.6 per cent. Revenue has also become more volatile.

Figure 2: Index of real growth in GDP(E) and commercial television revenues by region (1978–79=100)[6]



Change in the growth of commercial television revenue is related to changes in GDP growth (Figure 3). Between 1978–79 and 2005–06, the correlation between changes in total commercial television revenue and GDP was 0.42.[7]

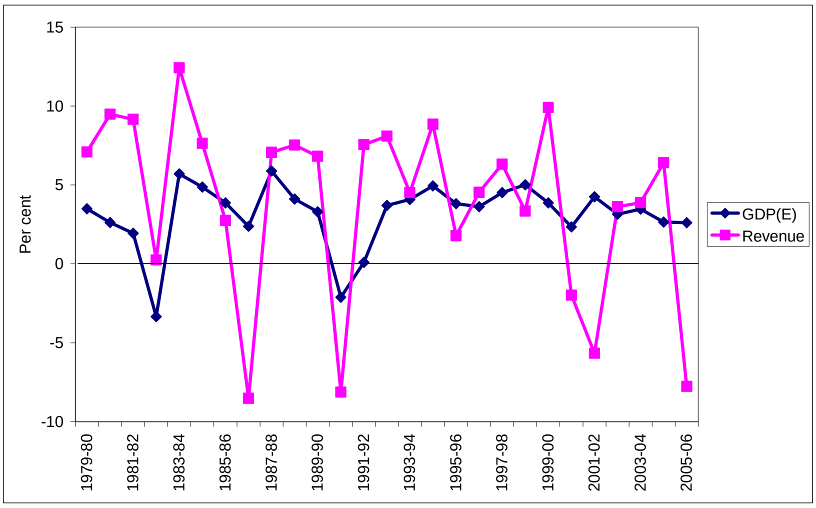
Corporate profits directly influence expenditure on advertising, as advertising budgets are often cut during periods of low profit growth. This drives the price of television and radio advertising down as broadcasters attempt to sell advertising time. Growth in commercial

6 Data converted using the non-farm GDP implicit price deflator. GDP(E) and non-farm implicit price deflator both sourced from ABS 2007, *Australian System of National Accounts*, <http://www.abs.gov.au/AUSSTATS/abs@.nsf/DetailsPage/5204.02006-07?OpenDocument>, accessed 10 August 2007.

7 A correlation coefficient is a number between 1 and –1 that measures whether there is a linear relationship between two variables. A correlation of 1 or –1 indicates a perfect positive or negative relationship. A correlation of 0 means there is no linear relationship between the two variables.

television revenue slows during periods of weak economic growth and recession, and increases during periods of economic expansion. Figure 3 shows that until the 1990s a fall in growth in commercial television revenue coincided with a fall in GDP growth.

Figure 3: Percentage change in real GDP(E) and commercial television revenues[8]



In 2005–06, the Australian commercial television industry reported total revenues of $3,989.7 million. This was only the third time that nominal commercial television revenue had fallen from the previous year since the inception of the BFR, and the fifth time it had fallen in real terms. Previous falls were related to:

- in 1987, opening the industry to a change in ownership and increased competition;
- in 1990–91, to ownership rule changes; and
- in 2000–01, to the post-Olympics ‘advertising slump’.

The 2005–06 fall may be due to increased competition, as subscription television and new media attracted advertising expenditure away from commercial television (Figure 4).

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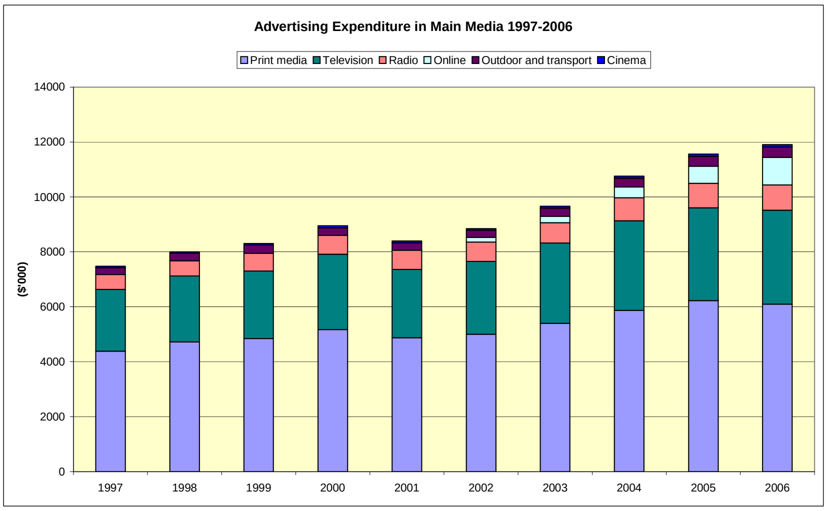
[8] Data converted using the non-farm GDP implicit price deflator.

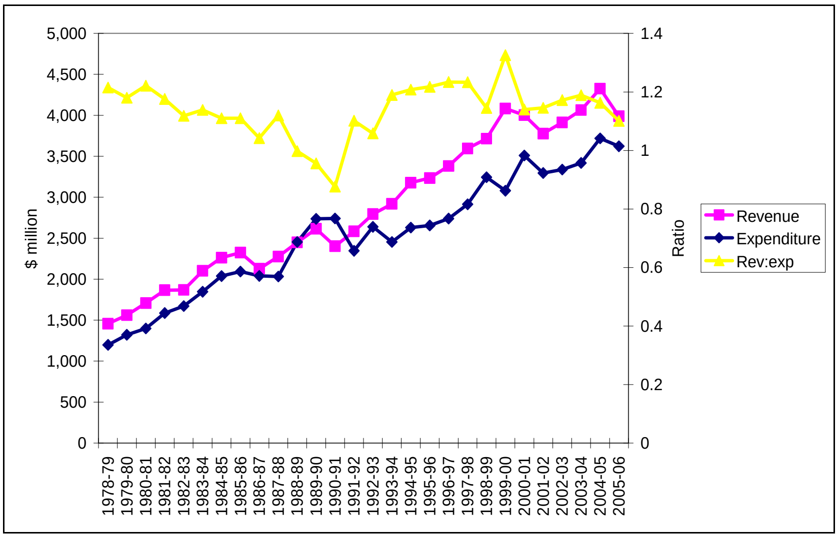
Figure 4: Advertising expenditure by media



Source Commercial Economic Advisory Service of Australia 2006.

Comparing total commercial television revenue and expenditure shows that the gap between them has narrowed since 2003–04 (Figure 5). In 2004–05 and 2005–06, the ratio of commercial television revenue to expenditure was at its lowest point since the industry turmoil following the 1987 ownership law changes. Causes for this shift are explored later in this paper.

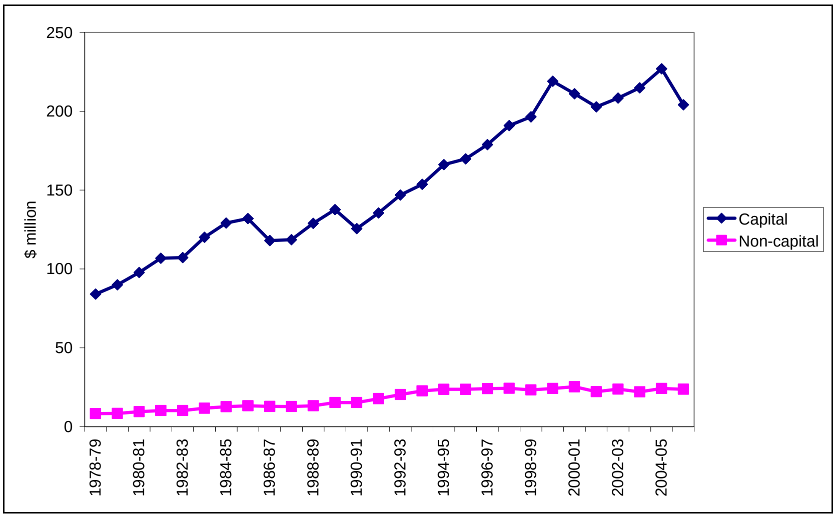
Figure 5: Revenue versus expenditure for all commercial television licensees ($ million)



Revenues earned by capital city and non-capital city commercial television licensees differ in terms of size, growth and source. In 2005–06, licensees in capital cities reported total revenue of $3,062.1 million and those in non-capital cities reported $927.6 million. Between 1978–79 and 2005–06, revenue per licensee grew at an average of 3.5 per cent per annum in capital cities, and at 4.3 per cent per annum in non-capital areas (Figure 2 and Figure 6). Since 1978–79, capital city licensees have earned annual revenues between seven and 10 times those of non-capital licensees.

Capital city revenues have been subject to more volatility and less growth than non-capital licensees in recent years. Since 1999–2000, there has been no real increase in capital city revenue. Total non-capital city revenue increased by an average of 2.8 per cent per annum over the same period, from $798.0 million in 1999–00 to $927.6 million in 2005–06. Per licensee revenues fell by an average of 0.5 per cent per annum over the same period, as six new licences were auctioned.

Figure 6: Commercial television revenue per licensee by region ($ million)



Advertising revenue

Capital city licensees generate more revenues because they charge higher advertising rates. Advertiser demand for timeslots depends on a number of factors, including audience size, its demographics and interests, the expected effectiveness of the advertisement, and the price and effectiveness of alternative forms of advertising. As the amount of advertising time on Australian commercial television is constrained by limits on the supply of services and industry codes of practice, growth in advertising revenues must come from higher advertising rates.[9] Popular broadcasters can sell timeslots at a premium to media buyers who acquire large quantities of time well in advance and may bid aggressively to ensure that spots on programs attracting desired targeted audiences are obtained.[10]

The largest single source of revenue for commercial television licensees is agency advertising (Figure 7 and Figure 8). In 2005–06, capital city licensees generated a total of $2653.2 million in agency advertising, while non-capital city licensees generated $484.3 million.

Non-agency advertising, which is reliant on local advertisers rather than media buyers, is more important as a source of revenue for non-capital licensees (Figure 9). In 2005–06, capital city licensees earned $71.3 million in non-agency advertising revenue and non-capital licensees earned $318.4 million. Contra advertising is the least important source of advertising revenue, earning capital city licensees $22.0 million and non-capital licensees $3.7 million in 2005–06.

[9] Productivity Commission 2000, *Broadcasting*, Report No. 11, p.138.

[10] Vogel, H.L. 2004, *Entertainment Industry Economics—A Guide for Financial Analysis*, 6th Ed., Cambridge University Press, p.239.

Figure 7: Revenue by type, capital city commercial television licensees ($ million)

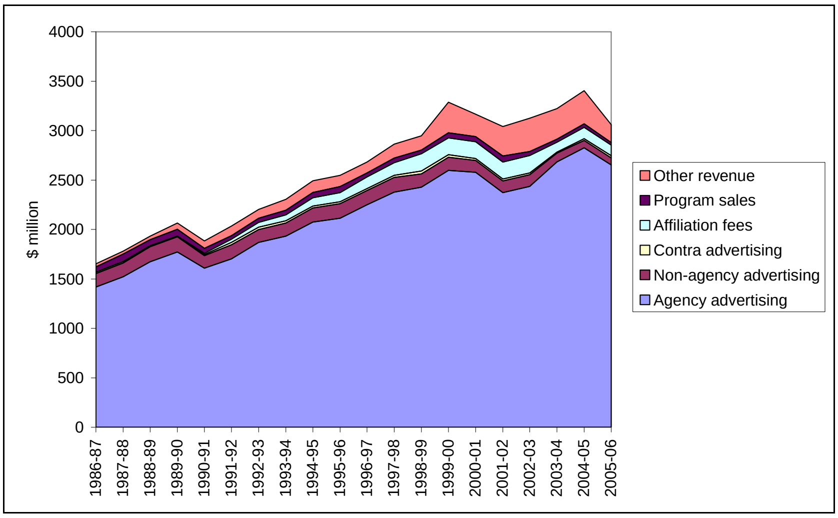


Figure 8: Revenue by type, non-capital commercial television licensees ($ million)

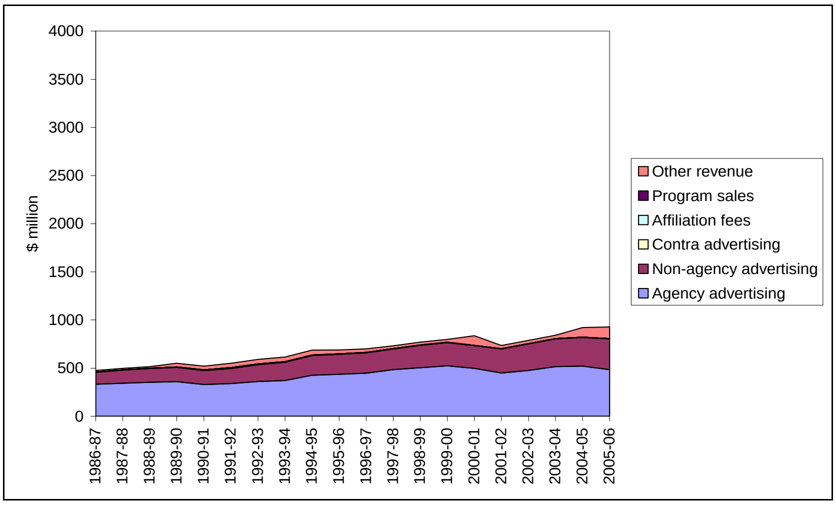
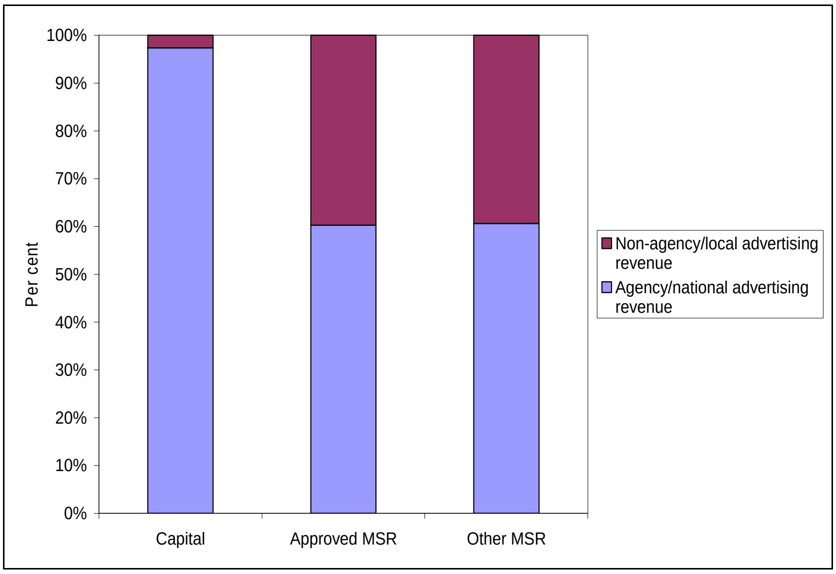


Figure 9: Proportional distribution of agency and non-agency advertising revenue, 2005–06



Both capital and non-capital licensees experienced falls in agency advertising revenue in 2000–01 and 2001–02, and again in 2005–06. In mid-2005, media buyers cited the economic downturn as contributing to falls in advertising expenditure.[11] In December 2005, however, the media reported that media buyers were attempting to move the networks away from traditional capped rate increases, forcing reductions in advertising rates.[12]

Affiliation revenue

Except for advertising revenue, affiliation fees are the most important source of revenue for capital city licensees. In 2005–06, capital city licensees earned a total of $108.1 million in affiliation fees. Non-capital licensees did not receive any affiliation fee payments. Instead, affiliation fees were a major expense item for non-capital licensees, with a total of $212.0 million reported for 2005–06. Affiliation fees received by capital city licensees are related to non-capital revenues. Between 1990–91 and 2005–06, for example, the correlation between affiliation fee payments and non-capital advertising revenues was 0.76.

Revenue by network

Although revenues earned by the Nine Network were greater than those earned by either the Seven Network or Network Ten for the entire period between 1978–79 and 2005–06, it appears likely that the relative positions of the networks are changing. The Nine Network's revenues were steady between 1999–2000 and 2004–05, changing in real terms by an annual average of less than one tenth of a per cent. In 2005–06, however, the Nine Network's revenues fell by 17.4 per cent to $1,470 million.

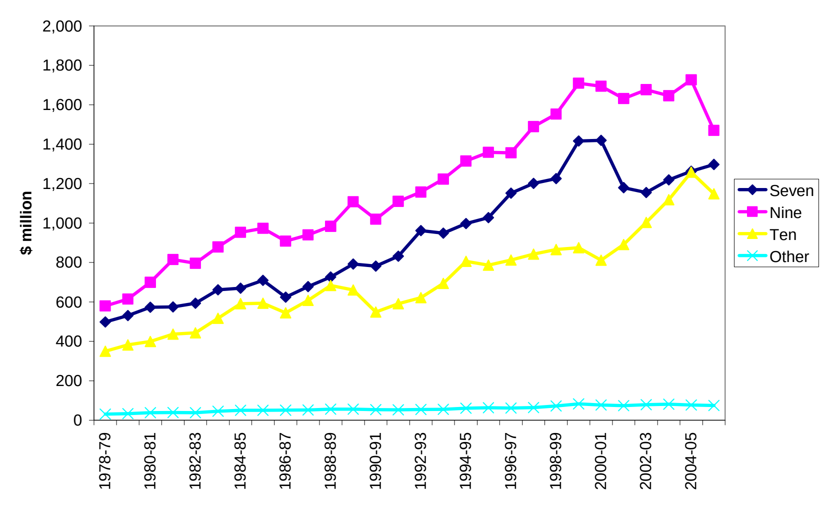
In 1999–2000 and 2000–01, the Seven Network's revenues spiked to more than $1,400 million per annum as it benefited from broadcasting the Sydney Olympic Games. The Seven Network's revenues fell in 2001–02 to $1,180 million, which was less in real terms than it had earned in 1996–97. Since 2001–02, the Seven Network's revenues have grown by an average of 2.8 per cent per annum to $1,297 million in 2005–06.

Network Ten experienced the highest growth of the networks in recent years, although it maintained its position as the lowest-earning network. Since 2000–01, Network Ten's revenues increased by an annual average of 3.5 per cent.

Revenues earned by unaffiliated licensees have been steady since 2000–01, with an annual average change of zero in real terms.[13]

[11] Schultz, J. 2005, 'Ad Revenue Growth Slows', *The Australian*, 4 May.
[12] Sinclair, L. 2005, 'Ad Rate Negotiation Revolt', *The Australian*, 28 November.
[13] Unaffiliated networks are listed in the glossary.

Figure 10: Total revenue by network, 1978–79 to 2005–06



Expenditure

In 2005–06, commercial television licensees reported total expenditures of $3,623.3 million. Capital city licensees incurred $2,899.2 million in total expenses and non-capital licensees incurred $724.1 million. Between 1978–79 and 2005–06, total expenses grew by an average of 2.7 per cent per annum in capital cities and 3.1 per cent per annum in non-capital areas. As with revenue, commercial television licensees in different markets also have different expenditure characteristics (Figure 11 and Figure 12). Most expenditure items have only been collected since 1986–87, so it is not possible to compare expenditure patterns for the same period as advertising revenue.

In 2005–06, Australian programming usage and amortisation ($869 million) was the largest expense for commercial television licensees. Foreign programming usage and amortisation ($352.7 million) was the next largest expense, followed by salaries and wages ($335.3 million). Since 1986–87, both Australian and foreign programming costs have fallen by an average of 1.7 per cent per annum. Although employee costs have risen on average since 1986–87, since 1996–97 they have fallen by an annual average of 3.3 per cent.

Australian and foreign programming

The commercial television industry spends between two and two-and-a-half times as much on Australian programming as on foreign program material. Since 1986–87, approximately 70 per cent of programming costs have been for local content. Proportionally, non-capital licensees spend more on local content than capital city licensees (78 per cent compared with 70 per cent since 1986–87), but their overall expenditure levels on local content are low—an average of fewer than one per cent of those of capital city licensees (Figure 11 and Figure 12).

Accredited agency commissions

Commercial television licensees and advertising and media-buying agencies negotiate rates for advertising time on an annual basis. Television licensees provide significant discounts for larger purchases, reflecting the economies of scale inherent in the transaction. Agency commissions are closely related to agency advertising revenues reported by licensees—since 1986–87, the correlation between the two for the industry was 0.99.

Despite this close relationship, some changes in how commissions are negotiated are appearing. Until 2000, commissions provided to agencies and advertisers consistently represented slightly more than 10 per cent of agency advertising revenue across the industry. Since 2000, commissions provided by capital city licensees have fallen, to a low of 8.6 per cent of agency advertising revenues in 2004–05 and 9.7 per cent in 2005–06. Commissions provided by non-capital licensees, on the other hand, have increased to 12.2 per cent in 2005–06.

Figure 11: Expenditure by type, capital city licensees, 1986–87 to 2005–06

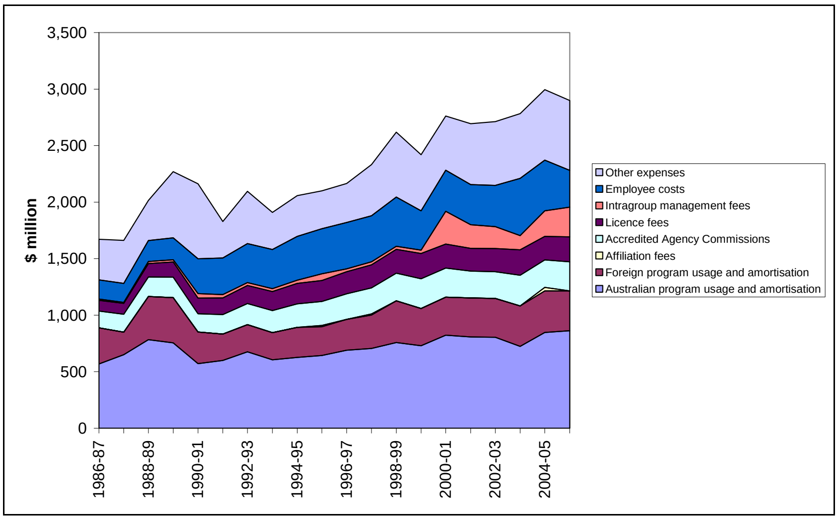


Figure 12: Expenditure by type, non-capital licensees, 1986–87 to 2005–06

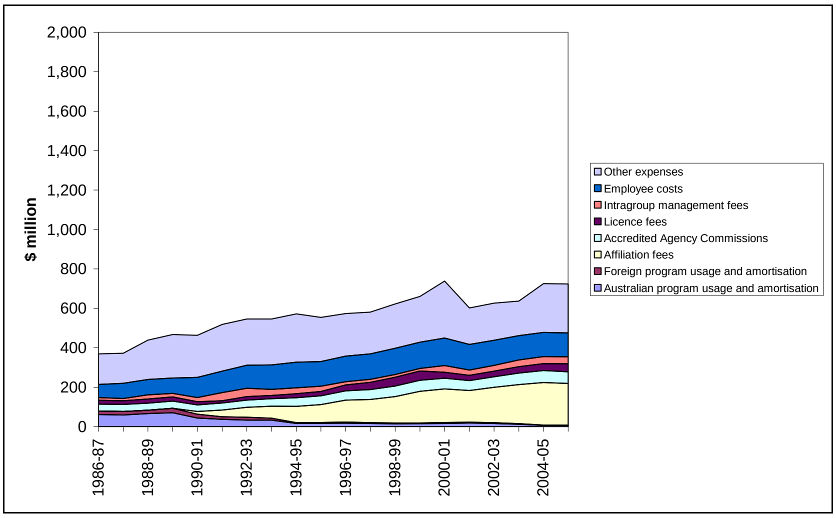
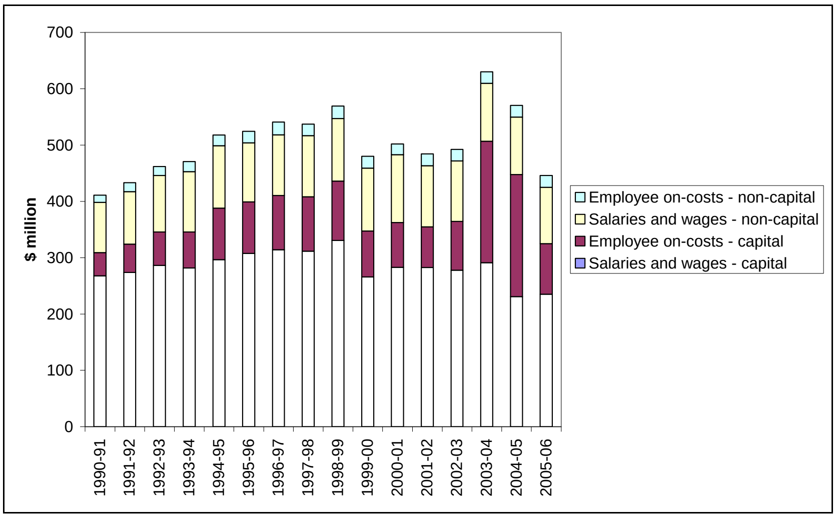


Figure 13: Employee-related costs by region, 1990–91 to 2005–06



After programming, the combined cost of salaries/wages and employee on-costs are the second-largest expense for commercial television licensees. Employee-related costs have been volatile since 1998–99, with most recent changes showing a reduction in both salaries/wages and employee on-costs (Figure 13). This has been due mainly to salary and wages costs incurred by capital city licensees—after increasing at an annual average rate of 2.5 per cent between 1990–91 and 1998–99 to a peak of $330.8 million, these fell by an average of 3.6 per cent per annum from 1998–99 to 2005–06, to $235.1 million.

Employee on-costs were also highly variable for capital city licensees, averaging about $100 million in the late 1990s, then falling to about $80 million and increasing again to more than $200 million in 2003–04 and 2004–05, before falling again to $89.8 million in 2005–06.

Employee-related expenses are significantly lower for non-capital licensees than capital city broadcasters. Like capital city broadcasters, employment-related costs increased through the 1990s and have since fallen, with salary and wages costs increasing at 2.4 per cent per annum between 1990–91 and 1998–99, and then falling at an average rate of 2.0 per cent per annum to 2005–06.

Changes in employment-related costs in the late 1990s are reflected in ABS employment data. For example, between June 1997 and June 2000, the number of people employed in the commercial television industry increased by 16 per cent to 7,807. By June 2003, this had fallen by 27 per cent to 6,577 people. Between June 2000 and June 2003, full-time employees had fallen from 82 per cent of employees to 73 per cent. Male employees accounted for 62 per cent of employees in 2000 and 63 per cent in 2003.[14,15]

Licence fees

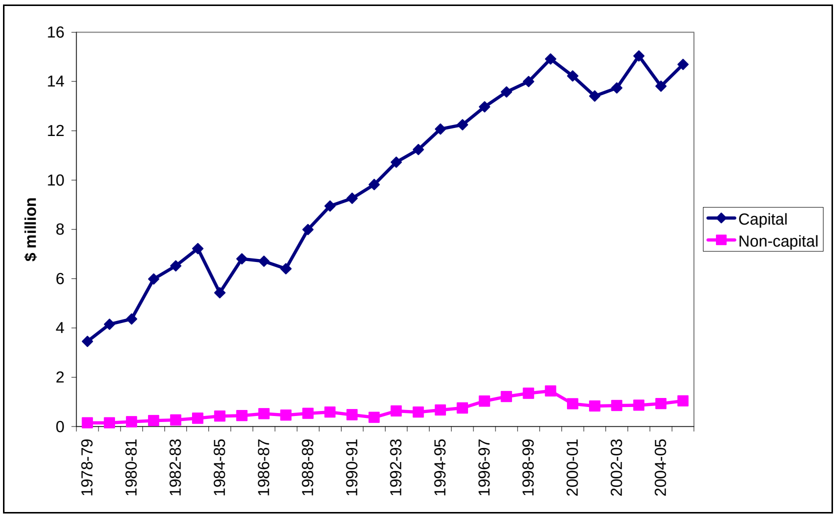
Commercial television licensees pay annual licence fees to the federal government. Licence fees are calculated as a sliding proportion of revenue—between 0.5 and 9.0 per cent—as defined by the *Television Licence Fees Act 1964*. Licence fees thus increase as a proportion of revenues earned by licensees as revenues increase (Figure 6 and Figure 14). Since 1978–

[14] ABS 2000, *Television Services 1999–00*, Cat. No. 8559.0, Canberra.
[15] ABS 2004, *Television, Film and Video Production*, Cat. No. 8679.0, Canberra.

79, when the BFR data was first collected, total licence fee payments have grown by an annual average of 5.5 per cent per annum, compared with revenue growth of 3.8 per cent. Since 1999–00, licence fee payments have not grown in real terms, as revenue growth has been negligible.

During the 1990s, licence fee payments were stable for capital city licensees—about 7.2 per cent of total revenue. Since 1999–2000 it has varied to as little as 6.1 per cent of revenue, as capital city revenues have changed. Falls in licence fee payments by non-capital licences in 2000–01, however, are due not to variations in revenue but to the Regional Equalisation Plan, which made licence fee rebates available to non-capital broadcasters to assist with the cost of implementing digital broadcasting infrastructure.

Figure 14: Average licence fees per licensee by region 1978–79 to 2005–06



Note Licence fees reported by some capital city licensees in 1990–91 were significantly higher than fees for the preceding and following years, suggesting either an error or some other irregularity. To allow for easier interpretation of the data, licence fees for capital city licensees for this year have been interpolated using expenses reported for 1989–90 and 1991–92.

Expenditure by network

The networks' overall expenditure profiles reflect their revenue status, with the highest earning network—Nine—incurring the highest expenses and the lowest earning network—Ten—spending the least (Figure 15). Much of the variation in total expenditure is due to changes in program usage and amortisation and employment-related costs, as these are the largest expense items.

A comparison of Figure 15, Figure 16 and Figure 17 suggests that the Nine Network has significantly higher overheads than the Seven Network, as its overall expenditure levels are higher than Seven's, but that the two networks spend similar amounts on programming.

Commercial television broadcasters seeking to increase revenue face limited choices. Traditionally, broadcasters attempted to gain market share through program competition. Figure 15, Figure 16 and Figure 17 show increases in program expenditure during the late 1980s and early 1990s as the networks attempted to outbid each other for higher quality programs to increase audience share and revenue.

Increases in foreign program expenditure between 1987–88 and 1989–90 were due primarily to competition between networks. In an attempt to disrupt Seven's and Nine's reliance on popular US programs, Ten entered agreements with US production houses to take over Seven's and Nine's purchasing contracts once they expired. This move led to escalating production costs—and not just for program material—as the networks bid and counter-bid for overseas contracts and local television personalities and production staff.[16] These agreements have since been renegotiated.

The Seven and Nine networks have spent similar amounts on programming since the early 1990s, as they competed for market share. Peaks in programming usage and amortisation for Seven in 1998–99 and 2000–01 are probably related to its acquisition of the broadcast rights for the Sydney Olympic Games. Network Ten reduced programming expenditure by adopting new programming strategies including targeting a younger audience. The success of reality programs such as *Big Brother* has seen the cost of rights increase, pushing up expenditure on programming for Network Ten.

[16] Stone, G. 2000, *Compulsive Viewing—The Inside Story of Packer's Nine Network*, p.399.

Figure 15: Expenditure by type, Seven Network, 1986–87 to 2005–06

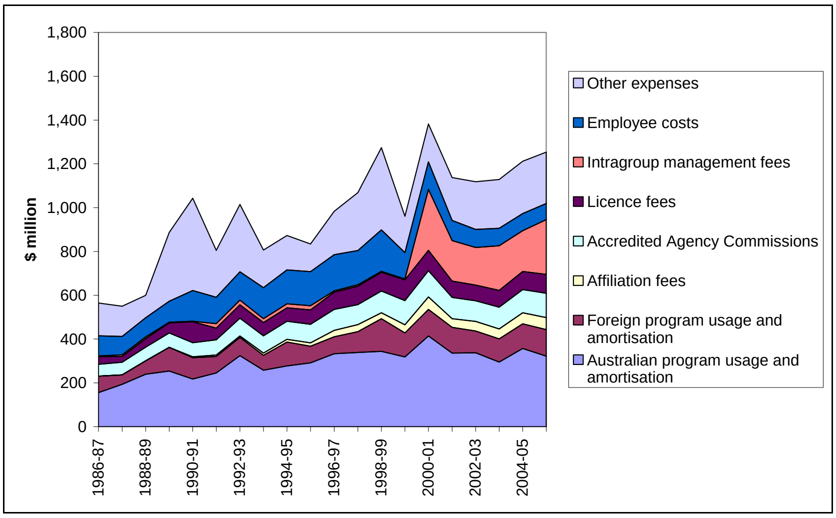


Figure 16: Expenditure by type, Nine Network, 1986–87 to 2005–06

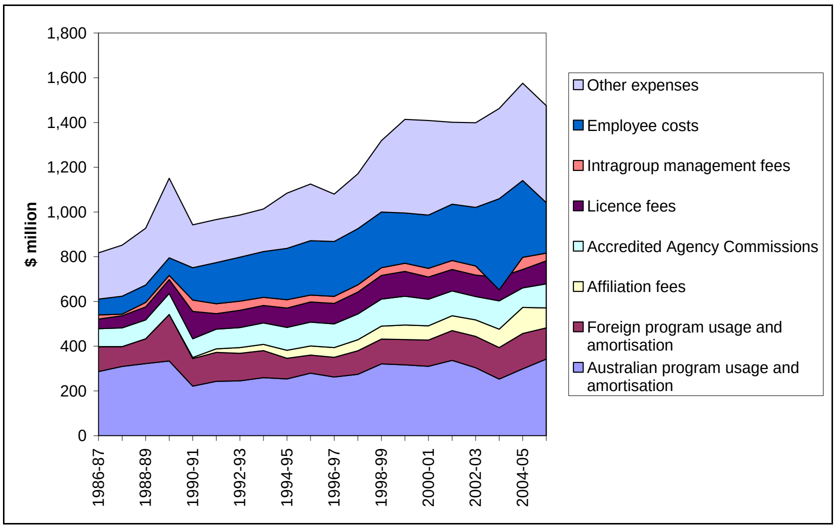
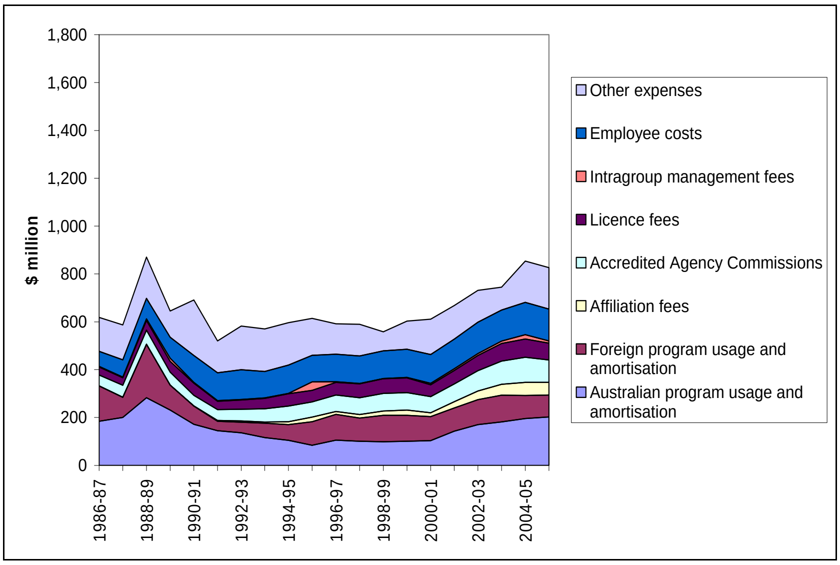


Figure 17: Expenditure by type, Network Ten, 1986–87 to 2005–06



Assets and liabilities

The asset and liability balances of the commercial television licensees reflect the history of the industry (Figure 18 and Figure 19). The volatility of the late 1980s and early 1990s is evident in revaluations of the television licences and peaks in debt, both in absolute terms and as proportion of assets.

The 1990s was a period of relative stability, but the late 1990s saw the beginning of an increase in non-current liabilities, balanced by an increase in non-current and other assets (intangible assets and the television licence assets). Since 1997–98, both non-current assets and liabilities have increased by about $3,000 million. Non-current assets have increased by an annual average of 10.7 per cent and non-current liabilities by 4.7 per cent.

One of the most noticeable changes in the BFR data in recent years is an across-the-board devaluation of commercial television licences (Figure 18). The devaluation began in 2003–04, but the largest fall occurred in 2005–06. Since 2003–4, broadcasters have written off nearly $2,000 million from the value of licences.

In the past, the licence has been the single most important asset held by a commercial television broadcaster. The licence gave the broadcaster access to a mass audience for audiovisual services, which was shared by only a limited number of other broadcasters. The value of the licence represents the value of future profits that the licensee expects to earn, and is derived from the restriction on the number of licences issued in each market, the brand value or goodwill associated with the service and any superior technologies or skills held by the licensee.[17]

Commercial television licensees now compete with a range of new media services, including subscription television, the internet, games, DVDs and mobile phone providers. Although new services may have driven some growth in the overall audience for screen media, their existence puts pressure on the size of the commercial television audience, and may affect revenue and future profit growth.

Licence devaluations in 2005–06 resulted in smaller average licence values than those of the mid-1990s and approaching that of 1986–87 (Figure 20). Much of the variation in licence value appears to be due to revaluations within specific networks (Figure 21, Figure 22 and Figure 23).

[17] BTCE 1996, *Australian Commercial Television 1986–1995*, p.67.

Figure 18: Total assets of commercial television licensees, 1986–87 to 2005–06

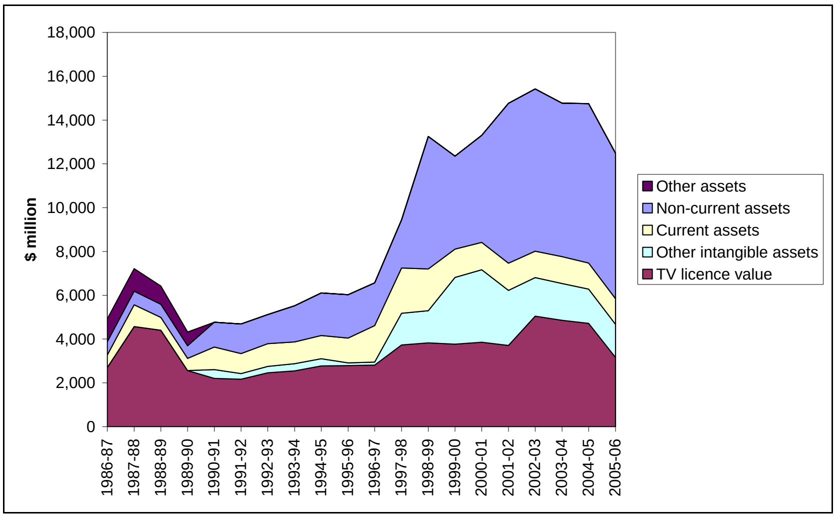


Figure 19: Total liabilities of commercial television licensees, 1986–87 to 2005–06

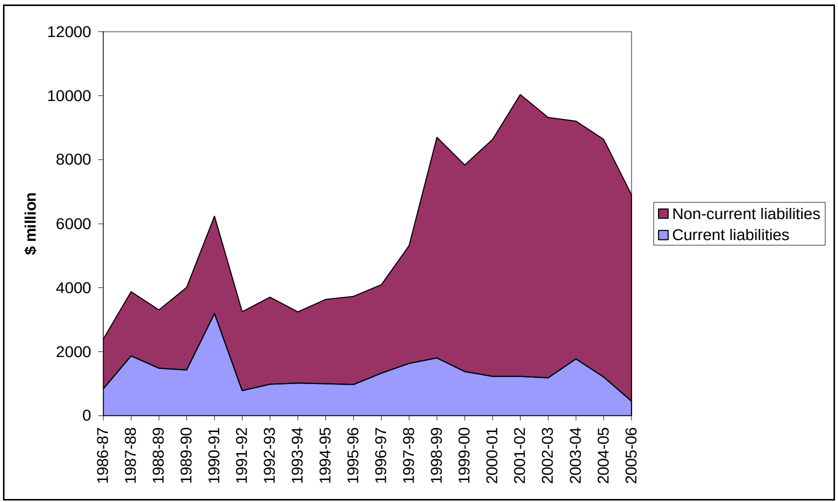
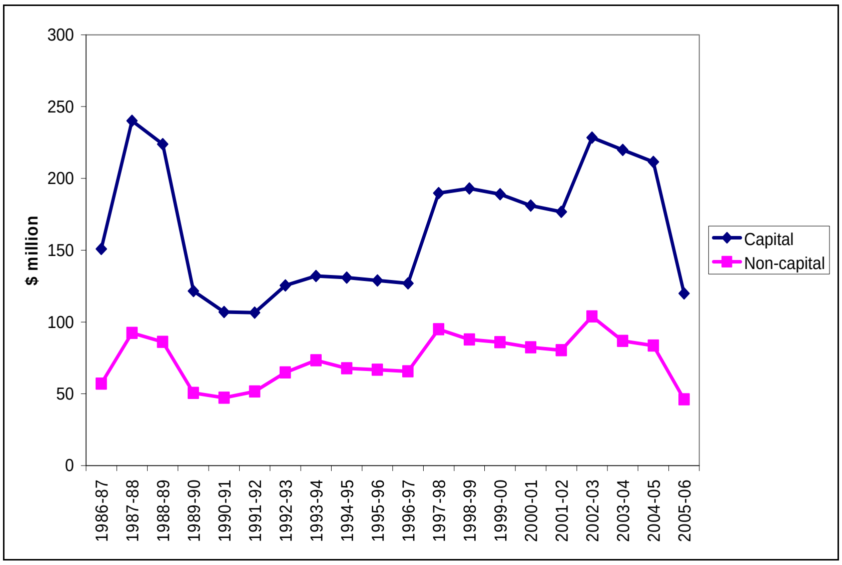


Figure 20: Average licence value by region, 1986–87 to 2005-06



Licences in capital cities are valued more highly than non-capital licences, reflecting higher capital city revenues. They are also more likely to be subject to large revaluations (Figure 20). Capital city licensees also value their licences as a lower multiple of profit. Since 2001–02, the average capital city licence value has been the equivalent of five years profit before interest and tax (PBIT), while the average non-capital licence has averaged six years PBIT.

By network

Together with revenue and expenditure data, the assets and liabilities of the three networks provide some insight into their corporate histories and business strategies. All networks have seen changes in their asset and liability balances since the late 1990s.

The Seven Network saw increases in its current assets and liabilities from 1996–97 and subsequent decreases from 1999–2000. This movement coincided with the network’s acquisition of the broadcast rights to the Sydney Olympic Games. Another interesting feature of the Seven Network’s liabilities is their decrease between 2003–04 and 2005–06, in the order of 50 per cent each year.

The Nine Network saw large increases in debt and assets in the late 1990s. Figure 22 shows that the Nine Network was the source of much of the increase in non-current balance sheet items from 1997–98 onwards. Nine was also responsible for the largest licence devaluations in the 2000s. As the licence values fell from 2001–02 onwards, liabilities also fell.

From 2000–01, Network Ten experienced an increase in tangible assets and liabilities, with an increase in licence values beginning in 2001–02. This increase coincided with the introduction of digital broadcasting and may relate to the acquisition of new equipment. Network Ten also devalued its licences in 2005–06.

Figure 21: Assets and liabilities, Seven Network, 1986–87 to 2005–06

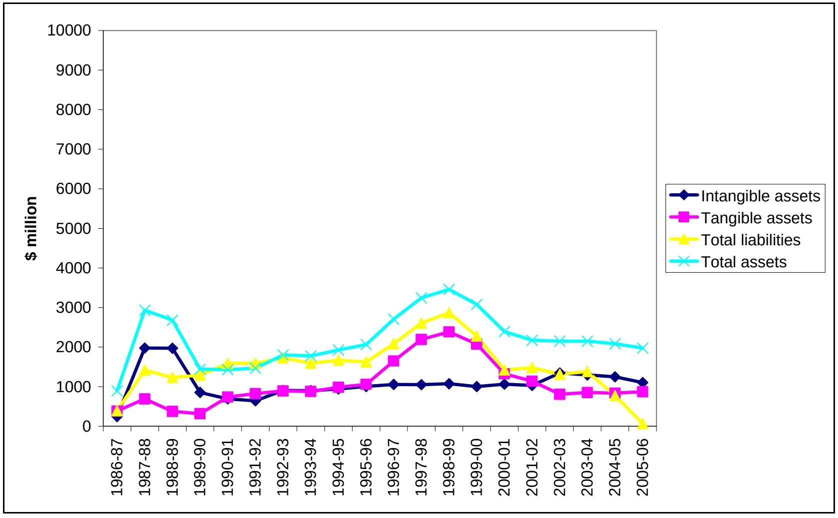


Figure 22: Assets and liabilities, Nine Network, 1986–87 to 2005–06

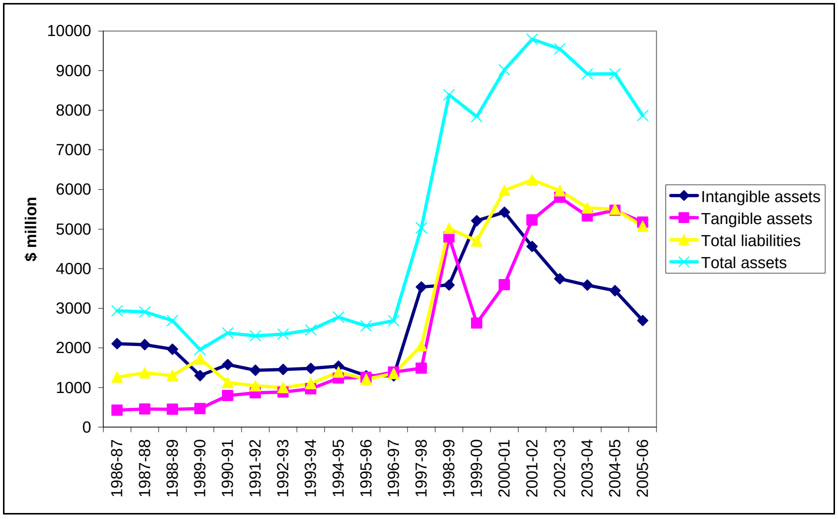
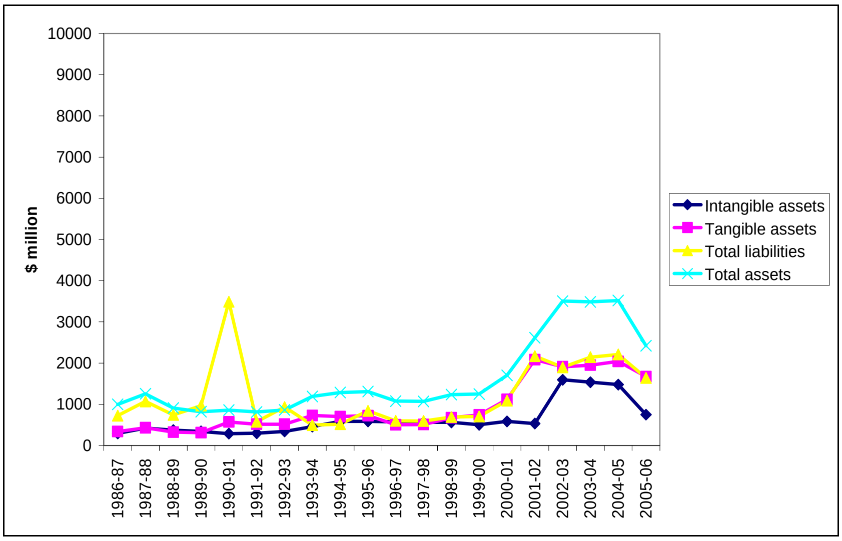


Figure 23: Assets and liabilities, Network Ten, 1986–87 to 2005–06



Profitability

Combining financial data to reveal an organisation’s or industry’s profitability provides a better perspective on overall financial performance than just revenue to expense data. Two profit measures are used here:

- profit before interest and tax (PBIT), which provides a net revenue measure uninfluenced by gearing strategies or debt levels; and
- rate of return, measured as the ratio of PBIT (less licence fees) to assets (less licence values). This measure excludes licence fees, as they are effectively a tax on the industry, and the value of television licences, as they represent a capitalisation of expected profits, not working capital.

In 2005–06, total commercial television industry profit, measured as PBIT, was $620.4 million. PBIT increased between 1991–92 and 2003–04 at an average annual rate of 6.7 per cent, despite some variability around 2000 (Figure 24).

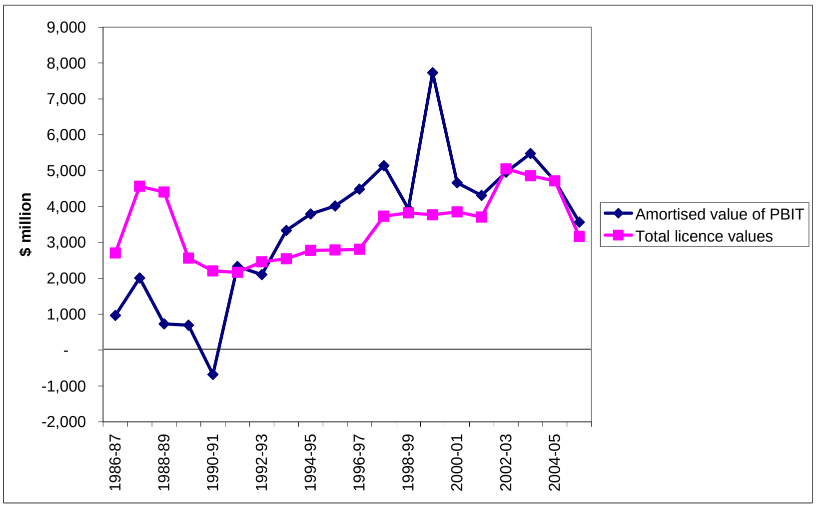
Over the last two years, however, PBIT has fallen by an average of 27.8 per cent per annum. The period of unstable PBIT follows the Sydney Olympic Games, with increases in revenues and expenses in 2000, followed by falls in revenues (Figure 5). The more recent falls in PBIT are due to increases in expenditure in 2004–05 (particularly Australian program usage and amortisation, affiliation fees and intra-group management fees) and falls in revenue in 2005–06.

These decreases in profit coincide with devaluations of commercial television licences. Figure 25 shows that recent changes in total licence values reflect changes in the amortised value of total PBIT earned by the commercial television industry.

During the late 1980s, licence values were significantly higher than the amortised value of profits, suggesting that the licences may have been overvalued. During the 1990s, amortised profits were higher than licence fees. Since 2002–03, amortised profits and licence fees have been very similar, suggesting that licensees may have been more conscious of the values of their broadcast licence assets.

Figure 24: Total PBIT and PBIT, less licence fees, 1986–87 to 2005–06

Figure 25: Total licence values and amortised value of PBIT,[18] 1986–87 to 2005–06



By region

Capital city licensees generate higher profits than those outside capital centres, both in total and on average (Figure 26 and Figure 27). Licensees in capital cities generated profits of $392.7 million in 2005–06, while profits for non-capital city licensees were $227.7 million.

Since 1986–87, when the data first allowed profits to be calculated, capital city PBIT grew by an average of 27.8 per cent per annum, and non-capital profits grew by 4.6 per cent per annum. Over the last two years, however, PBIT has fallen by an average of 29.2 per cent per annum in capital cities and by 4.7 per cent per annum in non-capital areas.

Over the last ten years, capital city PBIT per licensee have been between five and thirteen times higher than those for non-capital licensees. Capital city profits also grew faster than

[18] Amortised value of PBIT for each year is estimated as $A = P(1 + r)^n$, where: P = PBIT for that year; r = the risk-free rate of return (assumed to be 6.0 per cent); and n = the number of years over which profits are to be amortised (set at 30).

non-capital profits, at an average of 9.5 per cent per annum between 1978–79 and 2005–06, compared with 4.2 per cent.

Figure 26: Total PBIT by region, 1986–87 to 2005–06

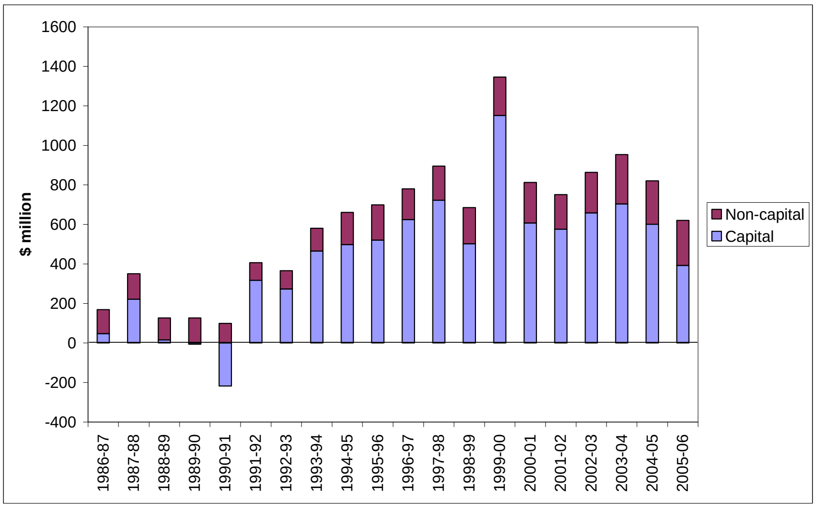


Figure 27: Average PBIT per licensee by region, 1986–87 to 2005–06

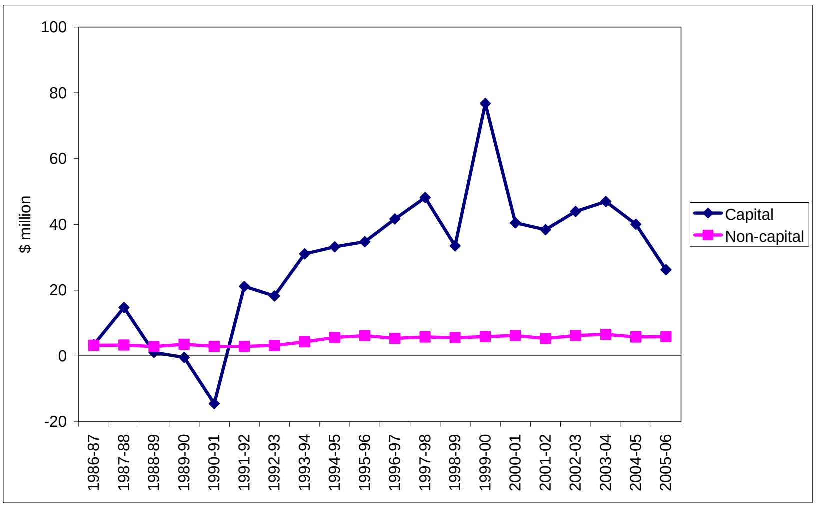
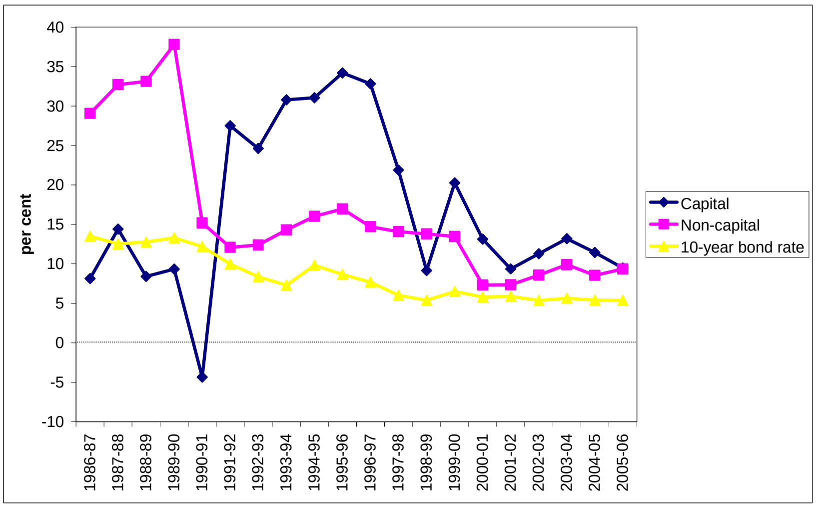


Figure 28: Rates of return by region, compared with the 10-year bond rate



The variability in profits earned by the commercial television broadcasters in recent years was experienced mainly by the capital city licensees. This was mainly because of fluctuations in revenue, and increases in intragroup management fees and employee-related costs.

The rate of return, measured as the ratio of PBIT (before licence fees) to assets (less licence values), provides greater insight into the profitability of an industry than PBIT alone. Rates of return achieved by capital and non-capital licensees appear to be moving closer together (Figure 28). Before the commencement of aggregation of regional licences in 1991, non-capital rates of return were more than 30 per cent per annum. Between 1991–92 and 1999–2000, capital city licensees achieved an average rate of return of 25.8 per cent.

During the same period, the rate of return for non-capital licensees was 14.2 per cent–nearly twice that of the 10-year bond rate of 7.8 per cent. Since 2000, rates of return earned by capital city licensees have fallen to an average of 11.0 per cent per annum between 2000–01 and 2005–06. Non-capital rates of return also fell to 8.7 per cent in the same period.

Falls in profitability in 2004–05 and 2005–06 coincide with devaluations of licence values for both capital and non-capital licensees.

By network

The networks receive most of the profits earned by the commercial television industry, although they do not always achieve the highest rates of return on their assets (Figure 29 and Figure 30). Following a period of growth in PBIT for all networks, since 2000 the three networks have experienced different trends in their profit earnings.

The Seven Network's profits peaked in 1999–00 at $509 million, a rate of return of 16.5 per cent per annum. This peak in profit was due to higher than normal revenues while the Seven Network broadcast the Sydney Olympic Games.

The Nine Network led the Australian commercial television industry in terms of PBIT until 2002–03, when decreasing revenues and increasing costs led to falls in PBIT of 25.7 per cent in 2004–05 and 37.7 per cent in 2005–06. In 2005–06, the Nine Network achieved the lowest rate of return of all network groups, including the unaffiliated licensees. The network also experienced the largest falls in profit and devalued its broadcasting licences by the largest amounts.

Network Ten's profits have grown more strongly since 2000 than those of either the Seven or Nine networks. Its rate of return has been higher than all other commercial television licensees since the early 1990s. Network Ten has kept its expenditures—particularly program costs—and its debt and asset levels well below those of the other networks by targeting a smaller, but still profitable, audience base of younger viewers.[19]

Figure 29: PBIT by network, 1986–87 to 2005–06

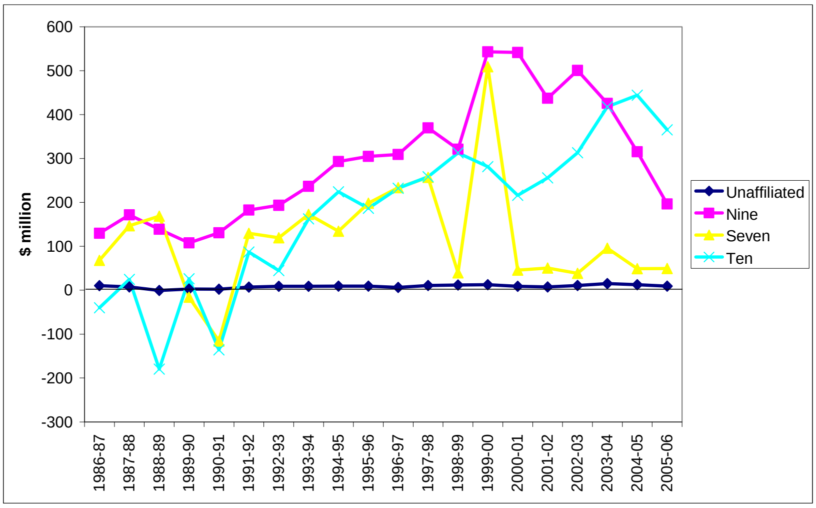
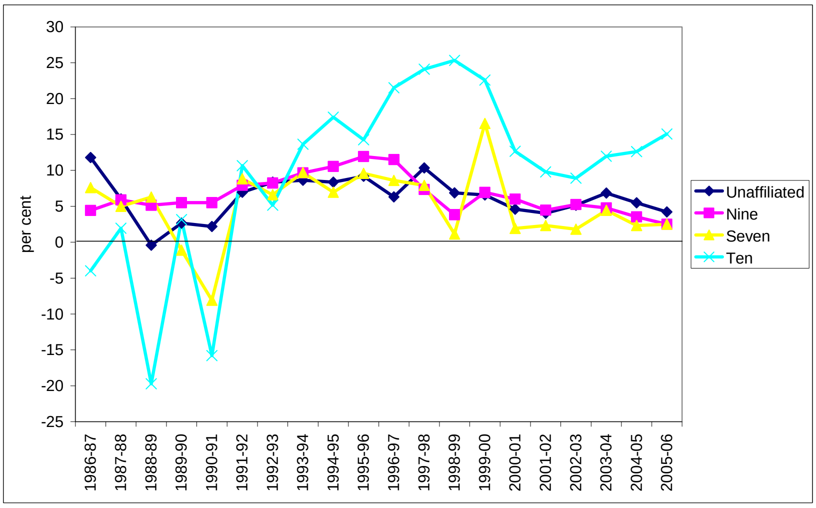


Figure 30: Rates of return by network, 1986–87 to 2005–06



[19] Stone, G. 2000, *Compulsive Viewing—The Inside Story of Packer's Nine Network*, Viking, p.402.

Glossary and abbreviations

ABA	Australian Broadcasting Authority
ACMA	Australian Communications and Media Authority
Agency advertising	Gross revenue from the sale of advertising booked by an advertising agency
BFR	The *Broadcasting Financial Results* is published annually by ACMA and includes aggregated financial data provided by commercial broadcasters
Broadcasting Services Act	*Broadcasting Services Act 1992*
Capital city licence areas	Capital cities are defined as Adelaide, Brisbane, Melbourne, Perth and Sydney
Commercial television broadcaster	Section 14 of the Broadcasting Services Act states that commercial broadcasting services are broadcasting services that: (a) provide programs that, when considered in the context of that services being provided, appear to be intended to appeal to the general public; (b) provide programs that: (i) are able to be received by commonly available equipment; (ii) are made available free to the general public; (c) are usually funded by advertising revenue; (d) are operated for profit or as part of a profit-making enterprise; and (e) comply with any determinations or clarifications under section 19 of the Broadcasting Services Act 1992 in relation to commercial broadcasting services.
Contra advertising	Advertising arrangement involving an exchange of goods or services, rather than money
Nine Network and affiliates	All licences owned by and affiliated with the Nine Network in 2005–06: GTV, MTN, NBN, NTD, NWS, QTQ, RTQ, STV, STW, TCN, TVT, VTV, WIN
Non-agency advertising	Gross revenue from the sale of advertising booked by organisations other than advertising agencies
Non-capital city licence areas	All licence areas other than capital city licence areas
Seven Network and affiliates	All licences owned by and affiliated with the Seven Network in 2005–06: AMV, ATN, BTQ, CBN, GTW, HSV, ITQ, AMN, NEN, PTV, QQQ, SAS, SSW,

	STQ, TND, TVW, VEW, WAW
Network Ten and affiliates	All licences owned by and affiliated with Network Ten in 2005–06: ADS,ATV, BCV, CTC, GLV, NEW, NRN, TEN, TNQ, TVQ, SCN, LRS, SGS, MGS, TDT
Unaffiliated licensees	All licensees not affiliated with the Seven, Nine and Ten networks in 2005–06