

MIKKO GRÖNLUND, MARIA NORBÄCK,  
AND VEIJO PÖNNI

# Financial Performance of Commercial Radio in Sweden



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Media Management and Transformation Centre  
Jönköping International Business School

Jönköping International Business School  
P.O. Box 1026  
SE-551 11 Jönköping, Sweden  
Phone: +46 36 10 10 00  
[www.jibs.se](http://www.jibs.se)

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## FOREWORD

This working paper explores the basic context and financial performance of commercial radio in Sweden. It is part of several related projects being undertaken by research fellows and associates who are investigating broadcasting policy, market developments, and effects at the Media Management and Transformation Centre, Jönköping International Business School, Jönköping University, Sweden.

This paper was written by Maria Norbäck, a doctoral student at the Centre, and Veijo Pönni and Mikko Grönlund, researchers at the Media Group of the Business Research and Development Centre at Turku School of Economics and Business Administration in Finland, who contributed the financial analysis. The study was made possible through the financial support of the Carl-Olof and Jenz Hamrin Foundation to the Media Management and Transformation Centre.

This report provides an overview of the development and evolution of commercial radio and its resources as well as trends and changes in crucial financial indicators and will provide readers with a deeper understanding of the challenges facing this industry sector in Sweden.

*Robert G. Picard  
Hamrin Professor of Media Economics  
Director, Media Management and Transformation Centre*



# 1. An Overview of Swedish Radio History

From its start in 1924, the Swedish public radio broadcasting corporation, AB Radiotjänst (from 1957 called Sveriges Radio) has been providing a national radio, free from advertising and funded by consumer license fees (Hadenius & Weibull, 2003). However, it took more than 50 years before any local stations were introduced. There had been criticism from the public and the opponents of the broadcasting monopoly that the radio was far too centralized to the capital Stockholm, and in response to that criticism the public service radio decided in 1975 to found 25 local stations spread all over the country. This was not local enough to satisfy the conservative opposition in the parliament, but it soon got the opportunity to do something about it as the Social Democrats were forced out of office in the general election the following year. The conservative initiative introduced a new reform – community radio. Community radio was intended for non-profit organizations such as churches, community sports clubs, political organizations, immigrant associations and so forth. The content broadcast was to be locally produced and the reach of the broadcasts was limited to a radius of five kilometers from the transmitter. Even though the community radio legislation banned advertising from the community radio stations, some of them found loopholes in the regulations and did not comply with the ban. These stations had a repertoire similar to what we can nowadays enjoy on Swedish commercial radio – hit music and fast talk between the songs. The legislators' idea of a community non-profit radio was thus distorted by the introduction of a commercialized community radio, and this development became a first step towards a formal commercial radio industry (Hadenius & Weibull, 2003).

In the early 1990s liberal forces were acting to break the public service radio monopoly. The fact that there were already stations that were financed (at least partly) by advertising helped to pave the way for “real” commercial radio. In 1992, when a conservative coalition once again came into office, it began making preparations for an introduction of commercial radio. The main idea was to make commercial radio truly local – therefore the national radio monopoly was allowed to remain in the hands of the public service. The aim of the commercial local radio was to extend the freedom of speech as well as the freedom to establish radio broadcasting businesses (SOU, 1996:176).

In order to achieve this, the government settled for a model with 83 concessions (rights to commercially operate a certain broadcasting frequency in a given area) covering the country (Hedman, 2004). Most regions only had two parallel concessions, while the major cities had space for as many as 10 competing concession holders. The legislators had five targets in mind: *Proximity*; independent, locally established stations would be favored to make sure that as many independent voices as possible would be given the opportunity to make themselves heard; *fair distribution of rights*; the first legislation stated that concessions should be auctioned for an annual lowest price of 20,000 SEK, and if more than one actor was interested the concession should go to the highest bidder; *anti-concentration*; the legislation also stated that one and the same physical or juridical person could not own more than one concession; *ownership diversity*; newspapers or persons with any kind of influence over newspapers were not allowed to bid for a concession; *content diversity*; regarding the content, there was a requirement that at least a third of the broadcasting time should be filled with content that “has been produced with the own operation in mind” (Hedman, 1995, p 194).

The auctioning of the concessions in 1993 aroused more interest than the legislators might have anticipated. Surprised, the politicians could note that private interests were willing to commit themselves to annual concession payments that were between 5 and close to 200 times the minimum price they had set. In the large cities and the popular winter and summer holiday

resorts the to-be radio broadcasters saw opportunities for reaching a desirable audience and outbid each other ending up paying well over 3 million SEK for some concessions (Hedman, 2004).

The commercial broadcasters realized soon enough that it was harder than anticipated to run a profitable local radio station, especially with fixed costs that were sky high due to the concession fees. To meet the requirement of content “produced with the own operation in mind” many stations let an automatic jukebox play the nights through. This practice was tried in 1994 by the Swedish Broadcasting Commission (Granskningsnämnden) and was found to be in line with the regulation. The legislators’ wish that a third of the broadcasting time should be locally produced thus ended up in a local CD player randomly mixing hit music at night (Proposition (Government Bill) 1999/2000:55).

The stations soon started to form networks with other stations. These networks were ownership networks as well as collaborations on programming and advertising sales. This may have come as a surprise to some, since the auctioning of broadcasting rights was designed to prevent exactly this. A commission appointed by the government in 1996 stated in a report that there were signs of network formations already at the auction in 1993 (SOU 1996:176). In line with the regulation, all concessions were formally owned by different single physical or juridical persons. However, the report concluded that several of the real concession buyers were not the actual physical or juridical persons who signed the agreement. The law could prevent direct ownership of more than one concession, but it could not hinder the same actors from exerting power through indirect ownership constructions. Board membership, franchising agreements and dummy corporations were also ways through which companies could control several concessions. As a result of this, the ownership structure became extremely complex with corporations owning parts of other concession owners in various patterns. One explanation of the forming of networks was that the high annual price for concessions forced broadcasters to cut costs wherever they could, and co-production and co-branding was one way of achieving this. Since the Swedish local radio market was fairly small from an advertising perspective, it was difficult to fully sustain the commercial radio stations on local advertising only. This may have forced the stations to form national networks in order to gain the critical mass they needed to be attractive for national advertisers.

## 2. Industry Structure and Financial Challenges

Local commercial radio of 2005 is a story quite far from what was politically envisioned in the early 1990s. Out of a total of 90 active concessions, 72 are held by two dominant media players. During its first ten years, the Swedish commercial radio industry has seen a rapid concentration of stations through consolidations. The result is that the market concentration in the last two years has moved from five networks with roughly 20% market share each, to two major players, MTG/SRU and SBS, and one smaller, Fria media. Each network has its own set of companies for network content production, national and local advertising sales, local content production, local news production and radio advertising production. The niche channels held by SBS and MTG are with few exceptions solely available to the metropolitan audiences in the Stockholm, Gothenburg, and Malmö regions, while the majority of Swedish regional and rural listeners have to be satisfied with the nationwide content of SBS's and MTG's Rix FM and Mix Megapol. (Hedman, 2004; Sundin, 2003:1; Sundin, 2003:2)

In 2005, 78% of the audience (9-76 years) listened to radio every day (Ruab, 2005), with commercial radio reaching 33%, and public service radio reaching 51%. The total radio audience share has been stable for more than 20 years. The introduction of commercial radio has thus not increased total listening except for one group, 9-14 year olds, in which listening has seen a significant lift. For this group listening grew by 22% during the introduction in 1993-94 and has since leveled off (Hedman, 2004). Also, younger people (9-34 years), tend to have migrated from public service to commercial radio. Commercial radio has here a wider reach despite the lack of growth in total listening minutes (Ruab, 2005).

In 1998 the accumulated industry losses or, if one wishes, investments for establishment, were estimated at 800 million SEK (Eriksson, 1998). In 2001 the figure had reached 1000 million SEK (Jungeryd, 2002). In fact, only in one year, 2000, was the industry reported to show a positive result as a whole. Further cost cutting will increase the risk of mergers, counteract content diversity, and delay investments in digital broadcasting technology (Jungeryd, 2002). At the same time, the sunk cost investments in market development create intense resistance to structural policy changes involving any change in concession ownership.

In terms of advertising sales the industry is still hovering around a 3% share of the total market, way below the European median of 5% (Eriksson, 1998). Advertising sales, which had a promising growth during the late 1990s, were halted by the recession in the early 2000s. Revenue figures have now leveled off around 500 million SEK annually, or just above a 3% share of the market. Such a low portion of the market is only reported in Finland and Greece within Europe.

The government links the poor economic performance of the commercial radio to several structural industry problems (SOU 2002:38), such as:

- Lack of variation in program supply, and format concentration
- An exceptionally strong Public Service radio, both in terms of resources (annual revenues from license fees were more than 2 billion SEK in 2004) and audience penetration (51% reach of the total population and a 64% market share of all radio listeners) (Ruab, 2005)

- Traditionally strong print media positions within both audience and advertising markets (the Nordic countries have along with Japan the highest newspaper readership in the world)
- A relatively short track record for the commercial radio in the media industry
- The model for the auctioning of concessions, which has made the companies overbid and create a burden of costs that could not be met by future revenues (total annual concession costs are 120 million SEK)

The industry, on the other hand, argues that the concession fees are the root of the evil. They make up close to one quarter of total revenues. A relaxation, the industry points out, would produce more employment opportunities – and as a consequence more varied content. This would in turn increase audiences and ad sales (Jungeryd, 2002). The concession price ranges from less than 100, 000 SEK per year up to well above 3 million SEK in the largest cities (Hedman, 2004).

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- A relatively short track record for the commercial radio in the media industry
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### 3. Financial Performance and Analysis Methods

This part of the study aims to create a picture of the financial and economic performance of commercial radio business in Sweden. It employs the method of financial statement analysis, which is commonly used for market studies. The period under investigation is 1999-2004, 2004 being the latest year with available data. The data in this study were collected from Amadeus, which is a business information database maintained by Bureau van Dijk, an electronic publisher from the Netherlands. The Amadeus database offers the common key figures of financial analysis calculated from the financial statements of more than 7 million European companies. The key figures presented here are median figures. Median figures provide better picture of the market than average figures, since they are less sensitive for outliers in the data.

Company information of Swedish radio stations from years 1999-2004 was available from the number of companies listed in the following table:

|             |              |
|-------------|--------------|
| <b>1999</b> | 32 companies |
| <b>2000</b> | 32 companies |
| <b>2001</b> | 34 companies |
| <b>2002</b> | 36 companies |
| <b>2003</b> | 39 companies |
| <b>2004</b> | 34 companies |

The companies in this data set were selected by using a listing of Swedish radio companies holding an operating license for commercial radio provided by the Swedish Radio and TV Authority (Radio- och TV-verket). All such public companies which had their financial information included in the Amadeus database were selected. After studying the market structure of the Swedish radio industry we decided to include a few additional companies in our data. According to the Swedish Radio and TV Authority<sup>1</sup> there are companies in Swedish radio business which are important for the industry, but do not actually have a license for commercial radio broadcasting. One such company is MTG Radio AB, which has a large influence over the Swedish radio industry through ownership and arrangements. But it does not have its own license for commercial local radio broadcasting.

This study was conducted in 2005. The actual data from 1999-2003 were collected in January and were updated with information from 2004 in November. Financial information databases are usually updated during the fall, since the companies have to provide their own financial statements information during the first six months. The writing of this report was originally done in May and then finalized in December.

#### 3.1 Structure of the Data

The following tables present the structure of the company data from 1999-2004. Over the years about half of the companies had a turnover of less than SEK 5 million. In 2004 every fourth company had a turnover of less than SEK 1 million and another fourth had a turnover of more than SEK 10 million. There are remarkably few companies in the groups with larger turnover.

---

<sup>1</sup> Översyn av den privata lokalradion, Radio- och TV-verket, 2005

|                       | 1999          | 2000          | 2001          | 2002          | 2003          | 2004          |
|-----------------------|---------------|---------------|---------------|---------------|---------------|---------------|
| Below 1.0 million SEK | 4             | 1             | 4             | 5             | 8             | 8             |
| 1.0-4.9 million SEK   | 8             | 12            | 12            | 14            | 12            | 10            |
| 5.0-9.9 million SEK   | 8             | 7             | 7             | 6             | 7             | 7             |
| 10.0-20.0 million SEK | 6             | 5             | 6             | 6             | 6             | 5             |
| over 20 million SEK   | 6             | 7             | 5             | 5             | 6             | 4             |
|                       | <b>n = 32</b> | <b>n = 32</b> | <b>n = 34</b> | <b>n = 36</b> | <b>n = 39</b> | <b>n = 34</b> |

The data structure suggests that the Swedish commercial radio business is highly concentrated. Though it contains many small companies, there are only a few larger companies with higher turnover. In 2004 the 8 largest companies, each having a turnover of more than SEK 10 million, accounted for 80 per cent of the total turnover. Also the typical measure of concentration, the Herfindahl-Hirschman Index (HHI)<sup>2</sup>, indicates a high concentration. For 2004 the HHI value was 1,735 which is very close to the level of “high concentration” (1,800). The HHI is calculated by summing the squared market shares of all firms in a given market.

The total turnover of Swedish commercial radio companies from the years 1999-2004 is listed below. Altogether the radio business in Sweden was around SEK 476 million in 2004. Six years earlier it was around SEK 434 million in nominal value, so the size of the business has grown around 10 per cent between 1999 and 2004.

|   | 1999          | 2000          | 2001          | 2002          | 2003          | 2004          |
|---|---------------|---------------|---------------|---------------|---------------|---------------|
| Turnover of Swedish commercial radio stations, altogether, € k                      | 49 272        | 56 335        | 48 063        | 46 891        | 52 705        | 52 129        |
| Turnover of Swedish commercial radio stations, altogether, SEK k, nominal values    | 433 966       | 475 837       | 444 656       | 429 646       | 480 928       | 475 769       |
| Turnover of Swedish commercial radio stations, altogether, SEK k, fixed 2004 prices | 449 693       | 514 160       | 438 659       | 427 965       | 481 025       | 475 769       |
|   | <b>n = 32</b> | <b>n = 32</b> | <b>n = 34</b> | <b>n = 36</b> | <b>n = 39</b> | <b>n = 34</b> |

When the turnover is divided by the number of staff, the distribution is quite even. In 2004 one fifth of the analyzed companies employed less than 5 persons. Every seventh company employed 5-10 persons or 10-14 persons, and one company in four employed more than 10 persons. This distribution does not vary much through the years. Note that there are quite many companies that did not report their number of staff.

|                           | 1999          | 2000          | 2001          | 2002          | 2003          | 2004          |
|---------------------------|---------------|---------------|---------------|---------------|---------------|---------------|
| Less than 5 persons       | 6             | 6             | 7             | 8             | 9             | 7             |
| 5-9 persons               | 5             | 7             | 5             | 6             | 7             | 5             |
| 10-14 persons             | 6             | 2             | 3             | 5             | 5             | 5             |
| 15 persons or more        | 7             | 8             | 9             | 6             | 6             | 4             |
| Information not available | 8             | 9             | 10            | 11            | 12            | 13            |
|                           | <b>n = 32</b> | <b>n = 32</b> | <b>n = 34</b> | <b>n = 36</b> | <b>n = 39</b> | <b>n = 34</b> |

<sup>2</sup> Albarran, 1996:50.

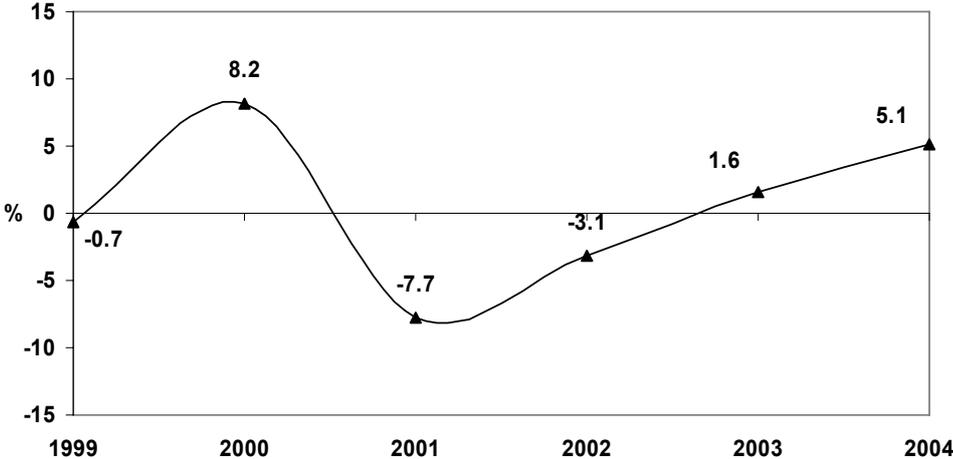
# 4. Economic Performance of the Commercial Radio Business in Sweden

## 4.1 Size of the Business

### Change in Turnover

The percentage of change in turnover in the Swedish commercial radio business varied a great deal during 1999-2004. In 2000 the Swedish radio business saw the most rapid growth during the years under scrutiny, growing 8 per cent on median. In the following year the growth sunk to -8 per cent, the lowest during the years 1999-2004. Since then the business has recovered steadily and even achieved a modest positive growth in 2003. In 2004 the median growth was 5.1 per cent, being again distinctly positive like in 2000. Despite the positive growth figures, almost every third company had a declining turnover in 2004.

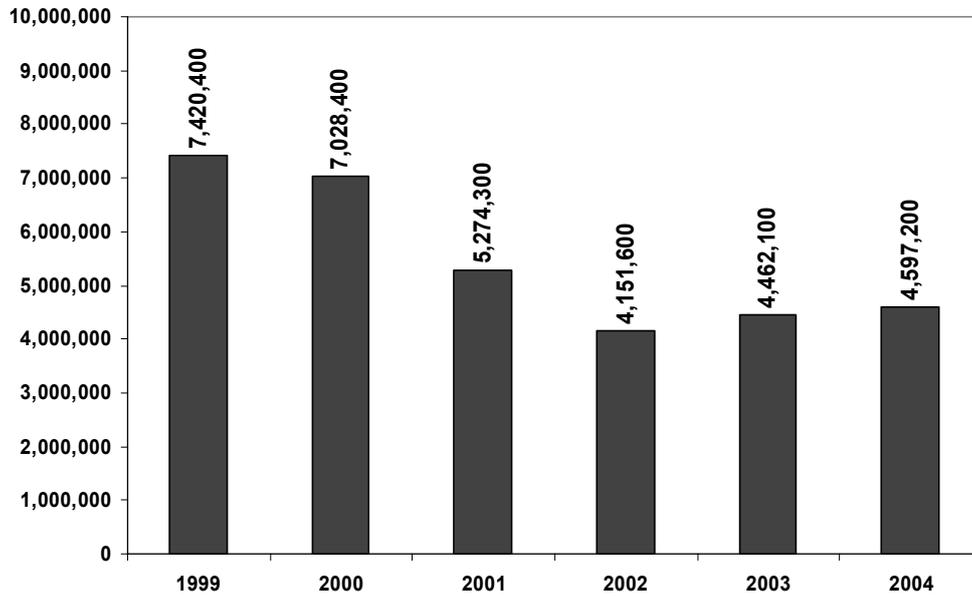
**CHANGE IN TURNOVER, 1999-2004**  
**Omsättnings förändring (%)**



### Turnover

Median turnover of the Swedish commercial radio business declined steadily during 1999-2002, starting at SEK 7.4 million in 1999 and ending in SEK 4.2 million in 2002. In 2003 the median turnover recovered slightly being SEK 4.4 million and in 2004 it continued recovering to SEK 4.6 million. The decline in turnover is mostly real because exchange rates used in calculations (calculating SEK-valued turnover from euro-valued turnover) have only a marginal effect on the change in the value of business.

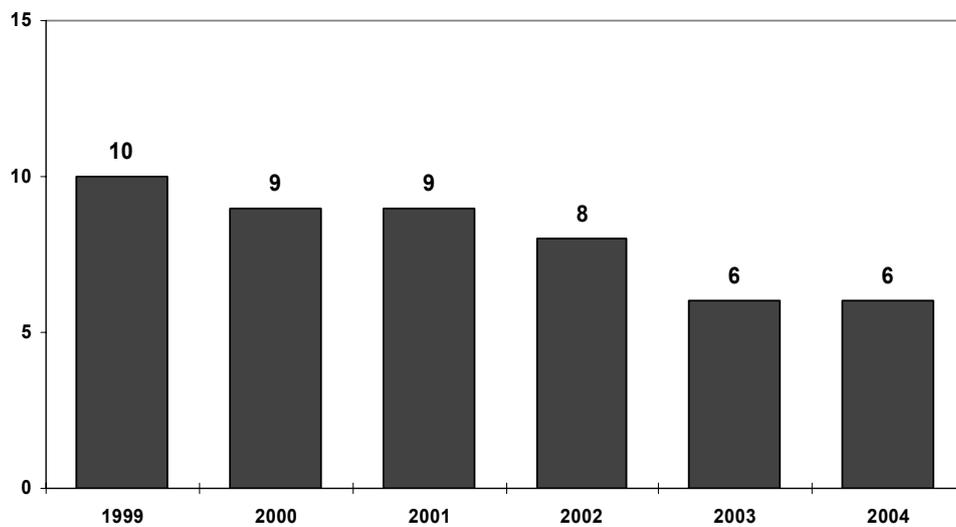
**TURNOVER, 1999-2004**  
**Omsättning, (SEK)**



**Number of Staff**

The median number of staff has also declined during 1999-2004. In 1999 it was 10 persons but has since declined. In 2000-2001 it was 9 persons, falling to 8 persons in 2002 and 6 persons in 2003. In 2004 it remained on the level of the previous year. A declining median number of staff means that the commercial radios in Sweden have rationalized their operations over the years by simply employing less people.

**MEDIAN NUMBER OF STAFF, 1999-2004**  
**Antal anställda**



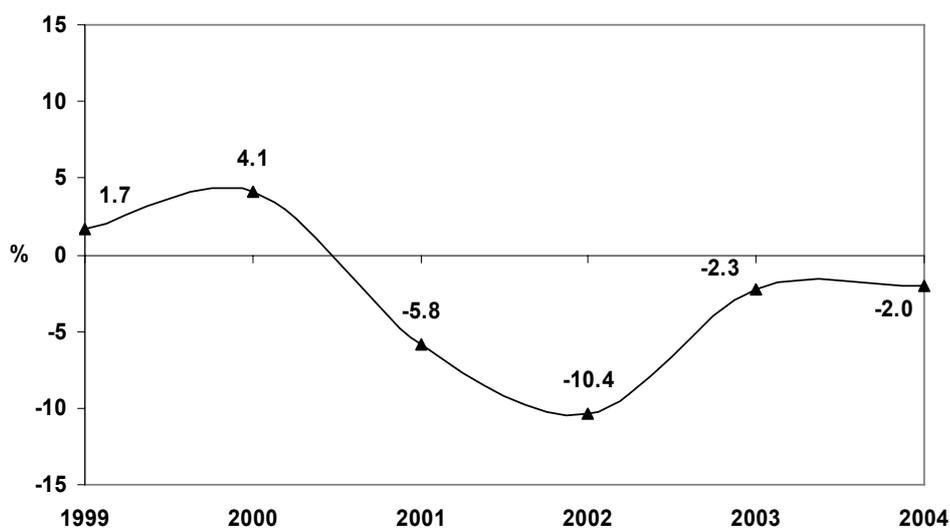
## 4.2 Profitability

### Operating Margin

Operating margin tells us how successful the operational activities of a company have been before depreciation and financial items. Using this key figure when comparing different companies in the same industry can be somewhat misleading because companies can either own their production facilities or lease them totally or partially. If the company owns its production facilities, the costs of using those facilities are booked as depreciations after operating margin. If the facilities are leased, leasing costs are included in rents and by that way also in operating margin. The required level of operating margin depends on the relation of current liabilities and turnover and the current level of interest rates.

The operating margin of commercial radios in Sweden remained fairly low during 2001-2004. It also varied remarkably. During 1999 and 2000 it was slightly above zero, but as early as in 2001 it weakened and in 2002 it sunk to -10.4 per cent. In 2003 it recovered remarkably but was still negative at -2.3 per cent. In 2004 the operating margin remained negative at -2.0 per cent, with more than half of the companies having a negative operating margin.

**OPERATING MARGIN, 1999-2004**  
**Driftsbidrag (%)**

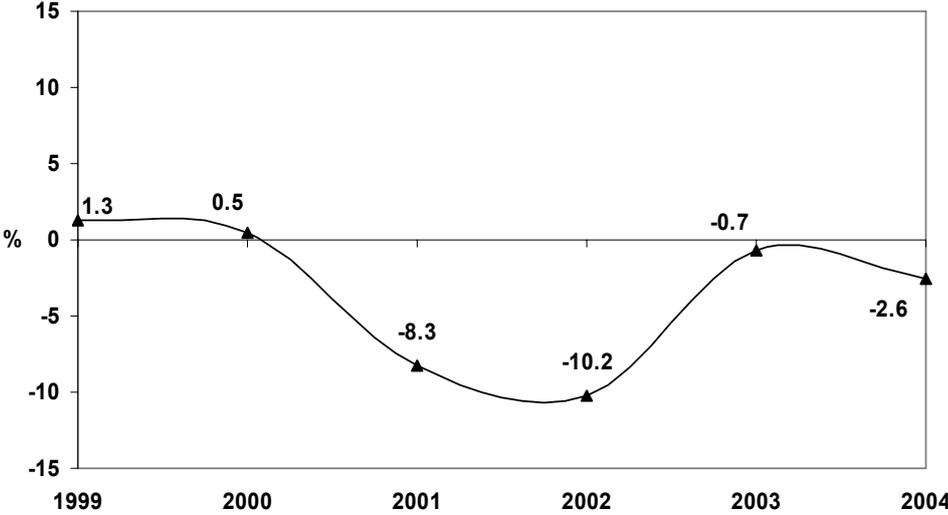


### Financial Result

The financial result of a company depends not only on the operational profitability of the company but also on the situation on the financial markets, like the level of interest rates and financial risks. Financial result, also known as net income before depreciation, must be positive even in the short term. Financial result describes the ability of the company to manage its installment payments, increase in working capital and investments with revenues from business operations.

The financial result of Swedish commercial radios has been in line with the operating margin. The financial result was positive in 1999-2000 and strongly negative in 2001-2002. In 2003 the financial result improved remarkably to close to zero, but in 2004 it weakened again. A negative median of financial result means that more than half of the companies in the Swedish radio business cannot create wealth for new investments with their business operations.

**NET INCOME BEFORE DEPRECIATION, 1999-2004**  
**Finansieringsresultat (%)**

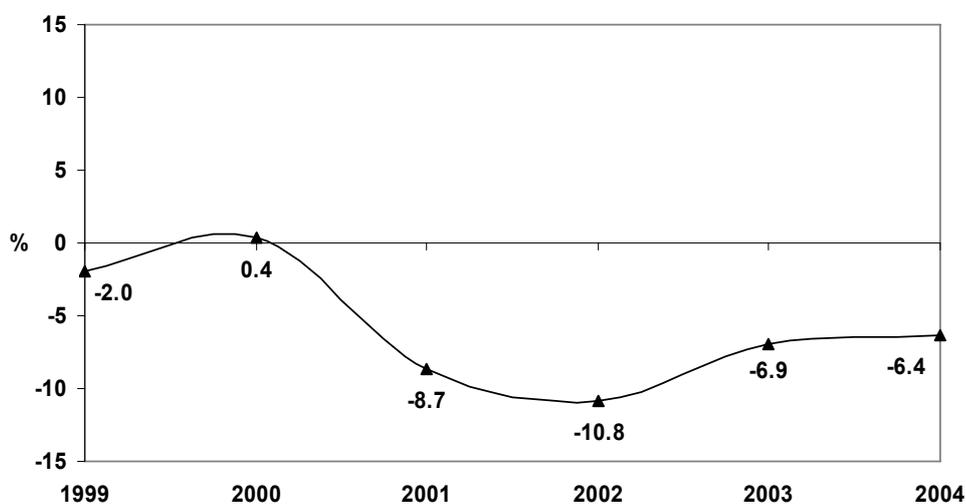


**Net Result**

Net result, also known as net income before extraordinary items, is the profit when all regular revenues and costs are taken into account. In practice net result is calculated from financial result by deducting depreciation. With net result we can estimate the ability of the company to create wealth for investments, to return capital to the owners as dividend, and to make the most of borrowed capital. A company’s cumulative net result should be positive for it to be considered profitable.

The median net result of Swedish commercial radios was negative in almost every year during 1999-2004. Only in 2000 was the median net result slightly over zero. In 2001-2002 the median net result dropped sharply to around -10 per cent. In 2003-2004 there was a small recovery and the median net result rose to around -6 per cent. Among the analyzed company data some two thirds of the commercial radios made losses in 2004.

**NET INCOME BEFORE EXTRAORDINARY ITEMS, 1999-2004**  
**Nettoresultat (%)**

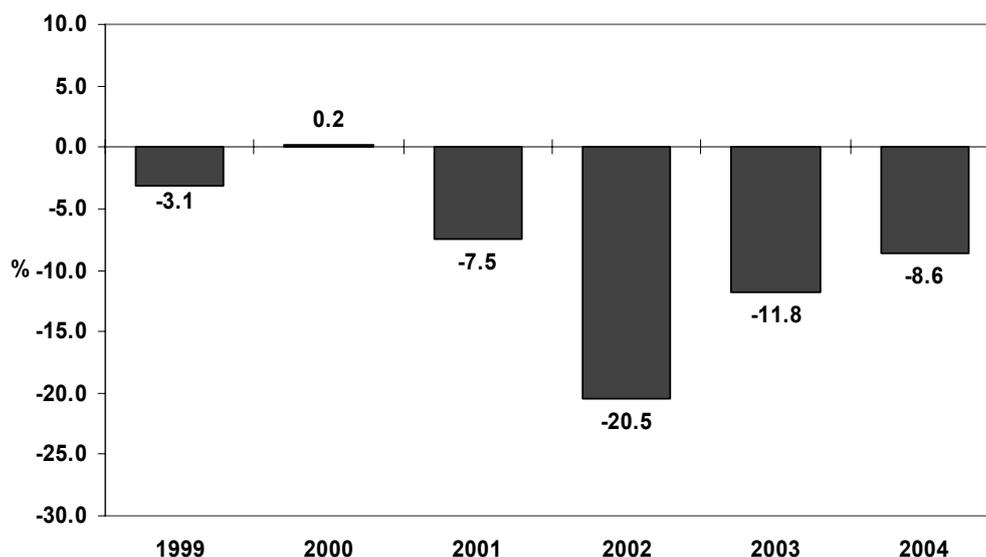


Return on Investment

Return on investment measures the relative profitability of the capital invested in a company. Return on investment can be considered moderate when it is at least on the same level as the interest paid on borrowed capital.

Return on investment in the Swedish commercial radio business was negative almost through all the years 1999-2004. Only the year 2000 shows a close to zero figure. 2002 was again an especially weak year with return on investment at -20.5 per cent. The median return on investment improved in 2003-2004, still remaining strongly negative.

**RETURN ON INVESTMENT, 1999-2004**  
**Avkastning på investerat kapital (%)**



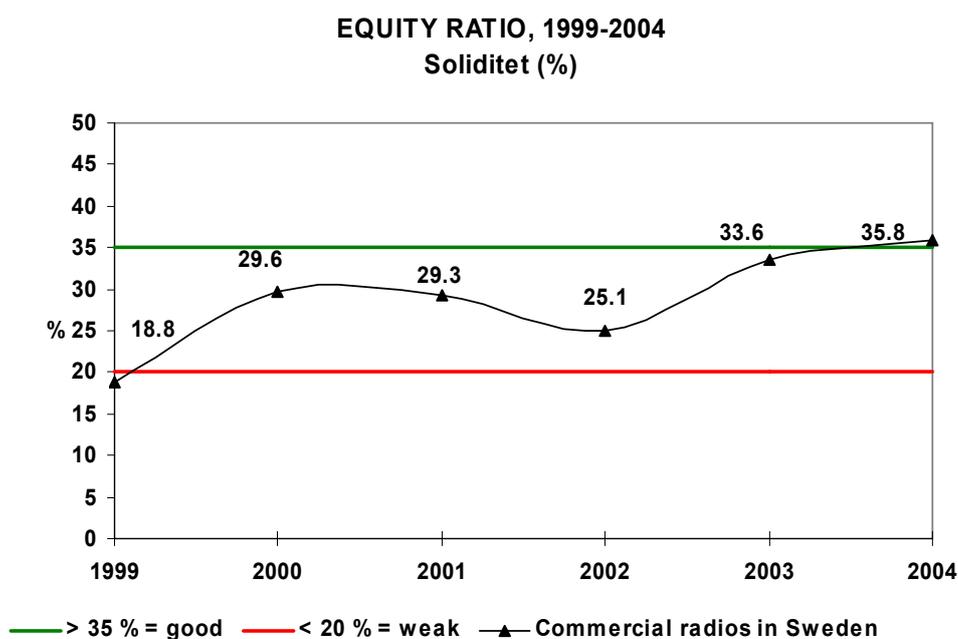
### 4.3 Solvency

#### Equity Ratio

Equity ratio measures the solvency of the company, to what extent it can sustain losses and meet its long-term liabilities. The following limits of equity ratio are set by the Finnish Committee of Corporate Analysis<sup>3</sup>:

|            |          |
|------------|----------|
| Over 35 %  | good     |
| 20 – 35 %  | moderate |
| Below 20 % | weak     |

Commercial radio stations in Sweden had a moderate equity ratio of between 25 and 34 per cent during 2000-2003. In 1999 the equity ratio was even below the limit of 20 per cent. 2004 had the most promising development when median equity ratio was lifted above 35 per cent, i.e. on a good level. Every third commercial radio in Sweden still had a weak equity ratio in 2004 while almost every second had an equity ratio on a good level above 40 per cent.



#### Relative Indebtedness

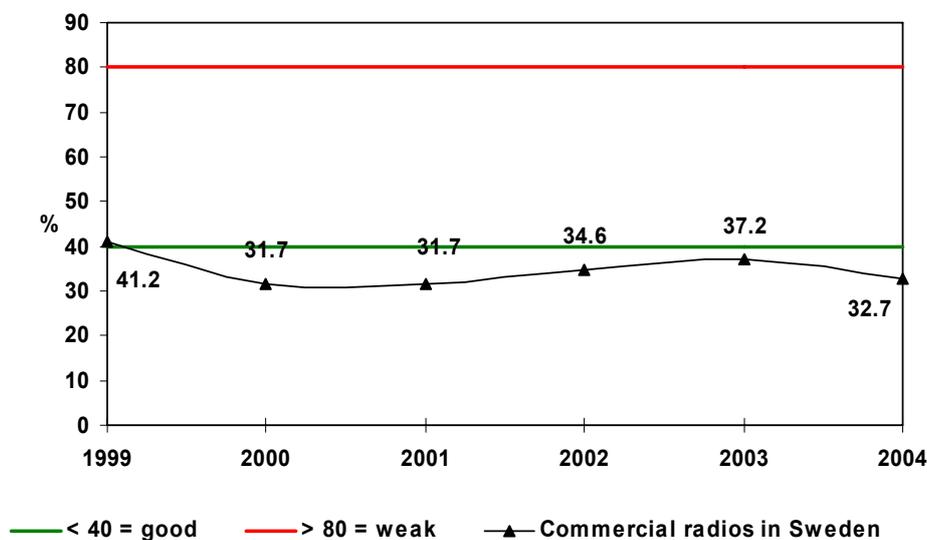
Relative indebtedness measures the relation between current liabilities and turnover and it reflects the desired level of operating margin that is needed for the company to cover current liabilities. The higher the relative indebtedness is, the higher the financial risk for the investors and the cost of capital for the company itself. The Finnish Committee for Corporate Analysis has set the following limits:

<sup>3</sup> Although the limits are set by the Finnish Committee of Corporate Analysis, these limits are widely accepted in other countries as well

|            |          |
|------------|----------|
| Below 40 % | good     |
| 40 – 80 %  | moderate |
| Over 80 %  | weak     |

Relative indebtedness of the Swedish commercial radio stations was on a good level through all years 1999-2004, though it increased slightly from 2001 onwards and was close to moderate in 2003. In 2004 relative indebtedness decreased slightly to 32.7 per cent. Every fifth company had weak relative indebtedness in 2004, above 80 per cent. One fourth of the companies analyzed did not provide information on this key figure.

**RELATIVE INDEBTNESS, 1999-2004**  
**Relativ skuldsättning (%)**



#### 4.4 Liquidity

##### Current Ratio

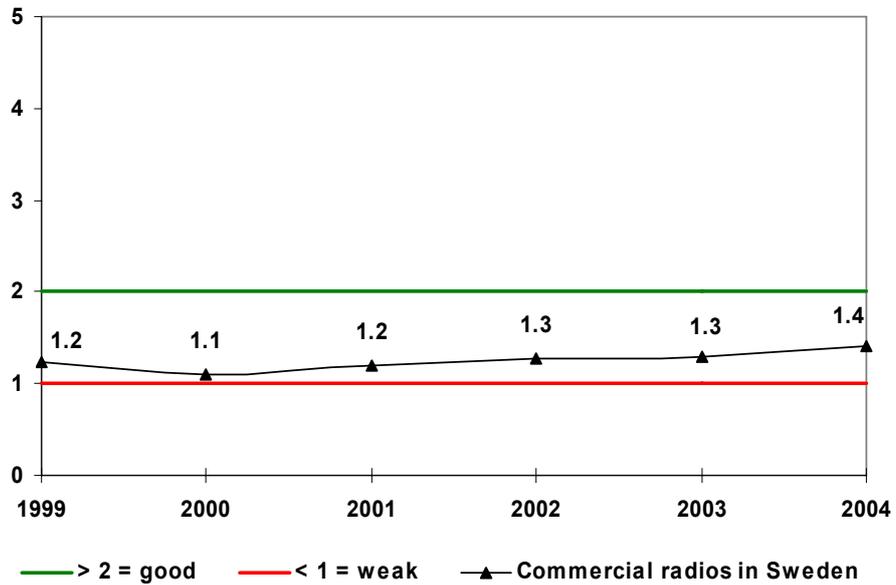
Liquidity means the ability of the company to cope with bills in time. The most common measure of liquidity is current ratio, which measures the ability to cover short-term liabilities with current assets and receivables.

The Finnish Committee for Corporate Analysis has set the following limits for current ratio.

|         |          |
|---------|----------|
| Above 2 | good     |
| 1 – 2   | moderate |
| Below 1 | weak     |

Current ratio of Swedish commercial radios was on a moderate level 1999-2004 though it improved in 2000-2004. It was on its best level so far, 1.4, in 2004.

**CURRENT RATIO, 1999-2004**  
Current ratio

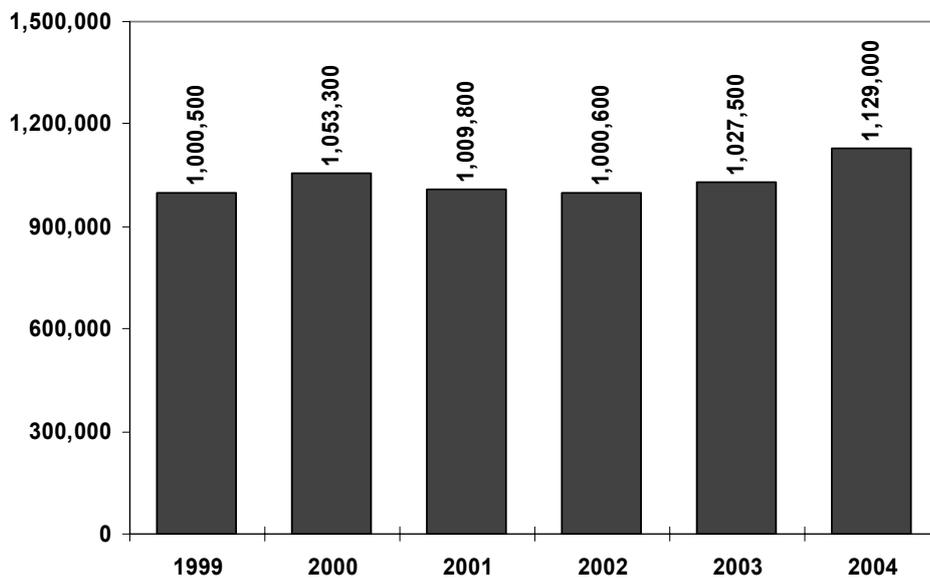


*4.5 Productivity*

Turnover per Employee

Turnover per employee in Swedish commercial radios was around SEK 1.0 million during 1999-2003. In 2004 turnover per employee increased slightly to SEK 1.1 million. This suggests that productivity was fairly stable through the whole period under investigation.

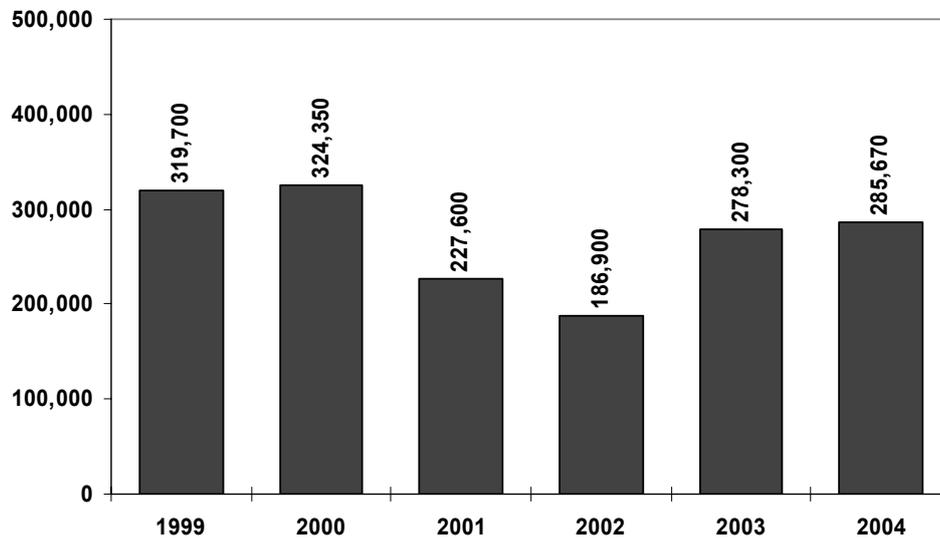
**TURNOVER PER EMPLOYEE, 1999-2004**  
Omsättning per person (SEK)



## Value Added per Employee

Value added per employee is a better measure of productivity than turnover per employee. This measure showed a dramatic decline in productivity during 1999-2002 but there was a substantial recovery in 2003 to SEK 278,300 per employee. At its highest it was SEK 324,300 in 2000 and at its lowest it was SEK 186,900 in 2002. In 2004 value added per employee was SEK 285,670 i.e. almost equal with the previous year. Improvement in productivity reflects the changes in staff of Swedish commercial radio stations, i.e. companies have had the same turnover and made the same profit with less people.

**VALUE ADDED PER EMPLOYEE, 1999-2004**  
**Förädlingsvärde per person (SEK)**



#### 4.6 Key Figures of the Swedish Commercial Radio Business, 1999-2004

Key figures of Swedish commercial radios 1999-2004 are summarized in the following table.

|                               | 1999    | 2000    | 2001    | 2002    | 2003    | 2004   |
|-------------------------------|---------|---------|---------|---------|---------|--------|
| Turnover, EUR k               | 842.5   | 832.1   | 570.1   | 453.1   | 489.0   | 503.7  |
| Turnover, SEK k               | 7,420.4 | 7,028.4 | 5,274.3 | 4,151.6 | 4,462.1 | 4597.2 |
| Turnover growth (%)           | -0.7    | 8.2     | -7.7    | -3.1    | 1.6     | 5.1    |
| Number of employees           | 10      | 9       | 9       | 8       | 6       | 6      |
| Turnover / employee, EUR k    | 113.7   | 124.7   | 109.1   | 109.2   | 112.6   | 123.7  |
| Turnover / employee, SEK k    | 1000.5  | 1053.3  | 1009.8  | 1000.6  | 1027.5  | 1129.0 |
| Value added / employee, EUR k | 36.3    | 38.4    | 24.6    | 20.4    | 30.5    | 31.3   |
| Value added / employee, SEK k | 318.5   | 319.7   | 324.3   | 227.6   | 278.3   | 285.7  |
| Value added / employee costs  | 1.1     | 1.2     | 1.0     | 0.8     | 1.0     | 1.0    |
| Operating margin (%)          | 1.7     | 4.1     | -5.8    | -10.4   | -2.3    | -2     |
| Financial result (%)          | 1.3     | 0.5     | -8.3    | -10.2   | -0.7    | -2.6   |
| Net result (%)                | -2.0    | 0.4     | -8.7    | -10.8   | -6.9    | -6.4   |
| Current ratio                 | 1.2     | 1.1     | 1.2     | 1.3     | 1.3     | 1.4    |
| Equity ratio (%)              | 18.8    | 29.6    | 29.3    | 25.1    | 33.6    | 35.8   |
| Relative indebtedness (%)     | 41.2    | 31.7    | 31.7    | 34.6    | 37.2    | 32.7   |
| Return on investment (%)      | -3.1    | 0.2     | -7.5    | -20.5   | -11.8   | -8.6   |
|                               | n = 32  | n = 32  | n = 34  | n = 36  | n = 39  | n = 34 |

#### 4.7 Key Figures of the Swedish Commercial Radio Business by Turnover, 1999-2004

When companies are ranked by turnover, we can analyze differences between smaller and larger companies. In this data the limit for splitting is set at SEK 10 million. The standard classification of companies by the European Commission does not apply to these data because most of the firms fall into the group of micro-sized companies. These companies have a turnover of less than EUR 2 million (around SEK 18.3 million) and employ less than 10 persons. The next table contains the key figures of Swedish radio companies with a turnover of less than SEK 10 million.

|                            | 1999   | 2000   | 2001   | 2002   | 2003   | 2004   |
|----------------------------|--------|--------|--------|--------|--------|--------|
| Turnover EUR k             | 433,7  | 343,8  | 305,9  | 338,1  | 293,2  | 254,3  |
| Turnover SEK k             | 819,6  | 903,9  | 830,2  | 097,9  | 675,4  | 320,6  |
| Turnover growth (%)        | -0,7   | 3,9    | -3,0   | -1,2   | 0,9    | 3,1    |
| Number of employees        | 5      | 4      | 3      | 3      | 4      | 4      |
| Turnover/employee EUR k    | 111,5  | 124,5  | 102,0  | 106,5  | 112,6  | 109,7  |
| Turnover/employee SEK k    | 982,0  | 1051,7 | 943,4  | 976,2  | 1027,1 | 1001,4 |
| Value added/employee EUR k | 33,9   | 31,8   | 24,6   | 20,4   | 19,7   | 29,6   |
| Value added/employee SEK k | 298,7  | 269,0  | 228,0  | 187,3  | 179,6  | 270,1  |
| Value added/employee costs | 1,3    | 1,0    | 1,0    | 0,8    | 0,7    | 1,0    |
| Operating margin (%)       | 1,8    | -5,8   | -5,8   | -11,2  | -13,3  | -1,6   |
| Financial result (%)       | 1,7    | -5,9   | -5,2   | -11,0  | -13,2  | 0,1    |
| Net result (%)             | 0,4    | -3,0   | -2,2   | -11,5  | -11,6  | -3,9   |
| Current ratio              | 1,2    | 1,2    | 1,4    | 1,4    | 1,3    | 1,4    |
| Equity ratio (%)           | 29,2   | 50,3   | 58,6   | 49,2   | 41,1   | 49,4   |
| Relative indebtedness (%)  | 37,0   | 30,4   | 25,7   | 22,1   | 30,4   | 32,7   |
| Return on investment (%)   | -4,8   | -1,6   | -6,0   | -33,8  | -60,9  | -8,6   |
|                            | n = 20 | n = 20 | n = 23 | n = 25 | n = 27 | n = 25 |

It is notable that the median growth of turnover for smaller companies has been quite stable. It has varied only between -3.9 per cent and 3.1 per cent and it has had quite a small effect on the profitability of the smaller companies. These have had losses in almost every year under scrutiny. The solvency of the smaller companies has been on a much higher level than that of the larger ones. The equity ratio of the smaller companies has been around 40-50 per cent (except in 1999), and relative indebtedness has been around 20-35 per cent in 2000-2004.

For larger companies with a turnover of more than SEK 10 million, the turnover growth varied substantially more. In 2000 and 2004 the median growth was around 13 percent and in 2001 it was down to almost -10 percent. Also the profitability of the larger companies followed turnover growth. With stronger turnover growth the profitability of the companies is also better. The solvency of the larger companies was quite poor in 1999-2004. Only in a couple of years, such as 2000 and 2003, the equity ratio was on a moderate level. Otherwise it was on a poor level. Relative indebtedness was also much higher than in the smaller companies.

|                               | 1999        | 2000        | 2001        | 2002        | 2003        | 2004        |
|-------------------------------|-------------|-------------|-------------|-------------|-------------|-------------|
| Turnover EUR k                | 2 582,6     | 2 944,1     | 2 489,0     | 2 499,7     | 3 101,7     | 2 048,9     |
| Turnover SEK k                | 22<br>746,6 | 24<br>867,5 | 23<br>027,6 | 22<br>904,3 | 28<br>302,7 | 18<br>699,8 |
| Turnover growth (%)           | 1,6         | 12,7        | -9,6        | -4,7        | 2,7         | 13,0        |
| Number of employees           | 24          | 23          | 22          | 17          | 21          | 14          |
| Turnover/employee<br>EUR k    | 113,7       | 145,0       | 113,4       | 117,8       | 128,8       | 126,0       |
| Turnover/employee<br>SEK k    | 1001,6      | 1224,8      | 1049,2      | 1079,4      | 1174,9      | 1149,7      |
| Value added/employee<br>EUR k | 41,9        | 52,6        | 25,2        | 27,7        | 39,6        | 33,4        |
| Value added/employee<br>SEK k | 369,0       | 444,1       | 233,3       | 253,9       | 361,3       | 305,2       |
| Value added/employee<br>costs | 1,1         | 1,7         | 0,8         | 0,8         | 1,1         | 0,9         |
| Operating margin (%)          | 1,6         | 14,4        | -5,5        | -6,1        | 4,7         | -2,2        |
| Financial result (%)          | 1,1         | 8,3         | -13,6       | -5,3        | 3,6         | -3,8        |
| Net result (%)                | -3,9        | 4,4         | -16,6       | -6,5        | 0,5         | -7,1        |
| Current ratio                 | 1,1         | 1,0         | 0,9         | 1,1         | 1,5         | 1,2         |
| Equity ratio (%)              | 13,5        | 24,4        | 6,0         | 10,2        | 21,3        | 19,5        |
| Relative indebtedness<br>(%)  | 48,9        | 40,1        | 75,2        | 59,8        | 121,5       | 45,9        |
| Return on investment<br>(%)   | -4,0        | 16,5        | -24,0       | -12,4       | 1,5         | -17,0       |
|                               | n = 12      | n = 12      | n = 11      | n = 11      | n = 12      | n = 9       |

#### 4.8 Swedish Commercial Radio Stations on Productivity-Profitability Axes

Commercial radios can be divided into four different groups by their position on the productivity-profitability axes. The horizontal axis (defined by the median of value added per employee) divides companies into two groups by their productivity and the vertical axis divides companies into two groups by profitability (positive or negative). Median value added per employee was SEK 285,700 in 2004.

### COMMERCIAL RADIOS IN SWEDEN 2004

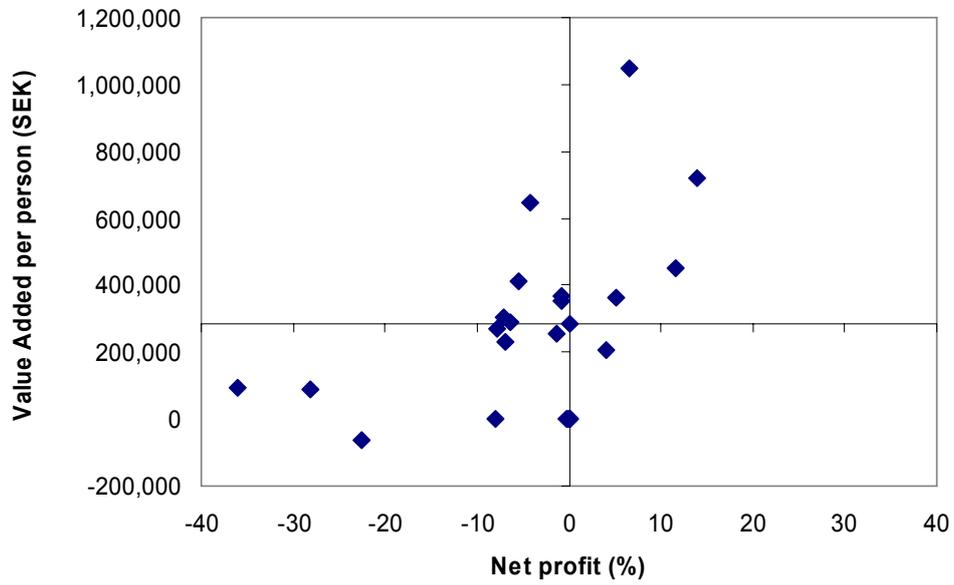
|   |   |  |
|---|---|--|
| Value added/<br>person<br><br>+<br>SEK 285,670<br><br>- | <b>CEMETERY<br/>OF CAPITAL</b><br><br><b>19 %</b> | <b>BUSINESS<br/>CLASS</b><br><br><b>13 %</b> |
|   | <b>SWAMP</b><br><br><b>55 %</b>                   | <b>DAY CARE</b><br><br><b>13 %</b>           |
|   | - 0 +   |  |
|   | <b>Net Profit, %</b>                              |  |

Every second commercial radio company in Sweden belongs to the group called “swamp” when placed on the productivity-profitability axes. “Swamp” is the quarter where companies’ productivity is lower than on average and profitability is negative; i.e. companies incur losses with unproductive staff. Every eighth company is located in the quarter called “day care”, which means that their business was profitable despite of less-than-average productive staff.

Every fifth company is located in the quarter called “capital cemetery”, which means that the company makes losses despite having more productive staff than the average company. The best group called “business class” contains every eighth company of the companies analyzed. These companies make a profit and their staff is more productive than the average company’s, which makes this quarter the most wanted, and the aim of companies from other quarters should be to reach this quarter.

The next chart presents Swedish commercial radio companies on productivity-profitability axes in 2004. There are some data missing from the productivity variable; those cases are placed on the zero level of the value added per person axis.

**SWEDISH COMMERCIAL RADIO STATIONS ON  
PROFITABILITY-PRODUCTIVITY AXES 2004 (n = 33)**



Note! There are some radios that have weaker key figures than the limits set on the chart above. These companies are not shown in the chart.

#### *4.9 Risk Position of Commercial Radio Stations in Sweden*

The risk position of Swedish commercial radios can be analyzed with four central key figures: net result, equity ratio, relative indebtedness, and current ratio. Companies can be divided into three different groups by these key figures. The critical limits for the key figures are listed in the following table:

|                       | Good   | Moderate   | Risk    |
|-----------------------|--------|------------|---------|
| Net result            | > 5 %  | 0 – 5 %    | < 0 %   |
| Equity ratio          | > 40 % | 20 – 40 %  | < 20 %  |
| Relative indebtedness | < 50 % | 50 – 100 % | > 100 % |
| Current ratio         | > 2    | 1 – 2      | < 1     |

The information used here describes the situation in 2004. The commercial radio companies analyzed can be divided into different groups by the key figures as follows:

|                       | Good   | Moderate | Risk   |
|-----------------------|--------|----------|--------|
| Net result            | 21.2 % | 8.8 %    | 70.0 % |
| Equity ratio          | 48.6 % | 14.3 %   | 37.1 % |
| Relative indebtedness | 59.3 % | 25.9 %   | 14.8 % |
| Current ratio         | 29.4 % | 55.9 %   | 14.7 % |

More than two thirds of the companies belong to the risk group by their net result and a fifth of the companies had a good net result. In equity ratio more than one third of the companies belong to the risk group. On the other hand almost every second company had their equity ratio on the good level.

Relative indebtedness was on the good level for more than every other company, but almost one seventh of the companies were on the risk level. In Current ratio every fourth company was on the good level and only around 15 per cent on the risk level.

## 5. Concluding Remarks

This report shows the financial development of the Swedish commercial local radio industry during the past five years. It is obvious that the industry as a whole is still wrestling with poor profitability. The years following the good year 2000 were bad for all sorts of advertising-funded media. The level of advertising expenditure in 2004 was still not up on the levels of 2000. Also the financial situation of the Swedish radio industry has not recovered to the level it was in 1999-2000. The dependency of advertising-funded media on the advertising market is thus evident in this report.

As we discussed in the introduction to this report, the poor financial state of the commercial radio industry can be explained by a number of factors - the high concession fees, the strong public service radio, the strong print media, etc. The answer to how the commercial radio industry has been able to sustain its operations lies in the fact that most of the stations are owned by large media houses that have financial resources to pour into an unprofitable industry. The industry losses are seen as establishment expenses and thus as an investment into a future (hopefully more profitable) presence on the radio market. Consolidation and forming of radio networks, cost-cutting and synergy seeking are all attempts to improve profitability.

It is clear in this report that cost-cutting to a large degree has affected the number of employees in the radio industry. Productivity has thus been improved, since it takes less people to produce content, which is shown in such measures as value added per employee. One should, however, remember that cost-cutting seldom leads to increase in quality, and that fewer employees are unlikely to coincide with quality programming and journalistic content.

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Appendix 1. List of Companies Included in the Data

| <b>Company name</b>                 |
|-------------------------------------|
| 106,7 ROCKKLASSIKER AB              |
| BONNIER RADIO AB**                  |
| BRA RADIO I VÄSTERÅS AB             |
| DAVINCI PROMOTION AB                |
| EGO RADIO AB                        |
| FRIA MEDIA I BLEKINGE AB            |
| FRIA MEDIA I ÖSTERGÖTLAND AB        |
| FRIA RADIOBOLAGET I BORÅS AB        |
| GÖTA RADIOKANAL I LINKÖPING AB      |
| MIX MEGAPOL.SE AB                   |
| MTG LUGNA FAVORITER AB              |
| MTG RADIO AB                        |
| NORRKÖPINGS RADIO & CO AB           |
| RADIO 107,4 I SUNDSVALL AB          |
| RADIO CITY AB*                      |
| RADIO CITY GÖTEBORG AB              |
| RADIO CITY MALMÖ AB                 |
| RADIO CITY STOCKHOLM AB             |
| RADIO CITY ÖSTERSUND AB**           |
| RADIO HIT FM MELODICUM AB           |
| RADIO I X-LÅN AB                    |
| RADIO MATCH AB                      |
| RADIO NATIONAL LULEÅ AB**           |
| RADIO NATIONAL SKELLEFTEÅ AB        |
| RADIO RIX I HALLAND AB              |
| RADIO STELLA AB                     |
| RADIO ÖVIK AB                       |
| RADIOINDUSTRI XERKSES I BORÅS AB    |
| RBBB BROADCASTING AB                |
| RBDS BROADCASTING AB                |
| RBG BROADCASTING AB                 |
| RBKR BROADCASTING AB                |
| RBM BROADCASTING AB                 |
| RBO BROADCASTING AB                 |
| RBS BROADCASTING AB                 |
| REKLAMRADIO-FMK AB                  |
| SBS RADIO AB*                       |
| SVENSK RADIOPARTNER RADIO CITY AB   |
| UPPSALA MUSIKRADIO CITY 106,5 AB    |
|                                     |
| *only for 2003-2004, **n/a for 2004 |

