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THE ASIA MEDIA JOURNAL

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Radio

Tune in, Beijing



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The Time of Our Radio

Radio listeners from Shanghai to Xinjiang have to go back to Mao Tse-tung, the controversial leader of the Cultural Revolution, to see the seeds of China's US\$520 million radio industry. According to historical record, the radio industry that now enjoys an annual 26% growth rate owes it to Mao for launching the national penchant for radio.

Since Mao's proclamations in the 1960s, there has never been a single radio leader with a nationwide audience, even though research shows that Chinese radio listeners number in the hundreds of millions across several first and second tier cities, and even into the outlying provinces. Private radio owners, who have less than 10% share of the market, have never consolidated the industry, though a few have tried. With the rise of television costs in China, and with knowledge about radio operations in the hands of a few Greater China industry leaders, radio has its best chance to grow.

There are over 300 radio broadcasting stations operating in more than 130 cities in China, reaching 97% of the population. Though nine central channels exist and over 2,000 channels reach out to the public, there are no radio stations that can claim a national scale. In that fragmented media market,

only a few players stand out as being remotely capable of taking up this fragmentation and doing something with it. With private equity investors and radio professionals from overseas like Clear Channel and Virgin Radio, which owns stations in India and Thailand, sniffing around the market, it is clear that the media intelligentsia feel that someone has missed the big radio play in China.

BEST KEPT SECRET

Robby Yung, chief financial officer for Redgate Media, says that the best kept secret about China's radio industry is that foreign investors have so far not acted on investing in its potential. Aside from investments from Taiwan and Hong Kong players, the market is almost entirely lacking in foreign backing. Along with CEO Peter Brack and director & president Julie Zhu, Yung is building up Redgate Media as an enterprising play on China's fast growing consumer and media industries. Redgate today generates most of its cash flow through publishing assets it has with Ming Pao. The publishing business is now also growing in China in spite of the problems Redgate has had with *Rolling Stone*, which

RADIO

has now ceased publication. Much of the company's future will also depend on its investments in radio broadcasting and outdoor.

Yung, who helped bring the Chinese-language version of Rolling Stone to the mainland in 2005, has spent the past two years building up a small radio startup in Beijing, called Daren Cultural Limited, along with Brack and Zhu. "There are no foreign players sneaking around and looking for opportunities, and that's because [radio] is so much in its infancy that it's not financially viable for someone looking for a short-term return," says Yung. "If you are bringing in RMB50 mil., you are a big player in radio in China."

The offices of Daren sit in a middle class apartment block in Beijing. The company syndicates about ten hours of radio programming each day to stations in 220 cities in China. Add to that the advertising and consulting side of the company, and a licensing and production deal with Tencent and the company manages to bring in RMB10 million a year in revenue.

The company started out by doing *chengbao* contracts with radio stations. *Chengbaos* are a type of backdoor joint venture that allows a foreign partner to take a non-equity stake in a radio station, usually in the form of a consulting retainer. In *chengbao* contracts, potential partners agree on financial terms (i.e. rental fees) for a year-long relationship that usually involves consulting and advertising. Revenue generation varies between US\$5-10 million a year. As radio stations enjoy the benefits of *chengbao*, it becomes easier for them to raise the entrance cost of each new cycle of the contract negotiations. Usually this occurs after each year.



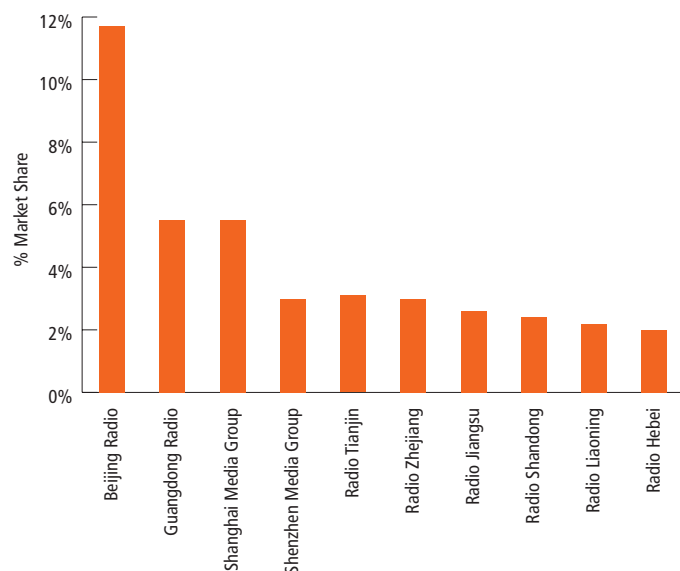
Peter Brack, chairman and CEO
Redgate Media



Julia Zhu, director and president
Daren Cultural Limited

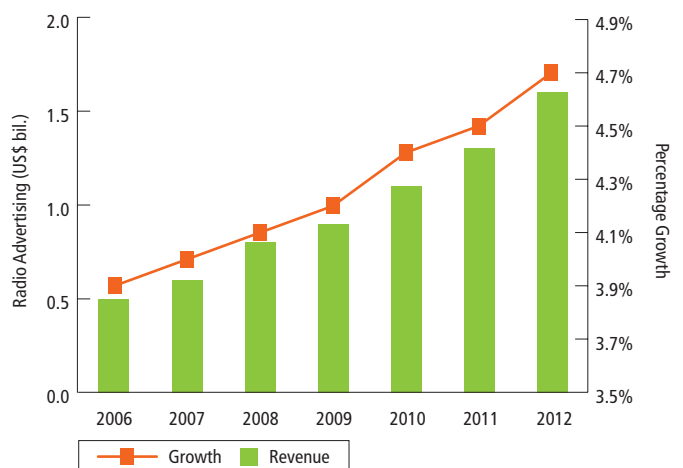
Daren had at one time three *chengbao* contracts, but it let go of two because the high rental costs and flux-like nature of the deals meant too much risk for the company. That's not unusual. The *chengbao* process is fraught with the perils of self-interest, as one party – usually the domestic radio operator – uses its positioning to extract constantly higher fees based on forecasts of success. This is true for one notorious contract between Virgin Radio and CityFM, a Beijing radio station. The relationship didn't even make it through the first year because one of the foreign players in the venture, Clayton Fitts, now CEO of Mojo Media, eventually walked away after six months. There are several accounts of this relationship, but the general story is that Virgin extracted itself from the deal because of disagreements between the local and foreign sales team and because of large increases in *chengbao* financial terms. CityFM exists today and Fitts is taking Mojo Media on a hunt for venture money for new projects that do not deal in radio.

RADIO ADVERTISING MARKET SHARE BY STATION (2006)



Source: Nielsen, MPA research estimates

CHINA RADIO ADVERTISING MARKET PROJECTIONS



Source: MPA research estimates

EGO AND CONTROL

Radio in China has proven to be just as enigmatic a puzzle of egos and tightly controlled media as any media industry in China, though it befuddles likely investors, who think that the market could be consolidated. Four players could do this: Daren (Redgate Media); Shanghai-based Yuan Chaun Radio; and Simulcast, a JV between Beijing Radio and Phoenix Satellite TV. Out of this group, Simulcast has the best political pedigree, but its business has yet to assume any sort of material significance. The government literally owns the airwaves and because radio stations are controlled by municipal or provincial government leaders, private citizens or investors in China can not own a station or a frequency, according to regulations passed in 1983. This, and continually stringent limitations on music content, talk and advertising content – as well as the need for an almost impossible to secure SARFT license for streaming live programming – make direct joint venture deals between stations and foreign players virtually impossible.

The potential revenue for a practical investor is also still relatively low, compared to other broadcast media like TV. Typically, price slots start at RMB4-5,000 for 15-second spots, on top of which a 30% loading fee is levied. Even with the loading fee, price slots this low indicate highly competitive CPMs versus all other media. Five years from now, this will still be the case, for two reasons. One: talent on radio stations is not good enough to demand higher charges for advertising. Two: there is no consistent media buyer for radio that can monitor and aggregate a nation's worth of data.

Yung says that Daren is working aggressively to take advantage of this gap, and it would be an ideal pursuit for the company to be able to fill the hole left by a missing nationwide media buyer. "That's really the sweet spot of Daren—finding DJ talent and producing the good programs," says Yung. "It's difficult to get stations to purchase content." The only other company that competes along these lines with Daren is the radio specialist and sales teams of Yuan Chuan.

With such a potential revenue boom in radio, it's a wonder that team-ups with radio players are not happening. Beijing and Shanghai, and 30 other major China cities, are increasingly thronged with automobiles. Most of China boasts a strong worker base that listen to radio while they work, or enjoy radio after they leave for home. Aggressive growth in mobile usage, especially 3G handsets with FM capability, will become standard sometime after 2008. Combine these trends with a heavier focus on music formats, and radio stations across China will reinforce the emergence of the vital youth demographic that turns to music –and radio—for pop culture guidance.

Advertisers typically can't stay away from these kinds of consumers, especially in mid-tier cities. MPA predicts radio advertising will grow at an annual rate of 20.5% from 2006 to reach US\$1.6 billion by 2012 a 4.7% share of the China ad market. PepsiCo International already spends 2-3% of its

budget on radio, focusing much of its attention on second-tier cities.

According to MindShare China, the number of radio stations has fallen dramatically since 1997, but the number of radio channels has grown exponentially. There are 2,306 channels in operation and only 273 stations. Radio time has doubled from ten years ago, and now the programming reaches 96% of China's audience. Even with attractive growth, media buyers do struggle with convincing brand names to switch to what is usually considered a "second-thought" in their budget columns.



*Robby Yung, CFO
Redgate Media*

**INTERVIEW WITH ROBBY YUNG, CFO
REDGATE MEDIA**

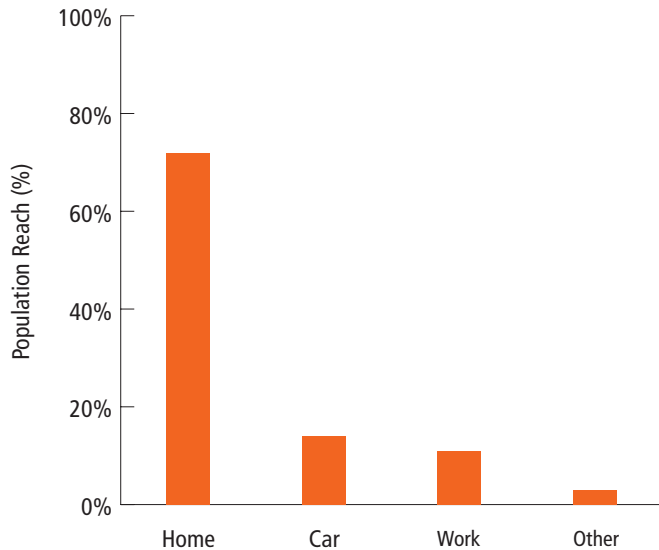
AMJ: Not many foreign investors are sniffing around China looking for radio buys. One of the clear reasons is doubt that radio can catch up to what is proving to be a very strong MP3 and Internet radio media space, with some tie-ins to mobile. What are the most compelling reasons for Redgate/Daren's interest in radio, aside from the fact that very few outsiders are doing it?

RY: Radio is a chronically overlooked medium in China, but it remains as powerful a tool for advertisers as it is in any other market. The reason that radio doesn't get its fair share of advertising investment in China has little to do with the power of the medium, the size of the listenership, or the devotion of the radio audience. The problem is a combination of a lack of much choice in measurement and ratings services to help advertisers make their decisions and a lack of quality operators providing reliable programs and customer service. For example, with our partnership with Nielsen and focus on quality service, even a small company like Daren has, in a year, gone from a boutique program producer to one of the largest consolidated plays in the business. We firmly believe that the cream will rise to the top, and that the industry is poised for major growth, and we want to make sure we're there to enjoy it.

The Internet and MP3's are great, as is mobile, since it continues to push the audience's love of music. This is good for our industry in general, just like the iPod. If you look at the trends in demographics in China, people's lifestyles are becoming more and more focused on the automobile as a means of transport and recreation. People are buying their

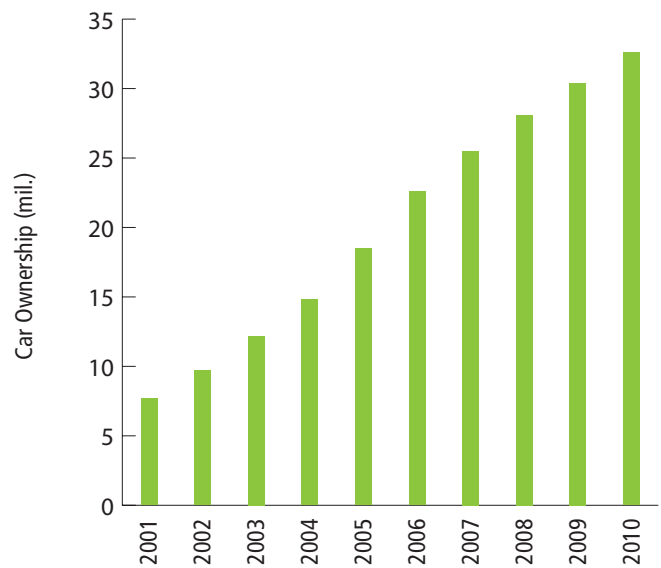
RADIO

Radio: Population Reach by Distribution



Source: MPA research estimates, Nielsen

Private Car Ownership



Source: National Bureau of Statistics of China

own cars and commuting in them, and this is going to drive the popularity of radio, just as it has in every industrialized nation.

AMJ: We have noticed that while brands are interested in advertising in radio, there are some compelling reasons for them to avoid too much focus on the radio message. One of them has been lack of quality control and a somewhat static message, where some old radio formats lack any strong entertainment content. Daren has really launched an effort to bring this quality into shape. Can you describe what Daren does to make sure this quality continues to grow over time? How does your syndication model help radio stations and talent?

RY: We continually focus on quality, and part of this is in Daren's DNA, as the company began as a program production house. As such, the focus on quality content is maniacal, and we believe the fact that we are well-known for the quality programming we produce is a real competitive advantage. Advertising clients frequently ask us to help them produce spots for them using our on-air talent, and some of our DJ's are amongst the most famous in China. We also have provided consulting services to stations in the past, helping them to revamp their image, their programming lineup and their operations. This makes them better partners for us and often results in them airing an all-Daren schedule.

AMJ: Fair enough. Where do you see radio in five years? Is radio in it for the long term in China?

RY: We expect radio should account for at least 5-8% of overall adspend, which means that the market should nearly triple. Radio is in it for the long term in China

because of some simple fundamentals. Radio is relatively inexpensive to operate: the equipment for the studio and transmission require a modest investment. Radio signals reach long distances: that same inexpensive transmission equipment can give you huge coverage. Everyone has a radio. I think that radio will be successful in the long term for the same reason as TV – people need professional help to enjoy their music. Where do you find out what music you want to put on [your iPod]? The radio.

AMJ: If you had to place your bets on the kind of music/talk/news format that works in first and second tier cities, what would it be?

RY: I would say the dominant formats are music radio and traffic radio, but that ultimately the variety show is the most durable. That's the music station that is interspersed with traffic updates, weather updates, a little news, and talk during some parts of the day, like any US / UK format. Of the more modern formats, interactive radio shows seem to be leading the charge – shows where listeners can not only call in but SMS or e-mail to the DJs and the program, thereby contributing to the content.

AMJ: Is there room for several radio players in China to get together, invest together and consolidate the market? It seems that there are four or five players who stand out, who have some access to funds, but everyone is so disinterested (seemingly) in making a consolidation play. Why is this?

RY: I think that there is definitely room for a consolidation play and we would be open to being that consolidator. It seems that the other four players in the market are not interested, because we're all vying for that consolidator spot.