the future of radio in MENA and the UAE

twofour54 Abu Dhabi

media & entertainment hub

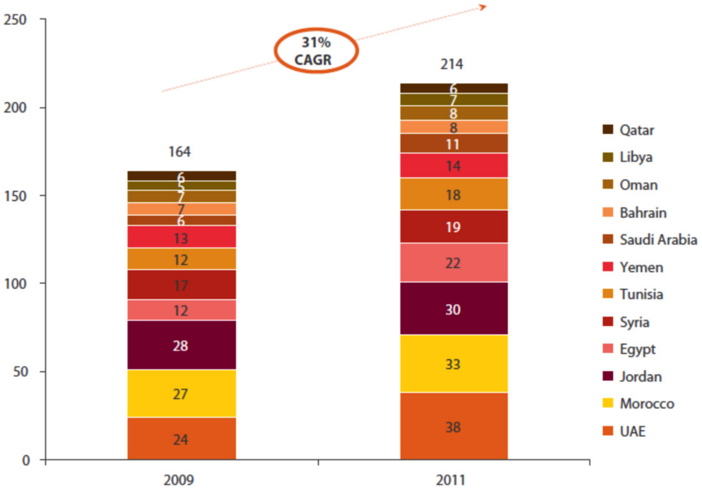
introduction

Recent media reports have highlighted an apparent boom in the growth and development of the radio industry across the Middle East, North Africa (MENA). Since 2011 most countries in the region have witnessed the launch of new stations – specifically in the private sector. While this is indeed a favourable trend in the market, the most important question to be answered is whether these stations are sustainable. Are there sufficient audiences and enough advertising spend to make and more importantly, keep the new stations profitable.

the reverberations of the Arab Spring

The effects of the Arab Spring have reverberated through the MENA region's media sector. The increased use of social media such as Twitter and Facebook was the first step. Soon after, the number of new newspaper titles increased throughout the region and ultimately this was felt in the radio industry too with the launch of new radio stations in almost all markets save one or two. Most of these emerged from the private sector and are aimed at the lucrative youth segment of the market.

exhibit one: fm radio stations in the Arab region, 2009-2011



Source: Arab Media Outlook 2011

Experts predict continued growth in the radio market and at rates that are likely to outpace those currently experienced. According to figures quoted in the Arab Media Outlook, radio advertising revenues amounted to $265 million for 2011 in the MENA region and this is expected to grow at a compound annual growth rate of 7%.

market conditions around MENA

While the predicted growth rates for radio advertising do cast the industry in a favourable light, it's important to note that the medium is only the fourth most prominent advertising platform, after TV, outdoor and newspaper. So while growth rates are quite high, this is typical of a nascent industry and the mixed nature of the MENA region means that there are diverse levels of growth in the various countries.

Radio in Egypt accounts for 13% of total ad spend with the radio contribution expected to reach $86.9 million by 2015. Tunisia is an exciting prospect in 2012 with expectations of 12 new stations to be launched this year alone. At present, this is mostly dedicated towards government controlled stations – although a small number of private stations have emerged. The private sector in Morocco and Libya has been most active – with all new stations in these countries in 2011 coming from the private sector. Another significant market in North Africa is Sudan where radio is a very prominent medium – mainly due to low literacy levels in the country. At present 25% of advertising spend is allocated to the radio platform. Despite a seemingly exciting prospect for growth in this market, experts are not too optimistic because the government has direct control over the industry as each radio station is required to espouse government policies.

As the first MENA country to permit private sector participation in the radio industry, Lebanon can be considered to have the region's most developed industry. Despite, this though, the government has direct influence over all broadcasters and this does serve to limit the diversity of content played on the more than 30 radio stations in operation.

It would be natural to assume that ongoing unrest in markets such as Syria and Palestine, would present dim prospects for the radio industry, but interestingly, in all three markets – this is not the case. Syria is an unstable prospect but there is a new station expected to launch this year and with estimated growth in advertising revenues of 14% it does present an opportunity for new additions to the market. With radio accounting for almost a third of all advertising spend (31%), Palestine presents an interesting opportunity.

Gulf countries such as Saudi Arabia, Oman, Bahrain, Qatar and Kuwait present slower growth prospects for advertising, as other mediums are still very strong in these countries. Robust regulations and the limited availability of new broadcasting licenses, mean that the introduction of new stations can be a slow process, thereby impacting on the growth potential in these markets. Advertising revenue is expected to grow at an average of 2% in these countries in 2012.

the UAE welcomes multiple entrants

The radio market in the UAE has seen significant growth in the past year, and 2012 is already shaping up to be no exception. Growth has primarily come from the entry of new stations and a response by existing players to the increase in competition. At present radio accounts for 12% of advertising spending and this is forecast to increase to $94 million in 2015. The country is home to more than 40 radio stations with a diverse mix of genre and content.

HUM FM is a Hindi station and is the country's most popular, followed closely by Abu Dhabi Radio. The ranking of these stations is in keeping with the UAE's population which is made up primarily of Hindi, Arabic and English-speaking nationalities. Research has shown that the audience's interests are focused on Bollywood music and talk radio. As a result, there are a number of stations dedicated to these genres. Interestingly, the talk radio format is more prevalent in Arabic, with only one English-speaking talk radio station.

While the diverse population might present opportunities for the launch of niche stations (focused on a specific nationality), it also presents a challenge for market players as the audience is very fragmented. Stations are competing for a potential audience of 3.5 million people (mainly during commuting hours). Arab Radio Network is one of the country's main players with 8 radio stations and a claimed daily audience of 1.6 million people. In comparison to global radio markets, this is a very small listenership and there is a perceived lack of value for advertising on this medium, with advertisers being able to pay as little as AED 300 for an ad slot. It would therefore seem that there is limited room for growth.

stations finding audiences

Despite the perceived difficulties, there are at least 5 new stations expected to launch in the UAE during 2012, and more in the pipeline. The key driver for the launch of these stations is the premise that there is insufficient focused content for various population segments. One example of this trend is the expansion of a station that is focused entirely on the Kerala-based population in the UAE. The station's content promotes the interests of the Kerala Community and recently made a press announcement stating that an alliance with an Indian-based news broadcaster is to be formed. This will result in a content sharing arrangement allowing the audience access to the latest news from home.

Putting listeners in touch with their home countries has proved to be an important trend in the UAE and other markets with diverse populations. The rise of Malayalam and Hindi stations is testimony to this and new stations are appearing in markets such as Oman, Qatar and Kuwait – to cater for these audiences.

harnessing future listeners

At present, 77% of the Saudi Arabian population listens to the radio, while at the same time, the country is one of the most heavily penetrated in terms of mobile devices. These two factors cannot be viewed in isolation and well-established industry players have stated that the future of radio is digital. As a result, some (such as Dubai Eye, Dubai92, Radio1, Virgin Radio and others) have already developed mobile apps which allow their listeners to always have access to the stations.

Radio stations are embracing the increased instance of broadband access and are trying to attract younger listeners through online resources. This is true of countries all over the region (albeit to varying degrees of development) and the use of digital content is likely to expand further with a rise in internet based radio – whether live streaming or on demand.

The latter will require stations to have significant digital libraries at their disposal in order to provide a service that caters to the diverse requirements of their audience. While the main aim of pleasing listeners will remain in place, the business model is likely to shift quite significantly with online advertising to form a significant portion of radio advertising revenues. Stations will be required to leverage insights gained from thorough audience segmentation to provide advertisers with compelling value propositions.

A few stations (such as those in the Arabian Radio Network) have already taken the first steps to enhancing their advertising mix providing offers that include on-air, website, Twitter, in-app and Facebook opportunities. The increasing ease with which one is able to measure audience sentiment and interaction on social media platforms means that advertisers are able to determine Return on Investment more effectively. As a result, there's been a positive response to this type of offering by advertisers.

competition is here to stay

Radio stations in the region's well-developed markets already know that the trend of increased competition will definitely continue. More market entrants are expected to launch stations by 2015 in an environment which is likely to be characterized by decreasing advertising budgets, so more stations will be competing for fewer advertising dollars. This is only the first dimension of greater competition, as stations also have to take internet stations into account. It effectively could mean that the competition increases from a few stations focused on the same country to global players focused on a very niche audience.

The ramifications of this mean that radio stations will have to lower their operating costs in a time where margins are already severely under pressure. Advertisers will require an increasingly sophisticated advertising mix with the ability to see a clear ROI. The development of digital content strategies will have to go hand-in-hand with this and stations may also face the challenge of device fragmentation, meaning that they will in effect have to become multi-platform players. It is clear that the very definition of a radio station could change dramatically within the next ten years. Exciting and challenging times