

The merits of the application are that it brings a specialist type of programming that has proved popular in metropolitan centres. It has an undoubted appeal in provincial centres, partly because it introduces participation in metropolitan radio.

It also brings with it the BCNZ commitment to introduce the Concert Programme on FM. This is a considerable benefit to the region.

(b) *The economic effect with the establishment of the station to which the application relates is likely to have in respect of broadcasting stations already in operation—*

The 2XS application was not opposed by the BCNZ. There was therefore no evidence presented to us that suggested an adverse impact on the Corporation—there was certainly no evidence of concern about the possible impact of the \$77,548 decline in 2ZA revenue which M. J. P. Dunlop, for the Corporation, estimated.

This 5 percent drop contrasts with his estimate that the grant of both applications could result in the revenue of 2XS-FM being lower by \$309,615 (29.7 percent) than otherwise. These estimates were based on actual revenue in the 1983/84 year and assume total audience shares of 12 percent for the ZM station, 23 percent for the 2XS-FM station and 47 percent for 2ZA. It was also assumed that there would be no 2XS-AM operation.

He estimated that in a three commercial station market, 2ZA would gain its audience in the 25–54 age group, ZM-FM would gain 60 percent of the 15–24 age group giving it a 12 percent share and 2XS-FM would gain its 23 percent of audience principally in the 20–44 age group.

The Department of Statistics calculates the population 10 years and over is 76 000 for the statistical division of Palmerston North. It would be an extremely competitive market with three stations at 25 333 people per station compared with 28 533 in the Hawke's Bay.

Mr Dunlop said that Radio New Zealand has accepted that it was probable that all communities with a population above 40 000 would eventually have two local stations and population centres above 75–80 000 would have three. He saw the ZM service as the third service taking advantage of lower costs from networking which could accommodate it in the market. He emphasised the importance of a quick phase-out of 2XS-AM in the interests of all the operators and of the public. He believed that listener loyalty to the FM mode would increase rapidly as a result of that course being followed with two FM operators.

We accepted that evidence. The grant of both warrants would require the ZM station to stick strictly to its format of 15 but would allow the 2XS original target audience of 10–34 to be extended to its present target of 10–44 and we would expect that the station might skew that audience to the middle and higher levels of its demographic group. Whether it did this or not we would leave to the operator.

The result however would be that it could compete for the audience it chose while the ZM station with its network and warrant commitment to a specific age group would be locked in to a set target audience.

It is also clear that the room for 2ZA to manoeuvre as a major community station is limited. It must serve the older age group because of the heavy news, sport and information orientation.

A good deal would depend on the 2XS decision on its AM operation. The hope was expressed that it would have the same demographic appeal as the FM station and there were words of warning about the failure in Waikato to successfully move the audience across to the FM operation while the AM operation was serving the same audience.

It was claimed for 2XS, principally by the operations manager, S. J. Millar, that the station was aimed at the lower end of its target audience of 10–44 and that Z2M was musically similar as well as similar in presentation and content.

He considered 90 percent of the music to be common to both stations. They used some identical jingles and some of the promotions were exactly the same. The phrasing and terminology in the promotion and presentation of the station could lead to a likelihood of confusion between the two stations. He agreed that Z2M's rotation was probably shorter, due to shorter listening times. Mr Millar's evidence was rejected by Mr Don, the manager of station Z2M.

It is clear that the Corporation expects to get 15 percent of the commercial audience which is 60 percent of its target age group but sees 2XS getting 28 percent share of the commercial audience.

Mr Dunlop said that with the ZM stations the core audience was 15–24 years. 2XS's is 10–24, taking a very strong share in the 15–29 age group by default. He claimed that ZM was significantly different and that there was no evidence that the young audience was satisfied. He would expect 2XS to move to a 25–44 age group concentration if ZM was broadcasting.

He thought that both 2XS and 2ZA would provide a level of community involvement above the ZM level. The perception of 2ZA was that it was not a music station. He agreed that the Manawatu could not take 4 stations.

R. A. Lawrence, manager of 2ZA, said that the current deficit (as opposed to a surplus) on the operations of 2ZA was about 5 percent of turnover, i.e. \$100,000.

As a result of management activities, including reductions in staffing by attrition, it expected to become profitable without affecting programme and business activities. He said firmly that there would be no reduction in programme services. The station would shortly be moving to a new building with new equipment which would reduce the need for required staff levels and increase efficiency.

The evidence produced by K. G. Greer, secretary of Manawatu Radio Co. Ltd., indicated that in the first year the company expected \$500,000 in FM sales and \$1,395,000 in AM sales, producing a total of \$1,895,000. The totals for their budget reduce in year two to \$1,741,000 and in year three \$1,642,800. (Inflation has been estimated at 10 percent per annum.) The FM sales increase in year two to \$625,000 and in year three, to \$750,000, while AM sales drop to \$1,116,000 in the second year and \$892,800 in the third year.

An examination of the year two and year three results show a loss of \$13,214 on the FM operation and \$37,890 in year three.

It is clear however that the continuation of the AM operation taking as it does a large amount of income out of the market, has its effect first on the FM operation and secondly on projections for the other stations.

The Tribunal is satisfied that 2ZA, 2XS-FM and ZM-FM could co-exist in this market and give a reasonable financial return. The Tribunal considers it is likely that the benefit of continuing the 2XS-AM operation beyond a few months would need to be assessed by the directors of Manawatu Radio Co. Ltd. if the Tribunal were to grant both applications. The Corporation urged us to limit the period to a few months rather than to 3 years.

While that may aid the Corporation, we do not believe as a new entrant it should so restrict 2XS-AM. Moreover we do agree the merits of a shorter period should be considered by Manawatu Radio Co. Ltd. from its point of view. As long as the AM operation continues some of the audience over 25 will not move across to the FM station.

The Tribunal would therefore be unlikely to impose such a condition.

It is also clear that the risks being taken by the Manawatu Radio Co. are greater than those being taken by the BCNZ.

We would therefore consider it reasonable that the 2XS-FM operation should have a lead time of 6 months on the ZM-FM commencement in order to give it an opportunity to establish its changeover and to make the decision whether to continue the AM operation beyond that date.

We consider then that the effect of granting the ZM application on Manawatu Radio Co. Ltd. will not be so serious as to affect its viability and does not outweigh the advantages of introducing the ZM service.

We noted the evidence of the Manawatu witnesses who saw growth in the market.

(c) *The effect which the establishment of the station to which the application relates may have on broadcasting services provided by the Corporation in the public interest—*

The Corporation did not oppose the grant of the 2XS-FM application on this ground.

One effect claimed for the establishment of the ZM-FM station is that it will enable the Corporation to finance an FM Concert Programme service for the Manawatu. This was also put in a negative form to us, namely: that the Corporation would not proceed with conversion to FM of the Concert Programme in this region if it did not get the ZM-FM warrant, unless it was otherwise directed.

The essence of this approach, like some previous approaches of the Corporation that it would not carry out some selected obligations under the Act unless the Tribunal took a certain course, was somewhat distasteful. This approach has perhaps been forced on the Corporation from time to time by political decision rather than by the Corporation's own wishes.

We must have regard to the development of broadcasting in New Zealand and, in particular, FM broadcasting. The effect on the Corporation in this case would be that the profit expected to be generated from the ZM operation will enable an extension of non-commercial services to the area. It would cost about \$175,000 to set up a Concert Programme FM operation at Wharite and a successful ZM-FM operation would contribute \$130,420 per annum surplus.