MEDIA MAKE HEADLINES

HOW 1987 CHANGED AN INDUSTRY

by KEN ARCHER

Media stocks in Australia soared in 1987 in an unprecedented year of sharemarket popularity — and then the October crash wiped out what had been gained. At the end of the year, the media structure was irrevocably changed.

Nineteen eighty-seven was a year of unprecedented change and market activity in Australia's media industry. The end result of the year's traumatic events was a fundamental change in the structural basis of the nation's media services which will have significant and lasting impact on the nature, style and prosperity of the industry.

The catalyst for the market activity was a ministerial press release by Michael Duffy, then the Minister for Communications, stating the Government's intention to liberalise the commercial television ownership rules, but the fundamental pressures for change had been developing over many years.

Informed commentators had long bemoaned the lack of a clear and coherent policy for the development of broadcasting services in this country. Since the advent of radio in the mid-twenties, broadcast planning had been a melange of ad-hoc decisions, interspersing periods of benign government neglect. The result was broadcasting legislation which was labyrinthine and incorporated many "motherhood" policies — some outdated, others conflicting.

From about 1970, governments began to perceive commercial television and radio licences as "licences to print money"; ironically, at a time when this previous reality was well on the way to becoming a myth. However, governments and their bureaucratic planners began to seek ways of extracting additional revenues from the industry and to promote concepts of "standard" and "comprehensiveness" of service, Australian content and "equalisation" which, although possibly of some sectional electoral appeal, imposed significant penalties on licensees.

The same period saw a decline in the public's sector acceptance of the Australian Broadcasting Commission's (now Corporation) publicly-funded services and increasing confusion within that organisation as to its role in the overall structure of Australian broadcasting. One consequential effect was to create greater public reliance on, and expectations of, the commercial sector.

During the eighties, the historically high growth rates of advertising expenditures began to decline. Television, which had enjoyed spectacular growth through a rapidly increasing share of a growing pool, began to reach a plateau of market share about the time when the overall growth rate was declining. These real-world factors were compounded by the mish-mash of policies and expansionary plans for broadcast media announced by successive governments. Nevertheless, some entrepreneurial companies perceived that in addition to good cash flows there was a potential for influence over public attitudes and thus political

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decisions, and began to acquire media companies with a view to obtaining a position of strategic influence. Most of this activity was in "second-tier" markets because the major media positions were staked out by Fairfax, Herald & Weekly Times, Packer and (more recently) Murdoch.

For many years the Herald & Weekly Times and Fairfax had been dominant in ownership of major Australian newspapers and had major holdings in television and radio. By the mid-eighties, both had lost their original dynamism, albeit for different reasons, and developed "fortress mentalities". Both groups had become less effectively competitive and were, despite their size, increasingly vulnerable.

Some broadcasting policy conflicts and resulting tensions were identified by the Australian Broadcasting Tribunal in public reports on its inquiries into cable television (1981/82) and satellite program services (1984/85). The latter report led the government of the day to consider abandonment of the two-television-station rule and thence to the press release of November 27, 1986, by Minister Duffy.

The first step in the great media shake-out was Murdoch's $2.3 billion takeover of the Herald & Weekly Times. Second, Packer's initiatives to acquire additional television stations in Brisbane and Perth resulted in Bond making an offer of $1 billion for Packer's Sydney and Melbourne stations and some other radio and marketing interests. It was an offer which Kerry Packer did not refuse.

What followed was a dazzling flurry of media company acquisitions, rationalisations and divestitures. The acquisitions were at prices which involved extraordinary P/E ratios. Media insiders were astonished at the prices, given that their soundly-based expectations were for a period of minimal revenue growth and, despite some benefits from greater economies of scale, relatively little scope for cost-reduction. The premiums being paid for strategic market domination or political clout appeared excessive and in many instances that objective was not, in any event, attainable.

It was also surprising that the legislative "niceties" were ignored, with most acquirers putting themselves in contravention of existing laws, while the final outcome of the Government's legislative intentions was still unknown. It was common knowledge that there was a tense stand-off between Minister Duffy and Prime Minister Hawke on critical aspects of the proposed new TV ownership rules.

This deadlock was final broken by the Government's adoption of Treasurer Keating's proposals. These involved a radical change to all previous media policy and were essentially for a total deregulation of TV ownership beyond one-station-per-market with the introduction of a cross-media prohibition between television and major newspaper ownership. The compromise of a limit of TV ownership to a 75 per cent reach of the total population was accepted by the Labor Caucus, but in its desperate need to have the new legislation passed by the Parliament, the Government accepted a National Party amendment in the Senate to reduce the reach limit to 60 per cent, and the legislation was passed in June 1987.

Keating's proposals represented a solution to the problem which had compounded upon the Government and also contained some economic rationality. However, the reduction to 60 per cent was illogical and ran counter to the original rationale of the scheme. A subsequent decision by most regional TV operators to opt for "aggregation" as their preferred option within the Government's plan for "equalisation", i.e. three commercial services being provided throughout Australia, has removed the basis of the National Party's concern. It is now mooted that the reach limit should by restored to 75 per cent and generally accepted that this will transpire.

The result is a greater concentration of ownership within each medium but restrictions on any new cross-media ownership.

The major players in the great media shake-out were Murdoch, Packer, Bond, Westfield/Northern Star, Holmes a Court, Stokes, Fairfax, Tryart, Skase, Hoyts and Wesgo. The supporting cast included Ramcorp, Darling Downs TV and Kevin Parry.

By early October, 1987, when most of the dust had subsided, an outline, still a bit hazy in parts, of the new media ownership pattern emerged.

In print media, News Limited had acquired newspapers with approximately 60 per cent of Australia's circulation, a dominant printing and publishing infrastructure and a very dominant competitive position. Warwick Fairfax's Tryart appeared to have secured the two paddocks of the Fairfax family farm and in the process sold off the rest. However, events in November and December created doubt as to whether the original sale agreements could be effectively implemented. Packer had increased an already powerful stable of magazines and acquired *The Canberra Times.* Holmes a Court now owned the *West Australian* and the *Daily News* in Perth as well as the *Western Mail* and had the right to acquire *The Australian Financial Review.* Subsequently he has closed the *Western Mail* aborted the deal to buy the

Financial Review following a disagreement with Fairfax over details.

In television, Bond, Westfield/Northern Star and Skase had become the new owners of enlarged television networks. In acquiring the major metropolitan licences and key provincial licences, each of the three groups had placed itself at or near the 60 per cent reach limit. They will undoubtedly seek to acquire more television stations if the limit is lifted to 75 per cent. Ramcorp and Darling Downs TV had emerged as second-tier networks which would inevitably affiliate with one or other of the big three.

In radio, Hoyts Media had acquired 13 radio stations at high prices and Wesgo had acquired a total of 16 stations including the AWA network.

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The merry-go-round shuddered to an abrupt halt on October 20, 1987. Not surprisingly, the stockmarket crash saw the market valuation of listed media companies suffer dramatically. Indeed, as a generalisation, media stocks fell further than the overall market decline. Major media company shares such as News Corp, Bond Media and Northern Star were quoted at prices about one-third of the highs achieved earlier in 1987 before recovering a little towards the end of the year.

The extent to which values were marked down by the market was predicated largely by two factors. One was the widely-held view that the media properties had been acquired at unrealistically high prices in the scramble to achieve strategic positions; the other was the vulnerability of advertising revenues to any economic downturn or loss of consumer or business confidence. On the latter point, it is normal for management, faced with the need to reduce operating expenditure, to use advertising allocations as a quick and convenient first step. Generally, other cost-cutting measures are subsequently implemented and, in the longer term, advertising expenditures are not affected to any greater degree than other operating costs.

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Thus, at the year's end, most public media companies were quoted at share prices which historically would have been seen to present attractive medium to long-term investment opportunities. The pervading mood of caution, however, constrained investors, particularly with companies which had significant debt to service.

The Government's plans for further changes to broadcasting services development continue to be implemented:

- The "equalisation" plan for regional television services is not in itself commercially viable and will put considerable additional economic pressure on the commercial television sector as a whole.
- The change to the rules of commercial radio ownership should logically lead to the development of four or five major radio networks such as Hoyts and Wesgo. The sale by Fairfax of Macquarie Broadcast Holdings to Sonance Ltd saw the emergence of one such group — a consortium including Sir Frank Moore, Mr Mark Cassidy, Kern Corporation and the Hong Kong publisher Ms Sally Aw Sian.
- The "value judgments" of the present Government as to the level of investment the nation should make in its publicly-funded broadcasting services (ABC and SBS) continue to put strains, including industrial unrest, on those instrumentalities.

The newspaper scene is also in a state of flux.

- News Corp has established a position of such dominance as to create concerns for the Trade Practices Commission.
- The Tryart takeover of key Fairfax assets has encountered continuing difficulties.
- The future of Holmes a Court in major newspaper activities is unpredictable.
- Companies with broadcasting licences are inhibited from newspaper ownership (and vice-versa) by the new cross-media ownership restrictions.

So 1987, which began with an apparent investor attitude that all media tomorrows were golden, ended with most media companies facing a long, hard slog to improve current profit and cash-flow levels; advertisers are reviewing their budgets and looking coolly on any rate increases by media.

It appears unlikely that there will be any spectacular investments in media in the early months of 1988, although there may be a few "fire sales" of media properties.

The year 1987 will long remain deeply entrenched in media industry folklore and, no doubt, the minds of many media investors. □