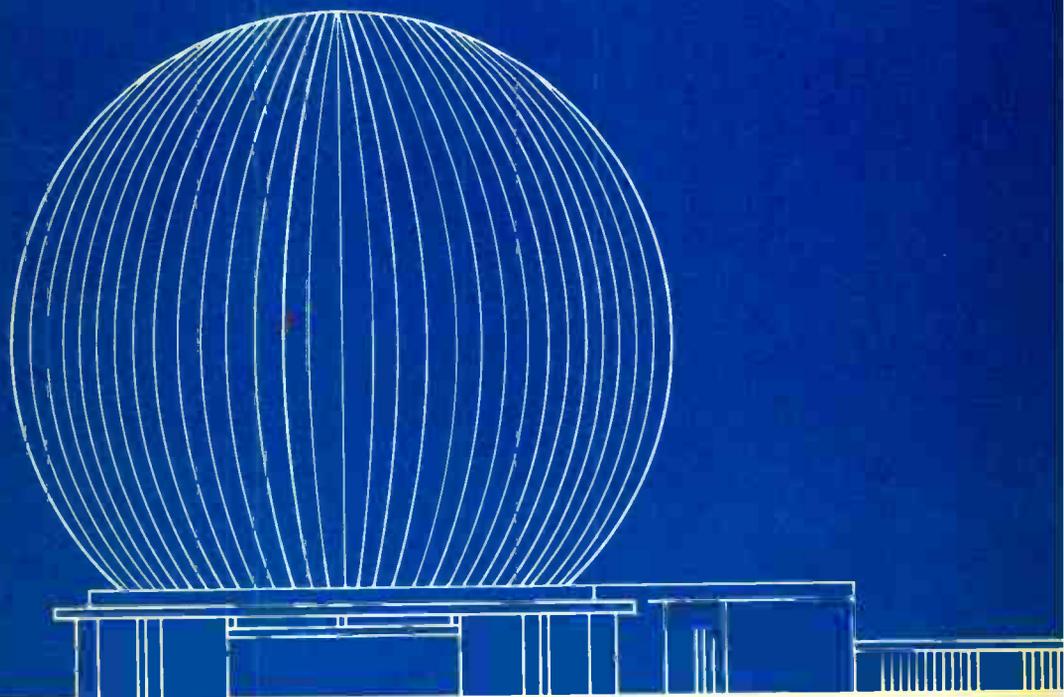


BROADCAST ADVERTISING IN CANADA
past and future growth

by O. J. FIRESTONE



UNIVERSITY OF OTTAWA PRESS

OTTAWA, CANADA

1966

Broadcast Advertising in Canada

Past and Future Growth

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No 3

Broadcast Advertising in Canada

Past and Future Growth

by

O. J. FIRESTONE
Professor of Economics
University of Ottawa



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OTTAWA, ONTARIO, CANADA
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P R E F A C E

Broadcast advertising has long been a controversial issue in Canada. So far, the debate has been mostly on ethical grounds. The opponents of commercial advertising have condemned it as undesirable in itself without even trying to suggest any improvements. In demanding that it be subject to public control, they were attempting to reduce its volume rather than improve its quality. This attitude is unrealistic.

Professor Firestone does not conduct a trial of advertising in order to condemn it or defend it. On the contrary, he considers it as the inevitable result of an affluent society, where the "average" man devotes an ever-decreasing part of his income to the necessities of life. This "average" man is now much richer. He must select the needs he wishes to satisfy and the products best suited to meet those needs. The purpose of advertising is to enlighten and influence that selection.

Professor Firestone presents an economic analysis of the advertising process. He considers advertising an industry. He describes its structure and its mechanics in the context of the national economy and emphasizes its increasing importance. Making useful comparisons with American experience, he explains how advertising has developed and predicts the probable expansion it is likely to achieve during the next decade. Finally, he analyses its problems and suggests solutions.

The writer deals particularly with two difficulties which the advertising industry has to cope with. The first is, in a sense, paradoxical: in the present state of our knowledge, it is impossible to measure, even approximately, the value or effectiveness of advertising, notwithstanding the fact that Canadian producers and distributors spend millions of dollars on it annually. The second difficulty relates more specifically to broadcast advertising: on the basis of realistic projections, the demand for advertising — the advertising outlays of commercial firms — will increase considerably and rapidly in the next decade, whereas the supply of advertising — the length of time which the radio and television stations can devote to advertising — is already approaching its maximum potential in prime time, especially in big cities, at least in the context of the present policy.

Let us return briefly to the first difficulty. It is possible with the use of surveys, to measure fairly accurately the percentage of people exposed to broadcast advertising. But it is more difficult and more costly to measure the degree of influence of a radio or TV advertising message. However, even complex surveys are not adequate. In the last analysis, we must know more about the psychology of individuals and groups, in order to improve the efficiency of advertising. That is the reason why Professor Firestone suggests a substantial research programme on human psychology and responses.

This recommendation is all the more justified as it may soon be impossible to satisfy the ever-increasing demand for broadcast advertising, especially in the more densely populated regions, even if the industry succeeds in improving its efficiency. An analysis of a growing disequilibrium between supply of and demand for broadcast advertising, no doubt, constitutes the most original contribution of this book.

This increasing disequilibrium will inevitably cause the price of broadcast advertising to rise substantially, which in turn will raise many questions of current interest. Should the C.B.C. cease to subsidize its sponsors? Is it wise to impose a ceiling on the proceeds which the C.B.C. can derive from advertising? Would it not be preferable to limit the length of time which it could devote to advertising? As far as private stations are concerned, should we oblige them to reduce their advertising in order to limit their revenues, or rather persuade them to improve their programmes with the same or expanding revenues?

Professor Firestone poses these questions and many others in a new perspective. His purpose is not to offer answers, but to provide the basic information and professional analysis which will greatly facilitate the task of those whose duty it is to find solutions, especially at the political level.

This is a very timely publication, which may in a way be a complement to the Report of the Committee on Broadcasting in analysing what constitutes the unique source of revenue of private broadcasters and an important source of revenue of the C.B.C. It will be undoubtedly useful at a time when the adoption of new legislation on broadcasting by Parliament is imminent.

Hon. Maurice LAMONTAGNE, M.P.

Ottawa, April 1966.

PRÉFACE

La publicité radiodiffusée est depuis longtemps une question controversée au Canada. Jusqu'ici le débat s'est fait surtout sur le plan moral. Les adversaires de la publicité commerciale l'ont condamnée comme indésirable en elle-même sans même tenter de l'améliorer. Quand ils ont réclamé qu'elle soit soumise à des contrôles publics, ils cherchaient à en réduire le volume plutôt qu'à en accroître la qualité. Cette attitude manque de réalisme.

Le professeur Firestone ne fait pas le procès de la publicité en vue de la défendre ou de la condamner. Il l'envisage au contraire comme une conséquence inévitable de l'économie d'abondance, alors que l'homme « moyen » consacre une portion toujours décroissante de son revenu aux nécessités de la vie. cet homme « moyen », devenu aisé, doit choisir les besoins qu'il désire satisfaire et les produits qui conviennent le mieux à ces besoins. La publicité tente d'éclairer ou d'influencer ces choix.

C'est avant tout une étude économique que le professeur Firestone nous soumet. Il envisage la publicité comme une industrie. Il décrit ses structures et ses mécanismes. Il la situe dans l'ensemble de notre économie et en souligne l'importance grandissante. Il montre comment elle s'est développée en faisant d'utiles comparaisons avec l'expérience américaine et il prédit l'expansion probable qu'elle connaîtra au cours de la prochaine décennie. Enfin il analyse ses problèmes et propose des solutions.

L'auteur insiste particulièrement sur deux difficultés auxquelles l'industrie de la publicité doit faire face. La première, en un sens, est paradoxale : dans l'état actuel de nos connaissances, il est impossible de mesurer même approximativement la valeur ou l'efficacité de la publicité et pourtant les producteurs et les distributeurs canadiens y consacrent des centaines de millions annuellement. La deuxième est plus spécifique à la publicité radiodiffusée : selon les meilleures prévisions, la demande de publicité — c'est-à-dire les budgets publicitaires des sociétés commerciales — augmentera considérablement et rapidement au cours de la prochaine décennie, tandis que l'offre de publicité — c'est-à-dire les périodes que les stations de radio et de télévision peuvent consacrer à des messages publicitaires —

s'approche déjà de son maximum surtout pendant les heures du soir dans les grandes villes et en tenant compte de la politique actuelle.

Revenons brièvement à la première difficulté. Il est possible présentement de mesurer assez exactement la cote d'écoute de la publicité radiodiffusée grâce à des sondages. Mais il est plus difficile et plus coûteux de mesurer l'influence que peut avoir un message publicitaire sur l'auditeur radiophonique ou sur le téléspectateur. Toutefois, même ces sondages complexes ne sont pas suffisants. En définitive, pour améliorer l'efficacité de la publicité, il faut enrichir nos connaissances de la psychologie des individus et des groupes. C'est pourquoi le professeur Firestone suggère un vaste programme de recherches sur l'homme qui demeure encore inconnu.

Cette recommandation de l'auteur est d'autant plus justifiée qu'il sera peut-être bientôt impossible de satisfaire la demande toujours croissante de publicité radiodiffusée, surtout dans les régions plus peuplées de notre pays, même si l'industrie réussit à accroître son efficacité. L'analyse du déséquilibre croissant entre l'offre et la demande de publicité radiodiffusée constitue sans doute la contribution la plus originale du présent ouvrage.

Ce déséquilibre grandissant aura pour conséquence inévitable d'accroître substantiellement le prix de la publicité radiodiffusée. Ce résultat à son tour soulève plusieurs questions d'une grande actualité. La Société Radio-Canada devrait-elle cesser de subventionner ses commanditaires comme elle le fait présentement ? Est-il sage de limiter les revenus que Radio-Canada peut retirer de la publicité ? Ne serait-il pas préférable de limiter les périodes de temps qu'elle pourrait consacrer à la réclame ? Quant aux stations privées, devrait-on les obliger à réduire leur publicité afin de limiter leurs revenus ou plutôt les astreindre à améliorer leurs programmes à même leurs revenus actuels ?

Ces questions et bien d'autres, le professeur Firestone les pose dans une perspective nouvelle. Son but n'est pas de leur apporter des réponses, mais de fournir l'information nécessaire et l'analyse professionnelle qui faciliteront grandement la tâche de ceux à qui il incombe de trouver des solutions, surtout sur le plan politique.

L'ouvrage du professeur Firestone paraît à un moment très propice. Il vient en quelque sorte compléter le rapport du Comité sur la Radiodiffusion en traitant l'unique source de revenu des radiodiffuseurs privés et d'une portion importante du financement de la Société Radio-Canada. Il sera d'une incontestable utilité alors que le Parlement s'apprête à doter notre pays d'une nouvelle loi sur la radiodiffusion.

Hon. Maurice LAMONTAGNE, M.P.

Ottawa, avril 1966.

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INTRODUCTION

This study on *Broadcast Advertising in Canada, Past and Future Growth* is the result of an initiative taken by Mr. W. D. Byles, President of Stovin-Byles Limited. Following the publication of the Report of the Committee on Broadcasting, headed by R. M. Fowler, submitted to The Honourable Maurice Lamontagne, Secretary of State of the Government of Canada, in September, 1965, Mr. Byles asked the author the simple question: "If the Canadian broadcasting industry developed along the lines recommended by the Fowler Committee, will there be enough commercial time available to accommodate the growing demand for broadcast advertising, say over the next decade?"

The answer was that the Report of the Committee on Broadcasting had concentrated in the main on program improvement of Canadian broadcasting and related matters. Thus the Committee dealt with the supply side of broadcasting. To answer Mr. Byles' question required a study of the growth of demand for broadcasting services, paid for by Canadian business and government using this medium for advertising purposes.

Mr. Byles presented this gap in public knowledge of the broadcasting field to the Canadian Broadcast Executive Society. This society requested the author to undertake a study of the demand for broadcasting services, as reflected in broadcast advertising expenditures, as a corollary to the Report of the Committee on Broadcasting, tying in such a study with the projections of Canada's economic growth as presented by the Economic Council of Canada in its last two reviews.

In particular, the Canadian Broadcast Executive Society asked that the study deal with "the special characteristics of the broadcast advertising business in Canada, the expenditures made on broadcast advertising and the manner in which broadcast advertising has met the competition from other media. Some comments on the economics and financial effects of broadcast advertising, the motivation for such advertising, cost factors, etc., would also be useful."

Looking to the future, the terms of reference included an outline of "the factors that are likely to contribute to the growth of broadcast advertising in Canada, some of the major problems

to be faced and the role of government. Taking account of economic and social forces at work, and allowing for alternative courses of action that the Government of Canada may pursue, what are the prospects for the future growth of the Canadian economy, advertising expenditures in general and broadcast advertising expenditures in particular?"

The Canadian Broadcast Executive Society and Mr. W. D. Byles of Stovin-Byles Limited, in undertaking to sponsor this study, did so on the full understanding that the report that would follow would represent the result of a completely independent inquiry and professional analysis. Thus the author accepts full responsibility for what is contained in this report.

The terms of reference of the study are both limiting and expanding in scope. The limitation requires for the study to deal only with the demand side for broadcasting services, and particularly that part of services paid for through the sale of advertising "time" on radio and television. The expanding factor is the special character of the broadcasting medium. The investigator cannot confine himself to an examination of economic motivation and the working of the forces of supply and demand. He must also take into account many other factors — technological, institutional, geographic, cultural, political and international. Without trying to be all embracing, this study concentrates on the major factors that will affect the flow of commercial revenues going to broadcasting stations in Canada, and in particular, deals with :

1. The growth of the economy itself and the main factors contributing to such growth over the period 1965 to 1975.
2. The growth of total advertising expenditures needed to facilitate the marketing of many billion dollars worth of goods and services which the expanding economy will be capable of producing within the next decade, and the reasons for increases in advertising expenditures expected.
3. The growth of broadcast advertising revenues resulting from the industry's ability to improve its share of total advertising expenditures being made in Canada and explanations as to the kind of future trends that appear to be indicated.

4. The growth in broadcast advertising expenditures in relation to total advertising expenditures and Gross National Product in Canada, as compared with corresponding growth in the United States, and an examination of the possibility of Canada narrowing a five-year time lag, particularly indicated in television commercial developments, over the next decade.

The study concludes with a brief summary of findings, a statement of some of the key problems to be faced, and some guide lines of what can be done to do a better and more effective job in matching supply of and demand for broadcasting services including commercial advertising in Canada. This study was completed in April 1966 and mimeographed copies were circulated on a confidential basis to appropriate authorities in government and private industry. Thus it was distributed before the White Paper on Broadcasting was tabled by the Government of Canada in the House of Commons on July 4th, 1966. Since the White Paper has concentrated in the main on "Public Control of Broadcasting" and the "Canadian Broadcasting Corporation", rather than on the economics of broadcasting, the conclusions offered in this study reinforce the general principles outlined in the White Paper. The main point is : in evolving a broadcasting policy for Canada, there is need not only to define the national interest but also to take into account the economics of the broadcasting industry which is more affected by technological changes than any other industry in this country.

I am particularly obliged to Mr. W. D. Byles who inspired me to undertake this study and on whose 30 years' experience as an advertising executive I drew freely and to Mr. D. L. Breithaupt, the President of the Canadian Broadcast Executive Society for his informative comments.

I was able to obtain a great deal of useful information and advice from a number of experienced people in the broadcasting and advertising fields and my sincere thanks go to them including E. L. Bushnell, S. W. Griffiths, W. H. Clark, W. H. Poole, and George Clements.

I had the privilege of discussing some of the problems faced in undertaking this study with Dr. Andrew Stewart, the Chairman of the Board of Broadcast Governors, whose encouraging and helpful observations are greatly appreciated. I am

grateful to Hugh Batchelor of the Economics Branch of the Board of Broadcast Governors and R. G. Scott, Manager of the MacLean-Hunter Research Bureau, who provided me with statistical information, and to Mrs. J. Laviolette who so patiently and competently typed the manuscript.

Chapter 7, "Conclusions", was translated by Fr. L. Lanctôt, O.M.I., the Director of the University of Ottawa Press. I am very much indebted to Fr. Lanctôt for the translation and for seeing the book through the press, as I am to Fr. F. Brault, O.M.I., who correlated the English and French texts of the Preface and Chapter 7.

Finally, my thanks go to the Hon. Maurice Lamontagne, M.P., the former Secretary of State in the Canadian Government, who offered some very perceptive comments on the issues facing Canadians at a time when Parliament is in the process of adopting new legislation that may have far-reaching implications on broadcasting in this country.

O. J. FIRESTONE,
Professor of Economics.

Ottawa, April 1966.

CHAPTER I

Advertising in Canada - Changing Role and Structure

INTRODUCTION.

Advertising in Canada helps to sell billions of dollars of goods and services. It keeps 20 million Canadians informed about the choices they have in buying one product in preference to another product. It keeps the public advised about matters considered essential by sponsoring agencies, including governments and other non-profit institutions, as well as business. Businessmen look at advertising as a fundamental communication — a means whereby a manufacturer or supplier creates an image of his product, or service, and its benefits, to people who are potential users of the product or service.

Thus advertising is a form of communication serving both commercial and public purposes. As the Royal Commission on Publications put it :

Communications are the thread which binds together the fibres of a nation [...] They can inform and educate in the arts, the sciences and commerce. They can help market a nation's products and promote its material wealth.¹

In this age of rapid industrial development, major technological advances and innovations, new product and want creations, and greater affluency and sophistication on the part of consumers, the role of advertising as an economic force has been changing. These changes do not stop at the different impact of advertising on the economy. Significant changes have occurred and continue to occur in the manner in which advertising reaches the consumer. New advertising media have come to the fore and advertising techniques had to be adapted to make the most effective use of changes in advertising com-

¹ *Report of the Royal Commission on Publications, Ottawa, Queen's Printer, 1961, p. 4.*

munications brought about as a result of such new scientific advances as modern electronic equipment and the creation of images in colour.

This study is primarily concerned with broadcast advertising, i.e. the expenditures made by advertisers to advertise on television and radio and the revenues received by broadcasting stations from advertising, largely through the sale of time, and to a lesser extent for the production of programs and commercials. To provide a proper setting for the analysis of broadcast advertising expenditures in Canada and the future prospects of such expenditures to rise, as the Canadian market expands and changes in character, this chapter deals with the broad aspects of the changing role and structure of advertising in Canada.

The chapter sets out first a definition of advertising and the main forms it takes. This is followed by a brief explanation of the five basic elements in the advertising process : the advertiser, the advertising agency, the advertising product, the advertising medium, and the audience — the recipient of the advertising message.

Then relevant quantitative evidence is examined including trends in gross and net advertising expenditures in Canada since the end of World War II and the change in the economic significance of advertising in relation to the growth of the Canadian market, as reflected in increases in population and Gross National Product. A comparison is made of the role of advertising and its economic impact on growth patterns in the Canadian and U.S. economies, dealing with such questions : Why do Americans spend more on advertising per capita and per dollar of sale than do Canadians, and why is the growth pattern of advertising expenditures in Canada different from that of the United States ?

Finally, an analysis is presented of the changing structure of advertising in Canada, covering five major media categories including : (1) broadcast advertising, (2) newspapers, (3) periodicals, (4) other printed media, and (5) outdoor advertising. In conclusion some of the implications of the unfolding patterns of total advertising in Canada for one of its dynamic growth sectors, broadcast advertising, are presented.

ADVERTISING DEFINED.

Advertising involves a process of communicating to a large number of people to achieve one of three objectives :

- (a) to promote directly the merits of goods and services for sale (thus conveying information about what kind of goods and services are available for sale, their uses, usefulness, and effectiveness, their prices and where they can be purchased);
- (b) to enhance the image of producers and distributors of goods and services (with the ultimate objective of improving the economic position of the advertiser); and
- (c) to inform the public and possibly achieve acceptance of proposals put forward by governments and other sectors (as for example, in the case of the safety advertising campaign sponsored in Canada by provincial governments and the construction industry).

Advertising becomes an economic factor in two ways :

- (1) Expenditures are made to create the advertising product involving “space” or “time” thus providing income and employment for those associated in rendering advertising services.
- (2) Once the advertising message has been communicated to its public, it may bring results which will vary depending on the objective of the advertisement and the degree of effectiveness in reaching its objective. The effectiveness of advertising is measured in terms of the extent to which it contributes to reaching its objective, say an increase in sales of a particular good or service, or creating a greater public awareness to take proper precautions in construction work to avoid accidents and consequent losses of income.

Use of advertising by business, if successful, may contribute to an increase in the sales of goods and services, both in total and for particular commodities. The producers and distributors of such goods and services, in turn, provide employment and income to those engaged in creating them. Thus the making of advertising expenditures contributes to Gross National Product, the sum total of all goods and services in a country in

a given period of time,² both directly through the incomes earned by those engaged in providing the services, and indirectly by increasing sales of output produced which, in turn, entails increases in earnings to factors of production involved in producing the additional goods and services sold.

TYPE OF ADVERTISING.

Several classifications of advertising expenditures are possible depending on the objective of such classifications, coverage and criteria chosen. Four broad categories can be distinguished on the basis of :

1. TYPE OF ADVERTISERS.

- (a) Business advertisers. They include firms engaged in manufacturing, construction and primary industries, trade and service sectors, utilities and financial institutions. Such advertising covers "product" advertising and "corporate" advertising designed to build up brand names and business images.
- (b) Government and institutional advertisers. These advertise in the interest of serving public or semi-public purposes. Such advertising includes that done by federal, provincial and municipal governments and by non-profit institutions such as universities, hospitals, religious organizations, etc.

2. TYPE OF RECIPIENT OF THE ADVERTISING MESSAGE.

- (a) Consumer advertising. This is addressed directly to the public designed to inform the consumer and, if possible, to persuade him to choose certain products in preference to other products when considering a purchase, usually through advertising in newspapers, periodicals, television and radio, and other mass media.
- (b) Industrial advertising. This is directed at the industrial users of goods and services, mainly through business publications and direct mail advertising.
- (c) Trade advertising. This is directed at wholesale and retail distributors of products and services, mainly through trade magazines and direct mail advertising.

² See Chapter 4.

3. TYPE OF ADVERTISING MEDIA.

- (a) Broadcast advertising covering radio and television.
- (b) Newspapers covering dailies, weeklies, weekend supplements, etc.
- (c) Periodicals including general magazines, business papers, farm papers, phone and city directories, etc.
- (d) Other printed media including catalogues, direct mail advertising, etc.
- (e) Outdoor advertising including billboards, car cards, etc.³

4. TYPE OF ADVERTISING COVERAGE.

- (a) National coverage. This coverage is designed to reach the general public across the nation or an entire industry, trade or profession. Such advertising is usually placed in publications with nation-wide publication and readership, and on radio and television networks.
- (b) Local coverage. Such coverage is designed to reach people in a particular community. This type of advertising may be originating either locally, e.g. by a local business firm trying to attract local consumers, or it may be a supplement to national advertising aimed at creating buying impulses for products and services advertised nationally. Local advertising is placed in local newspapers, local radio and television stations, outdoor advertising, localized direct mail, etc.
- (c) "Selective" coverage. This coverage relates to local purchases of time or space designed to reach a larger audience across the country in particular markets. For example, an advertiser might buy a program of some public appeal which he will then endeavour to place with a number of individual stations to build up a desired audience.

³ The data of advertising expenditures presented in this study are based on the above five main classifications. There exist some other specialized areas of advertising including the showing of advertising films or slides in motion picture theatres, displays at exhibitions, etc.

MAIN FACTORS OF THE ADVERTISING PROCESS.

Business firms make advertising expenditures either with the direct or the ultimate objective of achieving economic gains. Governments and other non-profit institutions spend money on advertising to serve public purposes, and so do politicians who spend money on advertising, mainly during election periods.

Advertising increases the demand for products, "that is, it enables the seller, at whatever price he decides upon, to dispose of more than he could without it. [. . .] The magnitude of the result depends upon the amount expended. [. . .] Sales are a function of both price and advertising."⁴

Advertising expenditures are incurred in the expectation of achieving certain results. These may or may not be realized. North American experience has proven that advertising expenditures continue to be made, though at different annual rates of change, even if advertising expenditures do not quite bring the desired results. This is the practice mainly for two reasons :

One is the hope that with experience it may be possible to make more effective use of the advertising dollars spent through more specific definition of the target audience, better creative material, and improved media placement to influence audiences reached by commercials.

The other is the working of the "leadership" principle in business. If one major company pursues an aggressive advertising campaign, its competitor in the same industry cannot afford to sit idly by. If it wants to maintain its share of the market, it must advertise to keep its name and its products before the public. For the North American public has reputedly short memories and quality and price alone do not sell products in the quantities required to obtain the economies of scale, obtainable when catering to a mass market.

Thus, as far as business is concerned, the motivation to advertise can be said to stem from either the expectations to do better in the future or from the pressures of competition which make it necessary for firms to advertise if they are to hold their own in their efforts to obtain their share of the consumer dollar. How far business can go in allocating funds for advertising,

⁴ Edward Hastings CHAMBERLIN, *The Theory of Monopolistic Competition*, Cambridge, Mass., Harvard University Press, 1962, p. 300.

will vary depending on the type of industry, size of firm, degree of experience, quality of management, effectiveness of advertising advice received, etc. There is, however, an optimum point as to how far business as a whole will go. The process of reaching this point has been explained in these terms :

The advertiser spends dollars in order to increase revenues. Advertising is effective to the advertiser if the increase in gross revenues exceeds the expenditures on advertising. He can be expected to reduce his advertising expenditures when he no longer expects this result. Both common sense and experience tell us that no advertiser can afford to spend unlimited amounts on advertising. Beyond a certain level further expenditure becomes ineffective. The problem of the advertiser with such advice as he can get, is to find the optimum point. The problem is a difficult one because no conclusive answer is possible before the expenditures have been made. The uncertain results are inevitable under conditions of unpredictable change, and these are the conditions under which the advertiser must operate. The decision may be anything from a sheer guess to a skillful judgment based upon a fine blend of experience and analysis.⁵

Decisions to advertise are the result of interaction of five diverse elements. They are : (1) the advertiser, (2) the advertising agency, (3) the advertising product, (4) the advertising medium, and (5) the audience. These main factors of the advertising process are discussed briefly in the text that follows.

1. THE ADVERTISER.

To a business firm advertising expenditures are a cost of producing or distributing a product or a service. Thus they are included in the final price paid by the consumer. Advertising expenditures are part of the cost of doing business.

The claim has been made that successful advertising which promotes new sales should not be considered as costs charged against all products or services sold, but should be considered as an expense which is repaid from the additional receipts received from new sales. For, in this case, so the argument goes, new wealth has been created paying for the advertising expenditures incurred.

⁵ "How the Media Can Be Made More Effective Advertising Vehicles", Address by Dr. Andrew Stewart, Chairman of the Board of Broadcast Governors, to the Association of Canadian Advertisers, Toronto, May 2nd, 1961, p. 3.

Such rationalization does not change the basic motivation of business to make expenditures on advertising. For businessmen, as a rule, do not incur expenditures that add to the cost of producing a good or rendering a service unless it aids the potential sale of the good or service. Hence, the merits of making advertising expenditures on a continuing basis are judged by the results they bring, either actual or anticipated.

The advertiser is thus concerned with the effectiveness of the advertising message in furthering his prime economic objective of profitable pursuit of his business. How can he judge the effectiveness of the advertising message? This is usually done on the basis as to whether his sales increase or not, as to whether he maintains his share of the market, increases it or loses ground. These criteria, while generally employed, do not in fact measure specifically the effectiveness of the advertising efforts. For increased sales may be due to a number of factors, besides advertising, and these include : price, quality and design of product, salesmanship, public attitude, the degree of prosperity prevailing in the country, government fiscal and monetary policies, the weather, and a host of other factors that stimulate or depress demand for goods and services in a country.

Hence, advertisers have come to rely on certain broad methods of measurement such as the number of readers, listeners or viewers as guide lines in making decisions as to where to place advertising messages and what to pay for them. In some areas of advertising, such as direct mail advertising, its effectiveness can be measured in specific terms. But since such advertising represents only a small fraction of the total advertising budgets of Canadian business, the main problem facing the advertiser of how to judge the effectiveness of the advertising package he purchases remains. In this area, as in a number of related fields of creating the advertising package and choosing the most appropriate medium, the advertiser in North America has come to rely increasingly on a specialist in the business : the advertising agency.

2. THE ADVERTISING AGENCY.

Advertising agencies are firms that perform a variety of advisory and service functions for business, governments, and other institutions. Their main services to business include :

- (a) Assistance in formulating and executing advertising campaigns and testing their effectiveness.
- (b) Assistance in marketing the products of their clients including studies of the products involved, their sales appeal, their marketability, their competitiveness, etc.
- (c) Assistance in developing a favourable corporate or industrial image in relation to : (i) the consuming public, (ii) employees of the company, (iii) distributing organization (e.g. dealerships), and (iv) governments.
- (d) Assistance in advertising market and product research.

A good part of the research is done by the advertising agencies directly with their own staff. Some of it is contracted out. This is the case in undertaking consumer attitude canvasses or surveys to test, as impartially as possible, the effectiveness of different advertising media.

As far as media are concerned, agencies evaluate audience characteristic studies, circulation audits which measure the readership of publications, and broadcast measurement surveys which gauge tuning to radio and television stations, etc. The latter include in Canada surveys undertaken by four companies : A.C. Nielsen Company of Canada Limited, Bureau of Broadcast Measurement, McDonald Research Ltd., and Elliott Research Corp.

Broadcast surveys use a variety of interviewing techniques. These may include the keeping of daily diaries by householders for the survey organization, with the householder being remunerated for keeping the diary up-to-date, and by telephone coincidentals.

The results of the various surveys, relating to the product and advertising appeal to consumers, and the reach and frequency of the various advertising media are analysed by advertising agencies and the results are used in advising their clients on the most effective use of their advertising budgets. For this service advertising agencies are usually paid 15 per cent of the total advertising expenditures placed through them. Advertising agencies may be paid additional sums for special services they provide to their clients in the general field of marketing, research, and related areas.

Advertising agencies are currently looking after about one-half of the total advertising placed by industry and governments, with the rest of the business placed directly by advertisers.⁶ The trend is for more of the business being placed through advertising agencies.

3. THE ADVERTISING PRODUCT.

The advertising product is a communication with a purpose addressed to an audience. Four steps are involved :

The first step involves deciding what the contents of the advertising message should be, to whom it should be addressed and what medium should be used in communicating it to its audience.

The second step is to create the advertising product, the advertisement to be placed in a newspaper, the advertising message to be heard on the radio, or the commercial to be viewed on television.

The third step is to place the advertising message with the advertising medium. This involves the purchase of advertising "space" in a newspaper, periodical, or other printed media, or of "time" on broadcasting stations, radio or television.

The fourth step involves the evaluation of the effectiveness of the advertising message.

The advertiser and the advertising agency work together during all four stages from the planning of the advertising product to placing it with the medium considered to be most appropriate in meeting the needs of the advertiser. Once the advertising product has been created and made use of, its effec-

⁶ Between 1960 and 1965, advertising commissions represented between 7.0 and 7.4 per cent of total gross advertising expenditures (see Table 1-1). Assuming an average of 15 per cent of gross billings going to advertising agencies as commission, the above ratios suggest that close to one half of the advertising business is handled by advertising agencies. During 1963, 143 advertising agencies operated in Canada through 228 offices and they employed 4,381 persons. Their total billings to clients in that year amounted to \$303 million (the data are from DOMINION BUREAU OF STATISTICS, *Advertising Agencies, 1963*, Ottawa 1965). Gross advertising expenditures for 1963 are placed at \$658 million. Since the figures come from different sources, they may not be fully comparable. Still they support the likelihood that about one-half of the advertising business goes through the hands of advertising agencies. In the broadcasting area, the proportion appears to be higher, with about three-quarters of the total being handled by advertising agencies.

tiveness is gauged by both the advertiser and the advertising agency. In doing so, and allowing for the inadequacies of isolating the effects of advertising on sales, referred to earlier, business firms, particularly the large firms which do the bulk of advertising in Canada, usually take the long-term point of view accepting the essentiality of advertising as an aid in marketing their product and concentrating mainly on finding new ways and means of making their advertising efforts more effective rather than in pursuing such efforts on a hand-to-mouth basis and varying advertising expenditures in relation to changes in the sales volume.

This was not always the experience in North America. In the nineteen-thirties, for example, advertising expenditures dropped sharply as sales declined. But the situation appears to have changed materially in this respect in the post-war period, both in Canada and in the United States, as is indicated by the evidence presented later on in this Chapter.

A goodly portion of the advertising product is created by the advertising agency working together with its clients. But in the more recent period, particularly since the increasing importance of advertising on television, some of this work has been farmed out to agencies specializing in creating advertising product. For example, television commercials are produced by TV production "houses"⁷ under the direction of advertising agencies. Television stations charge program production costs to advertisers. Such receipts become part of the commercial revenues received by television stations and networks.

Views differ as to what makes an advertising message more effective than another. It will depend on the product to be advertised, the medium to be used, and the objective of the advertising message.

To be effective, advertising messages must reach the consuming public to whom they are addressed. In the case of newspapers or periodicals, advertising is designed to catch the eye of the reader. In the case of radio or television, the objective is to persuade a listener or a viewer "to remain a member of the Audience".

⁷ TV production "houses" are firms specializing in the making of TV commercials. The bulk of TV commercials is done by such "houses" but some stations also produce commercials.

Views vary also about the type of commercial which will be most effective on radio or television. One view is that advertising messages will yield best results if they are "kept short and relatively infrequent".⁸ But the more prevalent view held in the industry is that the repetitive commercial is likely to be the more successful one, and this point of view particularly applies to hard-sell commercials.

According to this view, the impact of the advertising message may be enhanced if it is presented more or less regularly over a period of time :

Critics who fail to understand the importance of this repetition fail to understand the essentially maintaining role that each medium in its turn has both seized and been seized by.⁹

Repetitiveness reinforces the prime purpose of the "commercial" which has been defined as "an attempt to engage the audience directly, and to change patterns of behaviour."¹⁰

The factors which influence the demand for and the supply of the advertising product have been summarized in these terms : "Changes in the stock of knowledge about goods and services create a demand for advertising messages that will keep consumers informed about changing conditions in the market. The demand for advertising varies by commodity because of difference in market size which makes one or another promotional technique the more efficient. The turnover of customers, the ease of obtaining direct information about goods, the frequency of purchase, the expense of trial purchases, and the satisfaction with existing goods — all play a role in the supply and demand for advertising messages."¹¹

4. THE ADVERTISING MEDIUM.

Reference has been made earlier in this Chapter to five groups of advertising media : broadcasting, newspapers, period-

⁸ Alan THOMAS, *Audience Market Public, An Evaluation of Canadian Broadcasting*, Vancouver, the University of British Columbia, Department of University Extension, April 1960, p. 6.

⁹ *Ibid.*, p. 7.

¹⁰ *Ibid.*, p. 8.

¹¹ Lester G. TELSER, "Supply and Demand for Advertising Messages", University of Chicago, Papers and Proceedings of the Seventy-Eight Annual Meeting of the American Economic Association, *American Economic Review*, May 1966, pp. 465 and 466.

icals, other printed media, and outdoor advertising. Of these five, broadcast advertising has experienced the most phenomenal growth in the post-war period, particularly television advertising, while the older media of advertising, though gaining in volume, have expanded at a slower rate of growth in the more recent period, except for outdoor advertising which has done rather better than the rest of the advertising fraternity. The quantitative evidence is examined further on but some general observations are appropriate at this junction.

Media are means of communication. Their effectiveness depends on the acceptance of the commercial which is addressed to an audience. To use the media, an audience must not only be willing to respond but it must also be equipped to make use of it. To read a newspaper requires literacy. To use a television set, requires access to such a set, usually its purchase. And it requires further an understanding of how to use the medium effectively — an understanding that still needs to be developed, particularly with respect to such newer media as television. The relationship between media and people has been explained in these terms :

The media are techniques. Each medium has its own technical characteristics. The technical characteristics of the print media are different from those of the broadcast media. In part the problem of the effective use of any medium is to discover and understand its significant characteristics. But the characteristics of a technique take on significance only in relation to people. With a new technique we have to learn how people come at it and how they respond to it. To some extent the approach is itself relatively new, and we have much to learn about how to develop it for our purposes. In respect to all media and particularly the newer media, there is an immense area to be explored before we understand enough about what people bring to each medium and how they react to them.¹²

The Committee on Broadcasting has delved into the question as to why broadcasting has been the most dynamic factor in the growth of the advertising business in Canada. The Committee concluded :

Broadcasting is a significant factor in the national economy. It reaches a wider cross-section of the community more continuously than any other medium of mass-communi-

¹² "How the Media Can Be Made More Effective Advertising Vehicles", *op. cit.*, pp. 3 and 4.

cation yet devised by man. In particular, television is the most powerful persuader available to the modern advertiser and accounts for more than 20% of the total expenditure on advertising in Canada; it is a compelling force in the marketplace. But television is also the most costly form of advertising, and is therefore particularly dependent on its ability to attract a mass audience. The larger the audience, the lower the proportionate cost per viewer, and the greater the return the advertiser may expect. Thus the advertiser is interested, almost exclusively, in relating the cost of his advertising to the probable size of the audience for any particular program; this he gauges on the basis of the independently produced 'program-rating' derived from standard sampling procedures, which purport to give a comprehensive analysis of the proportionate audience for different types of program.¹³

Advertisers in choosing the appropriate medium to carry their advertising message will have to weigh cost considerations against "penetration" expectations. Penetration (known as "reach") covers both the number of persons exposed to the advertising message and the length of time they are exposed to the message (i.e. frequency).¹⁴ The criterion of "reach" assumes particular importance in broadcasting, for a person listening to a program on radio or watching it on television, who turns off the receiver before he has heard or viewed the advertising message, may have been counted as a listener or viewer but he would not have been exposed to the advertising message.

Costs of broadcast advertising are discussed in Chapter 2. In relation to other media, broadcast advertising, particularly television, has become a high-cost outlet. It is increasingly used in prime time by national advertisers who can afford to use this medium and who consider the returns from such advertising as sufficiently promising to continue to spend increasing amounts on such advertising. But many medium and smaller sized firms channel their advertising to radio whose relative costs are lower than those of television. They also use newspapers and periodicals and a variety of other media available to them. Further, much of the advertising of medium and small business firms is designed to reach local markets. Effective advertising, to reach such markets at economic rates, is obtainable from the older media.

¹³ *Report of the Committee on Broadcasting*, Ottawa, Queen's Printer, 1965, p. 212.

¹⁴ These concepts are explained further in Chapter 2.

In this connection, two observations made by the Royal Commission on Publications are pertinent.

The first point is that small advertisers “cannot afford the long haul of building of brand name impact and prestige to which magazines lend themselves”. The same principle applies to television advertising.

The second point is: “As commercial budgets increase most companies tend to advertise in more media.”¹⁵ The implication of this conclusion is that in view of the great expansion of advertising expenditures foreseen for Canada over the next decade, as explained in Chapter 5, all major advertising media are likely to benefit from the explosive growth of commercial revenues, though the rate of improvement is likely to vary from medium to medium.

Newspapers and periodicals have not taken the extraordinary rise of television advertising without special efforts of their own to obtain increasing commercial revenues. They have fought back against the new competition with better services, new technological developments such as the use of colour, greater circulation, etc. Thus while they have been losing some ground in terms of the share of the advertising dollar spent by Canadian business and by governments, they have continued to improve their take from national advertising revenue becoming available at a significant rate.

5. THE AUDIENCE.

The audience represents the recipient of the advertising message.

The objective of the advertiser is to reach the audience to whom the message is addressed. This audience is provided by the advertising media. In the case of printed material the objective of the publisher is to persuade the people he is interested in to read his publication. In the case of radio and television, the aim of the broadcaster is to get people to listen or to view a program. As with the publisher, the broadcaster directs each program to a particular type of audience, e.g.

¹⁵ *Report of Royal Commission on Publications, op. cit., pp. 50 and 51.*

cartoons, teenage dance parties, family shows, sports, drama, etc. Within a medium, be it print or broadcast, the advertiser places his message in the expectation that the audience of the advertising vehicle will carry over to the advertising message. The advertiser using television as a medium looks for maximum exposure of the audience to the advertising message broadcast.

As one scholar put it: "Television organizes and controls time." It appeals to an "audience which is known only by indications of what time it is prepared to devote to the emanations of the medium" and a Canadian audience "is essentially conservative".¹⁶

It is a characteristic of the conservative audience that once it gets used to certain programs it will continue to view such programs. Hence, the national advertiser sponsoring such programs or participating in them through the insertion of spot commercials would achieve one of the objectives of successful advertising and that is, the impact of repetition and continuing exposure of an audience to the advertising message.

Advertisers generally recognize that it is not just the number of people that they wish to reach. They are also concerned about who the people they reach are and how they react to advertising messages. As one authority put it:

The effectiveness of advertising on the media is a function of the number of people exposed to it and the extent to which it changes their behaviour in the direction sought by the advertisers. Advertisers are properly concerned about the size of the audience, and it is important that accurate information on this be available. But advertisers recognize that numbers alone do not determine the effects on sales. They are interested in knowing something of the composition of the audience, and the relation between age, sex, and incomes on the response to advertising as it affects sales. Undoubtedly, more and better information on these matters would be helpful.¹⁷

The above generalization about the conservative nature of Canadian audiences requires some modification in the light of preferences for specific types of programs. For example, a

¹⁶ *Audience Market Public, An Evaluation of Canadian Broadcasting, op. cit.*, p. 7.

¹⁷ "How the Media Can Be Made More Effective Advertising Vehicles", *op. cit.*, p. 11.

television program that continues on a weekly basis through a season employing the same characters builds up a loyal audience who watch it on a regular basis. In contrast, shows which occupy the same time segment each week, but which differ in content every week, such as the Saturday Night movie, cater to light viewers and are much less likely to develop a loyal audience.¹⁸

Most advertisers are endeavouring to influence the behaviour pattern of the consuming public which is represented by the audience to which the advertising message is addressed. The objective may be for the potential consumer to continue buying the product if he is already a consumer; or to buy more of it. Or if he is not a consumer of that particular product, the aim may be to persuade him to try the product and thus become a consumer.

Hence, advertising is directed to both the existing and the new consumer, and it is designed to promote the well-established as well as the newly developed product. Advertising expenditures make it possible for producers and distributors to bring innovations to the consuming public, to inform and to persuade, to change buying habits, and to try new and untried products.

The market for goods and services represents a continuously changing pattern as new users appear and old users disappear. The rate of change as between old and new consumers would vary, and so would the rate at which new products are introduced to the market.

These variations in the rate of change help to explain some of the differences in the intensity of advertising, particularly as it affects new products. This phenomenon has been explained in these terms :

During a product's early life there is a large fraction of the potential market ignorant of its existence. Advertising is an efficient avenue of informing potential users. Since actual sales are small and advertising outlays may be large, the ratio of advertising to sales is higher for new than for established products. During later stages, assuming the product

¹⁸ There has, however, developed more recently, particularly in the United States, a trend towards increased viewing of full-length films in prime time, reflecting the growing popularity of quality features.

gains acceptance, sales are larger and advertising declines. Thus the ratio of advertising to sales is lower for established products.¹⁹

It is one of the key characteristics of modern society to develop new types of goods and services and to create new wants, for without these, society would soon stagnate and be seriously limited in the rate of economic expansion and in its ability to make the most effective use of the nation's economic potential. For the number of tables, chairs, lamps, stoves, and refrigerators a family will require is limited. But there appears to be an almost insatiable demand for the many new gadgets that modern technology has designed and that people can afford to buy, from colour television sets now coming on the Canadian market in increasing numbers (see Chapter 6) to air conditioners, from sports equipment catering to the increased leisure time available to Canadians to new types of preventive and remedial drugs, essential to the improvement of the nation's health.

Advertising, by putting before the public the appropriate information, can perform an important function in creating an awareness on the part of the consumer of what choices he has in spending the consumer dollar. Advertising, if successfully and effectively used, assists in the creation of mass markets and facilitates the adoption of innovations so essential to economic progress. Both the mass market and the innovations, in turn, are important factors contributing to raising national productivity and ensuring the continuity of the dynamic character of a largely individualistic society.

Hence, it can be said that one of the key contributions made by advertising to the welfare of society is the part it plays in raising national productivity. This contribution is so essential that it outweighs some of the disadvantages that may arise from excessive and inappropriate advertising. Looking at advertising in broad terms, what are its advantages and disadvantages?

ADVANTAGES AND DISADVANTAGES OF ADVERTISING.

Views differ whether the benefits of advertising are as great as they are claimed to be. Arguments are advanced of the wastefulness of advertising particularly in a society working at or near the full employment level.

¹⁹ "Supply and Demand for Advertising Messages", *op. cit.*, p. 463.

A report prepared for the "National Distribution Conference" in Washington summarized some of the benefits resulting from advertising in these terms:

The use of effective advertising by national distributors as a general rule produces one or more of the following results:

1. Decreases the cost of selling.
2. Lowers the cost of production on account of increased volume.
3. Lowers prices to the consumer and thereby raises the standard of living.
4. As a by-product, aids in the education of the general public . . .

In addition to the four results obtained by advertising which have been mentioned above, advertising often has the following beneficial effects for the manufacturer, dealer or consumer:

1. Advertising aids in stabilizing production.
2. Advertising aids in standardization and quality.
3. Advertising aids in the simplification of products. (Elimination of unnecessary items in the line.)
4. Advertising helps to prevent fluctuations in prices.²⁰

Another study emphasizes the significant contribution made by advertising in raising the rate of economic growth and national income per capita in real terms : "Advertising and aggressive selling as integral parts of the free competitive system have been a significant force in increasing the investment in productive facilities and in advancing the technology of production, two developments which have largely accounted for the fourfold increase of real national income per capita during the past 100 years."²¹

The critics of advertising claim these disadvantages:

1. Advertising is wasteful in that it uses resources that could be more usefully employed elsewhere.

²⁰ *Market Analysis — Advertising and Advertising Mediums*, Washington, D.C., Chamber of Commerce, 1925.

²¹ Neil H. BORDEN, "The Economic Effects of Advertising" in Wilbur SCHRAMM (ed.), *Mass Communications*, Urbana, University of Illinois Press, 1960, p. 227. (This article is a summary of Prof. Borden's book, *The Economic Effects of Advertising*, Homewood, Illinois, Richard D. Irwin, 1947.)

2. Advertising expenditures add to the cost of production and hence raise prices unnecessarily. Consumers have to pay higher prices than they would have to pay if there was no advertising or less advertising.

3. Advertising encourages the purchase of useless trappings, e.g. attractive looking packaging that does not add to the usefulness of the product purchased.

4. Advertising, if excessive, may create a degree of competition which could be detrimental to healthy and continuing economic expansion.

5. Advertising can be misleading and thus misinforms rather than informs the consuming public. The consequence may be a misallocation of a nation's limited resources.

These differences of views about the merits or demerits of advertising have been largely resolved by the decisions of business and the attitudes of governments. For in North America, advertising expenditures since the end of World War II have grown by leaps and bounds and governments have done little to regulate or interfere with the flow of advertising expenditures except in special circumstances such as the regulation of broadcast advertising (see Chapters 2 and 6).

More goods are sold in North America on the basis of advertising than goods without advertising though the former would as a rule be more costly than the latter because the cost of advertising represents an ultimate charge against the consumer. This situation has been explained :

It is generally true that unadvertised items often command lower prices than physically similar advertised goods. Hence the continued existence of both types of goods suggests that some of the price differential is due to the advertising for which consumers are willing to pay as revealed by their foregoing the alternative of finding and purchasing cheaper, less advertised goods. This defense of advertising assumes the existence of physically similar articles of consumption which differ in advertising intensity and in price.²²

The constructive contribution of advertising to further economic growth, increase productivity, improve the way of life of modern society, and facilitate the working of the basically

²² "Supply and Demand for Advertising Messages", *op. cit.*, p. 457.

private enterprise oriented economies such as exist in North America, is developed as the study proceeds.²³ To quote at this stage the case made by the Royal Commission on Broadcasting for the use of commercial broadcasting by the C.B.C.: “Advertising is a positive contributor to living standards and economic activity and should not be regarded as a regrettable and even deplorable feature of our broadcasting system.”²⁴

ECONOMIC EFFECTS OF ADVERTISING EXPENDITURES.

Advertising expenditures include outlays made to purchase media “time” or “space”. They also include production costs, administrative charges and advertising commissions paid. Some firms will include under advertising expenditures such items as rebates to dealers for local advertising, window and in-store displays, “cents off” allowances on food products, etc.

Advertising expenditures per firm will vary both in terms of the absolute amounts spent, as well as in terms of the proportion of the final sales value of the product or service devoted to advertising. What that proportion should be is usually established on a trial and error basis grounded on experience and economic capabilities and prospects.

To determine the level and type of advertising expenditures which will yield a firm the most productive return is a most complex task, made more difficult by the fact that it involves judgment of forces that operate in opposite direction. One economist, who has studied the economic effects of the spending on advertising in depth, has explained the forces at work in these terms :

The net results of increased advertising expenditures are a composite of several tendencies which must be considered separately. In the first place, results are frequently cumulative through repetition, and in so far as this is true, additional expenditure yields increasing returns. The common-place

²³ Some authorities emphasize the need to balance the benefits of advertising against its possible excesses: “While advertising provides gains to society in the form of expanded information about firms and products, we need to consider, also, the nature of the costs which exist and how these are likely to balance with potential gains (see “Advertising and Competition”, by Donald F. TURNER, Assistant Attorney General, Briefing Conference on Federal Controls of Advertising and Promotion, Washington, D.C., June 2, 1966, p. 2).

²⁴ *Report of the Royal Commission on Broadcasting*, Ottawa, Queen’s Printer, 1957, p. 174.

among advertising men that a small expenditure is wasted is explained by the psychological laws of habit. [...] Control of the buyer's consciousness must be gained, and while it is being gained additional expenditure yields increasing returns.

Another factor leading to increasing returns is improvement in the organization of the expenditure as its total amount is increased. The economies of large-scale operations apply to the selling organization as well as to production: the employment of more resources means greater specialization in their use. [...]

The employment of an advertising expert, impossible for the small firm, may be regarded as an extension of the division of labor for the large firm, since one man specializes in a function which is performed, along with many others, by the proprietor of the smaller enterprise. Or it may be regarded as the introduction by the larger firm of a new and different factor, since the expert is different qualitatively from his counterpart in the smaller firm. Among the more effective factors whose use is made possible by larger outlays are more effective media. [...] The most effective media may be those whose use requires a large outlay. As expenditure increases, then, a shift may take place to continually more effective media. [...] The most effective choice of media may involve the use of several in combinations, as when samples of a new food product are distributed in conjunction with the use of newspaper space and the exertion of sales pressure by retail grocers. In other instances the increasing returns due to repetition may be realized or intensified by the use of several media.

In opposition to these forces, there are others towards diminishing returns, which, although perhaps submerged in the early stages, gather strength with larger outlays and sooner or later dominate the result.

In the first place, buyers are not equally accessible: some have greater potential needs for the commodity than others; and some are more susceptible to advertising and to selling appeal than are others. Desires for the commodity are not everywhere awakened with uniform ease; the 'sales resistance' to be broken down varies widely for different buyers and for different groups of buyers. [...]

Secondly, diminishing returns are encountered in the more intensive exploitation of any given market, or group of buyers. [...] Diminishing returns [...] are encountered for two reasons: first, because, in general, the best potential markets are exploited first, additional expenditures yielding ever smaller results as successively poorer markets are taken up; and, secondly, because added selling effort applied to any one market (i.e., to any one group of potential buyers) can

succeed only by inducing the sacrifice of continually more important alternative wants. If these forces are placed alongside of those leading to increasing returns, it will be evident at once that the latter ultimately give way before the former. Increasing returns from repetition and from improved organization sooner or later come to an end, whereas the resistances accounting for diminishing returns are ever increasing in strength as sales outlays are extended.²⁵

How have advertising expenditures grown in Canada and on what has the money been spent? How does the Canadian experience compare with the U.S. experience? The remainder of the Chapter deals with these questions.

GROSS AND NET ADVERTISING EXPENDITURES.

Gross advertising expenditures are the sum of net advertising expenditures and commissions received by advertising agencies. Net advertising expenditures are equivalent to advertising revenues received by advertising media. From these gross revenues have to be deducted the sales expenses incurred by such media in obtaining their commercial income.

In the case of broadcast advertising, deductions from the so-called "net revenues" have to be made for representative agencies commissions. These are defined as the "cost of individuals or organizations which are hired by the stations to seek the business of national and regional advertisers on a non-network basis."²⁶

In addition, there is need to subtract the cost of stations' sales force required to service the local market. After deducting commissions paid to "rep" houses and to local sales personnel, a "net net" figure of commercial revenue is arrived at.

The figures cover revenue accruing from the sale of advertising space or advertising time. They do not include billings rendered for the use of broadcasting facilities and programming. The latter form part of commercial revenues of broadcasting stations but they do not represent receipts of advertising revenues for time made available.

The data on gross and net advertising expenditures are obtained from the Dominion Bureau of Statistics, with supple-

²⁵ *The Theory of Monopolistic Competition, op. cit.*, pp. 133-136.

²⁶ *Report of the Committee on Broadcasting, op. cit.*, p. 371.

TABLE 1-1. — GROSS AND NET ADVERTISING EXPENDITURES, AND AGENCY COMMISSIONS, CANADA, 1946-1965.

YEAR	GROSS ADVERTISING EXPENDITURES \$ Mill.	ADVERTISING AGENCY COMMISSIONS \$ Mill.	NET ADVERTISING EXPENDITURES \$ Mill. ¹	ADVERTISING AGENCY COMMISSIONS AS PER CENT OF GROSS ADVERTISING EXPENDITURES
1946	130.9	8.4	122.5	6.9
1947	158.4	9.8	148.6	6.6
1948	183.1	11.3	171.8	6.6
1949	211.1	13.3	197.8	6.7
1950	234.0	14.4	219.6	6.6
1951	262.3	16.3	246.1	6.6
1952	292.3	18.2	274.0	6.6
1953	331.4	21.6	309.9	7.0
1954	363.4	23.2	340.2	6.8
1955	401.0	26.5	374.5	7.1
1956	463.3	30.5	432.8	7.0
1957	490.6	33.4	457.2	7.3
1958	517.0	35.3	481.6	7.3
1959	555.8	37.7	518.2	7.3
1960	584.1	40.0	544.1	7.4
1961	600.8	41.3	559.5	7.4
1962	631.6	43.5	588.0	7.4
1963	657.9	44.3	613.6	7.2
1964 ²	690.7	46.0	644.7	7.1
1965 ²	733.0	48.0	685.0	7.0

Source: *Report of the Royal Commission on Publications*, Ottawa, Queen's Printer, 1961; data from DOMINION BUREAU OF STATISTICS, *Printing and Publishing Industry*, 1963, and earlier issues; DOMINION BUREAU OF STATISTICS, *Radio and Television Broadcasting*, 1963, and earlier issues; and supplementary estimates from MACLEAN-HUNTER RESEARCH BUREAU, *A Report on Advertising Revenues in Canada*, Toronto, October 1965.

¹ There are minor differences due to rounding.
² Preliminary estimates.

TABLE 1-2. — NET ADVERTISING EXPENDITURES, POPULATION, AND GROSS NATIONAL PRODUCT, CANADA, 1946-1965.

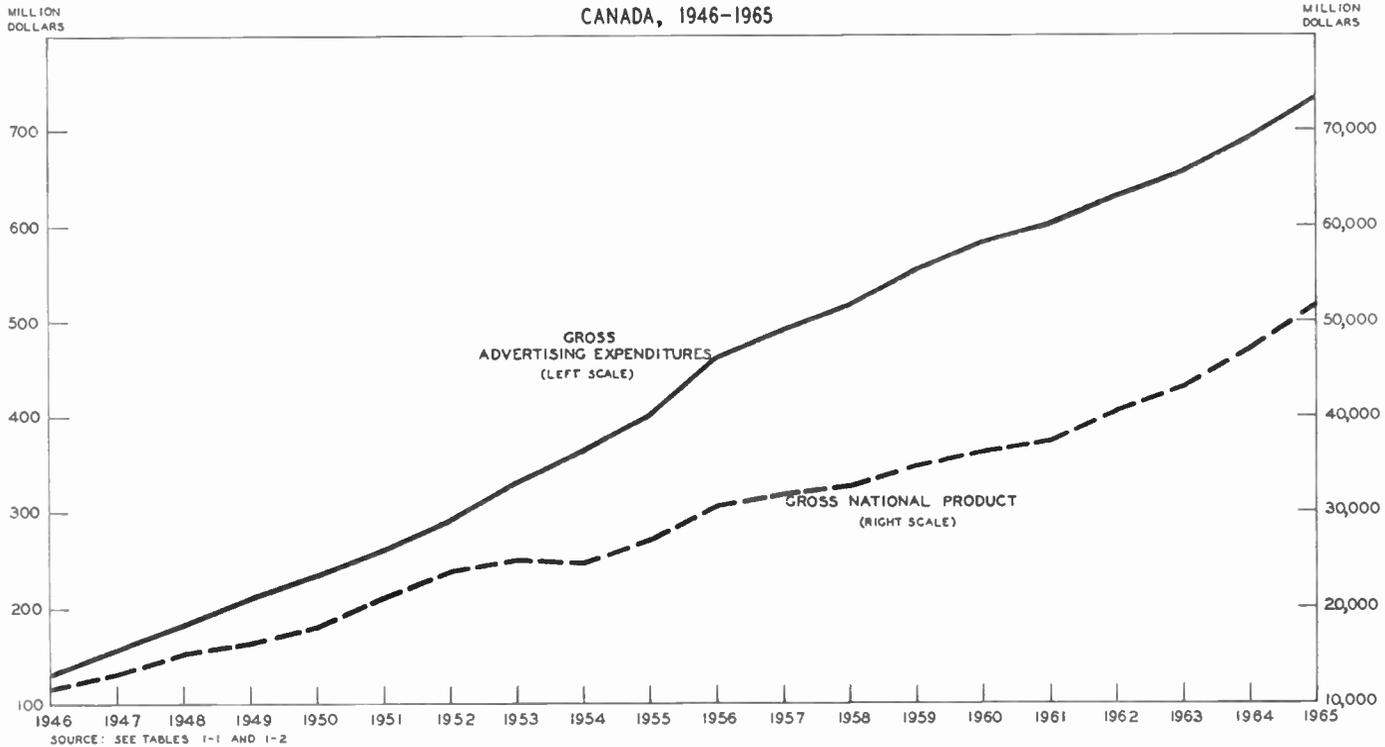
YEAR	POPULATION ¹ Thous.	GROSS NATIONAL PRODUCT \$ Mill.	NET ADVERTISING EXPENDITURES \$ Mill.	NET ADVERTISING EXPENDITURES PER CAPITA \$	NET ADVERTISING EXPENDITURES AS PER CENT OF GROSS NATIONAL PRODUCT
1946	12,292	11,850	122.5	9.97	1.0
1947	12,551	13,165	148.6	11.84	1.1
1948	12,823	15,120	171.8	13.40	1.1
1949	13,447	16,343	197.8	14.71	1.2
1950	13,712	18,006	219.6	16.02	1.2
1951	14,009	21,170	246.1	17.57	1.2
1952	14,459	23,995	274.0	18.95	1.1
1953	14,845	25,020	309.9	20.88	1.2
1954	15,287	24,871	340.2	22.25	1.4
1955	15,698	27,132	374.5	23.86	1.4
1956	16,081	30,585	432.8	26.91	1.4
1957	16,610	31,909	457.2	27.53	1.4
1958	17,080	32,894	481.6	28.20	1.5
1959	17,483	34,915	518.2	29.64	1.5
1960	17,870	36,287	544.1	30.45	1.5
1961	18,238	37,471	559.5	30.68	1.5
1962	18,570	40,561	588.0	31.66	1.4
1963	18,896	43,180	613.6	32.47	1.4
1964	19,237	47,003	644.7 ²	33.51	1.4
1965 ²	19,571	51,500	685.0	35.00	1.3

Source: Data on population 1946 to 1964 from *Canada Yearbook 1965*, p. 188, and earlier issues; for 1965 from *Canadian Statistical Review*, December 1965; data on Gross National Product from *National Accounts, 1926-56, 1962*, and 1965, Ottawa, DOMINION BUREAU OF STATISTICS; data on net advertising expenditures from Table 1-1.

¹ As at mid-year.

² Preliminary estimates.

CHART 1
GROSS ADVERTISING EXPENDITURES AND GROSS NATIONAL PRODUCT
CANADA, 1946-1965



SOURCE: SEE TABLES 1-1 AND 1-2

mentary estimates obtained from the MacLean-Hunter Research Bureau. The figures are not fully comparable with the data presented in the Report of the Committee on Broadcasting which are largely based on data obtained from the C.B.C. and from special compilations, prepared by Touche, Ross, Bailey and Smart, Chartered Accountants, who acted as financial advisors to the Committee on Broadcasting (for further details see Appendix A).

Over the twenty years, 1946 to 1965, gross advertising expenditures in Canada rose from \$131 million to \$733 million or to close to six times the former level.

Advertising commissions have remained a fairly steady proportion of gross advertising expenditures ranging between 6.6 per cent and 7.4 per cent, with the proportion not going below 7 per cent in the last decade and for most years being close to the upper limit over the twenty-year period. Commissions received by advertising agencies rose from about \$8.5 million to approximately \$48 million.

Net advertising expenditures increased from about \$123 million in 1946 to \$685 million over the last twenty years (see Table 1-1). In value terms net advertising expenditures rose by 1965 to about 5½ times the level of 1946 and in volume terms to about 3½ times the previous level.

One aspect of the growth pattern of advertising expenditures in Canada requires special emphasis. Advertising expenditures have continued to rise in each and every year over the last twenty years. Hence, the advertising business in Canada is a distinct growth industry which during the last two decades has withstood successfully the impact of four recessions: 1948-49, 1953-54, 1957-58, and 1960-61. This is true for the expansion of the advertising business in aggregate. Some sectors and some firms may have experienced a temporary decline in business but such declines have been more than offset by increases in advertising business received by other sectors and other firms (see Chart 1).

The Canadian advertising business appears to have a stronger built-in growth factor than the advertising industry in the United States, a point developed further on in this Chapter.

TABLE 1-3. — ADVERTISING EXPENDITURES, POPULATION AND GROSS NATIONAL PRODUCT, UNITED STATES, 1946-1965.

YEAR	POPULATION ¹ Thous.	GROSS NATIONAL PRODUCT \$ Mill.	ADVERTISING EXPENDITURES \$ Mill.	ADVERTISING EXPENDITURES PER CAPITA \$	ADVERTISING EXPENDITURES AS PER CENT OF GROSS NATIONAL PRODUCT
1946	141,936	210.7	3,364	23.70	1.6
1947	144,698	234.3	4,260	29.44	1.8
1948	147,208	259.4	4,864	33.04	1.9
1949	149,767	258.1	5,202	34.73	2.0
1950	152,271	284.6	5,710	37.50	2.0
1951	154,878	329.0	6,426	41.49	2.0
1952	157,553	347.0	7,156	45.42	2.1
1953	160,184	365.4	7,809	48.75	2.1
1954	163,026	363.1	8,164	50.08	2.2
1955	165,931	397.5	9,194	65.41	2.3
1956	168,903	419.2	9,905	58.64	2.4
1957	171,984	442.8	10,311	59.95	2.3
1958	174,882	444.5	10,302	58.91	2.3
1959	177,830	482.7	11,117	62.51	2.3
1960	180,684	502.6	11,932	66.04	2.4
1961	183,756	518.7	11,845	64.46	2.3
1962	186,656	556.2	12,381	66.33	2.2
1963	189,417	583.9	13,107	69.20	2.2
1964	192,119	628.7	13,981 ¹	72.77	2.2
1965 ¹	194,298	671.0	14,800	76.17	2.2

Source: U.S. DEPARTMENT OF COMMERCE, *Statistical Abstracts of the United States*, Washington, 1965.

¹ Preliminary estimates. Information becoming available subsequently put the total of advertising expenditures in the United States for 1965 at \$15,120,000. This figure is still a preliminary estimate. The preliminary estimate for 1964 was revised upwards to \$14,155,000 (see "Ad Volume increased 6.8% in 1965", in *Printers Ink*, February 11, 1966, pp. 9 and 12).

ADVERTISING EXPENDITURES PER CAPITA AND AS A PROPORTION OF GROSS NATIONAL PRODUCT.

On a per capita basis, advertising expenditures in Canada rose from about \$10 in 1946 to \$35 in 1965. This is an increase to 3½ times the level in the first full year after the end of World War II in value terms and about 2½ times in volume terms. Again the increase in per capita advertising expenditures was a continuing one. The trend was not affected in a downward direction by the economic consequences of the four recessions experienced in Canada in the post-war period (see Table 1-2).

Canadians are currently devoting close to 1½ per cent of their Gross National Product to advertising expenditures. In other words, out of every dollar sold in Canada, about 1½ cents go to the advertising industry.

The proportion has risen from about 1 per cent or a little above this in the immediate post-war period to 1.3 per cent in 1965 ²⁷ (see Table 1-2).

COMPARISON WITH THE UNITED STATES.

Advertising expenditures per capita in the United States for 1965 are estimated at about \$76 or more than double the corresponding figure for Canada of \$35. ²⁸ Twenty years ago the comparable figures were \$24 for the U.S.A. and \$10 for Canada (see Tables 1-2 and 1-3).

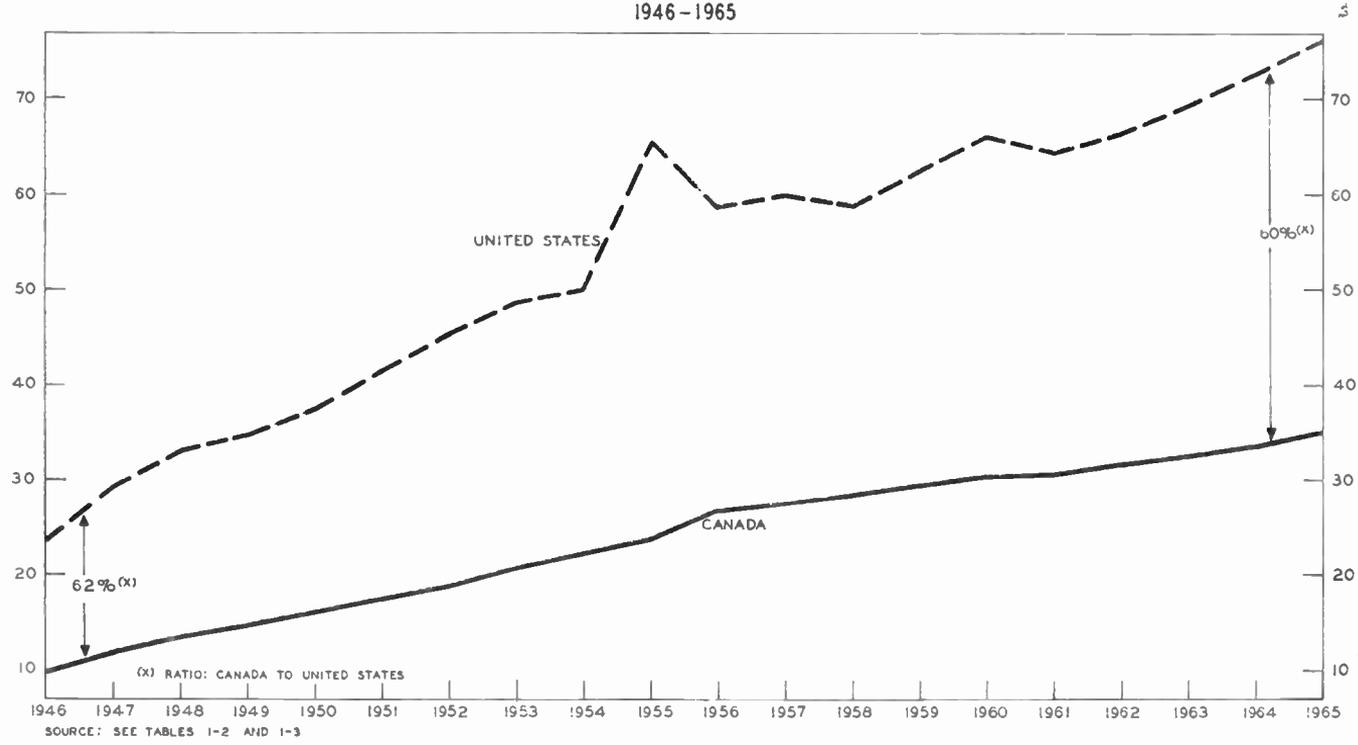
Why do Canadians spend less than one-half per capita on advertising as compared with Americans? Is it because of different attitudes on the part of business about the effectiveness of advertising in the two countries? Or is the difference due to variations in relative income levels and size of markets between the two nations? Or are there some other reasons?

The differences also show up in a comparison of the proportion of Gross National Product devoted to advertising.

²⁷ The 1965 figures are preliminary estimates.

²⁸ The \$35 refers to net advertising expenditures per capita. On the basis of gross advertising expenditures per capita, the figure is slightly higher, \$37.40, with the ratio of gross advertising expenditures to Gross National Product rising to 1.4 percent as compared with 1.3 percent for net advertising expenditures. The general order of difference between Canada and the United States remains whether gross or net advertising expenditures are used.

CHART 2
ADVERTISING EXPENDITURES PER CAPITA, CANADA AND THE UNITED STATES
1946-1965



The U.S. spends currently on advertising 2.2 cents out of every dollar of goods and services sold, against 1.3 cents for Canada. In 1946, the corresponding proportions were 1.6 cents and 1.0 cents (see Tables 1-2 and 1-3).

The U.S. population is currently 10 times that of Canada; the U.S. Gross National Product is 13 times that of Canada; and U.S. advertising expenditures are about 21 times that of Canada.²⁹

Why the differences? (See Chart 2.) To answer this question, more comprehensive investigations would be required going beyond the scope of this study. But some preliminary explanations can be offered on the basis of evidence presently available :

1. The U.S. industry caters to a domestic market 13 times the size of the Canadian market, representing the largest single market in the world in both absolute and per capita terms. To take full advantage of the economics of scale that can be obtained in catering to such a huge market, industry must exert intensive efforts to sell the goods and services it is capable of producing. To achieve this, greater advertising expenditures per capita and per dollar of sale are required than is the case in Canada where the market is much smaller.

2. The bulk of the advertising in the United States is done by national advertisers representing large corporations with a great stake in the production, distribution and financial sectors. Most of these large corporations take a long-term point of view about the potential benefits to be derived from advertising and they spend on advertising a considerably greater proportion of their sales budget than do many of the smaller Canadian companies.

3. The American consumer is advertising prone. He is receptive to new ideas and to new products. He is willing to consider trying out new goods and new services if these are presented to him in an attractive and persuasive manner. The Canadian consumer is more conservative. He is likely to follow the lead of the American consumer once new products have

²⁹ There are some differences in the coverage of advertising expenditures in the two countries. But such differences do not appear to be substantial enough to invalidate an assessment in general terms of the relative importance of advertising expenditures in Canada and the United States.

found acceptance in the United States. Larger advertising expenditures per capita in the United States than in Canada take account of the variations in consumer attitudes that exist between the two countries.

4. A certain amount of advertising in the United States, placed with U.S. media, influences Canadian consumers. This is the case because Canadians read most of the American magazines from "Life" magazine to the "National Geographic". Hence, the Canadian reading public is exposed to advertising placed in American magazines selling American products in Canada, with such products being either produced by American subsidiaries operating in Canada or imported from the U.S. Similarly, advertising is placed with American radio and television stations that are tuned in by Canadians living near the American border and this appears to cover the majority of Canadian citizens. Thus, some advertising expenditures placed in the U.S. create an impact on Canadian consumers, making it unnecessary for such companies to place advertising in Canadian media to the extent they might otherwise have done. This "spill-over" effect of advertising expenditures made in the U.S. is a contributing factor to advertising expenditures in Canada being lower on a per capita basis than in the U.S.³⁰

5. Advertising costs per thousand potential customers reached are claimed by the advertising industry to be higher in the U.S. than in Canada.³¹ One of the reasons advanced is the much greater fragmentation of advertising media in the United States. Where the U.S. is served by a number of women's magazines, Canada has only one. In the television field, most Canadian major cities are served by two networks; in the United States, by three networks. Canadian television stations in the large urban centres in this country do not exceed two English language and one French language (in some cities only), while U.S. stations number as many as seven or more in major cities like New York and Chicago. There is, however, this offset as far as advertisers are concerned. The potential customer reached by U.S. advertisers with higher cost per thousand is

³⁰ Some international advertisers do charge off their Canadian subsidiaries with "overflow" advertising expense, thereby reducing the available advertising budget dollars to be spent in Canada.

³¹ See also section on "Pricing: Canada and the United States", in Chapter 2.

a more affluent customer than his Canadian counterpart,³² so that higher advertising expenditures are more than recouped by greater sales.

The claim is being made that advertising expenditures may at times contribute to economic instability telescoping demand for goods and services in buoyant periods, followed by decline in recessionary periods. The suggestion is further made that advertising expenditures, like the rest of the economy, follow a cyclical pattern.

On the first point there is little evidence to support the claim, and on the second point data available suggest some resistance of advertising expenditures to cyclical variations over the last twenty years both in Canada and the United States, though the evidence on this point is not fully conclusive.³³

Even though Canada experienced four recessions during the post-war period, advertising expenditures kept on rising during the last two decades. In three of the recessions, Gross National Product (in current dollar terms) kept on increasing though at a slower rate, and only in one, the 1953-54 recession, did a moderate decline in Gross National Product take place. In fact, even in that year the decline was so small as to be tantamount to a levelling off of the Gross National Product.³⁴

³² In 1964, personal income per capita in the United States amounted to \$2,248 (U.S. dollars) and in Canada to \$1,643 (Canadian dollars). Broadly speaking, this meant that for every dollar earned by an American worker, the average Canadian earned 73¢. (See *Towards Sustained Balanced Economic Growth*, Second Annual Review, Ottawa, December 1965, p. 53).

³³ An investigation based on quarterly data of national advertising expenditures in the United States suggests that there is a closer relationship between variations in advertising spending and fluctuations in general economic activity than is indicated in annual data. To quote: "In the postwar period, national advertising, as best we can measure it, has fully conformed to the pattern of general business activity. There is no evidence of major counter-cyclical activity, nor has national advertising skipped any peaks or troughs in general business. Nor has national advertising varied within cycles of its own timing, as are found in, say the textile industry or even automobiles. [...] While national advertising conforms closely to the business cycle, it does not conform precisely. Peaks in advertising tend to lag somewhat behind peaks in general business" (see David M. BLANK, "Forecasting National Advertising Volume", in *How Business Economists Forecast*, edited by William F. BUTLER and Robert A. KAVESH, Englewood Cliffs, Prentice-Hall Inc., New Jersey, 1966, p. 387).

³⁴ This analysis is based on annual data. The decline is somewhat more apparent if quarterly data of Gross National Product, in constant dollars, seasonally adjusted, are used.

TABLE 1-4. — ANNUAL PERCENTAGE CHANGES OF ADVERTISING EXPENDITURES AND GROSS NATIONAL PRODUCT, CANADA AND THE UNITED STATES, 1947-1965.

YEAR	CANADA		UNITED STATES	
	GROSS NATIONAL PRODUCT	NET ADVERTISING EXPENDITURES	GROSS NATIONAL PRODUCT	ADVERTISING EXPENDITURES
1947	10.9	21.3	11.2	26.6
1948	14.4	15.6	10.7	14.2
1949	7.9	15.1	-0.5	6.9
1950	10.4	11.0	10.3	9.8
1951	17.8	12.1	15.6	12.5
1952	13.2	11.3	5.5	11.4
1953	4.2	13.1	5.3	9.1
1954	-0.4	9.8	-0.6	4.5
1955	8.8	10.1	9.5	12.6
1956	12.9	15.6	5.5	7.7
1957	4.2	5.6	5.6	4.1
1958	3.1	5.3	0.4	-0.1
1959	6.1	7.6	8.6	7.9
1960	4.0	5.0	4.1	7.3
1961	3.3	2.8	3.2	-0.7
1962	8.3	5.1	7.2	4.5
1963	6.4	4.4	5.0	5.9
1964	8.8	5.1	7.7	6.7
1965	9.6	6.3	6.7	5.9

Source: Compilation based on data from Tables 1-2 and 1-3.

As the data presented in Table 1-4 show, advertising expenditures in Canada rose through the recession of 1948-49 by 15 per cent, through the recession of 1953-54 by 10 per cent, through the recession of 1957-58 by a 5 per cent, and through the recession of 1960-61, by 3 per cent.

In United States, advertising expenditures did not follow the downward trend during the 1948-49 recession and during the 1963-64 recession. In both these periods, advertising expenditures in fact rose by 7 per cent and 5 per cent respectively (see Table 1-4). In the recession of 1957-58, advertising expenditures levelled off, and in 1960-61, they declined by less than 1 per cent. But over the twenty-year period, since the end of World War II, the trend in the United States has been distinctly upward.

The four recessions experienced in Canada and in the United States during the post-war period have generally been shorter and less in extent than economic fluctuations experienced in North America in the 1920's and 1930's. While the economic impact of advertising on sales cannot be isolated because of the interrelationship that exists with many other factors contributing to variations in sales volume, the fact remains that the economies of Canada and the United States have been subjected to less severe economic fluctuations in the post-World War II period, and advertising expenditures have generally been rising as businessmen endeavour to obtain their share of expanding markets in times of prosperity and to bolster declining sales in periods of recession.

Canadian and American experience over the last two decades supports the suggestion that advertising activity represents a dynamic growth industry which makes directly and indirectly a significant contribution to the economic development and the continuity of the growth process of the largely market-oriented type of economies such as exist in North America.

MAIN SOURCES OF ADVERTISING REVENUE.

What are the main sources of advertising revenue? What industries are among the heaviest advertising spenders in relation to their sales?

The answer to the first question is: it depends on what advertising media are used. The national advertiser, i.e. the

TABLE 1-5. — BROADCAST AND NEWSPAPER ADVERTISING, NATIONAL AND LOCAL, CANADA, 1961-1965.

TYPE AND YEAR	NATIONAL \$ Mill.	LOCAL ¹ \$ Mill.	TOTAL \$ Mill.	PER CENT OF TOTAL	
				NATIONAL	LOCAL
<i>Broadcast Advertising</i>					
1961	65.4	38.4	103.8	63.0	37.0
1962	72.9	42.6	115.5	63.1	36.9
1963	80.0	49.3	129.3	61.9	38.1
1964 ²	89.9	55.8	145.7	61.7	38.3
1965 ²	98.5	61.1	159.6	61.7	38.3
<i>Newspaper Advertising ³</i>					
1961	70.0	145.5	215.5	32.5	67.5
1962	72.8	154.0	226.8	32.1	67.9
1963	71.4	158.8	230.2	31.0	69.0
1964 ²	72.0	165.5	237.5	30.3	69.7
1965 ²	77.3	172.0	249.3	31.0	69.0

Source: Data from DOMINION BUREAU OF STATISTICS, *Printing and Publishing Industry*, 1963, and earlier issues; DOMINION BUREAU OF STATISTICS, *Radio and Television Broadcasting*, 1963, and earlier issues; and supplementary estimates from MACLEAN-HUNTER RESEARCH BUREAU, *A Report on Advertising Revenues in Canada*, Toronto, October 1965.

¹ Includes in the case of newspapers, "classified" advertising expenditures.

² Preliminary estimates.

³ Covers dailies, weeklies, weekend supplements, etc.

large business firms promoting brand name products and those interested in enhancing their corporate image, are heavy users of broadcast advertising, particularly television. On the other hand, the bulk of advertising revenues of newspapers comes from local advertising, either small or medium-sized business firms and individuals, or national advertisers using local advertising as a supplementary means of attracting customers for brand name products.

As the data in Table 1-5 show, 61.7 per cent of total broadcast advertising in 1965 came from national advertising and 38.3 per cent from local advertising. In 1961 the proportions were 63.0 per cent and 37.0 per cent respectively, indicating that local advertising has been gaining in relative importance over the last five years. This subject is discussed further in Chapter 3.

As far as newspapers are concerned, national advertising constituted 31.0 per cent of total advertising carried by this medium in 1965, as against 69.0 per cent for local advertising. As in the case of broadcast advertising, local advertising has been gaining in relative terms, though at a somewhat lesser rate. The comparable ratios for 1961 were 32.5 per cent and 67.5 per cent (see Table 1-5).

The more rapid growth of local advertising as compared with national advertising over the last five years is illustrated by the following figures:

	Per Cent Increase: 1961-1965		
	<i>National</i>	<i>Local</i>	<i>Total</i>
Broadcast Advertising	50.6	59.1	53.8
Newspaper Advertising	10.4	18.2	15.7

The reasons for the more rapid growth of the local advertising business as compared with national advertising over the last five years include:

1. The increase in participation of national advertisers in local advertising, e.g. national manufacturers sharing in the advertising costs at the local distribution level. A goodly portion of this type of advertising involves, what the industry describes as "co-op dollars".

2. More rapid rate of increase of advertising rates for local advertising for some media.

3. Increasing pressure to promote sales at the local level in such highly competitive areas as food sales by chains.

4. Growth of shopping centres leading to a struggle for survival between centre town business and department and specialty stores located close to the main residential areas.

5. More local advertising by public authorities.

Turning now to answering the second question, as to what industries spend the largest proportion of their sales dollars, a survey of the practice of 141 corporations, published in 1961, indicates that the largest spenders in relation to sales were firms in the drug, cosmetic, and toilet-goods business. The second largest spenders were suppliers of soap, waxes, and household goods. Distributors of food products ranked third.

The point has been made earlier that business generally spends on an average, 1.3 per cent of the sales dollar on advertising. But this proportion will vary considerably from firms making no advertising expenditures at all to companies that may spend as much as 45 per cent of their sales on advertising.

The results of the survey of the 141 firms' spending habits on advertising are summarized in Table 1-6. About 60 per cent of the firms spend less than 5 per cent of their sales on advertising, 14 per cent spend between 5 and 10 per cent, 13 per cent between 10 and 15 per cent, 6 per cent between 15 and 20 per cent, and the remaining 13 per cent between 20 and 45 per cent.

The fact that the drug industry is one of the greatest relative spenders on advertising and promotion is documented also in other surveys. For example, two special inquiries presented evidence that most drug manufacturers spend about 30 per cent of total sales on promotion and advertising, with some firms going as high as 35 per cent.³⁵

CHANGING STRUCTURE OF ADVERTISING.

In 1965 broadcast advertising amounted to an estimated \$160 million or 23 per cent of total net advertising expenditure. In 1950, only fifteen years earlier, Canadian television was not

³⁵ See *Report of the Royal Commission on Health Services*, Queen's Printer, Ottawa, 1964, p. 661 and *Report of the Select Committee of the Ontario Legislature on the Cost of Drugs*, Toronto, 1963, p. 24.

TABLE 1-6. — TOTAL ADVERTISING EXPENDITURES AS PER CENT OF SALES, SPECIAL SURVEY OF 141 COMPANIES, CANADA, 1959.

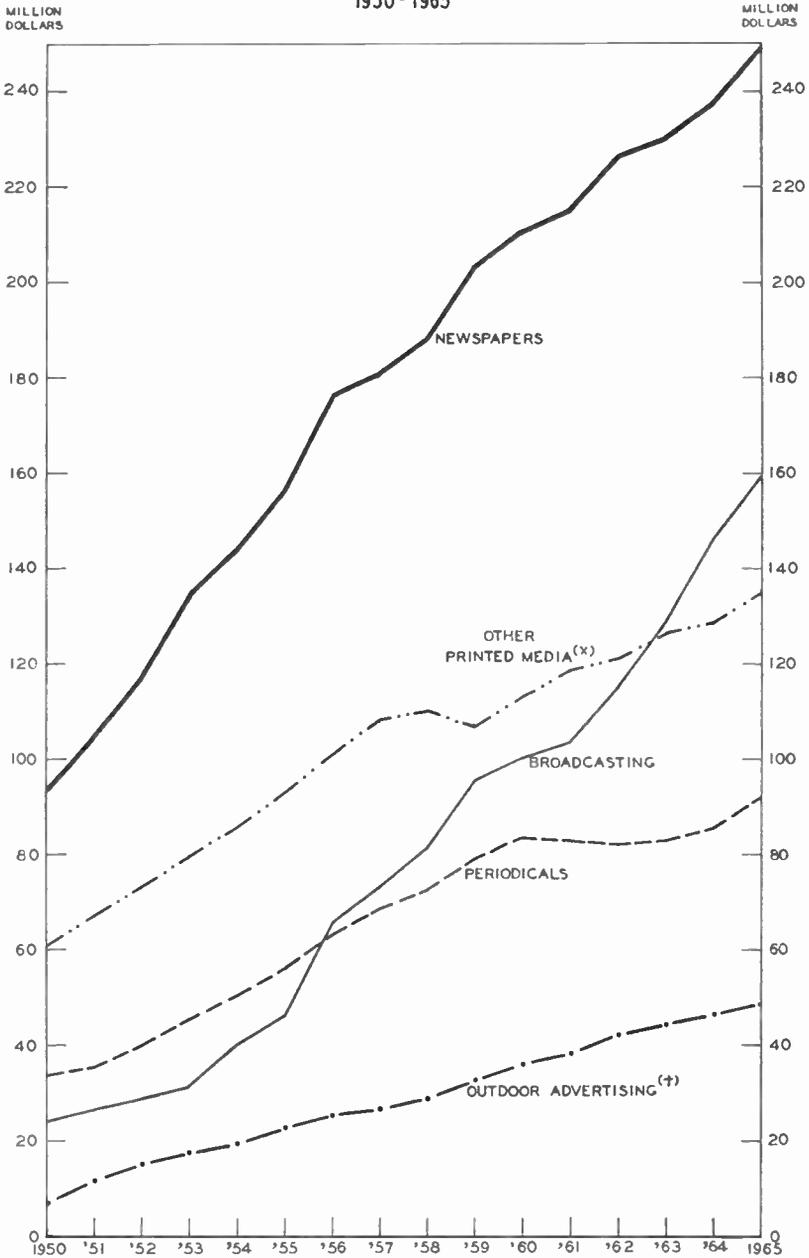
PER CENT DISTRIBUTION	NUMBER OF COMPANIES	PER CENT
Less than 5 per cent	85	60.3
5.0 to 9.9	20	14.2
10.0 to 14.9	18	12.8
15.0 to 19.9	8	5.7
20.0 to 24.9	3	2.1
25.0 to 29.9	3	2.1
30.0 to 44.9	4	2.8
45.0 and over	—	—
Total Companies	141 ¹	100.0

Source: *Report of the Royal Commission on Publications*, Ottawa, Queen's Printer, 1961, p. 194.

¹ The industries spending the highest proportion of sales on advertising ranked in this order: (a) drugs, cosmetics and toilet goods; (b) soaps, waxes and household supplies, and (c) food products. The percentages relate largely to sales at the manufacturing level.

BROADCAST ADVERTISING IN CANADA

CHART 3
 ADVERTISING EXPENDITURES, BY TYPE, CANADA
 1950-1965



(X) COVERS CATALOGUES, DIRECT MAIL, ETC.
 (†) COVERS BILLBOARDS, CAR CARDS, ETC.

SOURCE: SEE TABLE 1-7

available³⁶ and broadcast advertising expenditures covering radio only comprised a little over 10 per cent of the total.

By 1965 advertising on radio still continued to make up 10 per cent of total expenditures but an additional 13 per cent had been taken up by advertising on television, with this 13 per cent taken out of advertising expenditures going to the other media. In 1965 advertising in newspapers comprised 36 per cent of the total (as compared with 42 per cent in 1950), periodicals 14 per cent (16 per cent), and other printed media 20 per cent (28 per cent). Only outdoor advertising, apart from television advertising, which had comprised about 3½ per cent in 1950, increased in relative importance by 1965 to 7 per cent (see Tables 1-7 and 1-8).

Notwithstanding the relative decline of the share of the advertising dollar in three of the major categories, all sectors of the advertising industry have expanded at a remarkable rate in absolute dollar terms, as the following figures indicate and as illustrated in Chart 3.

MEDIA	INCREASES: 1950-1965	
	ABSOLUTE AMOUNTS \$ Mill.	PER CENT
Broadcast Advertising	136	565
Newspapers	156	167
Periodicals	58	171
Other Printed Media	74	122
Outdoor Advertising	42	561
Total Advertising	466	212

IMPLICATIONS.

The evidence presented in this Chapter supports three conclusions:

1. The advertising business in Canada is a growth industry. It has expanded in the post-war period more rapidly

³⁶ A number of Canadian homes located near the U.S. border were viewing programs on American television stations, a habit that has become increasingly popular in Canada.

TABLE 1-7. — NET ADVERTISING EXPENDITURES TOTAL AND FIVE MAJOR TYPES OF MEDIA, CANADA, 1950-1965.

Year	\$ Mill.					
	Broad-casting	News-papers	Periodi-cals	Other Printed Media ¹	Outdoor Adver-tising ²	Total Net Advertising Expendi-tures
1950	24.0	93.5	34.0	60.7	7.4	219.6
1951	26.2	104.9	35.8	67.2	11.9	246.1
1952	28.8	116.8	40.2	73.2	15.0	274.0
1953	31.5	135.1	45.7	79.7	17.8	309.9
1954	40.3	144.2	50.4	85.7	19.6	340.2
1955	46.1	156.1	56.3	93.2	22.6	374.5
1956	65.9	176.4	63.6	101.3	25.6	432.8
1957	72.9	180.8	68.7	108.1	26.6	457.2
1958	81.4	188.3	72.7	110.2	29.1	481.6
1959	95.9	203.6	79.4	106.8	32.6	518.2
1960	100.4	210.9	83.9	112.9	36.0	544.1
1961	103.9	215.5	83.2	118.6	38.3	559.5
1962	115.5	226.8	82.2	121.3	42.3	588.0
1963	129.3	230.2	83.1	126.5	44.4	613.6
1964 ³	146.2	237.5	85.7	128.6	46.6	644.7
1965 ³	159.6	249.3	92.2	135.0	48.9	685.0

Source: Data from DOMINION BUREAU OF STATISTICS, *Printing and Publishing Industry*, 1963, and earlier issues; DOMINION BUREAU OF STATISTICS, *Radio and Television Broadcasting*, 1963, and earlier issues; and supplementary estimates from MACLEAN-HUNTER RESEARCH BUREAU, *A Report on Advertising Revenues in Canada*, Toronto, October 1965.

¹ Covers catalogues, direct mail, etc.

² Covers billboards, car cards, etc.

³ Preliminary estimates.

TABLE 1-8. — PERCENTAGE DISTRIBUTION OF NET ADVERTISING EXPENDITURES, BY FIVE MAJOR TYPES OF MEDIA, CANADA, 1950-1965.

Year	Broad-casting	News-papers	Periodi-cals	Other Printed Media ¹	Outdoor Adver-tising ²	Total Net Advertising Expendi-tures
1950	10.9	42.6	15.5	27.6	3.4	100.0
1951	10.6	42.6	14.5	27.3	4.8	100.0
1952	10.5	42.6	14.7	26.7	5.5	100.0
1953	10.2	43.6	14.7	25.7	5.7	100.0
1954	11.8	42.4	14.8	25.2	5.8	100.0
1955	12.3	41.7	15.0	24.9	6.0	100.0
1956	15.2	40.8	14.7	23.4	5.9	100.0
1957	15.9	39.5	15.0	23.6	5.8	100.0
1958	16.9	39.0	15.1	22.9	6.0	100.0
1959	18.5	39.3	15.3	20.6	6.3	100.0
1960	18.5	38.8	15.4	20.7	6.6	100.0
1961	18.6	38.5	14.9	21.2	6.8	100.0
1962	19.6	38.6	14.0	20.6	7.2	100.0
1963	21.1	37.5	13.5	20.6	7.2	100.0
1964 ³	22.7	36.8	13.3	19.9	7.2	100.0
1965 ³	23.3	36.4	13.5	19.7	7.1	100.0

Source: Compilation based on data in Table 1-7.

¹ Covers catalogues, direct mail, etc.

² Covers billboards, car cards, etc.

³ Preliminary estimates.

than most other industries and the economy as a whole. The advertising industry has also proven to be more resistant to recessionary influences than most other industries. It kept on expanding in Canada on a continuing basis during the last twenty years, without interruption during the four recessionary periods experienced in this country. In this respect the record of Canadian advertising business has been better than that of the American advertising industry which experienced a levelling-off during one recession and a slight decline in another.

2. Both on a per capita basis and in relation to Gross National Product, advertising expenditures in Canada are considerably smaller than corresponding expenditures made in the United States. Reasons for such differences include differentials in the size of markets, the relatively greater role played by national advertising in United States, the greater responsiveness of American consumers to innovations and new products, and the spill-over of American advertising into Canada.

3. Television advertising commenced in Canada in 1952. After a slow start it achieved a phenomenal growth rate. Radio advertising, after some adjustments, was able to hold its share of the advertising market, with the proportion of the advertising dollar going to newspapers, periodicals, and other printed media declining, and increasing in the case of outdoor advertising.

What are some of the reasons for the remarkable growth of broadcast advertising, particularly television advertising in Canada? Are there some special reasons for this phenomenon? Is it a matter of business rushing out to make use of a new electronic medium or are there some basic factors inherent in the special characteristics of broadcast advertising?

Looking to the future, is broadcast advertising likely to continue its phenomenal rise at the expense of the older advertising media, or does there appear to be room for expansion of all the media servicing the advertising industry?

Is advertising going to expand more rapidly than the Canadian market, as measured in terms of the Gross National Product? Or is the rate of growth likely to slow down in relative terms? And if advertising continues on its path of rapid growth, will the gap that exists between advertising expenditures made in Canada and in United States narrow from its

present ratio of more than \$2 in the United States for every dollar spent in Canada on a per capita basis ?

The implication of the analysis so far presented is: there are substantial grounds for presuming continuing rapid growth of the advertising business in Canada over the next decade. The reasons for this presumption, the evidence and analysis supporting it, and the range of estimates of what the growth of the advertising business in Canada might mean to business firms and individuals catering to it, and to the economy as a whole, are presented in the chapters that follow.

CHAPTER 2

Broadcast Advertising - Special Characteristics

INTRODUCTION.

Broadcasting, and particularly television, has been called the most powerful means of communicating with an audience. This power can be used for “good” or “evil”. To ensure that broadcasting services meet the need of society as a whole, as well as those of the many sectors and groups that make up Canada, these services are in part under government control and in part under public ownership.

The economic consequences of public control and partial public ownership are many; and so are the consequences that arise from technical, institutional, geographic, cultural, political and international factors that determine the pattern and growth of broadcasting services in this country.

Broadcasting services in Canada are paid for from two main sources: commercial revenues from the sale of broadcast advertising time and programs, and from public grants. Private broadcast stations and the privately owned television network, C.T.V., depend entirely for their existence on commercial revenues. The C.B.C. obtains the bulk of its income from grants authorized by Parliament and to a lesser extent from commercial revenues.

This “mixed” system has no corresponding equivalent in any other area of advertising in Canada. It produces many differences between broadcast advertising and advertising using other media — differences that have far-reaching economic consequences, many of which are due to non-economic factors.

To provide a basis for the growth analysis of broadcast advertising expenditures in Canada, presented in this study, this Chapter first describes the special characteristics of the broadcast advertising product or the “commercial”, as the advertising message is usually called. It then analyzes the impact of the broadcast advertising product on its audience and it presents the differences between broadcast media and other media, and some of the economic consequences arising out of the differences.

The key problem facing the Canadian broadcasting industry, as far as the future growth of its commercial revenues is concerned, is the possible hiatus that may develop between limited supply of broadcast advertising time and expanding demand for broadcast advertising services. The economic implications of the "mixed" system of broadcasting in Canada are examined, as are some of the results that follow from rapidly growing demand for broadcast advertising services exerting increasing pressures on the limited supply of commercial time available.

Whatever expansion has taken place and will continue to take place, will be occurring within an existing and evolving framework of government control and regulation, and these are examined insofar as they affect broadcast advertising expenditures. Other special elements in the broadcast picture affecting its commercial operations are then dealt with, including English and French language broadcasting, network and individual stations, and the evolving microwave systems in Canada. This is followed by a brief statement of some of the special distinguishing characteristics of radio and television.

Having established what some of the special characteristics of the broadcasting system are, as they relate to commercial operations, the balance of the Chapter deals with the manner in which radio and television time is sold, how it is sold, how it is priced, setting out the techniques used and the different results obtained, distinguishing between private and public operations in Canada, and commenting on differences between Canadian and American practices.

In the final part, comments are offered on what is involved in assessing the effectiveness of Canadian broadcast advertising, the techniques used, and the results obtained from audience rating surveys conducted by independent and industry supported firms specializing in this field. A concluding section summarizes the implications of the special characteristics of broadcast advertising expenditures for growth analysis, as presented in this study.

BROADCASTING PRODUCT.

The broadcasting product is a service which the broadcasting industry sells. It consists mainly of "air time", used to communicate an advertising message to an audience. To a lesser extent, broadcasters provide "other" services including produc-

tion of programs and commercials for which they are reimbursed by firms requiring such services.

In using broadcasting as a vehicle, advertisers endeavour to bring about a certain impact on potential consumers. The impact is achieved by exposing a television viewer or radio listener to an advertising message in which the advertiser, among other things, tries to create buying impulses on the part of the consumer.

What do advertisers really expect from broadcast advertising? The Royal Commission on Broadcasting dealt with this question in these terms:

Sponsors are anxious to reach the largest possible audience. But they are equally anxious to reach potential consumers [. . .]. Under the system of commercial radio and television all stations are trying to attract the same audience. Thus the existence of several outlets does not mean that a wide range of tastes and interests will be reflected in the programmes produced [. . .]. For the sponsor the programme is a vehicle for an advertising message. The programme must be good enough to dissuade the listener from trying another station. It is desirable to please the whole audience a little rather than to please some of the audience a great deal.¹

As was explained in Chapter 1, the repetitiveness of a well-constructed advertising campaign is likely to achieve greater impact than a single message communicated at one time and this is particularly the case in broadcast advertising. Hence the advertiser who wishes to maximize the potential returns from advertising, say on television, will often best be served if he spreads his advertising budget over a period of time rather than using it up in one single extravaganza.²

What then does the advertiser buy if he decides to spend a substantial portion of the advertising dollar on broadcasting? He buys what may be described as a "time exposure factor". He buys time to present an advertising message on television or radio and the resultant exposure of the audience to the commercial.

¹ *Report of the Royal Commission on Broadcasting, op. cit.*, p. 79.

² "Sellers must keep their identity and the identity of the goods they sell before the public so as to capture the benefit of good will from prior experience" (see "Supply and Demand for Advertising Messages", *op. cit.*, p. 463).

Exposure is usually measured by audience rating surveys in terms of the number of homes and persons in the home watching or listening to a program carrying an advertising message, and this subject is dealt with further in the section dealing with "Measuring the Effectiveness of Broadcast Advertising", later on in this Chapter.

The portion of air time containing an advertising message is called a "commercial". Broadly speaking, a commercial is an advertising message using the broadcast media as a vehicle of communication. The Board of Broadcast Governors has established a more technical definition of a commercial in its regulations:

"Commercial message" means any commercial announcement and includes any announcement that mentions an advertiser, any product or service of an advertiser, or any activity being promoted by an advertiser, including any such mention in a list of prizes, but does not include announcements made on behalf of a station or a network that do not contain the name of any other advertiser or his products.³

Two broadcasting media are used: radio and television. Both media have special characteristics of their own and these are referred to later on in this Chapter. As far as audiences are concerned, radio has certain advantages over television and vice versa. A radio commercial can be listened to while shaving, driving a car, or pursuing other out-of-home activities. Hence radio commercials can reach audiences that television commercials cannot. But then, and this applies mainly to the prime viewing hours in the evening, television commercials will reach family audiences to an extent and depth that radio commercials cannot.

Characteristics which television commercials have in common with other forms of advertising include their objective of creating buying impulses in potential customers and informing and influencing people generally about products, particular brand names, specific services, and the companies that stand behind the goods and services offered for sale.

Television commercials have some special characteristics of their own that are not found in any other type of advertising

³ *Regulations* of the Board of Broadcast Governors, SOR/64-50, January 15, 1964 and subsequent amendments, Section 2, (1) (aa).

product. They represent a “blending of cinematic techniques and selling messages, combining features that attract and repel in various proportions. They have a special character of their own, since they can combine the atmosphere of the motion picture, the cartoon strip, and the salesman on the doorstep with the particular setting that is television in the home.”⁴

Characteristics which apply specifically to television advertising are the types of messages formulated and the forms in which they are presented. Television commercials may create emotions among viewers that, generally speaking, differ from reactions created by other advertising media. Television commercials, just as some other types of advertisements, are said to “evoke simple, direct, condensed, and emotional responses. Viewers retain an overall impression of what a commercial is about. The details are lost, collapsed into a summary evaluation and image of what they perceive to be the main ideas.”⁵

Another special characteristic of the television commercial is its ability to provide “mobility”. Mobility may take different forms which are facilitated through the visual presentation of the commercial. Three dimensions are involved:

1. Mobility over time which permits the viewer to see events as they occur, have occurred, or may be occurring in the future.
2. Mobility in terms of dimensions which make it possible through the use of a two-dimensional medium to create the illusions of a three-dimensional presentation.
3. Mobility of situations which makes it possible to show the existence of a problem, through demonstrations and examples, the manner in which it can be solved through the use of the product advertised, and the results obtainable.

Hence, the main characteristic of the television commercial is its dynamic character and this gives it many advantages over other forms of advertising. But if television advertising is to be used to its full effectiveness, its true potential must be recognized. The medium must be used with discretion and understanding. Both advertisers and the broadcasting industry through expe-

⁴ Ira O. GLICK and Sidney J. LEVY, *Living with Television*, Chicago, Aldine Publishing Company, 1962, p. 174.

⁵ *Ibid.*, p. 175.

rience appear to have come to the conclusion that the purpose of using broadcast commercials is not just to serve primarily a short-term purpose. Its particular strength lies in obtaining substantial results in building up "brand names" or "corporate images" over time.

This is not to say that the broadcasting media will not produce useful short-term results in increasing sales of advertisers, and there are still a number of firms which believe in the short-term effectiveness of broadcast advertising. But greater opportunities appear to be opening up in making fuller use, particularly of television advertising, in building up goodwill and confidence among consumers in the products of major companies.

Modern television commercials are technically as advanced as human genius and a generous budget can create. Large national advertisers spend considerable time, effort and money to develop effective television commercials. "A one-minute commercial may occupy a hundred people, take twenty hours to shoot and cost more than fifty thousand dollars, perhaps more than the half-hour program that surrounds it."⁶

The broad objectives of the television commercial have been emphasized in these terms in an intensive study of television operations in the United States:

It would be an error to think of commercials as narrowly informing and influencing, for this suggests too small a range of functions that they can perform and that viewers demand of them. They are also expected to explain, to prove, to demonstrate; viewers want them to entice, excite, motivate, and entertain. They feel that commercials should define and place the product into a context of personal meanings, aspirations, and a way of life. Even commercials of thirty seconds or less are 'supposed' to communicate the total image of a product and a brand. The essential point is that commercials need actively to stimulate the audience . . .

Commercials, like shows, need to prove their worth, to use interesting techniques, to tell an engaging story, to say something new, different, and significant. They are obliged to personalize the communication so that a feeling can develop

⁶ Janice TYRWHITT, "What Do You Mean You Don't Like Television Commercials?", in *Maclean's*, Toronto, January 1, 1966, p. 21.

that special attention is being paid to individual members of the audience. If the commercials measure up to these expectations, then they will be watched.⁷

There is another way of looking at television commercials and that is from the consumer's point of view. By being willing to view a television commercial,⁸ the consumer obtains access to an entertainment service, "free" of a direct charge. If he wanted to obtain the program service without a commercial, he may be required to pay a direct fee. Presumably, he would in most instances be prepared to do so, to acquire the entertainment service.⁹

Thus the television commercial performs not only a useful function in that it adds to the consumer's stock of knowledge of market information pertaining to products and services advertised but it also yields a utility to the consumer in the sense that he obtains a program service without direct costs to him.

This is a positive aspect of the utility of an advertising message. There is, however, a negative aspect to it which has been described in these terms:

TV advertising messages are negative economic goods to the viewer, which he must "consume" in order to obtain the entertainment program.¹⁰ Harold J. Barnett explains that commercial broadcasting involves the operation of two different types of market: a barter market and a dollar market. Entertainment programs and advertising messages are "jointly exchanged in a barter market for viewer time; in a separate dollar market the advertiser then pays the station for the viewer time, roughly in proportion to its volume and with relation to the number and duration of advertising messages."¹¹

BROADCAST AUDIENCE.

What distinguishes broadcast audiences from other audiences to whom advertising messages are addressed? In the main, the distinguishing characteristics include: (1) difference in impact, (2) difference in priority, and (3) difference in attitude.

⁷ Ira O. GLICK and Sidney J. LEVY, *op. cit.*, pp. 180 and 181.

⁸ The same is true also for listening to radio commercials.

⁹ This is the case in Great Britain where the B.B.C. is financed from the proceeds of licence fees.

¹⁰ Harold J. BARNETT, "Discussion of The Economics of Broadcasting and Advertising", Papers and Proceedings of the Seventy-Eight Annual Meeting of the American Economic Association, in *American Economic Review*, May, 1966, p. 467.

¹¹ *Ibid.*

1. DIFFERENCE IN IMPACT.

When radio was first introduced in the 1920's, it soon developed an impact on its audience greater than the printed medium which, up to that time, was the main vehicle of commercial advertising messages.

Similarly, when television was first introduced in Canada by the C.B.C. in 1952, it took audiences away from radio and it affected readership of newspapers and other printed media. But then the other media adjusted themselves to the altered circumstances and all sectors continued to expand, though at different rates, as the evidence in terms of commercial revenues received, presented in Chapters 1 and 3, indicates.

But certain basic differences as between broadcast media and other vehicles have remained all through this time, though adjustments have minimized their economic impact.

When a reader opens a newspaper he can look at the editorial contents or the comics without referring at all to the advertising content of the paper. He may by-pass the advertisements that are sprinkled throughout the paper or he may be attracted by an advertisement in search for editorial matter and thus become familiar with its contents. Or he may turn directly to the advertising pages in search for an advertisement of interest to him. Thus the reader makes the choice whether he wishes to consult an advertisement or not.

But the situation is different in radio and television advertising. If an individual wishes to listen or view a particular program that carries commercial content, he has no choice but to accept the commercial as part of the broadcasting service he receives. He cannot escape it unless he turns off the receiver, or he leaves the room, or he turns his mind to something else so that he remains unaffected by the commercial message. But by and large, most listeners and viewers have accepted the commercial as a price they are prepared to pay¹² for receiving the programs they wish to hear or see, "free" of charge.¹³

¹² The "price" paid is in terms of a lessening of the dramatic or amusement effect on the viewer or listener. To minimize such detrimental results, some European countries have developed the magazine type approach to broadcast advertising. This involves concentrating all the advertising in, say, a half-hour, between regular programs of entertainment, education or public affairs.

¹³ "In order to obtain the opportunity to advertise, a firm sponsors [bids for] programs which will be preferred by those who are likely to be

Thus television and radio audiences in practice become “captive” audiences. They may protest but in the end they acquiesce.

The trend towards “captivity” of audiences is increasing rather than decreasing. For as the use of portable radio and television sets increases, users of such sets are likely to be exposed to a greater extent than users of sets in their home. There are fewer interruptions when viewing television on the beach or in a cottage where there is no telephone, or listening to a radio in a car, than would be the case at home where interruptions to viewing or listening may be the rule rather than the exception.

Thus advertisers who aim at maximum attention of audiences may take an increasing interest in the increasing mobility of the Canadian population, particularly that part of the public that uses portable radio and television sets because of the likelihood of greater audience penetration than would be possible when directing commercials to audiences in their homes.

Advertisers have further come to realize that assessing the impact of advertising messages on potential consumers is a much more complex matter than measuring the number and the type of people listening to or viewing a program.

Products have become more specialized and so have the interests of the viewing and listening public. Little would be served to advertise cleaning materials to a predominantly male audience listening to a sports broadcast or in advertising a male hair tonic in the early afternoon hours when the audience consists mainly of women and small children.

The impact on the audience will vary depending on the penetrative qualities of advertising and the special or general audience it is addressed to. But little is known as to what that

persuaded by the message broadcast and thus increase their purchases of that firm's product. [. . .] In principle, individuals who were not affected by the advertising would have no influence on the programs offered, if firms had a perfect means of distinguishing the presence of those who are from those who are not likely to be affected by the message. In a sense entertainment is free for those who have the same preferences but are not affected by the message — except for the burden of viewing the commercial — but it is not free from society's point of view” (see Jora R. MINASIAN, “Television Pricing and the Theory of Public Goods”, in *The Journal of Law & Economics*, October, 1964, p. 74, including footnote 5).

impact is under varying circumstances, allowing for differences in the type of products, age and sex composition of the audience, cultural and language differences, and regional and local variations (including the distinction between urban and rural audiences).

Research and investigations to establish and quantify such impacts are still in their infancy, notwithstanding some valiant efforts on the part of a few advertising agencies and market research firms to come to grips with problems of impact measurement and assessment. Until research and further investigations come up with some concrete and detailed answers, backed up and tested by experience, advertisers are likely to continue to be guided as to the effectiveness of broadcast advertising by the results of broadcast audience measurement surveys covering the number of homes exposed to a program rather than the effect of a commercial on any one individual.

2. DIFFERENCE IN PRIORITIES.

Although the purpose of all media is to entertain and to inform, there are differences in priorities in the attitude of people to media.

When a person turns on his radio or his television set, his main interest is to listen to or to view a program or a newscast. As one authority put it: "If the media were conceived as existing merely to serve the wants of listeners and viewers *per se*, advertising would appear far down on the list of priorities."¹⁴

The public appears to attach a higher priority to an advertisement appearing in a printed medium than when it is communicated through broadcasting, for it will turn to the former vehicle in search of the commercial information it is seeking. The public will rarely turn to radio and television to listen to or view a commercial. The primary motivation is a search for entertainment or information — and this is the main service provided by the broadcasting medium as far as the public is concerned.

¹⁴ "How the Media Can Be Made More Effective Advertising Vehicles", *op. cit.*, p. 9.

But notwithstanding the fact that the public appears to attach a higher priority to commercial messages in printed media, advertisers have turned increasingly to broadcasting as a means of reaching maximum audiences. Why?

The answer is in part: In a given period of time, more people can be exposed to commercial messages carried on radio and television than is possible by means of printed media. Some people may not like commercials on radio and television but they put up with them as part of the North American way of life, a point elaborated further in this Chapter.

3. DIFFERENCE IN ATTITUDE.

There is one other important difference in the way broadcast advertising may affect audiences. It is the question whether advertising reduces the enjoyment of an entertainment or information service.

When a newspaper increases its advertising content, it can do so by increasing the number of pages without reducing editorial material. When advertising is increased per hour of television or radio broadcasting, then the time left for program presentation is correspondingly reduced. Quite apart from government regulation of the advertising content permitted on broadcasting media, audience resistance develops as the commercial content increases. There is a point where such resistance may in fact reduce the effectiveness of commercials thus defeating the main purpose of the advertiser, and that is, of achieving a maximum impact on the viewing or listening public.

EFFECTIVENESS OF BROADCASTING MESSAGE.

In Chapter 1, reference was made to different views on what constitutes an effective advertising message and what does not. Similar differences of views exist in judging the merits or demerits of specific radio or television commercials. Two concrete points, however, emerge carrying in the main the support of the industry.

One is that the quality of television and radio commercials has been improved. And the other is that there is a growing awareness on the part of advertisers, broadcast station operators and the public authorities that further improvements in both

commercials and program setting are both desirable in the interests of all concerned, and that includes foremost the public which is continually exposed to advertising messages on the air.

The Committee on Broadcasting suggested that a "wider audience-appeal should lead to an increase in the size of C.B.C. television audiences. Larger audiences entail increased saleability for all types of programs, and if a realistic improvement in programming is achieved, there is no reason why the C.B.C. should not earn more revenue, not less, than it does today."¹⁵

The C.B.C. questions whether it could earn more commercial revenues without affecting the quality of program presentation and in regard to commercials per se it states:

Better commercials will undoubtedly find a higher level of audience acceptance. Whether they could result in more people listening to radio is open to question and it is this fact which will largely determine the possibility of increased sales. Most commercial messages are written by advertising agencies, not the C.B.C.¹⁶

In balancing the persuasive influences against the detracting effects of commercial broadcasting on audiences, the positive impact has been well established. As one authority put it:

The great coverage of the air media and their compelling appeal offer unparalleled opportunities to reach people as potential buyers and sellers. Commercial messages are part of the broadcasting service.¹⁷

The guiding criterion of assessing the effectiveness of a broadcasting message is the productivity of the advertisement included in the program. But, as one study pointed out :

The productivity of advertising — viewer's receptiveness to the message broadcast — is not uniform or independent of the characteristics of viewers. Therefore, competition among advertisers will result in different programs being made available, each tailored to appeal to various subsets of the population, such as children, male adults and female adults. However, it is plausible to assume that for any subset of population the individual's receptiveness to the message broadcast does not depend on the value of the program in

¹⁵ *Report of the Committee on Broadcasting, op. cit.*, p. 221.

¹⁶ "Comments by the Canadian Broadcasting Corporation on the Report of the Committee on Broadcasting", *op. cit.*, p. 55.

¹⁷ "How the Media Can Be Made More Effective Advertising Vehicles, *op. cit.*", p. 6.

an entertainment or educational sense. Thus, from the sponsor's point of view the choice of a program will depend upon the size of the potential audience it generates, and its value will be measured by the returns to advertising. The return to advertising also determines the revenues received by the station owner who has no demand for his service other than that of advertisers.¹⁸

Various pressures are exerted on the broadcasting media in Canada to raise their productivity and these are referred to later on in this Chapter.

BROADCASTING VEHICLES.

There is a growing volume of literature, both here in Canada and abroad, pointing out that broadcasting differs greatly from all other media of communications in terms of their cultural, social, economic, and political impact on their audiences. There are further important differences in terms of the costs of using broadcasting as an advertising vehicle and there are different ways in which such costs are borne by business, individuals, and society as a whole. And there are still further differences in the manner in which the growing demand for broadcasting services — and that includes entertainment, education, information and commercial messages — are met.¹⁹

¹⁸ "Television Pricing and the Theory of Public Goods", *op. cit.*, pp. 74 and 75.

¹⁹ Paul F. LAZARSELD, *Radio and the Printed Page*, New York, Duell, Sloan & Pearce, 1940; Carl I. HOVLAND, Arthur A. LUMSDAINE, and Fred D. SHEFFIELD, *Experiments on Mass Communications*, Princeton, Princeton University Press, 1940; "Communications Research and the Social Psychologist", in Wayne DENNIS (ed.), *Current Trends in Social Psychology*, Pittsburgh, University of Pittsburgh Press, 1948; Wilburn SCHRAMM (ed.), *Communication in Modern Society*, Urbana, University of Illinois Press, 1948; Joseph T. KLAPPER, *The Effects of Mass Media*, New York, Columbia University, Bureau of Applied Social Research, 1949; M. C. FAUGHT, "Television an Interim Summing Up", in *Saturday Review of Literature*, August 26, 1950; Peter O. STEINER, "Program Patterns and Preferences and the Workability of Competition in Radio Broadcasting", in *Quarterly Journal of Economics*, Cambridge, Mass., Harvard University Press, May, 1952; Carl I. HOVLAND, Irving L. JANIS, and Harold H. KELLEY, *Communication and Persuasion*, New Haven, Yale University Press, 1953; William A. BELSON, "Measuring the Effects of Television: A Description of Method", in *Public Opinion Quarterly*, XXII (1958), pp. 11-19; Hilde T. HIMMELWEIT, A. N. OPPENHEIM, and Pamela VINCE, *Television and the Child*, London, Oxford University Press, 1958; Joseph T. KLAPPER, *The Effects of Mass Communication*, Glencoe, Ill., The Free Press, 1960; Alan THOMAS, *Audience, Market Public, An Evaluation of Canadian Broadcasting*, Vancouver, University of British Columbia, 1960; "The Great Debate on Cultural Democracy", in Donald N. BARRETT (ed.), *Values of America*, University of Notre Dame Press, 1961; "Televi-

The Radio Act of 1938 defines "broadcasting" as "the dissemination of any form of radio electric communication, including radio-telegraph, radio-telephone, the wireless transmission of writing, signs, signals, pictures and sound of all kinds by means of Hertzian waves, intended to be received by the public either directly or through the medium of relay stations". This is still the accepted definition in Canada and it has been incorporated in the most recent amendments to the Interpretation Act submitted to Parliament.²⁰

sion and the Pursuit of Excellence", address by Louis HAUSMAN, Director, Television Information Office, given at a conference at the Ohio State University, April 26, 1961, reprinted in *Vital Speeches*, Vol. 27, July 1, 1961; Jerome ROTHENBERT, "Consumer Sovereignty and the Economics of Television Programming", in *Studies in Public Communication*, Autumn 1962; Ira O. GLICK and Sidney J. LEVY, *Living with Television*, Chicago, Aldine Publishing Co., 1962; Gary A. STEINER, *The People Look at Television, A Study of Audience Attitudes*, New York, Alfred A. Knopf, 1963; David OGILVY, *Confessions of an Advertising Man*, New York, Dell Publishing Co. Inc., 1963; Marshall McLUHAN, *Understanding Media, The Expansion of Man*, New York, Toronto & London, McGraw-Hill, 1964; *The Public's View of Television and Other Media, 1959-1964*, New York, Television Information Office, 1965; *Joint Comments of Zenith Radio Corporation and Teco, Inc. in Support of Petition for Nation-wide Authorization of Subscription Television*, before the Federal Communications Commission, Docket 11, 279, March 10, 1965, pp. 73-82; "Study of Consumer Response to Pay TV", Oxtoby-Smith Inc., Aug. 9, 1965, pp. 25-26; *Economic Analysis of C.A.T.V. Growth and Impact*, Submitted by C.B.S. to the F.C.C., July 22, 1965, as Exhibit A of Comments filed in Docket 15,971, and reprinted in *Television Digest*, Aug. 2, 1965; "Reply Comments of Association of Maximum Service Telecaster, Inc.", Docket Nos. 14,895, 15,233, and 15,971 before the Federal Communications Commission, Sept. 17, 1965; Attachment A, p. 5; R. H. COASE, "The Economics of Broadcasting and Government Policy", in *American Economic Review*, May, 1966, pp. 440-447; David M. BLANK, "The Quest for Quantity and Diversity in Television Programming", in *American Economic Review*, May, 1966, pp. 448-456; Lester G. TELSER, "Supply and Demand for Advertising Messages", in *American Economic Review*, May, 1966, pp. 457-466; Harold J. BARNETT, Hyman H. GOLDIN, and Peter O. STEINER, "The Economics of Broadcasting and Advertising", in *American Economic Review*, May, 1966, pp. 467-475; Leo GOODMAN, Irwin TOWERS, and Hans ZEISEL, "A Technique for Assessing the Effects of Television Through Controlled Field Experiments", in *Stimulus*, May-June, 1966, pp. 56-65; and a number of *Reports* of Royal Commissions and special committees of Inquiry (see listing in Section on "American Influence", in Chapter 6).

²⁰ Senate of Canada, Bill S-9, read for the first time February 1st, 1966, Section 28 (4), (p. 11). There are, however, different interpretations possible, and one aspect, the definition of "radio communication" is the "subject of a case before the courts at the present time". Senator Allister Grosart emphasized the necessity of clarifying the concepts involved by expressing the hope that in discussing the amendments to the interpretation Act, "the whole subject of definitions in the important and expanding field of communications will receive the very careful consideration of the committee" (see *Debates of the Senate*, 27th Parliament, Ottawa, March 1st, 1966, p. 205).

To turn now to the differences between broadcasting media and other advertising vehicles, these may take many forms both in the manner in which they are operated and the way they affect society. To list a few of these differences:

Broadcast Media

1. Broadcasting enjoys exclusive rights granted by the State to channels and frequencies which places these media in a preferred and protected position.
2. Broadcasters are entrusted with the operations of a public asset (the airwaves) and thus they have certain responsibilities requiring public accounting.
3. Comprehensive public control of programs and commercials.
4. Supply of services is limited, partly by international agreement, partly by government regulations, and partly by technical and economic requirements.
5. "Mixed" system of ownership — public (C.B.C.) and private commercial operators.
6. Broadcasting has access to "captive" audiences (i.e. viewers and listeners are exposed to commercials if they wish to avail themselves to sponsored programs).
7. "Free" services (i.e. public does not pay directly for the service).
8. American influence is substantial through programs either broadcast over Canadian stations or through direct access of the public to American television channels or radio stations.

"Other" Media

1. No such exclusive rights are involved. But Canadian media are put into a preferred position as far as the tax treatment of advertising expenditures are concerned, vis-a-vis foreign owned media (with two exceptions, Reader's Digest and Time).
2. No such public accounting is required.
3. Little, if any, public control.
4. Supply of services is unlimited — to the extent that they are economically performed to meet existing demand, allowing for alternative uses of available resources.
5. Privately owned (individual or corporation).
6. Readers have free choice.
7. Readers pay directly for newspapers, periodicals and magazines, with "free" circulation of printed material being limited.
8. Little American influence in the case of newspapers and business publications (allowing for some U.S. syndication) though the effect is somewhat greater in the case of periodicals and magazines, but still apparently less than the influence exercised through broadcasting media.

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| <p>9. Combination of visual and audible impact is more far-reaching on the way of life, social behaviour, and often in terms of commercial results.</p> <p>10. Impact direct and accepted by the public — continuing criticism notwithstanding the most popular single means of communication.</p> | <p>9. Impact somewhat less on readers with important exceptions in certain fields, e.g. education and in special situations, e.g. local advertising where impact may be greater than that of broadcasting.</p> <p>10. "Older" media continue to perform useful services, having adjusted themselves to live with and thrive notwithstanding the popularity of the "newer" media, particularly television.</p> |
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It goes beyond the terms of reference of this study to go more fully into the differences of the impact as between the "older" media and the "newer" media. But what can be said is that the differences between broadcasting and other advertising vehicles that do exist, achieve special meaning in the context of assessing the role and the effect of broadcast advertising expenditures in the Canadian economy.

Two special aspects will illustrate some of the economic consequences of the differences that exist. One is the relationship between limited supply of broadcasting services and expanding demand for such services, and that includes demand to use broadcasting for commercial purposes. The other aspect relates to the consequences of "mixed" broadcasting operations (public and private) in Canada which has the effect of limiting the scope and the effectiveness of market forces in this area.

ELASTIC DEMAND VS. INELASTIC SUPPLY.

Like any other industry whose operations are determined largely by market forces, the broadcasting industry has a "product" to sell. The main product has been defined as the sale of commercials, that is "air time" using broadcasting media for transmitting advertising messages to an audience.

The demand for broadcasting product depends on: (1) the size of the advertising budgets of business firms and institutions; and (2) the share of the advertising budget devoted to using broadcast advertising media.

A business firm will spend money on broadcast advertising in the expectation of facilitating and expanding the market for goods and services it has for sale. Management is concerned in maximizing the effectiveness of the advertising dollar to be spent and this means it is interested in achieving results in terms of greater sales and increasing goodwill.

In deciding what share of the advertising budget should go to broadcast media and what share to other advertising vehicles, business will be guided not only by the results achieved or hoped for but also by a number of other factors including availability, timing, costs, markets served (national, regional, and local), etc.

The Canadian economy is an expanding economy. More goods and services have to be sold every year if continuing economic growth is to be ensured in view of the expanding capacity and growing resources, human and physical, of the country. To do so, business has in the past increased its advertising expenditures, during most periods at a more rapid rate than the growth of the Gross National Product, as the data in Chapter 1 indicate. The outlook is for this trend to continue since Canada, even though it is part of the North American market, is in relative terms considerably behind advertising developments that have taken place in the United States.

Broadcast advertising has proven its effectiveness in Canada, with television being a spectacular performer in the last decade. Hence, demand for broadcasting product in terms of its commercial content is continuously expanding with the main demand coming from the business sector and to a lesser extent from public authorities and non-profit institutions. Demand for the broadcasting product is "elastic" in the sense that it grows in response to market forces.

In a basically private enterprise economy like Canada's, expanding demand for products and services usually results in an increasing supply of such goods and services, if not immediately, then over the longer term as the economy either makes use of unused resources, or shifts resources from sectors for which rewards for enterprise, labour and capital are less than are indicated in the newer and more rapidly growing areas of economic pursuits.

Reliance is placed largely on the working of market forces to bring about the most effective and thus, presumably, the most profitable allocation of the nation's resources, bringing rewards to individuals and benefits to society as a whole. But in the case of broadcast services, increases in the supply of advertising time are limited largely by other than market forces. There are four reasons:

1. *Technical Reasons.* The number of channels and frequencies available in every locality in Canada is limited.²¹

2. *International Reasons.* Canada and the United States have an agreement regulating the use of airwaves, dividing available television channels and radio frequencies between the two countries and providing certain safeguards against air interference.

3. *Regulatory Reasons.* The number of hours a broadcasting station can broadcast and the number of minutes of advertising contents, in the case of television, and the number of commercials, in the case of radio, are circumscribed by regulations administered by the Board of Broadcast Governors.

4. *Policy Reasons.* The maintenance of a "mixed" system in Canada, the privately owned stations and network and the publicly owned C.B.C., limits the availability of programs with commercial content. In the case of the C.B.C., certain programs and times are not available for commercial use, e.g. news, opinion broadcasts, agricultural, fisheries, school and weather broadcasts.

Hence, the supply of the broadcasting product is "inelastic" — in the sense that it does not respond to market forces as other business sectors do. Even if demand for such services grows at a significant rate, supply will either not respond at all or only sluggishly — with a time lag. To illustrate: consideration of applications for new television licences has been deferred by the Board of Broadcast Governors for several years while the Committee on Broadcasting was deliberating, with this deferral continuing until policy decisions were announced by the Government. Another example would be the reduction of the maximum number of minutes of advertising time permitted on

²¹ There exists, however, substantial unused capacity in terms of U.H.F. television channels or F.M. radio.

television from sixteen minutes to twelve minutes per hour in 1964 which reduced the commercial air time available by one-quarter even though the demand for such time was growing.²²

This is not to say that the broadcasting industry and advertisers did not adjust themselves to the altered circumstances in the supply of commercial time available. They did so by shifting, in many instances, from the sale of program time to the sale of "spots" and by attempting to persuade advertisers to buy more daytime commercials. But the fact remains that one special characteristic of the broadcasting media is its inelastic supply and this has many economic ramifications, particularly since the inelastic supply of air time available for sale has to be matched with elastic and continuously growing demand for commercial time on broadcast media.

What are some of the economic consequences ?

ECONOMIC CONSEQUENCES : LIMITED SUPPLY AND EXPANDING DEMAND.

The effect of growing demand on limited supply of air time in existence at any given time creates many pressures. These are pressures on (1) prices, (2) productivity, (3) advertising structure, and (4) network operations.

1. PRESSURES ON PRICES.

Just as too many dollars chasing too few goods will bring about inflationary pressures in a country, so too many advertising dollars going after limited prime commercial time, particularly in major markets, will push up cost per thousand. But in the case of television, the law of supply and demand affects only about one-half of the broadcasting system representing about three-quarters of all commercial revenues obtained since the C.B.C. plays a much smaller role in the commercial field than private operators.²³ If anything, pressures on prices, particularly in the television field, are likely to increase because of the substantial rise in demand for advertising foreseen in Canada over the next decade, as elaborated in Chapter 6, without

²² At the time the change was made, only two of the private television stations came close to making use of the maximum permitted by B.B.G. regulations.

²³ In the case of radio, the C.B.C. obtains less than 4 per cent of commercial revenues (see Chapter 6).

corresponding increases in the supply of needed air time. Further, pressures on prices will not only come from rapidly growing demands exceeding limited supply but also from cost pressures. The latter will be partly the result of the substantial capital investment expenditures required to convert television to colour and to up-date equipment in the light of scientific and technological progress made, and partly the result of increasing pressures for program improvements, coming both from outside and inside the broadcasting industry.

2. PRESSURES ON PRODUCTIVITY.

As far as the broadcaster is concerned he can raise the productivity of the medium if he can make more effective use of the limited supply of commercial time available to him on television in terms of increasing his returns on advertising time sold without corresponding increases in his costs of providing that service. Such increases in productivity have occurred and continue to occur as a broadcaster sells more "spot" advertising and less "program time" (discussed later on in this Chapter).

Another type of productivity increase will take place if the advertiser succeeds in developing a 30-second commercial of similar effectiveness as the 60-second commercial, with the broadcaster being able to obtain some increased returns from the commercial sale of two 30-second "spots" as compared with the previous 60-second spot.²⁴ Productivity thus raised may be shared by both the broadcaster and the advertiser for the latter may obtain double the exposure at a lesser rate than it would have cost him if he had to purchase two 60-second spots.

3. PRESSURES ON ADVERTISING STRUCTURE.

Higher rates are making one of the two broadcast media, television, a high priced means of advertising that, as time goes on, only the more well-endowed firms will be able to afford, particularly in larger markets. As advertising rates for prime time rise, a change in the advertising structure follows with smaller firms being replaced by large advertisers.

²⁴ The B.B.C. regulations impose certain limitations. Maximum advertising content is currently 12 minutes per hour or 16 commercial units.

This change in the advertising structure takes place in stages. As the small advertiser is priced out of the market for prime time on television, he moves to daytime advertising or after eleven p.m. when rates are lower than those charged for prime time. As rates for non-prime time keep on rising, both in absolute terms and in relation to rates charged by other advertising vehicles, the small and medium sized firm finally finds television advertising altogether too expensive. When this point is reached, the advertiser leaves television as an advertising medium and he turns to either radio or newspapers or other printed media. As demand for television advertising time continues to grow, his place is taken by larger advertisers, usually the national firms which continue to be able to afford the higher rates charged because of the advantages that television offers them in reaching mass audiences.

4. PRESSURES ON NETWORK OPERATIONS.

As changes in the advertising structure take place, this affects the program schedule of the large television station. More and more of their commercial time is purchased by national advertisers and these firms request programs that are of interest to national audiences rather than programs of local interest in which local advertising can most appropriately be included. Hence the emphasis shifts from station originated programs catering to audiences in specific cities to network originated programs catering to viewers on a national scale.

As a result, pressure develops to strengthen network operations and the balance shifts from the preponderant position of individual stations to more integrated and cohesive operations which only a national network can provide. This has been the experience in the United States where three private networks play a major role in the television advertising business in that country. In Canada, the publicly owned television network operated by the C.B.C., together with its affiliated private stations, do offer a national service. Pressures have been developing in Canada for more effective network operations in the private sector and this has led to the proposal, made by the 11 affiliated television stations, to acquire the privately owned network, C.T.V. In its submission to the Board of Broadcast Governors, the 11 private television stations covering the major markets of Canada, made the point that they wished to increase considerably both

the quality and the quantity of network originated programming, from the current 23¼ hours per week to a range between 45 and 60 hours per week and that in order to achieve their objective of a better integrated and more effective national network television service, they were planning to expend about \$100 million over the next six years.²⁵

If common ownership of C.T.V. by the stations can achieve the objective of closer and better integrated operations between the network and its affiliates, as the stations claim, then the fact that the stations have taken over C.T.V. reflects the pressures of market forces and thus can be justified as making good sense on economic grounds.

“IMPERFECT” COMPETITION.

There is an area in the broadcasting field that is unique for Canada, and that is, the effect of pricing policies of a “mixed” system and the working of competition.

Private broadcasting stations, notwithstanding that their operations are subject to government control, can formulate price policies for the sale of their commercial services in a manner which by and large conforms to normal business practice. Prices are determined on the basis of costs, a return on investment, and an allowance for risk, yielding a price for the product arrived at in a competitive environment created in the light of other broadcasting stations and other media endeavouring to obtain their share of the advertising business becoming available.²⁶

The publicly owned C.B.C. sets its rates, usually below the going market rate in television, and very close to the average market rate in the case of radio — as elaborated later on in this Chapter — on a basis which it considers to be appropriate in the light of its primary responsibility to serve the national interest. As a result, the C.B.C. is selling its commercial time

²⁵ On March 4, 1966, the Board of Broadcast Governors approved the acquisition of C.T.V. by its affiliates, subject to certain conditions (see Chapter 6).

²⁶ Rates charged by broadcasting firms in Canada are not regulated. The situation is similar to that prevailing in the United States. “Where broadcasting most differs from other regulated industries is in the economic inappropriateness of rate regulation and the elusive character of its service standards” (see Harvey J. LEVIN, “Federal Control of Entry in the Broadcast Industry”, in *The Journal of Law and Economics*, October, 1962, p. 55).

and production below its costs (including a reasonable return on the investment), with the difference being made up by a subsidy, approved by Parliament and paid for by the taxpayers of the country.

Thus, "imperfect" competition exists in the broadcasting field in Canada.²⁷

Economists hold that perfect competition may exist when two conditions are fulfilled: "(i) there must be a large number of producers, each of whom produce so small a proportion of the total output of the commodity that he cannot seriously affect the total supply by restricting output; and (ii) the commodity must be homogeneous, so that buyers have no special preference for the product of any one producer. Under imperfect competition one or both of these conditions will be unfulfilled."²⁸ Other economists add to these two requirements a free entry into industry or trade, equal access to factors of production and full knowledge of prices of products for sale in every part of the market.

"Imperfect" competition exists in many areas of business life in Canada, as in other countries where the economic system is largely geared to individual initiative within a basically "free" enterprise framework. But what stamps "imperfect" competition in the broadcasting field as being so different from the operations in other fields of economic endeavour, is the degree and the character of the type of the competition in existence in Canada. This can be illustrated by reference to two economic consequences.

One is that the C.B.C. subsidizes commercial rates which in the television field are generally lower than market rates charged by private stations. Since the C.B.C. is a publicly subsidized corporation, it has a price advantage in terms of cost per thousand which varies from time to time in extent but which

²⁷ For references dealing with the broader aspects of advertising and competition, see Nicholas KALDOR, "The Economic Aspects of Advertising", in *Revue of Economic Studies*, 1950, pp. 1-27; S. A. OZGA, "Imperfect Markets through Lack of Knowledge", in *Quarterly Journal of Economics*, 1960, pp. 29-52; Kristian PALDA, *The Measurement of Cumulative Advertising Effects*, New York, Prentice-Hall, 1964; George J. STIGLER, "The Economics of Information", in *Journal of Political Economy*, 1961, pp. 213-225; *Id.*, "Advertising and Competition", in *Journal of Political Economy*, 1964, pp. 537-562.

²⁸ *A Dictionary of Economics and Commerce*, London, J. L. Hanson, Macdonald & Evans Limited, 1965, p. 221.

generally remains available to buyers of advertising time.²⁹ If the advertising products offered by the C.B.C. and the private television stations were identical, then the C.B.C. should be able to sell all its commercial time before private stations do because buyers will usually purchase the lower priced product than the higher priced product if quality, performance, service, and related aspects are identical.

But this is not the case when it comes to purchasing advertising products from television stations and networks. Advertisers may not be able to buy "time" from the C.B.C. when they want to. Or they may be able to buy it within a program that is less popular than spots which could be inserted in programs offered by private stations which draw greater audiences. Or there may be other conditions attached by the C.B.C. which the advertiser may not wish to accept.

Private broadcasters offer advertisers a great deal of flexibility which is not offered by the C.B.C. Examples include: freedom of choice as to the time of placing commercials, seasonal and short-term advertising, selection of alternative days or weeks, etc.

Hence, frequently the advertiser may be buying time from private television stations even though their cost per thousand may be considerably greater than the cost per thousand charged by the C.B.C. The reason, of course, is that the advertiser in many instances does not wish to purchase broadcasting time from the lowest priced source but from the most effective source. Thus, if an advertiser is offered prime air time, say at \$3.00 cost per thousand, from one television station that may bring him a smaller audience than another station in the same city which charges him \$4.00 cost per thousand, he may choose the higher priced rather than the lower priced time. The determining factor in business motivation to place advertising is not its *low costs* but the *results* obtainable from advertising through maximum audience exposure.

To turn now to the second rather distinct economic consequence of "imperfect" competition that exists in the broad-

²⁹ One explanation offered is that the C.B.C. is prepared to accept lower than the going market rate in terms of cost per thousand as an inducement to firms to obtain advertising covering all the basic stations of the national network.

casting field, the Canadian taxpayer subsidizes not only the C.B.C. but he also subsidizes the advertiser. The public grant which the C.B.C. receives makes it possible for the Corporation to sell commercial time on television at lower than the going market price. As a result, advertisers are paying less for this commercial time than they would have to pay if they were to place it at the going market price, provided by private stations not in receipt of a subsidy.

The question arises: What is the true intent of the public grant which Parliament authorizes each year for the C.B.C. ? Is it designed to supplement the revenues of the C.B.C. to enable it to perform a national broadcasting service and thus to serve the public interest ? Or is one of the objectives of the public grant that part of its benefits be passed on to corporations and individuals placing advertising business with the C.B.C. in the form of lower than the going market price for television air time in terms of cost per thousand ? If the latter is part of the objective of the parliamentary grant authorized to be given to the C.B.C., then the supplementary question arises whether business generally *wants* such subsidies, and/or *needs* them.

There is the further question of whether the supplementary revenues provided by Parliament to the C.B.C. are administered to the best advantage considering the program mix offered by the Corporation of "popular" and "highbrow" programs. Should, for example, such popular programs as situation comedies imported from the United States be offered at rates lower than those charged by private stations or should such lower rates only be offered when such programs contribute to cultural enhancement in Canada ?

Still another question relates to the effect of the C.B.C.'s pricing policy concerning the operations of its affiliated stations. The C.B.C. sets the commercial rates for its private affiliates, based on the coverage formula devised by the Corporation. Private stations subsidize advertisers to the extent that the resulting cost per thousand on network presentation is lower than the going rates charged by these stations for non-network time. The question arises whether many of these stations which are small in size, drawing their livelihood from a limited economic base and with moderate financial resources, are really in a position to subsidize large national advertisers and whether

this is an objective endorsed by Parliament as being in the national interest.

These questions point to the need for clarification of the true intent of the public grant given to the C.B.C. and the desirability of establishing appropriate ground rules for broadcast advertising pricing policies of the C.B.C. in the light of the national policy objectives as set out by Parliament and the Government of Canada. Such clarification of policy and its application to the commercial practices of the C.B.C. could be presumably included in a White Paper on Broadcasting which the Committee on Broadcasting recommended for the Government of Canada to issue,³⁰ and which could subsequently be debated in Parliament.³¹

There is another area of competition which has been of more concern to authorities in the United States than in Canada, and that is the effect of large advertising expenditures on the degree of competition. The problem in the U.S. has been stated in these terms :

Because advertising can play a useful role in creation of consumer demand, it has important potential as a competitive weapon. Recognizing this role — as well as advertising cost as a barrier to entry in certain markets — it has been suggested that a large advertising expenditure may be used to destroy competition.

[...] advertising's supporters counter with three basic arguments : (1) the advertising promotion may reach a point of diminishing returns or saturation and the additional expenditure thus may be ineffective as a barrier to entry or as a means of destroying competition; (2) the effectiveness of the promotion may be dependent more upon the originality and creativity of the advertisement than the magnitude of the

³⁰ *Report of the Committee on Broadcasting, op. cit.*, p. 126.

³¹ To deal with what the Canadian Association of Broadcasters considers anomalies in the pricing policies of the C.B.C. for "time" and "program" sales, this Association has made the following recommendations to the Government of Canada : "We feel it would be useful if the Corporation's commercial policy included these provisos : (a) In any case where a program or series of programs is to be commercially sponsored, the price to the sponsor shall be not less than the amount required to permit the Corporation to recover its production or purchase costs and its distribution costs, and (b) Where this is not possible, the program shall be wholly sustaining" (see "Comments by the Canadian Association of Broadcasters of the Legislative and Structural Framework of Broadcasting in Canada", Brief submitted to the Hon. Judy LaMarsh, Secretary of State of Canada, Ottawa, January 13, 1966, p. 8).

expenditure; and (3) the use of advertising may be the most effective method for a new or small business to challenge the position of a well-established competitor.³²

While this problem of any significant reduction of competition as a result of large broadcast advertising expenditures does not appear to have arisen in Canada, such questions may be raised in the future, particularly if the pressures on the broadcast advertising structure, referred to earlier, develop in Canada. This points to the necessity to consider what effects, if any, the changing supply-demand relationship in the broadcast advertising field, particularly on television, will have on the competitive situation evolving in Canada over the next decade.

ECONOMIC IMPLICATIONS OF "MIXED" BROADCASTING SYSTEM.

Canada has a "mixed" system of broadcasting. The publicly owned C.B.C. is currently responsible for approximately one-half of the costs of providing broadcasting services in Canada, with the other half of services provided by private broadcasters (see Chapter 6).

The C.B.C. as a public corporation is primarily concerned in serving national objectives, with commercial considerations being secondary and affecting the operations of the corporation to the extent of less than one-quarter of its budget. This proportion is likely to be lowered further if the Government of Canada were to accept the recommendation of the C.B.C. to cut back the relative commercial content of the Corporation's programming.

In line with the objective to serve "a wide variety of national and common interests, [. . .] to be predominantly Canadian in content and character" and to "provide for a continuing self-expression of the Canadian identity",³³ the C.B.C. does not permit certain of its programs to be commercially sponsored. This practice has the effect of reducing the supply of air time available for use by advertisers in Canada. Further, as explained later on in this Chapter, the C.B.C. is charging in many instances

³² "Antitrust Implications of Network Television Quantity Advertising Discounts", Note, in *Columbia Law Review*, November 1965, p. 1238.

³³ See Chapter 3.

lower rates for commercial broadcasting time sold to advertisers in terms of cost per thousand, with the difference in potential commercial revenues lost being made up by a public grant authorized by Parliament.

Thus the main economic implications of the "mixed" system are: (1) further limitations of the supply of saleable commercial times for reasons of national policy, and (2) market forces affect only about one-half of the Canadian broadcasting system, the private sector, since pricing policies in the public sector are largely guided by considerations other than costs and return on investment.

The C.B.C. and private broadcasters are among the first to admit that both sectors could do better in making the present broadcasting system work more effectively. This need for improvement has been expressed in clear and specific terms in the Report of the Committee on Broadcasting submitted to the Government of Canada in September, 1965.

Still, with all its shortcomings and inadequacies, there appears to be fairly general agreement that the "mixed" system, as it has evolved in Canada, has been meeting the main needs for broadcasting services in this country, and that such services could be improved in the future within the framework of the existing system.³⁴ To quote the Committee on Broadcasting :

³⁴ The Canadian "mixed" system is distinct from the American system of broadcasting which is a privately owned system, subject to government regulations and control. The latter has been described in these summary terms : "The programs viewed by the public under the American system of commercial television broadcasting result from the complex intermeshing of a number of entities, chief of which are the advertiser and advertising agency, the television network, the local television station, the independent program producer and syndicator, and the common carrier providing interconnection. The individual stations, licensed by the F.C.C., normally affiliate with the networks, whose functions are to provide programs, sell the stations' time to national advertisers as part of the network "lineup", and arrange with American Telephone and Telegraph for interconnection service. Of course station time may also be sold locally or regionally by the stations' own spot representatives. The stations may, in addition, produce their own programs, although a large number of programs, aside from full-length feature films, are produced by the networks, independent program packagers, or advertising agencies. Although the programs may be produced by the station or network, all program costs — with the exception of those presentations carried on an unsponsored or "sustaining" basis — must ultimately be borne by the advertisers" (see House Comm. on Interstate and Foreign Commerce, *Network Broadcasting*, H.R. REP. No. 1297, 85th Cong. 2d Sess., 37-38 (1958) and "Antitrust Implications of Network Television Quantity Advertising Discounts", *op. cit.*, p. 1214).

“We believe that there are compelling reasons to justify the continuance and development of the present mixed system.”³⁵

In Canada, both the private and public broadcasting sectors, are subject to public scrutiny by Parliament, Government and a regulatory body, the Board of Broadcast Governors. What form does this control take, particularly as it concerns broadcast advertising?

BROADCASTING REGULATIONS AFFECTING ADVERTISING.

What distinguishes advertising using broadcasting media from any other type of advertising, more than anything, is that the former is subject to direct government control, and the latter is not: “All broadcasts operate under licences from the State to use television channels and radio frequencies allocated for Canadian use under international agreements.”³⁶

The right to use a limited number of television channels and radio frequencies in different parts of Canada represent public assets which are allotted either to a publicly owned corporation, the C.B.C., or to a number of private firms operating television and radio stations, and at this stage, one privately owned television network, C.T.V. The agency performing regulatory and advisory functions is the Board of Broadcast Governors, established in Canada in 1958.

Section 10 of the Broadcasting Act requires the Board to ensure “the continued existence and efficient operation of a national broadcasting system and the provision of a varied and comprehensive service of a high standard that is basically Canadian in content and character”. To achieve this objective, the Board is required, among other things, to administer regulations under Section 11 of the Act respecting “the character of advertising and the amount of time to be devoted to advertising”.

This study is concerned only with that aspect of government regulations as they affect broadcast advertising. The two main aspects arising out of the Broadcasting Act and its administration, as they affect commercial revenues obtained from adver-

³⁵ *Report of the Committee on Broadcasting, op. cit.*, p. 216.

³⁶ *Ibid.*, p. 95.

tisers have been explained by the Chairman of the Board of Broadcast Governors in these words:

Two aspects of public policy now seem to be well established. First, the broadcasting system may be maintained and the broadcasting service supported partly from funds made available through the public treasury, channelled through the Canadian Broadcasting Corporation; and partly from revenues from advertisers, channelled through the Corporation, the private affiliates of the Corporation, and private stations not affiliated with the Corporation . . .

Second, it is clearly public policy that because advertising is itself an act of communication the broadcast media should be available and used to serve the advertising function.³⁷

There are in the main three ways in which government regulations, administered by the Board of Broadcast Governors have affected directly the economics of broadcast advertising: (1) the administration of the Canadian content requirements which affect programming and thus have a bearing on the costs of communicating commercials to their audiences, (2) the duration of commercial time permitted per hour of broadcasting, thus determining the supply of "time", the service which broadcasting stations sell, and (3) the type of commercials allowed, thus limiting both the industries permitted to use broadcast advertising as a vehicle and the form in which commercials can be presented.

There is a fourth type of a possible requirement which, in the past, has not been an important factor in regulating commercial time on broadcast stations and that is the number of hours a broadcasting station may operate during the day and sell commercial time. But, if recommendations submitted by the Committee on Broadcasting were accepted to the effect that the number of hours of programming available for commercial use be reduced, particularly on television, this could affect the total supply of commercial time available in the future.³⁸

1. CANADIAN CONTENT REQUIREMENTS.

The Board of Broadcast Governors is charged with the responsibility of keeping broadcasting services basically Canadian in content and character and of "promoting and ensuring the

³⁷ "How the Media Can Be Made More Effective Advertising Vehicles", *op. cit.*, pp. 5 and 6.

³⁸ *Report of the Committee on Broadcasting, op. cit.*, p. 60.

greater use of Canadian talent by broadcasting stations". To these ends the Board has introduced regulations prescribing minimum Canadian content in the programming of Canadian television stations. The regulations are effective to the extent that they require more Canadian content than would be included in the absence of the regulations.

The Board is further required to ensure that the total broadcasting service be "varied and comprehensive". This means that of many kinds of services, each must have its place. As the Chairman of the Board of Broadcast Governors explained it, "the Board recognizes that advertising is one of the types of service which broadcasting is to provide; but there are many other types".³⁹

In terms of audience appeal many of the American programs offered to the Canadian public have proven particularly popular. Such programs will draw, in most instances, greater numbers of viewers than comparable Canadian television programs. Thus most advertisers who endeavour to obtain the greatest possible exposure of the public to their commercials will turn to American programs presented on Canadian television stations for insertions of their advertising messages.

The economic consequences of this state of affairs have been explained in these terms:

The economic facts of television are such that it would be to the financial advantage of stations to fill all their broadcast time with foreign programs, particularly American productions . . .

Television production is expensive, and Canadian broadcasters can acquire rights to American programs at a fraction of the cost of producing similar programs themselves. It is estimated that the cost of an American program to a Canadian station is generally no more than 5% to 8% of the cost of production. Left to operate freely, economic factors would quickly tend to make Canadian private television stations mere extensions of the American networks.⁴⁰

To comply with the requirements of Section 11 of the Broadcasting Act which includes keeping the broadcasting

³⁹ "How the Media Can Be Made More Effective Advertising Vehicles", *op. cit.*, p. 8.

⁴⁰ *Report of the Committee on Broadcasting, op. cit.*, pp. 31 and 45.

service "basically Canadian in content and character", the Board of Broadcast Governors has found it necessary:

... to promulgate a regulation concerning the Canadian content of television programs; at least 55% (45% between June 21st and September 30th, 1962 1963, and 1964, but not in 1965) of all broadcasting time must be reserved for programs basically Canadian in content and inspiration. There is no Canadian content regulation for radio, and the B.B.G. considers it difficult to make generally applicable rules. Section 12 of the Radio-AM Regulations is more a guide than a regulation, which it is hoped will maintain and even expand the Canadian content of private radio.⁴¹

While the Canadian content regulations have been administered with a great deal of flexibility and understanding of the problems faced by broadcasters, a basic conflict remains between the objective of private broadcasters aiming at attracting the greatest possible audience and the national objectives of encouraging the use of Canadian talent and of providing more "varied and comprehensive" broadcasting services.

It is in the national interest to have more Canadian programming on Canadian television and radio. But it is the American program that draws greater audiences. The fact of the matter then is that government regulations established in the interest of serving certain national objectives make it difficult for the advertisers to obtain a "maximum" audience. The Chairman of the Board of Broadcast Governor explained this situation:

It is by no means inconceivable that the accommodation of the service to the regulations makes the television medium less effective as a vehicle for advertising that it would otherwise be. But even if this is the result the regulations are still proper and valid, and must be enforced. The problem is for all those concerned, including the Board, to endeavour to proceed so as to achieve the maximum effectiveness under the regulations. I do not, of course, deny the right of those who feel their interests are detrimentally affected to seek changes in the Act or in the regulations pursuant to it.⁴²

⁴¹ *Report of the Committee on Broadcasting, op. cit.*, p. 45.

⁴² "How the Media Can Be Made More Effective Advertising Vehicles", *op. cit.*, pp. 7 and 8.

2. COMMERCIAL TIME PERMITTED ON BROADCASTING MEDIA.

The regulations of the Board of Broadcast Governors permit in the case of television, twelve minutes of commercial advertising per hour or 16 commercial units. There is a certain flexibility by allowing variations of one minute for a two-hour period, i.e. say 11 minutes of commercials in one hour and 13 minutes in the second hour.

Commercials may be one minute in length or they may be shorter, 20 or 30 seconds.⁴³ One-minute commercials are used in the majority of cases, followed by the 20-second commercial, with the 30-second commercial coming into use more recently. Frequently two one-minute commercials are placed together so as to reduce the number of breaks during a program. The most common practice, currently pursued, assuming that a television station is able to make full use of the advertising time available to it, is to have five minutes of commercials during the half-hour program and one minute of commercial covering the break between programs including short commercials. The five minutes of commercials during the program may be split into three breaks, two two-minute commercials (comprising two one-minute or shorter commercials) and one one-minute commercial. In overall terms, it is estimated that broadcasting stations are prohibited by regulations from selling more than approximately 25% of their time.⁴⁴

In the case of radio, advertising may not exceed 1500 commercials per week but only the large stations in major markets are able to make full or near-full use of advertising time available.

3. TYPE OF COMMERCIALS PERMITTED.

Generally, all types of commercials are permitted as long as they are not, in the opinion of the Board of Broadcast Governors, "of an offensive or objectional nature", or are "likely to create or contribute to any public disturbance or disorder", with certain exceptions which are spelled out in the Board's

⁴³ In the United States, television commercials may be as short as ten seconds.

⁴⁴ "Comments by the Canadian Association of Broadcasters of the Legislative and Structural Framework of Broadcasting in Canada", *op. cit.*, p. 13.

Regulations.⁴⁵ The following types of commercials are not permitted:

- (a) Matters prohibited by law.
- (b) Insurance Companies, not authorized to carry on business in Canada.
- (c) Investment in securities, government bonds excepted.
- (d) Sale of mining, oil and natural gas properties.
- (e) Sale of spirits.
- (f) Sale of beer and wine.
- (g) Sale of articles which are subject to the Food and Drug Act, or the Proprietary or Patent Medicine Act.

With respect to the last two mentioned prohibitions, exceptions are made. In the case of beer and wine, where provinces permit such advertising, such advertising will also be allowed on television, subject to certain limiting requirements as set out in the Board's Regulations. In Canada, beer and wine advertising is permitted in four provinces, Ontario, Quebec, Newfoundland and Nova Scotia. In the case of food and drugs and proprietary and patent medicines, such advertising will only be permitted after approval in writing has been obtained from the Department of National Health and Welfare and the Board of Broadcast Governors.

4. ECONOMIC IMPACT OF REGULATIONS.

With government controlling the issuance of broadcasting licenses, the time that can be devoted for advertising purposes, the type of commercial to be used and as a result of the mixed character of the Canadian Broadcasting System, direct control is exercised over the supply of the services which broadcasting stations and the networks have for sale in Canada. Regulations issued and administered by the Board of Broadcast Governors affect not only program composition but also the costs of broadcasting. Thus government control affects the economic pattern of broadcasting in Canada as far as the cost side of the industry is concerned but it leaves it open to broadcasters — and this

⁴⁵ Taken from the regulations of the Board of Broadcast Governors, SOR/64-50, dated January 15, 1964, and subsequent amendments.

applies in the main to the private sector — to set their own prices for the services they sell in the light of the competitive conditions prevailing in the market.

While the Canadian broadcasting industry and private broadcasters in particular have argued from time to time about the hardships of some of the government regulations affecting radio and television, little effort has been made to develop criteria to judge the economic effects of such regulations. In this area, Canadian broadcasters face somewhat similar difficulties, as do their American colleagues. To quote one authority :

Because those who pay [the advertisers] are not those who use [the viewers], the relation between the viewers' preferences and product quality is indirect — through the advertiser's estimates of viewer responses. Hence it is even more difficult in broadcasting than in public utilities and transport to ascertain and assess the benefits of regulation.⁴⁶

Difficulties notwithstanding, the Board of Broadcast Governors presumably could continue to formulate effective and equitable regulations and the broadcasting industry could cope with the newly evolving pattern of regulations if there could be created in Canada a better understanding of the basic principles underlying regulations issued by the B.B.G. from time to time and the national and regulatory objectives they are designed to achieve.

FRENCH LANGUAGE AND ENGLISH LANGUAGE BROADCASTING STATIONS — ECONOMIC IMPLICATIONS.

The need to meet the cultural requirements of Canada by providing broadcasting services in both the French and the English languages has been fundamental to the evolution of the Canadian system. The principle has been incorporated in the Broadcasting Act of 1958 and in the responsibilities of the C.B.C. as laid down by Parliament which includes the requirement that the Corporation “serve equitably the two main language groups and cultures”.⁴⁷

As a result, there has been established in Canada a large number of French language and English language broadcasting

⁴⁶ “Federal Control of Entry in the Broadcast Industry”, *op. cit.* p. 49.

⁴⁷ *Report of the Committee on Broadcasting, op. cit.*, p. 124.

stations and several networks that cater to the two main language groups of this country. The Committee on Broadcasting has presented the following picture of network coverage in Canada to serve the public both in the French and English languages.⁴⁸

	Number — Thous.	Per Cent
<i>Population — 1961 Census</i>		
English only	12,509	68.6
French only	3,716	20.4
Bilingual	2,007	11.0
Total	18,239	100.0
	English and Bilingual Per Cent	French and Bilingual Per Cent
<i>National Network Coverage — January, 1965</i>		
Television	92	89
Radio	98	94

While in overall terms coverage appears fairly adequate, the provincial breakdown shows up a number of gaps. The Committee on Broadcasting observed:

English television coverage for the English-speaking people of Quebec is well below the national level, but French television coverage for the French-speaking people of Ontario is very much lower. The French-speaking people of Nova Scotia are poorly served, and it is regrettable, to say the least, that it has not yet been deemed feasible or necessary to extend French radio network service to British Columbia or French television network service farther west than Manitoba. Nonetheless, except for some notably bad spots, on balance there is no real evidence that the ordinary Canadian in the more heavily populated parts of the country, whether his first language is English or French, is getting less than a fair deal.⁴⁹

Among the many recommendations made by the Committee on Broadcasting, the emphasis was on attaching a high priority to developing the Canadian broadcasting system along bilingual and bicultural lines. Said the Committee:

The urgent need, which should be given the highest priority in planning the future coverage of the Canadian

⁴⁸ *Report of the Committee on Broadcasting, op. cit.*, p. 73.

⁴⁹ *Ibid.*, pp. 73 and 74.

broadcasting system as a whole, is the extension of service to those parts of Canada that now have none, and to all English-speaking and French-speaking Canadians who have no service in their own first language.⁵⁰

The number of French language and English language stations operating in Canada, the broadcast advertising revenues they receive and the financial results of their operations are discussed in Chapter 3. The growth of commercial revenues as between French language and English language stations over the period 1965 to 1975 is spelled out in Chapter 6.

But five aspects need brief mention at this stage for they refer to some of the special characteristics of broadcast advertising in Canada.

In the first instance, the bilingual character of the system adds to the costs of operating broadcasting in Canada. Hence advertising costs have to be higher than they would otherwise be in order to cover such increased costs. There are good reasons for the existence of the bilingual broadcasting system and in fact, it is a fundamental requirement of meeting the needs of Canadians.

In the second instance, French language broadcasting stations face less competition than English language broadcasting operators. Listeners and viewers wishing to tune in to French language programs can obtain such service only from Canadian stations. Thus French language broadcasters do not face the competition that English language broadcasters encounter from American radio and television stations.

In the third instance, French language stations face less competition from other media than do English language broadcasting stations, again because such media, particularly those coming from abroad, have less attraction to French-speaking audiences than do English language programs coming from abroad have for the English-speaking public. For the former group reads relatively few newspapers and periodicals coming from France while the latter group reads many English language publications coming from abroad, particularly the United States.

⁵⁰ *Report of the Committee on Broadcasting, op. cit.*, p. 83.

In the fourth instance, French language stations produce more programs themselves because of the limited alternative sources available abroad and advertisers are prepared to use and to pay for such programs as vehicles to carry their advertising messages. In fact, they have little or no alternative if they wish to use French language television advertising. In the case of English language broadcasting stations, advertisers frequently prefer to place their commercials in American programs shown in prime times on Canadian stations because these programs, as a rule, have greater drawing power than most Canadian programs, sports broadcasts and special features excepted.

In the fifth instance, people in the Province of Quebec appear to be greater users of broadcasting facilities than is the case in most other parts in Canada: "National 'set owned' figures show there are more TV sets in Quebec per capita than elsewhere in Canada, and, moreover, these sets are watched more here than in the rest of the country."⁵¹

The greater relative attraction of French language broadcasting stations to Canadian advertisers and the lesser competition they face, is reflected in a rapid growth trend and in more profitable operations, and these points are substantiated by evidence presented in Chapter 3.

NETWORK AND INDIVIDUAL STATIONS.

The C.B.C. operates two television networks and two radio networks, one each in the English and French languages. The C.B.C. also has a limited F.M. radio network broadcasting in English.

Private broadcasters operate a limited English language television network, C.T.V., comprising 11 affiliates in the major cities across Canada. Approval has been given by the Board of Broadcast Governors to form a French language television network but such an arrangement has not come into existence as yet. The B.B.G. further approved in principle the formation of a third English language television network, privately owned, subject to the applicant's meeting the requirements of Section 15

⁵¹ John MERCER, *The Squeaking Wheel*, Montreal, Rubicon Press Limited, 1966, p. 31.

of the Radio (T.V.) Broadcasting Regulations.⁵² There are no English language or French language private radio networks in Canada, though individual radio stations have cooperated in program exchange arrangements.⁵³

The C.B.C. networks include 44, out of a total of 59, private television stations. The C.B.C.'s network and its affiliates had a total of about \$23 million of commercial television revenues (net) in 1965. The C.T.V. with its affiliates and other independent stations obtained commercial revenues estimated at about \$68 million⁵⁴ in 1965 (see Chapters 3 and 6).

The C.B.C.'s radio networks included 84 privately owned A.M. stations (out of a total of 231) and 11 F.M. stations (out of a total of 49). Total commercial revenues for radio obtained by the C.B.C. amounted to about \$2 million (net) in 1965 while private radio operators obtained approximately \$67 million (see Chapters 3 and 6).

As to the effectiveness of the relationship between affiliated private radio stations and the C.B.C., the Committee on Broadcasting observed:

Relations between the C.B.C. and its radio network affiliates seem reasonably good [...] There is an evident desire among the radio affiliates for closer cooperation with the C.B.C., and this should evoke a positive response.⁵⁵

⁵² See announcement of the Board of Broadcast Governors, Ottawa, May 9, 1966, p. 10. Section 15 of the Radio (T.V.) Broadcasting Regulations reads:

- "15(1) The Board may, after it has held a public hearing at which all interested parties have been heard, grant permission to a person to form a network.
- (2) Where a person has
- (a) obtained permission pursuant to subsection (1); and
 - (b) filed with the Board affiliation agreements with two or more stations which comply with subsection (4),
- the Board shall grant that person permission to operate a network."

⁵³ For an assessment of the possibility of a private F.M. radio network, see section on Special Characteristics of Radio Advertising, later on in this Chapter.

⁵⁴ The C.B.C.'s affiliated television stations would be obtaining a portion of the \$68 million referred to above, because they would also be selling *directly* some of the advertising time outside the time periods reserved to carry C.B.C. programs.

⁵⁵ *Report of the Committee on Broadcasting, op. cit.*, p. 232.

As to the relation between affiliated television stations and the C.B.C., the Committee on Broadcasting observed:

Until two or three years ago, relations were easy and relatively happy, but competition from unaffiliated private stations and community-antenna services has caused a mounting pressure from the affiliates for a reduction in the amount of reserved time, and for more programs of popular appeal . . .

The pressure applied by the affiliates is not essentially a demand for more money. They want, from the network, programs that will compete in the ratings race with the popular light entertainment provided by the unaffiliated stations. They would rather have programs that win a large audience, even though their share of advertising revenues is small, so that when they "go local", the adjacent programs they themselves provide will have an established and large viewing audience, and will thus yield them larger profits.⁵⁶

The difficulty between the private television network, C.T.V., and the privately owned affiliates has turned out to be more complex than the relations between private affiliated stations and the C.B.C. In the public network, the C.B.C. was the main determinant of policies and programming. In the private network, the 11 affiliated stations had greater commercial power than C.T.V. As a result, agreements concluded between the affiliated stations and C.T.V. were such as to "give little hope of financial success for the network itself".⁵⁷

There appears to be fairly general agreement with respect to two conclusions offered by the Committee on Broadcasting, and private television stations have said so in making their submission to the Board of Broadcast Governors to acquire C.T.V. and to operate it as a cooperative undertaking. To quote the Committee's Report:

There is need in Canada for a private national television network . . .

The need for better programming by private television stations, and for more Canadian content, cannot be disputed.⁵⁸

These excerpts tell only part of the story, as presented by the Committee on Broadcasting, and the reader wishing to obtain the full results is referred to the Committee's Report. But

⁵⁶ *Ibid.*, pp. 232 and 233.

⁵⁷ *Ibid.*, p. 236.

⁵⁸ *Ibid.*, pp. 237 and 238.

since the terms of reference of this study are limited to broadcast advertising expenditures, as they are obtained by both private and public broadcast media, the concern here is not an examination of the causes of the difficulties faced in developing satisfactory relations between the C.T.V. and the affiliated television stations or the means by which these difficulties may be resolved. Both the C.T.V. and the affiliated stations have recognized the importance of resolving the difficulties and the solution considered most appropriate by the two groups involved has been the proposal for the affiliated stations to acquire C.T.V. and to operate it as a cooperative undertaking on behalf of the existing members and such additional private television stations as may join it in the future.

This study presupposes that the difficulties facing C.T.V. and the private television stations will be resolved, now that the affiliates have received permission to operate C.T.V., resulting in a more effectively operating private national television network. Assuming that this objective is realized, there are three matters that will have a bearing on the amounts and the division of broadcast advertising revenues likely to be received by private television stations and C.T.V. over the next decade.

The first is that, as the structure of the advertising pattern changes, i.e., as higher costs push smaller advertisers out of the picture with their place being taken by national advertisers, the demand from advertisers for commercials to be included in the national programs provided by the C.T.V. may grow more rapidly than it has in the past and this would strengthen the relative position of the private network vis-a-vis its affiliates.

The second is that, as the pressure for improved and more diversified programming, including greater Canadian content, increases, and private broadcasters endeavour to meet these demands, again the privately owned network will be in a better position to cater to such needs than individual stations, acting singly or in small groups. And advertisers would be looking for "better" programs in the sense that such programs incorporating their commercials will achieve increased audience appeal and thus become more effective.

The third is that, as the demand for network advertising increases, C.T.V.'s position will be strengthened in persuading

advertisers to accept global purchasing of advertising time. As a result, some of the smaller television stations, being members of C.T.V., will be getting advertising revenues for such advertising which they would have been unable to obtain if they had been negotiating on their own with national advertisers. For the advertiser will only be able to get the advertising time required in the larger stations if he buys the time on *all* affiliated stations, eleven stations at this time and possibly a larger number ten years hence. "Must buy" provisions are already operative and they are likely to be more readily accepted in the future by national advertisers than they have been in the past because of the increasing demand for broadcast advertising time pressing more heavily on limited supply.

MICRO WAVE SYSTEM.

A micro wave system is an arrangement of linking broadcasting stations without wires, with signals relayed at ultra high frequency from station to station. The system takes delivery of a signal from a sender and then delivers it in short order to the designated receiver "live". Hence the micro wave system replaces the slower system of distributing programs and messages by tape which can only be shown after some delay caused by the transportation of the tape, sometimes over long distances to reach its destination.

The micro wave system consists of micro wave towers, on an average about 35 miles apart, each equipped with a receiver and transmitter. The system is a very efficient one for it comprises about 100 circuits which makes it possible to use it for many purposes at the same time. In practice, national micro wave systems have duplicated facilities which allow them to reverse circuits and to have standby capacity in case of equipment failures.

There are three national micro wave systems operating in Canada. One is the Trans Canada Telephone System whose major participant is The Bell Telephone Company and which system provides most of the micro wave requirements of the C.B.C., C.T.V. and private television stations. The second system is that operated by the Wire Line Companies, including the C.P.R. and C.N.R. The third system is a wholly government owned system operated by the Department of National

Defence which covers most of the country and serves the Department's requirements.

Limited micro wave facilities are also in existence around individual broadcasting stations usually used to link transmitters and studio facilities.

Since Canada has only a population about one-tenth of that of the United States and a land area larger than the continental United States, the costs of installing and operating the micro wave systems are considerably higher in this country than they are in the United States. These costs have to be borne by the users of these facilities together with a return on the investment.

Unlike the operations of telephones, telegrams, railways and airlines, operations of the micro wave system are not subject to public control with respect to rate setting, standards of service, etc. There have been some demands from users of micro wave systems for public supervision of such systems but so far the present manner of operations has remained unaltered.

The high cost of renting micro wave facilities has been one factor contributing to the financial difficulties of C.T.V. In the case of the C.B.C., these costs are largely borne by the taxpayers.

Broadcasters claim that the micro wave charges comprise between 10 and 15 per cent of operating television networks in Canada, C.B.C. and C.T.V. These proportions may rise, industry representatives claim, as increasing use is made of the micro wave system to bring about improved programs televised "live" on stations affiliated with the networks. The comparable proportion for U.S. network is claimed to be about one per cent of operating costs.

Since rental charges of the micro wave system present such a significant part of total operating costs of broadcasting, and since higher operating costs will be a factor contributing to the raising of advertising rates, it is necessary to postulate possible developments in this field which can then be taken into account in preparing the projections of broadcast advertising expenditures, presented in Chapter 6.

It is assumed that the rental rates of micro wave facilities in Canada will represent a lesser relative burden on the operating

costs of broadcasting stations in Canada in the next decade than they were in the last decade. Reasons include:

1. Rate setting, standards of service and other aspects may come under government control.
2. With the increasing use of the existing system, some productivity improvements may be achievable and these may mitigate against substantial rate increases in the future.
3. Increased competition can be expected from the Trans Canada Telephone System and the Wire Line Companies, particularly in obtaining long-term contracts.

SPECIAL CHARACTERISTICS OF RADIO ADVERTISING.

Radio, says Professor Marshall McLuhan, is a "hot" medium.⁵⁹ In other words, it is low in requirement for participation on the part of the audience and it creates involvement mainly on the surface. The public listens to a musical program or the news. It absorbs what it hears but there is little that the audience has to fill in emotionally. In this respect, radio differs from television which contributes to a significant involvement on the part of the viewing audience.

Radio broadcasting introduced into Canada in the early 1920's faced an uphill struggle for many years as far as its commercial achievements were concerned. But ultimately, it thrived until the advent of television in this country in 1952. The remarkable fact is, as the data in Chapter 3 show, that advertising expenditures going to radio operations in Canada kept on expanding continuously from 1952 to 1960. Only in 1961 did a small decline in commercial revenue occur, about one per cent, as a number of second television stations came into operation in the major cities in Canada. But since 1961, advertising expenditures going to radio stations have resumed their upward trend (see Table 3-1 in Chapter 3).

The reason is that radio has adapted itself to the competition it faced from television. For example, it moved prime time from the evening hours to the morning hours when radio was able to achieve large audiences.

⁵⁹ *Understanding Media, The Extensions of Man, op. cit.*, pp. 22 and 23.

The Committee on Broadcasting has explained the advantages and disadvantages of radio over television in these terms:

Radio has many advantages over television. It is in every way more economical, for the listener in the cost of his receiving set and its maintenance, and for the broadcaster in the cost of program production. Partly because of its lower costs but also because of the nature of the medium, radio is more flexible, can react faster, is more immediate. It can afford to do things that television cannot do, and can justify specialized services to minority audiences of a size that television cannot serve.

Of course the advantages are not all one way. There are some things, where a combination of sight and sound is desirable or essential, for which television is better suited; for example, it is difficult to present ballet on radio.⁶⁰

There are other differences and some of these are referred to elsewhere in this Report. People, for example, can listen to radio programs at times when they cannot view television, e.g. while driving a car. Radio listening has become increasingly a personal matter between the medium and the audience against group viewing in the case of television. The young set has become increasingly addicted to radio listening through the growing use of transistor sets.

The implications of the special characteristics and adaptability of radio to changing market conditions, referred to above, augurs well for this medium to capture at least the existing share and possibly a greater share of advertising revenues becoming available over the next decade and it is on the basis of this assumption that the projections, presented in Chapter 6, have been prepared.

There is, however, one special area of radio transmission, and that is F.M. radio, where the future is less clear than appears to be indicated for A.M. broadcasting which at this stage obtains the bulk of advertising revenues received by radio operators.

F.M. or Frequency Modulation requires transmitting equipment and receiving sets that differ from those used in A.M. reception. F.M. uses relatively low powered transmitting facilities serving a limited area, usually adequate to cover a

⁶⁰ Report of the Committee on Broadcasting, *op. cit.*, p. 266.

city. A.M. radio covers a larger area and requires greater power transmitters. F.M. provides radio services of a higher band of frequency. It is more costly to operate. It involves a greater outlay on the part of the listener to acquire an F.M. receiver.

But it has three distinct advantages over A.M. radio. The first is that with most A.M. radio frequencies already taken up, a large number of F.M. frequencies available provides increased opportunities to offer additional and alternative broadcasting services to the public.

The second is that F.M. radio has a greater audible range and provides listeners with clear reception, less likely to be adversely affected by static or interference, than is the case with A.M. radio, particularly in larger cities.⁶¹

The third is that F.M. radio can reach audiences which do not regularly view television or listen to A.M. radio programs. There is now a growing recognition among some advertisers, particularly in the United States, that they can reach, through commercials broadcast over F.M. frequencies, an unduplicated audience, hitherto not covered through other broadcasting media.

Because of the cost factors mentioned, F.M. radio is still in an early stage of development in Canada. Only 49 of the total 280 private radio stations operate on F.M. frequencies. In most instances, licences for F.M. stations were obtained by owners of A.M. stations. Since audiences listening to F.M. stations are still comparatively small, most of the advertising is carried on A.M. stations, with higher quality programs usually presented on F.M. stations.

The trend has been towards a significant increase in the ownership of F.M. receivers in Canada, as the data presented in Chapter 3 show. Two questions arise: Will this trend continue in the light of competitive demands for the consumer dollar to purchase other types of equipment, say a colour television set rather than an F.M. receiver? At what point of audience build-up will F.M. radio operations become self-supporting in terms of potential increases of commercial revenues?

Neither the Committee on Broadcasting nor the C.B.C., nor the private broadcasting industry have answered these questions.

⁶¹ It is claimed that radio faces about 20 times the interference in metropolitan cities now as compared with the degree of interference experienced in its early stage of development.

Two quotations reflect this uncertainty. Said the Committee on Broadcasting:

It is still too early to say whether F.M. radio can be maintained as a separate and distinct service, or whether it will become merely an alternative means of transmitting radio signals, thus increasing the number of available frequencies.⁶²

The C.B.C. observed that it “continues to regard F.M. as still in the formative stage, its eventual role still unknown, its program schedules and formats as still experimental”.⁶³

In preparing the estimates of commercial advertising expenditures going to radio over the next decade (presented in Chapter 6), it was assumed that the recent trends towards expanded use of F.M. receivers would continue and this would lead to an increasing number of F.M. stations being licenced across Canada, with corresponding increases in commercial revenues received by the operators of these stations. As F.M. stations increase in numbers and they become more widely spread in geographic terms, this may make it economical at some future stage to proceed with the establishment of a private network of F.M. stations.

SPECIAL CHARACTERISTICS OF TELEVISION ADVERTISING.

Books have been written about the special characteristics of television and television commercials⁶⁴ and little purpose would be served to repeat here what has been said elsewhere. Some brief references have already been made to a few of the special characteristics inherent in television commercials in the section dealing with the Broadcasting Product. There are, however, three other aspects that need to be mentioned because they have a bearing on the making of projections of commercial revenues that may be accruing to television stations over the next decade, as presented in Chapter 6.

The first is that television creates a deeper emotional impact on the audience than almost any other medium of communica-

⁶² *Ibid.*, p. 53.

⁶³ “Comments by the Canadian Broadcasting Corporation on the Report of the Committee on Broadcasting”, *op. cit.*, p. 23.

⁶⁴ See, for example, *Living With Television*, *op. cit.*, and *People Look at Television*, *op. cit.*

tion. It is, in a sense, what Professor Marshall McLuhan calls a "cool" medium.⁶⁵ In other words, it demands involvement on the part of the audience and it creates involvement in depth. It stimulates reaction on the part of the audience and it leaves room for generating views and feelings on the part of the audience that goes beyond the viewing of the program itself or the action and actors portrayed in the program.

The impact comes from the "T.V. image" and not from the "T.V. program".⁶⁶

Translating such impact on audiences in terms of commercials presented on television, implies that many viewers will be affected by the advertising message not just when they hear and see it but also on a subsequent occasion when they, as consumers, are faced with making purchasing decisions.

The recognition of a brand name product in a store or the creation of an impulse to buy a certain item when the occasion presents itself, point up the results that television advertising can achieve by creating a familiarity of the public with the products advertised which lingers long after exposure to the advertising message.

The implication is that television commercials have a more lasting impact on their audiences than almost any other type of commercials.

David Ogilvy, in his book *Confessions of an Advertising Man*, observes for the United States: "The average consumer now sees 900 commercials a month, and most of them slide off her memory like water off a duck's back."⁶⁷

According to another study, the average American consumer is exposed to 76 advertisements during an average week day.⁶⁸ This would represent a total of over 1500 advertisements per month. Of these, 84 per cent had apparently little impact on the public while the remaining 16 per cent created distinct responses on the part of the consumers. These responses were

⁶⁵ *Understanding Media, The Extension of Man, op. cit.*, pp. 22 ff.

⁶⁶ *Ibid.*, p. 312.

⁶⁷ *Confessions of an Advertising Man, op. cit.*, p. 164.

⁶⁸ AMERICAN ASSOCIATION OF ADVERTISING AGENCIES, *The A.A.A.A. Study on Consumer Judgment of Advertising*, New York, May 1965, p. 17.

quantified in the study as follows: "23 per cent of these ads were considered annoying, 36 per cent enjoyable, 36 per cent informative, and 5 per cent offensive."⁶⁹

While the number of commercials to which the average Canadian housewife is exposed may be smaller than the number claimed for United States, there is little doubt that the Canadian consumer is continuously exposed to many and different advertising messages. Among them, the one that would have the greatest sales impact would be the commercial that sticks in his mind or that comes back to his mind when he is faced with making a purchasing decision.

The second characteristic is that television commercials both attract and repel audiences. The degree to which such commercials will have an impact on the viewers will depend on the product advertised, and the content and presentation of the advertising message.

The degree of the appeal or the character of the appeal of the commercial may not be the essential feature. What may be more important is whether the T.V. commercial offers the viewer a solution to a problem or a situation he is facing, or may be facing in the future. This was explained in a research study in these terms:

The question of whether a commercial is liked or disliked, and in most instances the degree to which it is liked or disliked, is not the most relevant aspect of viewers' responses to advertising. Much more crucial to understanding their reactions are what the commercial is about and how it is presented, what is being advertised and where on T.V. it is shown, who the viewers are and how they feel about television not its advertising. In general, our studies of viewers' attitudes toward commercials do not reveal that product or commercial recall is directly related to whether or how much the commercial is liked or that commercial impact and influence is a result of this kind of reaction. The quality of the communication and its relation and appropriateness to the product being advertised and to the viewers to whom it is shown are usually the more crucial factors . . .

No simple or perfect correlation exists among commercial, product, and program type. Most programs can tolerate many products and several different kinds of commercials. At best

⁶⁹ *Ibid.*, p. 18.

there are only preferred combinations, but even then they depend on how the product is handled, what the specific commercial is like, what type of show it is. Thus, these are three interdependent considerations, and the effect of any commercial is invariably influenced by viewer feelings about the product that is the subject of the advertisement and the program setting in which it appears.⁷⁰

Another research inquiry in the United States found that the public raises objections to television commercials about equally in criticizing the "content" of commercials, and their "timing and frequency". Objections as to "content" rise with the degree of education, while criticisms with respect to "timing and frequency" are of about the same order at each education level. This particular study observed that it was the interruption of the program and the manner of interrupting the program that created the greater irritation on the part of the viewing audience. In general, the study concluded:

The specificity of praise and criticism regarding the content of commercial indicates the difference in acceptability among the various approaches presently being used [. . .]. This should encourage and challenge those who wonder whether commercials *can* be improved [. . .]. Commercial content *per se* is not objectionable.⁷¹

The third special characteristic is that television programming and through it the commercials they include have become the most popular means of communication in terms of use, believability and acceptability in North America.

A series of five studies for the United States by Elmo Roper and Associates, over the period 1959 to 1964 shows :⁷²

1. Television is now the most important source of news among many media available, as the following percentage responses indicate : television, 58 per cent; newspapers, 56 per cent; radio, 26 per cent; magazines, 8 per cent; and others, 8 per cent.⁷³

⁷⁰ *Living With Television, op. cit.*, pp. 198, 202 and 203.

⁷¹ *The People Look at Television, op. cit.*, pp. 208 and 218.

⁷² *The Public's View of Television and Other Media, 1959-1964, op. cit.*, pp. 2, 3, 11 and 12.

⁷³ The figures relate to 1964. The comparable figures for television and newspapers in 1959 were 51 per cent and 57 per cent respectively. The above data add up to more than 100 per cent because some respondents named more than one medium.

2. Television is considered the most believable medium as far as news reports are concerned, as illustrated in the following survey results obtained for 1964: television, 41 per cent; newspapers, 23 per cent; radio, 18 per cent; magazines, 10 per cent; and “don’t know”, 18 per cent.

3. In answer to the question: “having commercials on television is a fair price to pay for being able to watch it”, 81 per cent of the respondents replied “yes” in 1964. The proportion was 77 per cent in 1963.

4. In answer to the question, as to how viewers felt about commercials, 58 per cent gave favourable responses in 1964 as against 36 per cent unfavourable responses. The corresponding proportions in 1963 were 55 per cent and 39 per cent respectively.

Another study showed that among all the great advances made in providing new and improved goods and services to the North American public television was singled out as having done most to make “life more enjoyable, pleasant, or interesting”. Among men, 62 per cent mentioned television as the most important consumer invention over the last 25 years, with 37 per cent mentioning motor cars as having given them the greatest satisfaction. Among women, 61 per cent mentioned television and 51 per cent, home laundry equipment.⁷⁴

While comparable surveys are not available in Canada in published form, broadcasters and advertisers alike believe that the attitudes of Canadian viewers to television commercials and to television as a medium of communication are quite similar to that of the American public.

In preparing the projections of commercial revenues of television stations for the period 1965 to 1975, it was assumed that the special characteristics of popularity and acceptability, as listed above, would continue to shape the pattern and the extent of advertising expenditures going to television, with this medium increasing its popularity though at a somewhat slower rate than in the past (see Chapter 6).

⁷⁴ *The People Look at Television, op. cit.*, p. 22. The percentages add up to more than 100 per cent because some respondents gave more than one answer.

SALE OF TELEVISION AND RADIO TIME.

In defining the broadcasting product earlier, it was explained that the main service that a broadcaster sells to an advertiser is "time" on the broadcasting medium to carry his advertising message or commercial.

In what form does the broadcaster sell "time"? When is "time" more productive from an advertiser's point of view and hence justifies the higher rates being charged?

To answer the first question, there is need to distinguish between spot advertising and station time sold. To answer the second question, there is need to distinguish between prime time and non-prime time.

1. SPOT ADVERTISING AND STATION TIME SOLD.

Spot advertising involves the purchase of advertising time from a broadcasting station between programs or in a program selected by the station, which program may have been either purchased by the station or produced by it.

Station time advertising involves the purchase of broadcasting time, say half an hour, with the advertiser arranging for the station to put on a program of his choice, either his own or one selected by him or produced for him by the station to his specifications. The station then agrees to permit the advertiser to include in the program the number of commercials that would usually be included during the time period purchased.

The trend in commercial television has been towards increasing use of spot advertising and relatively lessened reliance on purchasing station time for given program periods. The advantage of spot advertising for the broadcaster includes improved utilization of advertising time available, higher returns for "time" sold and increased control over station programming.

The advantage of spot advertising for the advertiser includes greater flexibility because he can spread the same advertising dollar over a longer period of time or involving a greater number of frequencies at varying times. The result may be an increase in the impact through the repetitiveness of the advertising messages. Spot advertising also reduces the risks of the adver-

tiser for he can terminate a spot advertising contract on four weeks' notice while a purchase of a time contract may bind the advertiser for 26, 39, or 52 weeks, depending on the terms of the contract. There is a further advantage that spot advertising, particularly 20 second spots, are within the financial reach of smaller national firms and local advertisers while the cost of purchasing a half-hour or one-hour program period, particularly from the larger television stations, are such that only major national advertisers can afford them.

Still there are a number of large corporations which prefer the purchase of station time because it gives them either full control over the program setting and the commercials included in it, or it gives them exclusive use of certain time periods and certain audiences to whom the national advertisers may wish to address their commercials, e.g., sports and national news broadcasts. Such purchases may be on an exclusive basis or shared with other sponsors.

2. PRIME TIME AND NON-PRIME TIME.

"Prime time" is defined in the broadcasting industry as that period of time which delivers maximum audiences. It is generally the time when most family members are available to view or to listen to a broadcast program.

"Maximum" audiences refer to the largest number of people that a station can deliver drawing on the television or radio homes within its physical reach.

Prime time covers the hours from approximately 6 p.m. to 11 p.m. on television stations and from 6 a.m. to 9 a.m. on radio stations. Advertising rates in prime time are generally twice those applicable to non-prime time on television and two to three times on radio.

It is estimated by the industry that large television stations obtain between 60 and 70 per cent of their total commercial revenues from advertising on prime time, while this proportion is between 40 and 60 per cent for small and medium-sized stations. In the case of radio, the industry claims that the proportion is about half and half.

METHOD OF SELLING — THE “REP” HOUSE.

One specialized sales arrangement has developed which is peculiar to the broadcasting industry. This is the representation house, or “rep” house, as it is called in the trade. “Rep” houses are firms specializing in the sale of broadcast advertising on radio and television stations. Thus they are sales agents acting on behalf of broadcasting stations with most of their sales involving national advertising. “Rep” houses also do some local selling for some stations but the majority of stations handle such sales with their own sales staff. The C.B.C. and C.T.V. do their own network selling while “rep” houses do the selling for most of the private stations affiliated with either the C.B.C. or C.T.V. networks.

Two factors have contributed to the development of “rep” houses. One is that national broadcasting sales are concentrated in Canada, mainly in two cities, Toronto and Montreal. Stations are scattered all over the country. Hence, stations situated in cities other than Toronto or Montreal, or nearby, would have to establish sales offices of their own to make national sales. This may involve considerable duplication of sales machinery and raise sales costs.

The other factor has been the growing recognition that selling “time” has become a more intricate matter requiring the specialized services which “rep” houses are able to offer.

There are about 20 “rep” houses operating in Canada serving broadcasting stations from St. John’s, Newfoundland, to Victoria, British Columbia. They represent all but three private television stations⁷⁵ (i.e. excluding Toronto, Montreal and Ottawa) and excluding the C.B.C. owned stations and C.T.V., and the majority of radio stations in Canada, both A.M. and F.M. (excluding the C.B.C.).

In terms of commercial business done, “rep” houses claim that they do between two-thirds and three-quarters of the national television advertising business handled by private television

⁷⁵ This applies to station sales in their home market. In the case of Toronto and Montreal (English language) private television stations, “rep” houses do represent these stations in some cities other than the home market.

stations and the bulk of the national advertising carried by private radio stations.⁷⁶

Some television stations whose volume of business can justify the operations of their own offices and sales staff have established their own representation in Toronto and Montreal. Other stations, even with their business growing rapidly, appear to be prepared to make use of the specialized services rendered by "rep" houses while they themselves concentrate on providing improved and expanded broadcasting services.

"Rep" houses are remunerated for the sale they make on the basis of a percentage fee, on an average 15 per cent of radio revenues and between 8 and 12 per cent of television revenues. Their fees are set after deducting commissions earned by advertising agencies in placing commercials with television and radio stations.

Advertising time is sold on the basis of rate cards set by broadcasting stations. Of the amount stated on the rate card covering fees payable by national advertisers, there is first deducted 15 per cent for advertising agency commissions. From the remaining 85 per cent, in the case of television stations, a proportion has to be deducted to cover the commission of the "rep" house. Hence, the net revenue accruing to a station, on the basis of a 10 per cent average commission, is 76½ per cent of the amounts as stated in the rate card. In the case of radio, the commission of "rep" houses is 15 per cent of 85 per cent. Hence, the net take of radio stations is 73.25 per cent of the amounts stated in the rate card.

While the 10 to 15 per cent range of commission rates is the most commonly used in the Canadian broadcasting field, there has developed in the more recent period a tendency to relate more closely the rates of fees of "rep" houses to the volume of sales done.

Some "rep" houses have worked out special arrangements with larger television stations providing them with rates below the 10 per cent norm. In the case of radio broadcasting, one firm has introduced a sliding scale from 15 per cent for gross billings up to \$200,000 to 10 per cent for gross billings of

⁷⁶ According to the industry, only two A.M. stations are not represented by "rep" houses.

\$900,001 and over in recognition "that, in terms of dollar income, it is less expensive to represent a large volume of stations than a smaller volume".⁷⁷

Advertising on Canadian broadcasting stations is also sold in the United States, with most of the selling done by American "rep" houses. But more recently, one of Canada's leading "rep" houses has acquired the holdings of an American "rep" house which in the past has represented 55 Canadian radio and television stations in the United States, operating in New York and in 9 other major cities in the States.⁷⁸ There are now two major Canadian "rep" houses operating in the United States.

The functions of a media representative, according to the industry should include: 1. He must provide consistent, effective representation of his medium to advertisers and agencies. 2. He must be capable of representing clients and agencies to the medium when necessary, particularly in terms of interpreting research results, campaign plans and objectives. The latter requires a working knowledge of present-day sales, marketing, merchandising techniques, and competitive advertising rates to permit the intelligent discussion and interpretation of advertising plans and purposes.

Thus "rep" houses can be described as specialists in selling broadcasting "time" and services. As such, they have a constructive contribution to make to increase commercial revenues received by broadcasting stations. And beyond this, "rep" houses which work closely with advertising agencies, advertisers and broadcasters can offer useful advice, based on experience and knowledge of both the market and the product, to suppliers and buyers of broadcast advertising services alike.

PRICING : COST PER THOUSAND.

Broadcasting stations offer their commercial time for sale on the basis of rate cards which are revised from time to time. Such rate cards are usually established on the basis of total audience that stations are able to deliver in their coverage area. Rate cards are not based on individual program rated periods

⁷⁷ Bill GALLAGHER, "New B.G. Rate System Based on Dollar Volume", in *Marketing*, Toronto, December 17, 1965, p. 2.

⁷⁸ "Canadian Rep House Buys Young Canadian in N.Y.", in *Marketing*, *Ibid.*, p. 2.

(though this is taken into account on a broad basis — see below) but rather on the physical coverage of the station. Therefore, stations in major market areas, where the potential audience is obviously greater, are able to charge more than stations in minor or intermediate markets.

The pattern of rate assessment is usually set by stations operating in the major markets in Canada. Most of the other stations follow the lead given by larger stations though there may be variations in degree. Even in the larger cities, significant differences may develop with margins in rate differentials varying from time to time in the light of changing competitive conditions in multiple station markets.

As established through surveys, audiences reach a peak in the evening hours for television and in the morning hours for radio. These time periods, therefore, command higher rates and are rated as “prime” time. Since other time periods deliver a lesser audience, advertising rates for these periods are established in relation to rates charged for audiences delivered in prime time periods.

The pricing of advertising time is usually expressed in terms of so many dollars per minute (or portion of a minute) of commercial, separately for prime and non-prime time. These are rates demanded by the seller of advertising time, that is, the broadcasting stations and the networks. In the budgeting of a station’s operations, management — and this applies primarily to private stations — wishes to recoup its operating costs and make a reasonable return on the investment. Private stations thus establish what they consider realistic rates to enable them to operate efficiently and profitably.

There are exceptions to this practice. In the case of private affiliates associated with the C.B.C., the Corporation sets the rates for network time sold to advertisers and carried by their private affiliates. These rates are negotiated between the C.B.C. and private affiliates based on a C.B.C. rate formula, adjusted on the basis of the station’s performance, as evidenced in periodic audience measurement surveys.

The buyers of commercial time, that is, the advertiser (and his advisors) judge the price they are prepared to pay for the advertising time in a different way. They are mainly interested in the results they may be able to obtain, i.e. in terms of the size

of the audience exposed to their commercials. Thus the advertiser endeavours to establish what he considers an effective cost efficiency from the point of view of his advertising message meeting his particular needs to merchandise his product.

To judge the effectiveness of the advertising dollar spent on broadcasting media, the concept of "cost per thousand" is used, with a number of possible refinements.

"Cost per thousand" is the amount paid for an advertising message divided by the number of individual homes (multiplied by 1,000) which actually, as proven by surveys, viewed television or listened to radio at a particular time period. The basis of cost per thousand is a minute commercial rate though the same principle also applies to other advertising time periods purchased.

While cost per thousand is the general basis on which broadcast advertising time is purchased, some refinements may be used in employing this technique. One such refinement is the application of "Reach, Frequency and Penetration", explained later on in this Chapter. Many advertisers use these more detailed techniques to assess, and if possible, to achieve maximum impact within a given advertising budget. They do this by establishing first as complete a coverage of a station's total audience, as is obtainable through survey techniques.

When more than one commercial message is scheduled at different times within a specific period of time, a reach-frequency analysis is sometimes used to estimate the number of different households that were reached by the station (or stations) carrying the schedule once or more often during the interval in which the messages were broadcast.

The average frequency of message exposure is calculated by dividing the gross number of impressions delivered by the number of unduplicated homes reached. In the purchase of time, advertisers and agencies frequently adopt a cost per thousand objective with a base of \$3.00 and upward for prime time, depending upon the market and the desired audience.

To arrive at what some sponsors consider the required cost efficiency, say the standard rate of \$3.00 per thousand, the current practice is towards "packaging" of multiple spot purchases, that is, a number of spots are purchased, spread

throughout the week to maximize the impact of an advertising message.

There are, however, variations from this common practice. An advertiser may decide that it is of particular importance to him to reach the audience of a particular station at a given day at a given time. In many instances, the advertiser will examine the audience composition of a particular program time period. If, for example, his product lends itself to female frequency purchase, he will select a time even though its cost efficiency in terms of cost per thousand may not be as favourable but it may be more favourable in terms of cost per thousand housewives.

In major markets, advertisers' demands of \$3.00 cost per thousand can often be met. There are exceptions to this, as noted earlier, when advertisers wish to obtain coverage — higher than standard rates notwithstanding.

In minor or intermediate markets, bonuses of additional advertising messages are often required for broadcasting stations to persuade advertisers to buy their "time".

In the whole scheme of buying broadcast advertising time, an advertiser has several alternatives. He has the opportunity of comparing costs and purchasing either C.B.C. Network, C.T.V. Network, C.B.C.-O and O's (owned and operated stations), or privately owned independent stations. The purchase of other than network time offers an advertiser the advantage of greater flexibility in choosing the areas, times, and seasons most suitable for his purpose, and this principle applies particularly to television.⁷⁹

In radio, because of a single network made up of public and private stations⁸⁰ and the C.B.C.'s practice of pursuing a non-aggressive commercial policy, the private stations of which there are 280 in total,⁸¹ occupy a predominant position in the commercial field.

⁷⁹ There exist, however, the offsetting disadvantages that advertisers may not always be able to obtain the particular time they wish to purchase from television stations in major markets.

⁸⁰ There are two radio networks operating in Canada, one in the English language and the other in the French language.

⁸¹ Comprised of 231 A.M. stations and 49 F.M. stations.

Since most areas in Canada are multiple station markets or exposed to a number of overlapping radio signals, the advertiser has many opportunities to choose the most economic and effective outlets.

In the television field, the possibilities of choice are much more limited, with the exception of such major metropolitan cities as Toronto, Montreal and Vancouver, where, in addition to Canadian television stations, several American stations share in total audience available.

In general, cost per thousand is the accepted method of measuring the effectiveness of the broadcast advertising dollar. But the critics claim and its users readily admit it, cost per thousand is an incomplete measurement. Two of its main imperfections are:

1. It is subject to possible substantial variations, particularly when significant changes in the popularity of a specific program or programs of television stations occur since the time of the last audience measurement survey, bearing in mind that the public tires easily of established formats and continuing serial shows, with some notable exceptions.

2. It does not reflect the total station performance but rather provides a measurement of the degree of access to the public that business gets for spending its advertising dollar.

Hence critics claim that cost per thousand, with its demand for maximum audiences, places too great an emphasis on quantitative performance at the expense of qualitative considerations and, therefore, mitigates against stations achieving a desired balance in their programming.

PRICING : C.B.C. AND PRIVATE BROADCASTING STATIONS.

1. TELEVISION.

Generally speaking, cost per thousand for private stations runs about one-third higher than corresponding C.B.C. rates. This is illustrated in the tabulations shown in Table 2-1 which summarizes cost per thousand for television stations in six of Canada's major markets based on B.B.M. ratings,⁸² taken in Fall 1962 and Fall 1965 during prime periods.

⁸² Data included in this study are by courtesy of Bureau of Broadcast Measurement.

At the latter date, the six privately owned television stations had an average⁸³ cost per thousand of \$4.47 as compared with \$3.40 for the C.B.C. owned television stations in the same cities. There were, however, great regional variations. The difference was as low as 3 per cent in Montreal⁸⁴ and as high as 72 per cent in Toronto, with the average difference for the six stations combined amounting to 32 per cent.

The reasons for such differences will depend on locations. In Montreal, for example, one important factor is that television broadcasting is done both in the French and English languages. The French language stations cater to a much larger audience than the English language stations. As a result, the cost per thousand of French language television stations is much lower than that of English language stations as the following figures indicate. In the case of French language stations, the C.B.C. rates are slightly higher than the rates charged by private television stations and in the case of English language stations, slightly lower (see also Table 2-1):

	Cost Per Thousand
	Fall 1965 — \$
<i>French Language</i>	
CBFT (C.B.C. Station)	2.25
CFTM (Private Station)	1.94
	Cost Per Thousand
	Fall 1965 — \$
<i>English Language</i>	
CBMT (C.B.C. Station)	4.00
CFCF (Private Station)	4.12

In the case of Toronto, the market is much more fragmented than in other cities in Canada, with four Canadian stations (one of which has only limited coverage) and three American stations serving this market. Hence, competition in that market is particularly keen and audiences develop divided loyalties as they switch from station to station in search for new and improved programs with American stations often having the edge over Canadian stations, particularly the C.B.C. station.

The difference in cost per thousand appears to be narrowing a little as between C.B.C. and private stations. The average

⁸³ Arithmetic average, not weighted by the number of T.V. homes covered.

⁸⁴ Refers to English language television stations.

TABLE 2-1. — COST PER THOUSAND OF TELEVISION, C.B.C. AND PRIVATE STATIONS, SIX MAJOR CITIES, CANADA, FALL 1962 AND FALL 1965.

CITY	C.B.C.			PRIVATE STATIONS		
	CALL LETTERS	COST PER THOUSAND ¹		CALL LETTERS	COST PER THOUSAND ¹	
		1962 \$	1965 \$		1962	1965
Halifax	CBHT	2.60	2.75	CJCH	3.31	3.58
Montreal ²	CBMT	2.86	4.00	CFCF	3.27	4.12
Ottawa	CBOT	2.79	3.29	CJOH	3.30	4.76
Toronto	CBLT	2.92	2.63 ³	CFTO	4.80	4.49 ⁴
Winnipeg	CBWT	3.12	4.19	CJAY	3.26	4.54
Vancouver	CBVT	2.54	3.53	CJAN	4.69	5.35
Six Cities — Average	—	2.80	3.40	—	3.77	4.47

Source: Audience data by courtesy of Bureau of Broadcast Measurement.

¹ Prime time.

² English language. The cost per thousand of French language television stations in Fall 1965 was as follows: CBFT (C.B.C. station) — \$2.25; CFTM (private station) — \$1.94.

³ Cost per thousand dropped to \$2.67 in 1963 and rose to \$2.82 in 1964.

⁴ Cost per thousand dropped to \$4.28 in 1963 and to \$3.65 in 1964.

cost per thousand for the six major cities for the C.B.C. was \$2.80 in 1962 as compared with \$3.77 for private television stations, an average difference of 35 per cent. Hence, the gap appears to have narrowed over the last four years by three percentage points, from 35 per cent to 32 per cent. If this trend were to continue, that is, three percentage points every four years, it would take the C.B.C. some forty years to charge comparable rates in terms of cost per thousand as are being charged by private television stations.

The question that policymakers in government and in the C.B.C. may wish to consider is whether in view of the heavy pressure from expanding demand for advertising on television, likely to develop over the next decade, as elaborated in Chapter 6, it is in Canada's national interest to wait forty years for the C.B.C. rates to approximate rates charged by private television stations, or whether this process could be telescoped in a shorter space of time, say the next five to ten years.

Table 2-1 throws light on another interesting aspect of changes and trends of cost per thousand as between the C.B.C. and private stations.

On the whole, both private television stations and the public network have been raising their cost per thousand with some notable exceptions. In Toronto's C.B.C. station (CBLT) cost per thousand in prime time dropped from \$2.92 in 1962 to \$2.67 in 1963, rose to \$2.82 in 1964 and declined again to \$2.63 in 1965. In Toronto's private television station (CFTO), cost per thousand dropped from \$4.80 in 1962 to \$4.28 in 1963, and to \$3.65 in 1964, only to jump again to \$4.49 in 1965.

On the surface this appears to be an erratic pattern in Canada's largest single English language television market. Why would cost per thousand decline twice in Toronto's C.B.C. station in the last four years to yield a difference of 72 per cent as between the publicly and privately owned stations? Why would cost per thousand of the privately owned television station in Toronto decline two years in a row, increase in the third year to a higher level than before, when its competitor, the C.B.C. station, experienced a further reduction in its cost per thousand?

The explanations which the industry offers — and these explanations are not necessarily those that the stations themselves would give — include:

Cost per thousand reflects past program performance and the selection on the part of stations of programs to make up their broadcasting schedule, as well as the basic rate structure set by the station.

Traditionally some new programs, while exceedingly popular in the early stages of their broadcast presentation, may be unable to sustain their popularity. As a result, programs may deliver reduced audiences and result in higher cost per thousand. Once a station has set its schedule for a season — usually in the Fall of the year — and is committed to talent and film contracts, it is difficult in most cases to change the program and the rate structure. Further, advertisers committed to an individual program are obliged by the terms of their contract to continuing sponsorship for the period agreed, subject on occasion to cancellation in 13 weeks' cycles.

The erratic pattern shown in cost per thousand as between the C.B.C. and the private television station in Toronto reflects more the changing popularity of the commercially sponsored programs than changes in the thinking about their basic rate structure.

The Toronto cost per thousand pattern appears to be running contrary to the trends indicated for stations in most other major markets in Canada. In five of the six metropolitan cities covered in Table 2-1, television stations have increased their cost per thousand between 1962 and 1965, both C.B.C. and private operators. Only in Toronto is cost per thousand by both the C.B.C. and the private station lower in 1965 than it was in 1962. The figures are: CBLT — down from \$2.92 to \$2.63; and CFTO — down from \$4.80 to \$4.49. This represents decreases of 11 per cent and 6 per cent respectively.

The non-conforming pattern of costing in Canada's largest English language market suggests the need for caution in generalizing about cost per thousand trends, for such trends may be altered quite markedly by special circumstances, arising out of the growth of the market, changes in competitive conditions, jockeying for position in capturing greater audiences, special

programs and the importance of the Toronto market to the advertiser, etc.

2. RADIO.

The cost per thousand situation in radio as between the C.B.C. and the private stations is entirely different from that applying to television. As Table 2-2 shows, the C.B.C.'s cost per thousand in Canada's six largest markets in Fall 1965 was on an average about the same as the rates charged by private radio stations. The six-city average based on one-minute commercials for the C.B.C. was \$1.69 or 2 per cent below the private radio stations' average of \$1.73.

Cost per thousand of C.B.C. radio stations was more than double the rates charged by radio stations with the lowest cost per thousand. But in general, the C.B.C. rates were closely in line with the average rate structure of the private radio industry.

One explanation is that the C.B.C. does not appear to be adverse to formulating advertising rates for radio close to going market rates for the Corporation is obtaining only a very small proportion of the advertising dollar becoming available in this field, about 4 per cent of the total. In television, on the other hand, where the C.B.C. has been obtaining up to 25 per cent of commercial revenues, the Corporation has followed a practice generally of running considerably below the going rates charged by private television stations, as explained earlier.

Four years ago, the C.B.C.'s cost per thousand for radio was 13 per cent higher than the average charged by private stations, \$1.54 as against \$1.34. The gap, however, has been closing with the C.B.C.'s radio rates rising by 10 per cent over the period, 1962 to 1965, as compared with a rate of increase of about 30 per cent, on an average, for private radio stations (see Table 2-2).

PRICING : CANADA AND THE UNITED STATES.

In Chapter 3, data are presented showing that broadcast advertising expenditures in the United States represent about 0.5 per cent of Gross National Product while the corresponding ratio for Canada is 0.3 per cent.⁸⁵ The explanation is offered

⁸⁵. See Tables 3-9 and 3-10 in Chapter 3.

TABLE 2-2. — COST PER THOUSAND OF RADIO, C.B.C. AND PRIVATE STATIONS, LOWEST AND AVERAGE COST PER THOUSAND, SIX MAJOR CITIES, CANADA, FALL 1962 AND FALL 1965.

CITY	C.B.C.			PRIVATE STATIONS				
	CALL LETTERS	COST PER THOUSAND ¹		CALL LETTERS	LOWEST COST PER THOUSAND ¹		AVERAGE COST PER THOUSAND ¹	
		1962 \$	1965 \$		1962 \$	1965 \$	1962 \$	1965
Halifax	CBH	3.61	4.33	CHNS	0.85	1.56	2.50	2.16
Montreal ²	CBM	1.20	1.30	CJAD	0.56	0.82	1.16	1.74
Ottawa	CBO	1.26	1.33	CFRA	0.72	1.04	0.99	1.70
Toronto	CBL	1.18	0.88	CFRB	0.52	0.56	1.06	1.45
Winnipeg	CBW	1.20	1.38	CKY	0.85	0.93 ³	0.90	1.07
Vancouver	CBV	0.79	0.93	CKNW	1.04	1.17	1.49	2.29
Six Cities — Average	—	1.54	1.69	—	0.76	1.01	1.34	1.73

Source: Audience data by courtesy of Bureau of Broadcast Measurement.

¹ Prime time.

² English language.

³ CJOB.

that the greater acceptance of broadcast advertising on the part of the consumer and the greater use by advertisers of television as a preferred medium, have been two factors contributing to this difference. Other factors are the special characteristics of Canada's "mixed" system, referred to earlier, and the bilingual character of the Canadian broadcasting service.

Difference in the costing of television advertising as between Canada and United States is another factor. This can be illustrated with reference to differences in cost per thousand.

Generally, the Canadian advertiser follows the established American practice because a major portion of the television advertising dollar in Canada comes from international advertisers who, in the United States, have a greater freedom of choice in network and selective advertising time purchases.

The U.S. pattern of broadcast advertising buying, involving as it does very substantial amounts of money, has been developing in the direction of greater emphasis on qualitative aspects and somewhat lesser emphasis on the quantitative aspects of "time" purchased, as compared with the practice in the early period of television development. Further, because of the existence of large minority groups, American advertisers endeavour to pinpoint their advertising messages to selective audiences. In many instances advertisers may be willing to pay rates substantially above what they consider a standard rate, \$3 cost per thousand, referred to earlier, to reach these specific groups.

Thus in many instances, according to experts in the broadcasting industry, cost per thousand on television may be higher in the U.S. than in Canada because of the emphasis on the qualitative aspects of advertising — a trend now in the making in Canada — and the desire to appeal to specialized audiences. This applies also to American border stations which beam television programs to Canada, e.g. Buffalo to Toronto, Detroit to Windsor, Bellingham to Vancouver, and Plattsburg to Montreal.⁸⁶

⁸⁶ The figures mentioned below indicate that the cost per thousand picture in television has changed considerably in Canada and the United States during the last decade. For in the early period, Canadian rates were much higher than American rates, with the reverse now being generally true. The broadcasting industry claims that the following differentials in cost per thousand existed in 1956: U. S. television, \$2.50 to \$3.00; Canada, English language television, \$5.00 to \$8.50; and Canada, French language television \$7.00 to \$15.00 (see *Brief of the Association of Advertisers to the Royal Commission on Broadcasting*, Toronto, April 1956, p. 19).

As far as radio advertising is concerned, Canadian rates are by and large lower on a cost per thousand basis than are comparable U.S. rates. There is less fragmentation of the radio audience in Canada as compared with the United States, particularly with the major markets, mainly because of the more limited number of radio stations and frequencies allotted in Canada as compared with the U.S. Further, Canadian radio stations have endeavoured to maintain comparatively low rates to hold their own against the competition from the increasingly popular newcomer to broadcast advertising — television. As the figures in Chapter 3 show, radio broadcasters were in fact successful in maintaining their share of the growing total of advertising expenditures, becoming available in Canada during the 1950's and 1960's, television notwithstanding.

MEASURING THE EFFECTIVENESS OF BROADCAST ADVERTISING.

Advertisers are interested in exposing their commercial messages to as many potential customers as possible, as frequently as possible, subject to the limitations imposed by the advertising budget. Those interested in determining the approximate cost per thousand homes delivered, normally base their calculations on the audience measurement (i.e. ratings) reports available from companies undertaking such surveys. Rating reports are based on scientifically designed sampling techniques, and conducted in one or more predefined areas.

Within a small margin of error it is possible to estimate the number and/or percent of set-equipped homes that are "tuned" at any given time interval of the broadcast day, as well as the number and/or percent of the homes that are tuned to each station during the same interval. Depending on the research technique used, the sets-in-use factor may be expressed in relation to total homes, or to total set-equipped homes.

The inclusion of such refinements as audience composition (men, women, children, teenagers) also permits estimating the cost per thousand of these particular segments of the audience. This refinement also extends to "Man Head of House", and "Lady Head of House".

Among advertisers who have more than one message occurring within a given time period (usually a one week interval),

there are some who require more specific information, for example, the total number of different homes reached, and the average frequency with which those homes are exposed. This is usually referred to as a reach-frequency analysis.

Some audience measurement survey firms, aware of the significant growth of multiple set homes, are providing reports of viewing and listening on an individual basis. The result is not only measurement of multiple set homes, but also of out-of-home audiences.

Industry uses a number of concepts to measure the effectiveness of broadcast advertising though there is no general agreement of the exact meaning of some of the terms. Subject to this qualification, the following definitions may be helpful.

Rating is the number of homes viewing or listening, expressed as a per cent of the homes in a defined area. Depending on the research technique used, it may be total homes, or total set-equipped homes in that area. Again depending upon which survey report is used, it is possible to secure estimates of audience size in a station's central area (metro, or home county), and in the outer areas lying within the station's coverage.

Gross Rating Points (G.R.P.'s) refer to the aggregate of the ratings for each of the times at which an advertiser's message, program, etc. was scheduled within a specific time interval.

Share or Audience is the volume of homes tuned, expressed as a per cent of the total homes viewing or listening to each station.

Reach or Circulation is defined as the estimated total number of unduplicated or individual households that is exposed to a message, program, etc. once or more often during a specified period of time.

As an example, assume there is a universe of 10 homes. If, during a 7-day period, 3 homes hear 3 broadcasts, 3 other homes hear 2 broadcasts, 3 other homes hear 1 broadcast and 1 does not hear any, then 9 out of the 10 homes are reached.

Frequency refers to the number of times each viewing or listening household is exposed to a message, program, etc. during a specified period of time, usually the period over which

reach is computed. Frequency may be shown with reach and, together is read as follows : X number of homes received an average of Y broadcasts in a specified time period. In the above example, 90 per cent of the homes received an average of 2 broadcasts during the 7-day period.

Penetration refers to gross exposure of an advertising vehicle during a specified period of time. In the broadcasting field, penetration is frequently identified with total gross impressions, while in the print media, the term may connote measurement of readership.⁸⁷

Expressing the above examples in graphic form, the results are :

		HOMES									
		1	2	3	4	5	6	7	8	9	10
Exposures	{	Monday	×	×	×	×	×	×	×	×	×
		Wednesday	×	×	×	×	×	×			
		Friday	×		×						
		Sunday		×							

× = exposure to a program

The rating of the program during the first exposure is 90 per cent

The rating of the program during the second exposure is 60 per cent

The rating of the program during the third exposure is 20 per cent

The rating of the program during the fourth exposure is 10 per cent

The gross rating point level (GRP's) for the 7-day period is 180.

The reach during the 7-day period is 90 per cent.

The frequency during the 7-day period is $18/9 = 2$.

The combination of the three methods of measurements, in the case of the above example, yields the following results : during the 7-day period the program has a gross exposure of 180 G.R.P.'s, an unduplicated audience of 90 per cent (reach) which it reaches an average of twice (frequency).

⁸⁷ The term "penetration" is also used occasionally to describe reach, reflecting the lack of general agreement of the meaning of the various terms used in the industry.

To establish quantitatively the impact of advertising messages on audiences, industry relies on so-called "audience rating" surveys, conducted by firms specializing in this field.

The Royal Commission on Broadcasting examined the usefulness of audience rating surveys at some length. The Commission concluded that its widespread use by business notwithstanding, such surveys were subject to numerous limitations. To quote from the Commission's 1957 Report :

In considering audience ratings, it must be remembered that they can only be approximations. Indeed, wide variations are sometimes found between the ratings given to the same programs by different survey organizations. But even if the ratings were very exact approximations, they still measure in Canada, at least, only one aspect of a program's total impact — and that is the size of the audience. They are strictly a quantitative measure, not a qualitative one. They do not measure the *degree* of listening or viewing on the part of the audience, they simply reveal that so many bodies were exposed to a certain program at a certain time . . .

Regardless of the statistical soundness of these surveys, they purport only to measure the size of the audience that is physically present and not at all the intensity of listening or viewing on the part of that audience. These surveys may therefore be more useful to the advertiser than to the broadcaster because the advertiser, naturally enough, is not usually as interested in intensity of listening as in size of audience. Indeed, it may perhaps be an advantage from the advertiser's point of view not to have too much audience absorption in the program since the viewer or listener might then be more receptive to the advertising message . . .

At best, audience ratings reveal which programs people choose from among those available. Even if the ratings are based on questions which ask audience members what programs they like best or want more of, it is unwise to accept the answers as being too meaningful. For the audience does not normally express considered judgments on its wants in entertainment, except in relation to what is familiar.⁸⁸

The latter consideration has led another investigator to conclude that "progress is the result of efforts originated by small, advanced groups and gradually accepted by the population", and not the spontaneous result of responding to people's "needs".⁸⁹

⁸⁸ *Report of the Royal Commission on Broadcasting, op. cit.*, pp. 78-80.

⁸⁹ *Radio and the Printed Page, op. cit.*, p. 94.

American investigations have reached even more specific conclusions about the meaningfulness of results obtained through broadcast measurement surveys. To quote: "Broadcast ratings are known to be inaccurate as indexes of consumer program preferences."⁹⁰

Considerable technical progress has been made, particularly in recent years, in developing rating surveys on a more scientific basis, both with respect to statistical accuracy based on properly designed and controlled sample surveys, and with respect to obtaining information in depth about the audience and its reactions to advertising messages.

There are now available from such surveys considerable amounts of information on audience composition, adults (male and female) and children, whether television programs are watched by the man of the house and/or the lady of the house, the total number of viewers in the home, with separate information provided for specific broadcasting periods, usually one-quarter of an hour. The surveys further report the total number of homes reached, percentage of homes with a television set tuned in or a radio set listened to during the average quarter hour, listing separately the extent of participation by the different stations in the total audience recorded, and other specific details of interest to advertisers.

Further, broadcast survey firms will undertake special analysis to meet specific needs of advertisers. Thus there have developed in Canada, as in the United States, considerably more sophisticated surveys than have been available in earlier periods.

Still the Committee on Broadcasting when looking over the results so far obtained from audience rating surveys and related research and analysis, concluded in its 1965 Report :

There is need for greater knowledge of the social and human effects of broadcasting, which must be based on research. We know much too little about the impact of television and radio programs on the audience as a whole, and on particular groups. Until now, audience research has been largely confined to determining the number of sets tuned at a given time to a particular program — the so-called ratings

⁹⁰ This conclusion is based on Hearings held by the U.S. Congress (see HOUSE COMMITTEE ON INTERSTATE AND FOREIGN COMMERCE, *Evaluation of Statistical Methods Used in Obtaining Broadcast Ratings*, H.R. No. 193, 87th Cong., 1st Sess. 7-8, 12, 20-36, 59-87, 1961: quoted in "Federal Control of Entry in the Broadcast Industry", *op. cit.*, p. 50).

system. This tells nothing about the intensity of attention given to a program or its continuing impact, and — even for the commercial purpose for which it is used — gives an incomplete picture of audience reaction. Some useful audience research has recently been done by the C.B.C., but it could be extended and made more generally available, certainly to the C.B.A. and perhaps to the public.⁹¹

The Committee on Broadcasting made a further plea for more marketing research and new approaches to marketing research in the broadcasting field. It stated: “The chief object of market research in broadcasting should [...] be to identify every audience large enough to justify the cost to its related market of making a broadcasting approach.”⁹²

The Chairman of the Board of Broadcast Governors has outlined some areas where research could yield substantial results in enabling advertisers to make more effective use of broadcasting as an advertising vehicle. To quote:

First, there is evidence that a substantial part of the audience uses the commercial time segments to withdraw from the screen and to do other things. Is this deliberate withdrawal necessary? How much attention has been given to ways and means of introducing the commercial message so as to reduce withdrawal or to circumvent it?

Second, it is clear that a large part of the audience can remain in front of the screen without any part of the commercial message registering. Half an hour later, or less, they could not tell you what they had seen and heard. How is this kind of escape possible? Can anything be done to correct it?

Third, how far is it true that the people who constitute the audience merely accept advertising on sufferance, and place no reliance on it? What difference would it make if a serious effort were made to increase the credibility of advertising messages? Has sufficient consideration been given to how this could be done?

Fourth, there is strong reason to believe that some part of the audience finds some part of the commercials positively offensive. How is this related to the general attitude to all advertising? Is it necessary to offend even some of the audience? If not, what are the more acceptable alternatives?⁹³

The projections in Chapter 6 show that Canada faces a very substantial expansion of broadcast advertising expenditures over

⁹¹ *Report of the Committee on Broadcasting, op. cit.*, p. 99.

⁹² *Ibid.*, p. 222.

⁹³ “How the Media Can Be Made More Effective Advertising Vehicles”, *op. cit.*, pp. 11 and 12.

the next decade. Improved survey techniques, more audience research and growth-oriented broadcast marketing analysis can make a major contribution to increasing the effectiveness of the several hundred millions of dollars which Canadian business will be spending on broadcast advertising, a point that is emphasized further in Chapter 7.

IMPLICATIONS.

This Chapter has set out some of the major special characteristics that make broadcasting a unique medium of communication — unique not only in terms of the advertising vehicle used, but also in terms of the impact it has on its audience and the fact that it has command over mass audiences, never before marshalled in the history of civilization.

Many economic consequences stem from these special characteristics. The use of the airwaves present a public asset. It is made available to private operators and to a public corporation to use. Users are accountable for the trust placed in them and subject to extensive parliamentary and government supervision and control.

The result is a “mixed” system where market forces have only limited applicability. Government policies formulated to pursue national objectives are a major factor in establishing the framework within which private and public broadcasters alike operate.

Unlike any other medium of advertising, broadcasting faces special problems : how to meet in a dynamic and growing economy like Canada's, the rapidly *expanding demand* for broadcast advertising services with *limited supply* of time available for such services.

Many pressures are building up and these call for solutions. And unless such solutions are found to some of the most pressing problems, and these are outlined in Chapter 7, the broadcasting industry will find it difficult, if not impossible, to meet the substantial increase in demand for its services which can be foreseen for the next decade.

Canadians are increasingly aware of what some of the most urgent problems are. Hence the prospects of something constructive being done to deal with them are encouraging. This task can be greatly aided by increased knowledge of what the facts are, and their meaning and implications for the future.

CHAPTER 3

Broadcast Advertising Expenditures - Trends

INTRODUCTION.

In Canada revenues received from advertisers are the main source of income for private radio and television stations and the private television network, C.T.V. Commercial revenues represent about one-quarter of the receipts of the publicly owned C.B.C., with the balance largely financed by government grants.

No up-to-date comprehensive figures are available as to what it costs to operate broadcasting services in Canada, nor as to the contribution which the broadcasting industry makes directly to total employment and income.¹ The latest official statistics for the private sector are published for 1963. Figures are available for the C.B.C. for 1965² and approximate estimates can be made of total expenditures and revenues of private stations for the same year.

The C.B.C.'s gross annual expenditures for 1965 are placed at \$123 million of which \$33 million represent gross commercial revenues³ and \$90 million would represent a parliamentary grant.⁴

Total net revenue from broadcast advertising covering private stations and the C.B.C. for 1965, has been estimated at \$159½ million (see Table 3-1). Deducting from this amount about \$24½ million received by the C.B.C. in *net* commercial revenue, leaves private broadcasters with about \$135 million. To this sum has to be added an allowance for billings to sponsors

¹ Preliminary estimates suggest that the broadcasting industry contributes about 12 per cent to the Gross Domestic Product at factor cost in the communication industry and about ½ of 1 per cent to total Gross Domestic Product in Canada.

² In the case of the C.B.C., references to years relate to the 12-month period ending March 31st.

³ This is equivalent to about \$24½ million in *net* advertising revenues (see *Report of the Committee of Broadcasting, op. cit.*, p. 224).

⁴ Net cash requirements would be \$86 million since \$4 million cover depreciation.



and others for program production and supplementary income. The latter may be placed at close to \$10 million for 1965.⁵

The operating budgets of private radio and television stations including the private network, C.T.V., may have involved about \$145 million in 1965. To this has to be added the C.B.C.'s expenditures of \$123 million, yielding a total annual cost of operating the Canadian broadcasting system of \$268 million in 1965. This amount would not include capital invested or new capital required.⁶

Since a parliamentary grant of between \$86 million and \$90 million is required, this means that about two-thirds of the operations of the Canadian broadcasting system are privately financed and one-third publicly financed.

What kind of broadcasting services do Canadians get for the \$268 million a year, two-thirds of which are included in prices of goods and services and one-third in taxes people pay. The physical facilities available to the Canadian broadcasting industry are as follows :

There are today in Canada 75 television transmitters, with 138 relays or rebroadcasting stations; and 321 radio transmitters, with 131 relays or repeater-stations.

The C.B.C. owns and operates 16 television stations, with 28 relays or rebroadcasting stations; 31 A.M. radio stations, with 129 relays; 5 F.M. radio stations; and 5 shortwave radio transmitters. It operates two television networks and two radio networks — one of each in the English and French languages; it also has a limited F.M. radio network, broadcasting only in English. In addition, the C.B.C. operates a Northern Service to provide radio programs to the far north, a service to the Armed Forces overseas, and an International Service in eleven languages to project Canada to a score of countries throughout the world.

There are 59 privately owned television stations, with 110 relays or rebroadcasting stations. Of these, 44 stations, with 97 relays, are affiliated to the C.B.C. television networks for certain purposes and for certain parts of the broadcast day. At present, of the 15 privately owned television stations

⁵ On the basis of the definition as used in the *Dominion Bureau of Statistics'* publication, *Radio and Television Broadcasting 1963*, covering non-broadcasting revenues by private stations, radio and television combined, at about \$6 million in 1963.

⁶ The data are from the "C.B.C. Fact Sheet", April 1st, 1965, as revised June 19th, 1965.

not linked with the C.B.C. network, 11 stations (all broadcasting in English) are affiliated to C.T.V. Television Network Limited, forming a private network of limited scope and geographical coverage. There are 231 privately owned A.M. radio stations, of which 84 (with 2 relays) are affiliated to C.B.C.-A.M. radio networks, and 49 privately owned and operated F.M. radio stations of which 11 belong to C.B.C. affiliates. There are no private radio networks in Canada.⁷

These broadcasting facilities provide about 92½ per cent of Canada's population with television services, and 96 per cent with radio programs (see Tables 6-1 and 6-2 of Chapter 6). The actual potential "reach" of broadcasting facilities is slightly greater. The Committee on Broadcasting places it at 94 per cent for television and 98 per cent for radio. The Committee concluded that while some "disconcerting flaws" exist in the broadcasting coverage provided, in general, Canadians are well serviced. To quote:

Total broadcasting facilities in Canada, if not extravagant, are certainly adequate by comparative international standards. Probably no country in the world, other than the United States, has more television and radio broadcasting stations in relation to its total population.⁸

The C.B.C.'s television stations provide about one hundred hours of viewing per week⁹ while some private television stations in the metropolitan centres provide up to 120 hours per week. Services provided by radio stations run all the way from 18 hours per day for C.B.C. and some private stations to 24-hour operations for some of the larger private stations.

Allowing for the differences in the hours broadcast per day and the time devoted to commercials, what is the division in advertising revenues between radio and television? Has radio been able to hold its own against the almost overwhelming impact and the growing popularity of television? Is the present trend continuing and what are the implications for the future?

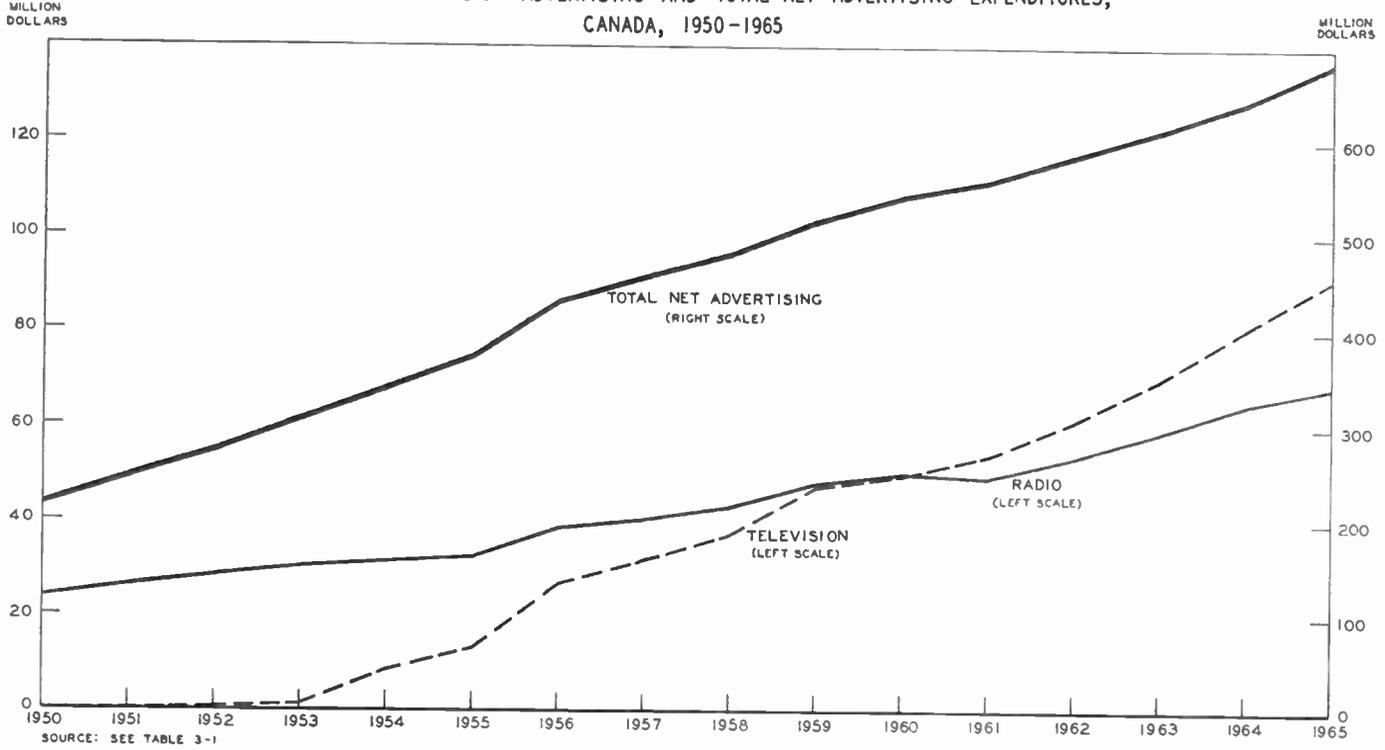
What is the division as between national and local advertising? How are advertising revenues divided between private operators of radio and television stations and the publicly operated C.B.C.? How are advertising revenues distributed by

⁷ *Report of the Committee on Broadcasting, op. cit.*, pp. 8 and 9.

⁸ *Ibid.*, p. 72.

⁹ *Ibid.*, p. 289.

CHART 4
RADIO AND TELEVISION ADVERTISING AND TOTAL NET ADVERTISING EXPENDITURES,
CANADA, 1950-1965



size of corporations among different broadcasting stations? What is the provincial distribution of broadcast advertising revenues for radio and television stations, in total, per station, on a per capita basis, in relation to the size of available markets as reflected in varying levels of personal income, and on the basis of differentials in national and local advertising? What commercial revenues are received by privately owned French language and English language stations and are there any differentials in growth trends?

How does the growth of the Canadian broadcasting business compare with the expansion that has taken place in the United States, and what are the reasons for the difference in growth rates? What has been the effect of expanding advertising revenue on the financial condition of private broadcasting stations and the C.B.C. and what are some of the implications for the future. It is with these and related questions that this Chapter deals with.

RADIO AND TELEVISION ADVERTISING EXPENDITURES — TRENDS.

In 1965, about 57 per cent of total broadcast advertising expenditures amounting to about \$160 million went to television stations and 43 per cent to radio stations. Commercial revenues received by television stations in Canada have increased by leaps and bounds. Starting from scratch in 1952, they reached about \$50 million by 1960, approximately the same level as radio commercial revenues. Since 1960, advertising expenditures going to television stations have risen very rapidly and by 1965 they were considerably in excess of those going to radio operators, \$91 million as compared with \$69 million (see Table 3-1 and Chart 4).

The remarkable point about the growth of commercial revenues received by radio stations is that they kept rising all through the period they were exposed to strong competition from television. Only in one year, 1961, did commercial revenues received by radio operators decline slightly, by about half a million dollars, only to resume the upward trend again and to continue unabated since (see Table 3-1).

In relation to total advertising expenditures, commercial revenues received by radio station operators have ranged between

TABLE 3-1. — RADIO AND TELEVISION ADVERTISING EXPENDITURES AND TOTAL NET ADVERTISING EXPENDITURES, CANADA, 1950-1965.

YEAR	RADIO \$ Mill.	TELEVISION \$ Mill.	BROAD- CASTING \$ Mill.	TOTAL NET ADVERTISING \$ Mill.	TELEVISION AS PER CENT OF BROADCASTING	PER CENT OF TOTAL NET ADVERTISING EXPENDITURES		
						RADIO	TELEVISION	BROAD- CASTING
1950	24.0	—	24.0	219.6	—	10.9	—	10.9
1951	26.2	—	26.2	246.1	—	10.6	—	10.6
1952	28.3	0.5	28.8	274.0	1.7	10.3	0.2	10.5
1953	30.2	1.3	31.5	309.9	4.1	9.8	0.4	10.2
1954	31.7	8.6	40.3	340.2	21.3	9.3	2.5	11.8
1955	32.7	13.4	46.1	374.5	29.1	8.7	3.6	12.3
1956	38.8	27.1	65.9	432.8	41.1	9.0	6.3	15.3
1957	40.6	32.3	72.9	457.2	44.3	8.9	7.1	16.0
1958	43.6	37.8	81.4	481.6	46.4	9.1	7.8	16.9
1959	48.2	47.7	95.9	518.2	49.7	9.3	9.2	18.5
1960	50.4	50.0	100.4	544.1	49.8	9.3	9.2	18.5
1961	49.8	54.1	103.9	559.5	52.1	8.9	9.7	18.6
1962	53.8	61.7	115.5	588.0	53.4	9.1	10.5	19.6
1963	59.1	70.2	129.3	613.6	54.3	9.6	11.4	21.0
1964 ¹	65.2	81.0	146.2	644.7	55.4	10.1	12.6	22.7
1965 ¹	68.6	91.0	159.6	685.0	57.0	10.0	13.3	23.3

Source: Data from DOMINION BUREAU OF STATISTICS, *Printing and Publishing Industry*, 1963, and earlier issues; DOMINION BUREAU OF STATISTICS, *Radio and Television Broadcasting*, 1963, and earlier issues; and supplementary estimates from MACLEAN-HUNTER RESEARCH BUREAU, *A Report on Advertising Revenues in Canada*, Toronto, October 1965.

¹ Preliminary estimates.

9 and 11 per cent over the period of 1950 to 1965. They represent currently 10 per cent of the total, with the ratio rising gently since 1961.

Thus operators of radio stations have shown remarkable resilience to the competition they have been facing both from television and some of the older advertising media. This is particularly true for private radio station operators since the C.B.C. accounts for less than 4 per cent of total commercial revenues received by radio stations. Some of the reasons for this successful adjustment on the part of radio operators have been explained in these terms:

The private radio stations concentrate on events of local interest. Many of them have developed speedy information services. They often develop a dynamic pace which may at times seem over-excited and excessive. They are in close contact with their public, using telephone communications extensively, and this too occasionally becomes excessive and goes beyond the limits of common sense and good taste. Finally a few stations — particularly those that broadcast in French — have made appreciable efforts to use the services of Canadian artists.

One worthwhile initiative in private radio deserves mention. This is the program exchange system initiated by the Canadian Association of Broadcasters, in which more than 140 stations participate. These stations pool programs, which are available to members at practically no cost other than that of supplying recording tapes. This system was inaugurated in 1962 and by 1964 more than 2,100 program hours were exchanged.¹⁰

As far as advertising on television is concerned, such expenditures reached 9.7 per cent of total advertising outlay by 1960, rising to 13.3 per cent in 1965 (see Table 3-1). Hence, total commercial income received by broadcasting stations makes up currently close to one-quarter of all advertising expenditures made in Canada. The trend is for broadcast advertising expenditures to increase both in absolute and in relative terms, though the latter is likely to slow down somewhat in the next decade, a consideration that has been taken into account in preparing projections of advertising expenditures on radio and television up to 1975, presented in Chapter 6.

¹⁰ *Report of the Committee on Broadcasting, op. cit.*, pp. 51 and 52.

TABLE 3-2. — RADIO AND TELEVISION ADVERTISING EXPENDITURES, NATIONAL AND LOCAL, CANADA, 1961-1965.

YEAR	RADIO			TELEVISION			BROADCASTING		
	NATIONAL ¹	LOCAL	TOTAL	NATIONAL ¹	LOCAL	TOTAL	NATIONAL ¹	LOCAL	TOTAL
1961	21.5	28.3	49.8	43.9	10.1	54.1	65.4	38.4	103.8
1962	23.5	30.2	53.8	49.4	12.4	61.7	72.9	42.6	115.5
1963	24.9	34.2	59.1	55.1	15.1	70.2	80.0	49.3	129.3
1964 ²	27.4	37.8	65.2	62.5	18.5	81.0	89.9	55.8	145.7
1965 ²	28.5	40.1	68.6	70.0	21.0	91.0	98.5	61.1	159.6

Source: Data from DOMINION BUREAU OF STATISTICS, *Radio and Television Broadcasting 1963*, and earlier issues and supplementary estimates from MACLEAN-HUNTER RESEARCH BUREAU, *A Report on Advertising Revenues in Canada*, Toronto, October 1965.

¹ Includes network advertising expenditures.

² Preliminary estimates.

LOCAL AND NATIONAL EXPENDITURES.

The bulk of commercial revenues obtained by radio stations comes from local sales. In 1965, this involved \$40 million or close to three-fifths of total advertising revenues received of \$69 million (see Table 3-2). For radio, local sales have been rising more rapidly than national sales as the following figures show :

	1961 \$ Mill.	1965 \$ Mill.	Per Cent Increase 1961-65
Local Sales	28.3	40.1	42
National Sales	21.5	28.5	33

The opposite situation appears to be indicated for television where the bulk of commercial revenues is obtained from national including network sales. In 1965, for example, these amounted to \$70 million or close to four-fifths of the total of \$91 million ¹¹ (see Table 3-2).

In the more recent period, however, local sales have assumed increasing importance in the television business. This is indicated by the fact that they have risen in the last five years at the more rapid rate than national sales as the following figures indicate and this in particular applies to intermediate or smaller markets :

	1961 \$ Mill.	1965 \$ Mill.	Per Cent Increase 1961-65
Local Sales	10.1	21.0	108
National Sales, including Network Sales	43.9	70.0	60

The fact that in the last several years a number of smaller television stations have been licensed which of necessity had to rely more on local sales than on national sales, as compared with the larger stations, has been a contributing factor to the trend noted above. This point is elaborated further in the section on "Size Distribution of Advertising Expenditures", later on in this Chapter.

¹¹ The figures for 1965 are preliminary but the ratio is not very different from that indicated for 1963 for which year firmer figures are available.

PRIVATE BROADCASTING AND THE C.B.C.

Two sets of data are available to indicate the relative significance of the C.B.C. and private broadcasting stations in the field of advertising.

One source are the data obtained from the Dominion Bureau of Statistics, the other are data obtained from the C.B.C. and special compilations prepared by the firm of auditors who acted as financial advisors to the Committee on Broadcasting. The differences of the two sets of data are referred to in Appendix A. This study has relied primarily on statistics obtained from the Dominion Bureau of Statistics. The projections presented in Chapters 5 and 6 are based on an extension of data collected by the Dominion Bureau of Statistics and thus represent the same definition and coverage applicable to the Dominion Bureau of Statistics data.

Before proceeding, some brief indications of the difference in coverage factors between Dominion Bureau of Statistics data and C.B.C. data may be helpful. According to the Dominion Bureau of Statistics, the C.B.C. obtained a total of \$24.5 million in commercial revenues for the calendar year 1963 and that includes receipts of advertising expenditures and income from non-time sales. Since total broadcast advertising receipts amounted to \$136.3 million, the net receipts of the C.B.C. of \$24.5 million represent 18 per cent of the total.

According to the C.B.C. and the Committee on Broadcasting, total net advertising revenues of the C.B.C. for the fiscal year ending March 31st, 1964, amounted to \$23.7 million or 17 per cent of the total of \$139.6 million for 1963. The two sets of data show a difference in total commercial revenues of \$3.3 million.¹²

At the time this study was prepared, C.B.C. data for the fiscal year ending March 31st, 1965, were available, but not the D.B.S. figures for the calendar year 1965. The C.B.C. data show total net commercial revenues of \$24.4 million and these

¹² The figures for total commercial revenues for 1963 cover the calendar year 1963 for private stations, and the fiscal year ending March 31st, 1964 for the C.B.C. (*ibid.*, pp. 332 and 399).

have been rounded to \$25 million as a preliminary estimate of the C.B.C. broadcast revenues for the calendar year 1965 on the basis of the Dominion Bureau of Statistics classification (see Table 6-6 in Chapter 6).

Using again the Dominion Bureau of Statistics' classification, total broadcast revenues, net, amounted to \$129.4 million in 1963. Adding to this, other non-broadcasting revenues of \$6.9 million, yield total operating revenues of both private stations and the C.B.C. of \$136.3 million (see Table 3-3). The C.B.C. received further grants, approved by Parliament, amounting to \$82.4 million so that the total cost of operating the Canadian Broadcasting System can be placed at \$218.7 million for 1963. For 1965, this amount will be considerably higher, placed in total at about \$268 million.

The bulk of the C.B.C.'s broadcast advertising revenues comes from national sales. In 1963, out of a total of \$23.7 million, \$21.9 million or 92 per cent represented national sales and \$1.8 million or 8 per cent local sales. The latter, as has been mentioned earlier, are of considerably greater relative importance for private stations, particularly radio operators.

In 1963, out of total broadcasting revenues received by private stations including the C.T.V. network of \$105.7 million, about \$47.5 million came from local advertising equivalent to 45 per cent of total commercial income, with \$58.2 million or 55 per cent represented by advertising carried on networks and national advertising.

The C.B.C. pursues a firm policy of not making available certain programs for the insertion of commercial messages. About three-fifths of the C.B.C.'s programs, in terms of costs of producing such programs, are either not available for sponsorship or are presented in an unsponsored form though available for sponsorship. In 1965, for example, programs not available for sponsorship cost \$44.6 million out of a total of \$103.9 million. Out of the remaining \$59.3 million, about \$32.3 million involved programs carrying advertising, while \$27.0 million were available for sponsorship but not used.¹³

¹³ The data are from *Report of the Committee on Broadcasting, op. cit.*, p. 333.

TABLE 3-3. — ADVERTISING AND OTHER REVENUES, RADIO AND TELEVISION, PRIVATELY OWNED STATIONS AND C.B.C., CANADA, 1962 AND 1963.

ITEM	PRIVATELY OWNED STATIONS		C.B.C.		ALL STATIONS	
	1962	1963	1962	1963	1962	1963
Advertising carried on Networks and National Advertising	52.1	58.2	20.8	21.9	72.9	80.1
Local Advertising	40.7	47.5	1.9	1.8	42.6	49.3
Total Broadcasting Revenues	92.8	105.7	22.7	23.7	115.5	
Other Non-Broadcasting Operating Revenues	8.4	6.1	0.5	0.8	8.9	129.4 6.9
Total Operating Revenues	101.2	111.8	23.2	24.5	124.4	136.3
Grants Received	—	—	77.0	82.4	77.0	82.4
Grand Total	101.2	111.8	100.2	106.9	201.4	218.7

Source: DOMINION BUREAU OF STATISTICS, *Radio and Television Broadcasting 1963, 1965.*

The breakdown as between radio and television for 1965 was as follows:

	RADIO \$ Mill.	TELEVISION \$ Mill.	TOTAL \$ Mill.
Programs with advertising	2.6	29.7	32.3
Programs without advertising			
— available for sponsorship	3.2	23.8	27.0
Programs without advertising			
— not available for sponsorship	14.5	30.1	44.6
Total	20.3	83.6	103.9

The C.B.C. has recommended to both the Government of Canada and the Committee on Broadcasting that the commercial contents of its programs be reduced.¹⁴ Since about two fifths of the C.B.C.'s programs are already removed from commercial sponsorship, the recommendation of the C.B.C., if accepted, will have the effect of putting additional pressures on private broadcasters to meet the need for more advertising time on television and radio in Canada, a subject discussed further in Chapter 6.

SIZE DISTRIBUTION OF ADVERTISING EXPENDITURES.

In 1963, out of total broadcast advertising expenditures, \$105.7 million went to private stations and \$23.7 million went to the C.B.C. Of the \$105.7 million received by private broadcasters, \$57.0 million were received by radio operators and \$48.7 million by television operators.

There were a total of 239 private radio stations operating in Canada in 1963. The average commercial income per station amounted to \$238,000. Variations among radio stations were great. There were 68 stations with incomes of less than \$100,000 for the year and they accounted for 7 per cent of total commercial revenues. At the other end of the scale, there were 11 radio stations, each earning over \$1 million annually, and they comprised 24 per cent of total commercial revenues received (see Table 3-4).

In the same year, 1963, some 63 private television stations divided among themselves commercial revenues of \$48.7 million or an average of \$773,000 per station. Some 20 stations earned less than \$250,000 a year and they took in 6 per cent of total

¹⁴ *Report of the Committee on Broadcasting, op. cit.*, p. 220.

TABLE 3-4. — SIZE DISTRIBUTION OF ADVERTISING EXPENDITURES, RADIO AND TELEVISION, PRIVATELY OWNED, CANADA, 1963.

SIZE DISTRIBUTION BY OPERATING REVENUE	RADIO			TELEVISION		
	NUMBER OF STATIONS	ADVERTISING EXPENDITURES		NUMBER OF STATIONS	ADVERTISING EXPENDITURES	
		AMOUNT \$ Mill.	PER CENT		AMOUNT \$ Mill.	PER CENT
Under \$100,000	68	4.0	7.0	} 20	} 2.9	} 6.0
\$100,000 to under \$250,000	94	14.0	24.6			
\$250,000 to under \$500,000	39	12.0	21.1	15	5.9	12.1
\$500,000 to under \$1,000,000	27	13.5	23.7	12	8.4	17.2
\$1,000,000 to under \$1,500,000	} 11	} 13.6	} 23.9	4	4.3	8.8
\$1,500,000 and over				12	27.1	55.6
All Stations	239	57.0 ¹	100.0	63	48.7 ²	100.0

Source: DOMINION BUREAU OF STATISTICS, *Radio and Television Broadcasting 1963, 1965.*

¹ Advertising Expenditures made represent 97 per cent of total operating revenue of \$58.2 million by privately owned radio stations.

² Advertising Expenditures made represent 91 per cent of total operating revenue of \$53.6 million by privately owned television stations.

commercial revenues accruing to television station operators. The fact that it pays to provide television services in major urban centres is indicated by the earnings of the twelve largest stations. Each of these had revenues in excess of \$1.5 million annually and they accounted for 56 per cent of total commercial revenues received by television operators. The remainder of the revenues were divided as follows: fifteen stations with incomes between \$250,000 and \$500,000, twelve stations between \$500,000 and \$1,000,000, and four stations between \$1,000,000 and \$1,500,000 (see Table 3-4).

The income distribution among television stations of different sizes brings out one important point and that is the emphasis which national advertisers place on large markets and the comparatively low priority which they attach to advertising in smaller markets. The reasons for this practice are generally not that cost per thousand is higher in less populated areas than in the more densely populated urban centres, but the belief on the part of national advertisers that it is to their advantage to concentrate on the major markets.

In part, this may be due to practical considerations. Many national firms have limited advertising budgets at their disposal and they concentrate their advertising on major markets where the bulk of their business lies. In part, certain products are preferred by people living in large cities rather than by the more conservative consumers in smaller urban centres or rural areas.

But when applied as a general principle, followed by most national advertisers, it raises a simple question of economics.

In these days of rising incomes and growing "affluence", people, whether they live in major cities or in other parts of the country, are potential customers. To concentrate on the most rewarding markets and to overlook the smaller ones, is a luxury that only the very successful company can afford. And such companies are usually successful because they strive to develop and meet demands for their products wherever such demand can be generated and economically met.

The question that needs answering is: Are consumers living outside the big urban centres in Canada part of a neglected market that is waiting to be tapped by Canadian business? And since the incomes of people living in smaller cities and

TABLE 3-5. — ADVERTISING EXPENDITURES AND POPULATION, RADIO AND TELEVISION, PRIVATELY OWNED, BY PROVINCE, CANADA, 1963.

PROVINCE	ADVERTISING EXPENDITURES			POPULATION Thous.	ADVERTISING EXPENDITURES PER CAPITA		
	RADIO \$ Mill.	TELEVISION \$ Mill.	TOTAL BROAD- CASTING \$ Mill.		RADIO \$	TELEVISION \$	TOTAL BROAD- CASTING \$
Newfoundland	} 1.5	} 3.7	} 8.3	481	} 2.55	} 1.89	} 4.24
Prince Edward Island				107			
Nova Scotia	1.6			756	2.12		
New Brunswick	1.5			614	2.44		
Quebec	14.2	12.0	26.2	5,468	2.60	2.19	4.79
Ontario	20.5	20.1	40.6	6,448	3.18	3.12	6.30
Manitoba	2.8	} 5.4	11.3	950	2.95	} 2.87	} 6.00
Saskatchewan	3.1			933			
Alberta	5.4	5.1	10.5	1,405	3.84	3.63	7.47
British Columbia	6.5	2.4	8.9	1,695	3.83	1.42	5.25
Canada	57.0	48.7	105.7	18,896 ¹	3.02	2.58	5.59

Source: Advertising expenditures from DOMINION BUREAU OF STATISTICS, *Radio and Television Broadcasting* 1963, 1965; population data from DOMINION BUREAU OF STATISTICS, *Canadian Statistical Review*, December 1965.

¹ Mid-Year; total includes Yukon and Northwest Territories.

towns and in rural areas, just as those of persons located in the metropolitan areas, are likely to rise significantly during the next decade, by something like 70 per cent (see Chapter 4), this growing affluence, widely spread, provides greatly expanded opportunities for businessmen to increase their sales in *every* part of Canada.

The use of increased advertising, including T.V. advertising, would be one way of tapping the expanding markets of the less densely populated areas of Canada. Such a trend towards making increased advertising expenditures in the so-called "minor" markets, as and when it materializes, could make a notable contribution to alleviate the plight that many small television operators face at present since they have to rely to a significant extent on local sales to make ends meet.

There is one other factor that may contribute to a change in the existing pattern of advertising practice — and that is the problem many advertisers face now in obtaining prime time commercials in major markets, and the situation is likely to become even more difficult over the next decade. This may make it necessary for firms wishing to avail themselves of additional television advertising coverage to turn to television stations serving smaller markets, and in some instances, involving a spill-over into larger markets.

Availability of prime advertising television time and more prosperous "minor" markets are likely to be two factors that could contribute to a change in the national broadcast advertising pattern, presently in effect in Canada.

PROVINCIAL DISTRIBUTION OF ADVERTISING EXPENDITURES.

About two-fifths of total broadcast advertising revenues received by stations go to Ontario, a little more than one-quarter to Quebec, a little less than one-quarter to the three Prairie Provinces, and the balance about equally divided between the four Atlantic Provinces and British Columbia, each receiving about 8½ per cent of the total (see Table 3-5).

On a per capita basis, Alberta broadcasting stations received the largest amounts of advertising expenditures, \$7.47, followed by Ontario, \$6.30, and Manitoba and Saskatchewan with an average of \$6.00. British Columbia which has one of the

TABLE 3-6. — NUMBER OF RADIO AND TELEVISION STATIONS PRIVATELY OWNED AND ADVERTISING EXPENDITURES PER STATION, BY PROVINCE, CANADA, 1963.

PROVINCE	NUMBER OF STATIONS			ADVERTISING EXPENDITURES PER STATION	
	RADIO	TELEVISION	TOTAL BROADCASTING	RADIO \$ Thous.	TELEVISION \$ Thous.
Newfoundland	} 7	} 10	} 40	} 214.3	} 370.0
Prince Edward Island					
Nova Scotia	14			114.3	
New Brunswick	9			166.7	
Quebec	54	12	66	263.0	1000.0
Ontario	79	18	97	259.5	1116.7
Manitoba	13	} 9	} 37	215.4	} 600.0
Saskatchewan	15			206.7	
Alberta	19	7	26	284.2	728.6
British Columbia	29	7	36	224.1	342.9
Canada	239	63	302	238.5	773.0

Source: DOMINION BUREAU OF STATISTICS, *Radio and Television Broadcasting 1963, 1965.*

highest per capita incomes in Canada, followed in fifth place, with \$5.25. Large amounts of advertising expenditures going to American border stations that beam commercials to that province is one explanation of the comparatively low per capita figure for British Columbia. Another reason is that private television commercial advertising is in a rather early stage of development in that province.

Quebec is in sixth place with \$4.79 and the broadcasting stations in the Atlantic Provinces follow with an average of \$4.24 (see Table 3-5).

Commercial revenues received by privately owned television stations are higher in Ontario, averaging \$1,116,000 per station, followed by Quebec with \$1,000,000, Alberta with \$729,000, Manitoba and Saskatchewan with \$600,000, the Atlantic regions with \$370,000 and British Columbia with \$342,000 (see Table 3-6).

In radio, Alberta leads the provinces in terms of average commercial revenue per stations, \$284,000. Quebec is in second place, \$263,000; followed by Ontario, \$260,000. British Columbia is next, \$224,000; then comes Manitoba, \$215,000 and Saskatchewan, \$207,000. The Atlantic Provinces show a range between \$114,000 and \$214,000 per station (see Table 3-6).

Alberta leads the provinces as the region attracting the highest broadcast advertising expenditures per capita in Canada. The question arises: Why? One answer is that the market in that province is a very buoyant and dynamic one, and Canadian business has been keenly interested in penetrating that market in depth, even though it comprises only about 7½ per cent of Canada's total, in terms of population and personal income. This point can be further illustrated by relating broadcast advertising expenditures to total personal income.

In 1963, broadcast advertising expenditures comprised 0.43 per cent of total personal income in Alberta, the highest proportion for any province in Canada. The Atlantic Provinces came next with 0.36 per cent, indicating that fairly high advertising expenditures are required to service the market that has the lowest per capita income in Canada. Manitoba and Saskatchewan follow with 0.34 per cent, Quebec with 0.32 per cent, and Ontario with 0.31 per cent. British Columbia with 0.26

BROADCAST ADVERTISING IN CANADA

CHART 5

BROADCASTING ADVERTISING EXPENDITURES, PER CAPITA
AND AS A PERCENT OF PERSONAL INCOME,
BY PROVINCES, CANADA, 1963

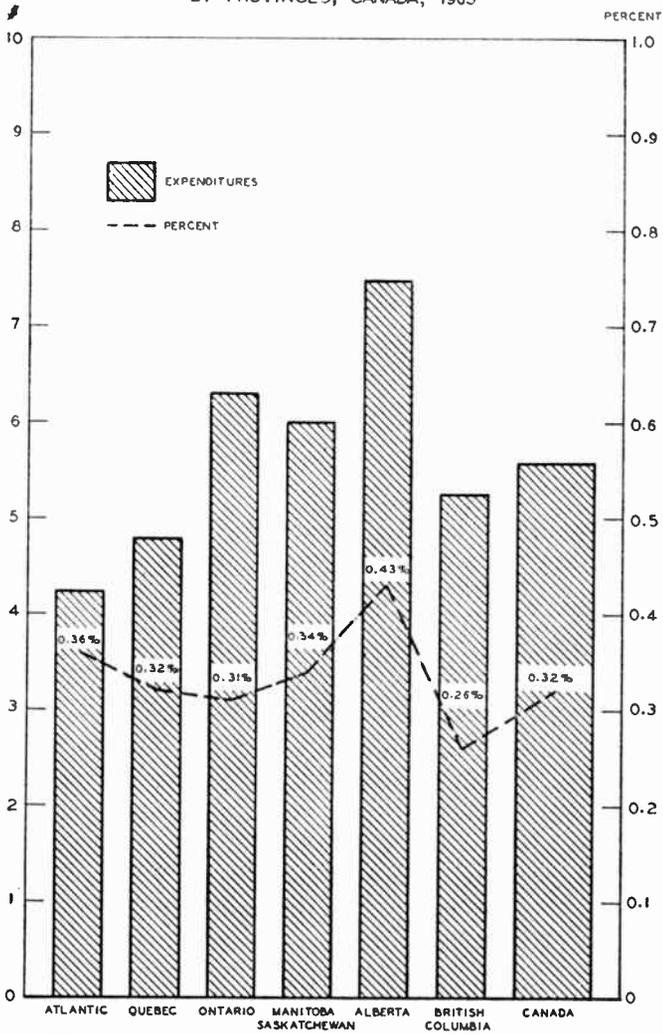


TABLE 3-7. — PERSONAL INCOME AND ADVERTISING EXPENDITURES, RADIO AND TELEVISION, PRIVATELY OWNED, BY PROVINCE, CANADA, 1963.

PROVINCE	PERSONAL INCOME \$ Mill.	ADVERTISING EXPENDITURES AS A PER CENT OF PERSONAL INCOME		
		RADIO	TELEVISION	TOTAL BROADCASTING
Newfoundland	485	} 0.25	} 0.16	} 0.36
Prince Edward Island	115			
Nova Scotia	976	0.16	} 0.15	} 0.32
New Brunswick	703	0.21		
Quebec	8,217	0.17	0.15	0.32
Ontario	13,022	0.16	0.15	0.31
Manitoba	1,597	0.18	} 0.16	} 0.34
Saskatchewan	1,746	0.18		
Alberta	2,460	0.22	0.21	0.43
British Columbia	3,346	0.19	0.07	0.26
Canada	32,793 ¹	0.17	0.15	0.32

Source: Personal Income from DOMINION BUREAU OF STATISTICS, *National Accounts 1964, 1965*; advertising expenditures from DOMINION BUREAU OF STATISTICS, *Radio and Television Broadcasting 1963, 1965*.

¹ Includes Yukon and Northwest Territories.

per cent is at the bottom of the range considerably *below* the Canadian average of 0.32 per cent (see Table 3-7 and Chart 5).

Since British Columbia's per capita income is 14 per cent *above* the Canadian average, two questions arise:¹⁵ One is whether adequate use is being made of the broadcast advertising services available in this province to capture the prosperous and high income markets of British Columbia. The other is whether broadcasting stations in that province, and that covers both television and radio, offer attractive enough services, appropriately priced, to compete as effectively with other media as appears to be the case in other parts of Canada — and that includes also competition with American border stations for the Canadian advertising dollar.

In raising these questions, the special situation facing television stations in British Columbia should be borne in mind. There is one American station, located in Bellingham, in the United States near the Canadian border which is primarily interested in the Vancouver market and only to minor extent in American markets. Since this station broadcasts many programs popular with residents in British Columbia, Canadian advertisers purchase substantial amounts of air time from this station which directs most of its advertising to Canadian audiences. Hence, the Bellingham T.V. station is unlike, say the three Buffalo stations which serve primarily the U.S. market and which obtain relatively small amounts of advertising from Canadian advertisers interested in reaching the Toronto market.

The special characteristics of the British Columbia market, as far as television advertising is concerned, show up also in the proportion of advertising revenues coming from local sales, 42 per cent as against a national average of 29 per cent (see Table 3-8). In Ontario, 28 per cent of advertising revenues of television stations came from local sales, with this ratio being lower for Quebec, 19 per cent.

The data suggest the heavy concentration of advertising budgets of national advertisers on the two central provinces,

¹⁵ The latest published figures are those for 1963. Information available from the industry suggest that there has been some relative improvement in the situation in British Columbia. If this is borne out, as and when more up-to-date statistics become available, the significant differences between British Columbia and the rest of Canada, showing up in the 1963 data, may be reduced.

contributing 71 per cent and 81 per cent respectively to total television commercial revenues. The British Columbia proportion of national television revenue, 58 per cent, is lower than that applying to the Prairie Provinces and the Atlantic region where the ratio is of the order of 65 per cent (see Table 3-8).

The figures presented raise more questions than they answer. But the fact that British Columbia seems to have been accorded a low priority in the judgment of national advertisers appears to be a matter not only of concern to broadcast operators located in that province, but also a matter for the advertisers and the advertising agencies advising them. For the question arises whether industry is not missing the boat for not exploiting more fully the sales potential of one of Canada's richest and fastest growing markets.

FRENCH LANGUAGE AND ENGLISH LANGUAGE STATIONS — ADVERTISING EXPENDITURES.

How are broadcast advertising revenues divided between French language and English language stations? Have commercial revenues of French language stations risen more rapidly than English language stations in the recent past, and what is the trend?

In 1963 Canada had 229 private radio stations. Of these, 49 were broadcasting in the French language, comprising 21 per cent, while the remaining 180 stations were broadcasting in the English language. Of the 49 French language stations, 28 were in a profit position while 21 stations experienced losses. Of the 180 English language stations, 128 reported a profit and 52, losses. Relatively more of the French language stations experienced losses than the English language stations, 42 per cent of the total for the former as against 29 per cent for the latter.

The 49 privately owned French language radio stations had a total income from advertising of \$11.3 million and from "non-time" sales of \$0.4 million or a total of \$11.7 million. The 180 English radio stations received from advertising \$45.7 million plus \$0.8 million for billings to sponsors for programming, etc., or a total of \$46.5 million.

Thus the French language radio stations represented about 20 per cent of total operating revenues of all radio stations in

TABLE 3-8. — NATIONAL AND LOCAL ADVERTISING EXPENDITURES, RADIO AND TELEVISION, PRIVATELY OWNED, BY PROVINCE, CANADA, 1963.

PROVINCE	RADIO				TELEVISION			
	National Expenditures \$ Mill.	Local Expenditures \$ Mill.	Total Expenditures \$ Mill.	Local Expenditures as Per Cent of Total Expenditures	National Expenditures \$ Mill.	Local Expenditures \$ Mill.	Total Expenditures \$ Mill.	Local Expenditures as Per Cent of Total Expenditures
Newfoundland	} 0.4	} 1.1	} 1.5	} 73.3	} 2.4	} 1.3	} 3.7	} 35.1
Prince Edward Island								
Nova Scotia	0.6	1.0	1.6	62.5	} 9.6	} 2.3	} 11.9	} 19.3
New Brunswick	0.5	1.0	1.5	66.7				
Quebec	6.5	7.7	14.2	54.2	} 14.4	} 5.7	} 20.1	} 28.4
Ontario	9.7	10.8	20.5	52.7				
Manitoba	1.2	1.6	2.8	57.1	} 3.5	} 2.0	} 5.5	} 36.4
Saskatchewan	1.0	2.1	3.1	67.7				
Alberta	1.7	3.7	5.4	68.5	} 3.3	} 1.8	} 5.1	} 35.3
British Columbia	2.1	4.4	6.5	67.7				
Canada	23.7	33.3	57.0	58.4	34.5	14.2	48.7	29.2

Source: DOMINION BUREAU OF STATISTICS, *Radio and Television Broadcasting 1963, 1965.*

Canada amounting to \$58.2 million.¹⁶ In terms of net revenues, French language stations obtained 17 per cent of the total.¹⁷

While privately owned French language radio stations appear on an average not to be doing quite as well as English language radio stations, the situation is reversed in the television field, at least as far as available records show.¹⁸ In 1963 there was a total of 61 television stations operating in Canada. Of these, 11 were televising in French and 50 in English. Of the 11 French language stations, 8 were in a profit position and 3 were in a loss position. Of the 50 English language television stations, 40 were in a profit position and 10 in a loss position.

The 11 privately owned French language television stations had in 1963 a total commercial revenue from advertising of \$9.3 million, and they obtained an additional \$2.2 million from billings to sponsors for broadcasting facilities and programs. Thus their total operating income amounted to \$11.5 million. The 50 privately owned English language television stations recorded an income from "time" sales of \$37.7 million and from "non-time" sales of \$3.8 million, or a total income of \$41.5 million.¹⁹ Hence, French language television stations accounted for about 22 per cent of the total operating revenues of all privately owned television stations in Canada in 1963, amounting to \$53 million, a slightly higher proportion than is indicated for radio stations. A study prepared for the Committee on Broadcasting observed:

French language television stations are doing much better than the English language stations. During 1963, 11 French language stations operated at a combined net profit of \$1,755,000 after income tax, while 50 English language stations operated at a combined net profit of only \$1,290,000 after income tax. Undoubtedly the fact that the "second" stations in major centres only commenced operations in 1960 or 1961 would be a factor affecting this comparison; of the "second" stations licensed in 1960, 7 were English language and only 1 was French language.²⁰

¹⁶ Excluding "non time" sales, commercial revenues amounted to \$57.4 million (*ibid.*, p. 387).

¹⁷ *Ibid.*, p. 373.

¹⁸ The analysis is based on data up to and including 1963. English language television stations appear to have improved their financial position in the last several years, particularly "second" stations in major cities.

¹⁹ *Ibid.*, p. 389.

²⁰ *Ibid.*, p. 373.

The following data illustrate the varying rates of growth in commercial revenues from advertising as between French language and English language stations for the years 1961 to 1963:

	French Language Stations		English Language Stations	
	\$ Mill.		\$ Mill.	
	1961	1963	1961	1963
Radio	9.3	11.3	38.5	45.7
Television	5.7	9.3	28.9	37.7
Total	<u>15.0</u>	<u>20.6</u>	<u>67.4</u>	<u>83.4</u>

The French language broadcasting stations show an increase in advertising revenues of 37 per cent as against 24 per cent for English language stations.

In 1961 privately owned French language broadcasting stations obtained 18.4 per cent of all advertising revenues going to private stations, with this proportion rising to 19.8 per cent in 1963.

It bears emphasis that the data used above are those prepared for the Committee on Broadcasting. The data are not fully comparable with the data published by the Dominion Bureau of Statistics, used for the most part in the present study (see Appendix A). However, the D.B.S. data support the conclusion that French language broadcasting stations have expanded more rapidly in terms of advertising revenues than the English language stations.

For example, advertising expenditures received by privately owned stations in the Province of Quebec, where almost all French language broadcasting stations are located, covering both radio and television, rose from \$11 million in 1958 to \$28.2 million in 1963, or by 138 per cent. The comparable figures for Canada as a whole are \$56.8 million and \$105.7 million, representing an increase of 86 per cent. One of the reasons for the more rapid growth of advertising revenues received by broadcasting stations in Quebec has been the more rapid growth of the market in that province, the result of a more dynamic rate of economic expansion in the more recent period in that province

than in Canada as a whole. This is illustrated by increases in terms of total personal income and personal income per capita:

	Total Personal Income \$ Mill.		Personal Income per Capita \$	
	1958	1963	1958	1963
Quebec	6,353	8,217	1,295	1,503
Canada	26,036	32,793	1,524	1,735

The data indicate that over the five year period 1958 to 1963, Quebec's total personal income rose by 29 per cent, while that of Canada increased by 26 per cent. On a personal income per capita basis the comparable increases are 16 per cent and 13½ per cent, respectively.

The question arises whether this improvement in the ratio of advertising revenues received by French language broadcasting stations to total will continue in the future. This question is dealt with in presenting in Chapter 6 projections of commercial revenues that may become available to private French language and English language broadcasting stations in Canada in 1970 and 1975.

BROADCASTING TRENDS — CANADA AND U.S.A.

A few key ratios of the relative importance of different advertising media in relation to differentials in size of markets between Canada and the United States raise some interesting questions.

Canada as a Per Cent of U.S.A.

Population	10
Gross National Product	7 1/2
Total Advertising Expenditures	5
Radio Advertising Expenditures	8
Television Advertising Expenditures	4

The general reasons for the significant differences in advertising budgets used by Canadian business, as compared with U.S. business, were discussed in Chapter 1. But on examination, it appears that advertising in the broadcasting sector shows up a different pattern.

Revenues received by Canadian radio stations compare favourably with those received by U.S. stations. The proportion is 8 per cent. It is higher than the Gross National Product ratio

TABLE 3-9. — GROSS NATIONAL PRODUCT AND RADIO AND TELEVISION ADVERTISING EXPENDITURES, CANADA, 1950-1965.

Year	ADVERTISING EXPENDITURES			Total Broadcasting \$ Mill.	ADVERTISING EXPENDITURES AS A PER CENT OF GROSS NATIONAL PRODUCT		
	Gross National Product \$ Bill.	Radio \$ Mill.	Television \$ Mill.		Radio	Television	Broadcasting
1950	18.0	24.0	—	24.0	0.133	—	0.133
1951	21.2	26.2	—	26.2	0.124	—	0.124
1952	24.0	28.3	0.5	28.8	0.118	0.002	0.120
1953	25.0	30.2	1.3	31.5	0.121	0.005	0.126
1954	24.9	31.7	8.6	40.3	0.127	0.035	0.162
1955	27.1	32.7	13.4	46.1	0.121	0.049	0.170
1956	30.6	38.8	27.1	65.9	0.127	0.089	0.215
1957	31.9	40.6	32.3	72.9	0.127	0.101	0.229
1958	32.9	43.6	37.8	81.4	0.133	0.115	0.247
1959	34.9	48.2	47.7	95.9	0.138	0.137	0.275
1960	36.3	50.4	50.0	100.4	0.139	0.138	0.277
1961	37.5	49.8	54.1	103.9	0.133	0.144	0.277
1962	40.6	53.8	61.7	115.5	0.133	0.152	0.284
1963	43.2	59.1	70.2	129.3	0.137	0.163	0.299
1964 ¹	47.0	65.2	81.0	146.2	0.134	0.172	0.311
1965 ¹	51.5	68.6	91.0	159.6	0.133	0.177	0.310

Source : Data on advertising expenditures from DOMINION BUREAU OF STATISTICS, *Radio and Television Broadcasting*, 1963, and earlier issues; and supplementary estimates from MACLEAN-HUNTER RESEARCH BUREAU, *A Report on Advertising Revenues in Canada*, Toronto, October 1965 : data on Gross National Product from DOMINION BUREAU OF STATISTICS, *National Accounts*, 1926-56, 1962 and 1965.

¹ Preliminary estimates.

TABLE 3-10. — GROSS NATIONAL PRODUCT AND RADIO AND TELEVISION ADVERTISING EXPENDITURES, UNITED STATES, 1950-1965.

Year	Gross National Product \$ Bill.	ADVERTISING EXPENDITURES			ADVERTISING EXPENDITURES AS A PER CENT OF GROSS NATIONAL PRODUCT		
		Radio \$ Mill.	Television \$ Mill.	Total Broadcasting \$ Mill.	Radio	Television	Broadcasting
1950	284.6	605	171	776	0.213	0.060	0.273
1951	329.0	606	332	938	0.184	0.101	0.285
1952	347.0	624	454	1,078	0.180	0.131	0.311
1953	365.4	629	606	1,235	0.172	0.166	0.338
1954	363.1	565	804	1,369	0.156	0.221	0.377
1955	397.5	545	1,025	1,570	0.137	0.258	0.395
1956	419.2	567	1,207	1,774	0.135	0.288	0.423
1957	442.8	619	1,273	1,892	0.140	0.287	0.427
1958	444.5	616	1,354	1,980	0.139	0.305	0.445
1959	482.7	643	1,510	2,153	0.133	0.313	0.446
1960	502.6	692	1,590	2,282	0.138	0.316	0.454
1961	518.7	683	1,691	2,374	0.132	0.326	0.458
1962	556.2	736	1,897	2,633	0.132	0.341	0.473
1963	583.9	789	2,032	2,821	0.135	0.348	0.483
1964 ¹	628.7	830	2,236	3,066	0.132	0.356	0.488
1965 ¹	671.0	889	2,497	3,386	0.133	0.373	0.506

Source : Gross National Product from *Economic Report of the President*, Washington, D.C., 1965 and *Economic Indicators*, November 1965, Council of Economic Advisors, Washington, 1965; Advertising Expenditures from U.S. DEPARTMENT OF COMMERCE, *Statistical Abstracts of the United States*, Washington, 1965 and earlier issues; and "Ad Volume Increased 6.8% in 1965", in *Printer's Ink*, February 11, 1966, pp. 9 and 12.

¹ Preliminary estimates.

of 7½ per cent or the general advertising ratio of 5 per cent. On the other hand, television advertising in Canada is far behind the progress made in the United States in relative terms. The ratio is 4 per cent or half that of radio advertising.

Changes in trends that have brought about these results are noteworthy. In 1965, radio advertising as a proportion of Gross National Product amounted to 0.133 per cent in Canada, about the same ratio as in the United States. In 1950, however, the U.S. ratio was considerably greater, 0.213 per cent while the Canadian ratio was about the same as in 1965, 0.133 per cent.

In television, on the other hand, the U.S. ratio in 1964 was 0.356 per cent as against 0.177 per cent for Canada, or about twice as great (see Tables 3-9 and 3-10).

What the data suggest is that radio advertising in Canada has held up well against the competition from television advertising while in the U.S. radio advertising has lost, in relative terms, considerable ground, largely gained by television.

Since television advertising in relation to Gross National Product in the United States is about twice as much as it is in Canada, the data bring out the possibility that Canadian television stations have a substantial untapped potential of obtaining additional advertising dollars from business firms operating in Canada, and from institutions and public authorities.

One of the reasons for Canadian television not making as much progress in obtaining a proportion similar to the United States — or one that comes near it — of advertising dollars is to be found in the “mixed” character of the Canadian broadcasting system. For the publicly owned C.B.C. depends on commercial revenues for less than 25 per cent of its operating costs while privately owned television stations and the privately owned network, C.T.V., depend entirely on commercial revenues. In the U.S.A. all three networks and individual stations depend on commercial activities for their continued operations. As the figures presented earlier in this Chapter show, about three-fifths of the C.B.C. television programs in 1965 were either not available for sponsorship or they were available but had not obtained sponsorship. Further, as it has been explained in Chapter 2, the C.B.C. as a rule charges lower commercial rates

than private television stations, with cost per thousand in many instances about one-third below comparable rates charged by private television operators.

While, no doubt, the private television stations in Canada do not sell all the advertising time they have available and their rate cards are generally below those of U.S. television stations in terms of cost per thousand, the fact that the C.B.C., partly because of policy and partly because of circumstances, does not sell as much time for sponsored programs as do private stations in Canada, or the networks and private stations in United States, relatively speaking, is one contributing factor to the significant differentials noted above.

The low ratio of television advertising to Gross National Product in Canada as compared with U.S. suggests that there is room for further improvement in the future (see Chart 6). This possibility has been taken into account in preparing the projections of television advertising expenditures in Canada for 1970 and 1975, presented in Chapter 6.

FINANCIAL OPERATIONS — PRIVATE BROADCASTING STATIONS.

The examination of trends of broadcast advertising expenditures in Canada confirms the general impression that the broadcasting industry is a growth-industry — an industry that has made spectacular strides in the last decade and that is destined to achieve much greater feats in the future.

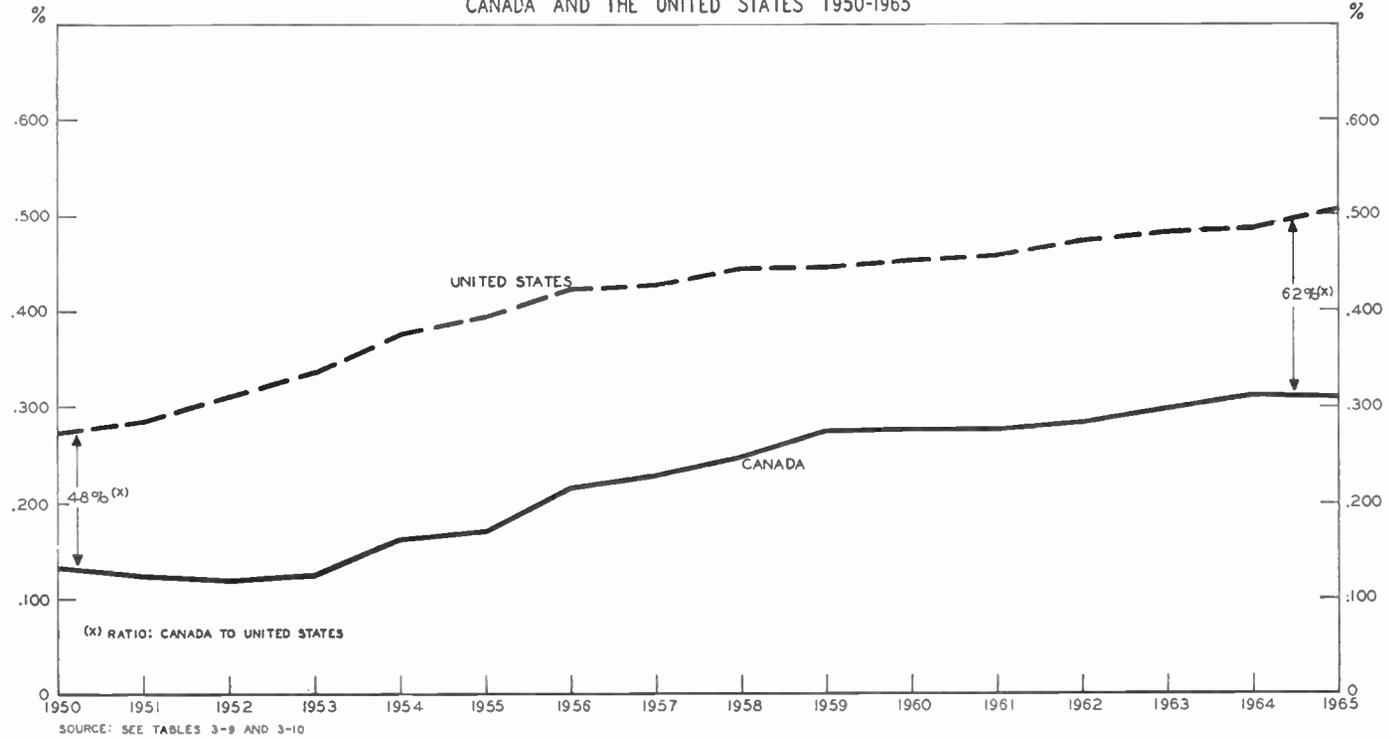
To establish whether this is likely to be the case, there is need to examine the motivations that have led to the growth of the industry and that may be indicative of the course the industry might follow in the future.

To examine first the private sector: the private radio stations, the independent private television stations, the private television stations affiliated with the C.B.C., and the private television network, C.T.V.²¹

Private broadcasters are motivated, like all successful entrepreneurs, to operate a profitable business. A number of

²¹ In Canada, only one English language station, CHCH-TV in Hamilton, is not affiliated with a network.

CHART 6
RADIO AND TELEVISION ADVERTISING EXPENDITURES AS A PERCENT OF GROSS NATIONAL PRODUCT
CANADA AND THE UNITED STATES 1950-1965



operators have in fact been successful. Others have turned the corner moving from a loss position lasting up to five years into profit position, while others continue to lose money, mainly operators in small communities where limitations of geography and economics combine to present strong retarding factors to a successful operation — except perhaps over the very long term.

The Committee on Broadcasting has summarized the financial achievements of the private broadcasting industry in these terms:

Briefly, private radio stations, taken together, improved their operating results by 50% in 1962 over 1961, and maintained their net profit position in 1963. Private television stations as a group moved from a loss position of over \$4.5 million in 1961 to a profit position of over \$3 million in 1963. These industry totals naturally hide the fact that some stations show a loss while others show a profit, but the number of the former is shrinking and the private broadcasting industry, both in radio and television, is showing substantial financial improvement.²²

The greatest success has been achieved by radio stations operating in eight major markets, with some stations having pre-sold the advertising time of 1500 commercials per week, allotted by the Board of Broadcast Governors, three to six months ahead. The most successful stations are the highest-rated stations in each market, with the other stations participating in the advertising dollar on a declining scale. This has the effect of the stations vigorously competing for the remaining advertising dollars, with the third, fourth, and fifth radio stations making either a modest profit or operating at a loss. In intermediate and small markets, because the advertiser concentrates on major markets, opportunities for expansion are limited and returns to radio operators in most instances quite moderate.

The financial consultants assisting the Committee on Broadcasting have provided supplementary information relating to the financial results of private radio and television operators in Canada. Some key data covering the year 1963 from their report to the Committee are reproduced below:²³

²² *Report of the Committee on Broadcasting, op. cit.*, p. 230.

²³ *Ibid.*, pp. 374 and 375.

<i>Radio</i>	English Language Stations \$ Thous.	French Language Stations \$ Thous.
Investment in plant and equipment net of depreciation	19,003	5,178
Net income after tax (less losses) of all stations	1,986	407
Percentage of net income to investment	10.5	7.9
<i>Television</i>		
Investment in plant and equipment net of depreciation	30,224	6,192
Net income after tax (less losses) of all stations	1,290	1,755
Percentage of net income to investment	4.3	28.3

Adding up the net income figures for 1963, as given above, yields a total of \$5.5 million. Advertising expenditures received by private stations in 1963 amounted to \$105.7 million and other non-operating revenues to \$6.1 million for a total of \$111.8 million (see Table 3-3). Hence, net income amounted to about 5 per cent of commercial revenues received by privately owned broadcasting stations. This ratio appears to be rising as some broadcasting stations have been moving into a profit position in the last few years and as other companies were able to consolidate and improve their operations.

Still, as the data from another source show, a fairly large number of broadcasting companies were losing money in 1963. The Department of National Revenue reported that out of a total of 356 radio and television broadcasting firms, 128 were loss companies and 228 were profit companies (see Table 3-11).

The 356 firms had total gross assets of \$186 million, revenues of \$127 million²⁴ and profits before taxes of about \$9 million.²⁵ The rapid growth of the private broadcasting industry

²⁴ Revenues as per Department of National Revenue of \$127 million differ from revenues as per Dominion Bureau of Statistics of \$112 million. There are several reasons for this difference. These include variations in the ending of the taxation year as compared with the calendar year, the reporting on an enterprise rather than establishment basis, etc.

²⁵ Profits of \$9 million, as per Department of National Revenue, are before income tax, while data on net income of \$5.5 million, prepared

and its need to marshal substantial sums of money for investment are indicated by the fact that in the five-year period, the number of firms in the broadcasting business increased by 25 per cent, total assets of the industry rose by 91 per cent and revenues by 112 per cent. Profits rose somewhat more slowly, 20 per cent over the period (see Table 3-11).

While some broadcasting companies in Canada have been doing well and the prospects are for an increasing number to do so in the light of the rapid rate of growth in the demand for the services they can provide (see Chapter 6), available data indicate that as an industry broadcasting has so far not done as well as some other industries. This can be illustrated by the latest available data of the ratio of profits to gross assets taken from the records of the Department of National Revenue for the year 1963. This ratio amounted to 4.8 per cent for broadcasting, compared with 5.2 per cent for the manufacturing sector and 9.2 per cent for electric utilities, between 5.4 per cent and 5.7 per cent for some transportation sectors, and 4.9 per cent for telephones. The proportion for the utility sector as a whole was 4.6 per cent, mainly because of the low profit ratio for the railways which with the largest assets of any utility sector showed only a 1.8 per cent return on their investment (see below).²⁶

	<i>Profits as Per Cent of Assets</i>
<i>Broadcasting</i>	4.8
<i>Utilities</i>	
Telephones	4.9
Electricity	9.2
Railways	1.8
Truck Transport	3.5
Bus Transport	5.4
Urban Transport	4.4
Pipe Lines	4.4
Other Transport	5.7
Sub-Total	4.6
<i>Manufacturing</i>	5.2

by the Financial Consultants for the Committee on Broadcasting, are after taxes. There are other reasons for the differences and some of these are referred to in footnote 24 above.

²⁶ Compilation based on *Taxation Statistics 1965*, Ottawa, Department of National Revenue, 1965.

TABLE 3-11. — NUMBER OF BROADCASTING FIRMS, ASSETS, REVENUES, AND PROFITS AND LOSSES, CANADA, 1958 AND 1963.

ITEM	1958			1963		
	PROFIT COMPANIES	LOSS COMPANIES	TOTAL COMPANIES	PROFIT COMPANIES	LOSS COMPANIES	TOTAL COMPANIES
Number	149	56	205	228	128	356
Assets ¹ — \$Mill.	74	23	97	135	51	186
Revenues — \$Mill.	51	9	60	98	29	127
Profits ² (Losses) — \$Mill.	8.3	(0.8)	7.5	11.6	(2.6)	9.0
Ratio of Profits (Loss) to						
Assets	11.2	3.5	7.7	8.6	5.1	4.8
Revenues	16.3	8.9	12.5	11.8	9.0	7.1

Source: *Taxation Statistics, 1960 and 1965*, Ottawa, Department of National Revenue, 1960 and 1965.

¹ Gross assets, i.e. net assets plus depreciation reserves.

² Before income tax.

The question arises whether the fact that over one-third of the broadcasting companies in Canada are loss companies and that the ratio of profits to assets in this industry is lower than in a number of other industries, is indicative of broadcasting still being in the infant industry stage. The different mix of the broadcasting industry makes it difficult to generalize. For some radio broadcasting firms have been in business for several decades while some private television companies, although of more recent origin, have turned out to be much more profitable ventures than the average ratio of profits to assets for the broadcasting industry as a whole would indicate. The fact that there are so many loss companies operating in the broadcasting field and that the ratio of profits to assets — on the basis of available data — is comparatively low could also be explained by the existence of a large number of marginal firms which are operating on a thin economic base, mainly the result of inadequate access to the advertising market and/or stiff competition from larger operators and from other communication media.

But the improved financial situation of many broadcasting firms since 1963, the year to which the data analyzed above apply, and the prospects of a substantially expanded advertising market that can be foreseen for the next decade (see Chapter 6) suggest that if some parts of the broadcasting fraternity are still in the infant industry stage, that stage is passing quickly. The industry as a whole — and this observation refers to the private sector — is likely to develop over the next decade into a more rapidly growing, economically stronger and financially more rewarding group of enterprises than it has been in the past. In other words, over the next decade the broadcasting sector in Canada will have left its infant industry stage behind — enjoying all the opportunities and facing all the responsibilities that stem from being a successful growth industry in Canada.

To achieve this objective, the broadcasting industry will have to expand considerably and it will require substantial sums of money for investment purposes.

To achieve the financial results indicated above, private broadcasting stations have invested over \$60 million in capital projects during the last six years averaging about \$10 million a year.²⁷

²⁷ Total capital expenditures made by broadcasting stations in Canada amounted to \$106 million for the period 1960 to 1965. (The

Considerably greater capital expenditures will be required from private broadcasting stations over the next five years, up to three times as much as the average expenditures made by these stations in the recent period, and this matter is examined further in Chapter 6. But what can be said here is that the financial results of private broadcast operators in Canada, and particularly the improvement taking place more recently, for which full data are still lacking, assure two things:

1. The motivations for striving to continue vigorous expansion in the future are strong.
2. The means to finance such operations are virtually assured in most instances, partly because of the improved income and profit position of a large number of private operators, and partly because of the spectacular growth prospects in sight for the next decade, as illustrated by the projections of advertising revenues for the period up to 1975 (see Chapter 6).

FINANCIAL OPERATIONS — C.B.C.

The C.B.C. is motivated by the authority it has received from the Parliament of Canada of "operating a national broadcasting service". What this involves has been spelt out on many occasions in Parliament, by the Government of Canada, by various Royal Commissions and Committees and by the C.B.C. itself.²⁸ There is no need to repeat these various statements

data are from *Private and Public Investment, Outlook 1965*, White Paper, Department of Trade and Commerce, Ottawa, 1965, and earlier issues.) Capital expenditures by the C.B.C. for the same period are given as \$45 million (see *Report of the Committee on Broadcasting, op. cit.*, p. 291). Even though the two sets of data are not fully comparable, they are indicative of the capital expenditures which were made by private broadcasting stations. The data suggest that these capital expenditures may have involved over \$60 million during the six-year period.

²⁸ The latest version of the mandate which the C.B.C. conceives as having received from Parliament has been explained in these terms: "(a) to be a complete service, covering in fair proportion the whole range of programming; bringing things of interest, value, and entertainment to people of all tastes, ages, and interest, and concentrating on some aspects of broadcasting to the exclusion of others; (b) to link all parts of the country in two ways: (1) through the inclusion of a wide variety of national and common interests in its program services; (2) by using its physical resources to bring the national program service to as many Canadians as finances allow; whether Canadians live in remote or heavily populated areas the national system should serve them as adequately and equitably as possible; (c) to be predominantly Canadian in content and character; it should serve Canadian needs and bring Canadians in widely separated parts of the country closer together, contributing to the development and preservation of a sense of national unity; it must provide for

or the different interpretations given. For the purpose of this examination it may suffice to say that the C.B.C. as a public corporation must in the first instance develop objectives and pursue policies which further the national interest, allowing for changes in the meaning and interpretation as to what constitutes the "national interest" and how it can best be served. In this context, commercial considerations must come second. The extent to which the operations of the C.B.C. will be financed from commercial revenues will therefore depend on what may be required to assist the C.B.C. to achieve its prime objective of "operating a national broadcasting service".

During the period 1960 to 1965 gross annual expenditures by the C.B.C. amounted to \$647 million, equivalent to an annual average of \$108 million for the six-year period.²⁹ Of the total of \$647 million about \$206 million were financed from commercial revenues, with the balance of \$441 million coming from public sources.

During the same period, the C.B.C. spent a total of about \$45 million on capital expenditures or an average of \$7½ million annually.³⁰ This compares with an average of about \$10 million a year spent on capital projects by private broadcasters.

The C.B.C. has announced its expansion plan for the period 1966 to 1970. These would have the effect of increasing substantially the corporation's annual operating and capital costs. The C.B.C. has further put forward proposals as to the extent to which the increased operating expenditures should be met from commercial revenues. The implications of the proposals advanced by the C.B.C. and the related recommendations made by the Committee on Broadcasting are referred to in Chapter 6, insofar as they have a bearing on the projections on broadcast advertising expenditures in Canada for the period to 1975.

a continuing self-expression of the Canadian identity; (d) to serve equitably the two main language groups and cultures and the special needs of Canada's various geographical regions and actively contribute to the flow of information, entertainment and understanding between cultures and between regions" (*Report of the Committee on Broadcasting, op. cit.*, p. 124).

²⁹ *Ibid.*, p. 288.

³⁰ *Ibid.*, p. 291.

IMPLICATIONS.

The examination of trends of broadcast advertising expenditures in Canada, presented in this Chapter, suggests in the main three conclusions:

1. Broadcast advertising expenditures have been rising rapidly, with the most substantial growth rate indicated for television, but with radio operations being able to hold their own and succeeding in retaining their share of total advertising revenues.

2. Progress in the growth of the broadcast advertising business, while continuous for both radio and television, was uneven, with some regions particularly the central provinces and some of the prairie provinces doing much better than the rest of Canada.

3. The rate of growth of broadcast advertising expenditures, while remarkable, was less — and this applies particularly to television since radio put in a creditable performance — than the progress made in the United States suggesting that there may exist much greater and more diversified opportunities for Canadian television to do well in the next decade than has been the case in the last decade.

What these opportunities are in terms of Canada's growing market, much greater advertising budgets contemplated by business and governments, and the increased flow of commercial revenues to the broadcast advertising industry are spelled out in Chapters 4 to 6.

CHAPTER 4

Canadian Economy - Future Growth

INTRODUCTION.

Businessmen spend money on advertising, as explained in Chapter 1, in their endeavour to facilitate and to improve the marketing of goods and services, with the ultimate objective to increase the profitability of their operations. Other groups pursue non-profit objectives, such as governments and public institutions, e.g. hospitals, universities, etc. These institutions make advertising expenditures to convey messages to the public, to assist in the implementation of their programs, e.g. the Bank of Canada advertising the sale of savings bonds, municipalities reminding local taxpayers of the date of their tax payments, or universities informing students of the courses offered, date of registration, etc.

As the economy expands, advertising expenditures will increase. As was demonstrated in Chapter 1, there is no perfect relationship in the rate of increase between total economic activity and advertising expenditures. In some years, while total economic activity was levelling off or declining moderately, total advertising expenditures in Canada continued their upward trend. On the other hand, in some years the economy as a whole moved up more rapidly than did advertising expenditures. There are a number of reasons for these divergencies which are more pronounced over the short term than over the long term and these were explained in Chapter 1.

Looking at the long-trend, advertising expenditures in Canada have been running somewhat ahead of the growth of the economy. For example, Gross National Product in current dollars rose from \$18 billion in 1950 to \$51.5 billion in 1965, or by 186 per cent, while gross advertising expenditures increased from \$234 million to \$733 million, or by 213 per cent over the same period. Hence, if the objective is to assess the potential of advertising expenditures for a future period, it is essential to arrive at an understanding about the future growth of the

economy. Past experience substantiates the claims that one of the strongest factors contributing to the rise of advertising expenditures is the expansion of the market, which in turn depends on the growth of the economy.

What is meant by "economic growth" ?

How is "economic growth" measured ?

How can future "economic growth" be assessed ?

The sections that follow provide some brief answers to these three questions. They are not an attempt to review the literature on the subject but to present a thumbnail sketch of some of the considerations involved so as to provide background information relating to the future growth of the Canadian economy and to total advertising expenditures in this country.

Following this, an explanation of the methods used in making economic projections and their meaning is offered. Then economic projections for Canada are presented for the period 1965-1975. A comparison of Canada's future market with the U.S. market concludes the Chapter. It provides a basis for developing the projections of advertising expenditures for Canada for the years to 1975.

The level of economic activity that Canada may reach by 1970 and 1975, illustrates the total market potential for future sales by business in Canada. The growth of the market in turn provides the basis to prepare estimates of gross and net advertising expenditures in Canada for the period 1965-1975. This is done in two stages.

First, an analysis is presented with supporting evidence setting out ten reasons why Canadians are likely to spend considerably more on advertising expenditures in the future than they have done in the past. Secondly, estimates are presented of the level which advertising expenditures in Canada may reach between 1970 and 1975. Projections are provided for gross advertising expenditures, advertising agency commissions and net advertising expenditures. This forms the contents of Chapter 5 which concludes with a brief assessment of the implications of the economic growth and advertising expenditure projections presented.

MEANING OF ECONOMIC GROWTH.

Economic growth is the resultant of human effort in making use of the productive capabilities of a nation. Human effort involves the work performed by individual Canadians in pursuit of economic rewards. The nation's productive capabilities represent a potential output that can be realized through an effective combination of human efforts applied to natural resources, using physical capital accumulated and evolving scientific, technical, managerial and organizational know-how.

Economic growth may be expressed as "an increase in the gross real production and income available to the residents of a nation — an increase in its real Gross National product".¹

What are the sources of economic growth? The Economic Council of Canada answered this question in these terms:

The long-term expansion of the potential output or productive capacity of the economy may be traced ultimately to two main sources: first, an increase in the quantity of productive resources which can be put to use in the economy; and second, an increase in the productivity of these resources stemming from improvements in their quality and in the efficiency of their use.²

Past historical records suggest that the economic growth of most countries takes place at varying annual rates. At times economic growth is interrupted for periods of varying lengths, some short and some long, depending on the vagaries of the business cycle. The latter has been described as a "pervasive phenomenon" in North America.

The timing of turning points as well as the dimensions, durations and basic characteristics of cyclical movements, have been remarkably similar in Canada and the United States. Consequently if the United States were to continue to experience short-term cycles in the future, it would appear most unlikely that we could avoid similar cyclical patterns in Canada. Nevertheless, it is extremely important that elements of cyclical instability emanating from the United States economy should not be aggravated by forces and influences within our own control. This requires, among other things,

¹ T. M. BROWN, *Canadian Economic Growth*, Report to the Royal Commission on Health Services, Ottawa, Queen's Printer, 1965, p. 16.

² *Towards Sustained and Balanced Economic Growth*, *op. cit.*, pp. 45 and 46.

the maintenance of steadier rates of growth in business investment, better planning of government expenditure, and the avoidance of sharp movements in prices and costs.³

The Economic Council of Canada has emphasized the necessity to pursue economic policies aimed at minimizing the effects of economic fluctuations if continuing economic growth is to be achieved. To quote:

We are concerned about avoiding the distortions which it feeds upon, as well as the disturbances and dislocations which it creates. This is especially so, since both near its peaks and its troughs it tends to generate conditions which frustrate the simultaneous attainment of the basic economic objectives with which we are concerned. Thus, we believe that it is vitally important to aim to achieve a pattern of future economic development in which cyclical movements are consistently dominated by growth trends in production, income and employment [...]. The objective should be sustained prosperity. Steady economic growth is the best way to avoid recessions.⁴

In a dynamic economy "steady" economic growth may not be fully realizable if "steady" is defined as an approximately similar rate of increase in total output by a nation from year to year. The productive capacity of a nation may expand more rapidly in one year than in another year and the rate at which this capacity is used may, in turn, vary.

[Continuing economic growth thus] requires achieving and maintaining a balanced advance of demand and productive capacity. Notwithstanding the long historical record of periodic recessions or depressions, there is much evidence in economic analysis and in postwar experience, both here, and abroad, that such a balance can be maintained.

Experience and logic also warn us, however, that balanced growth seldom sustains itself automatically. Fiscal and monetary policies must be continuously adjusted to keep the aggregate demand for goods and services in line with the economy's growing capacity to procure them. Flexible use of monetary and fiscal measures is one of the factors responsible for the steadiness of postwar economic progress in other industrial countries of the free world.⁵

³ ECONOMIC COUNCIL OF CANADA, *Economic Goals for Canada to 1970*, First Annual Review, Ottawa, December 1964, p. 193.

⁴ *Ibid.*, pp. 192 and 193.

⁵ *Economic Report of the President*, Washington, D.C., United States Government Printing Office, 1965. p. 96.

While achieving “balanced advance of demand and productive capacity” is an essential requirement to “steady” economic growth, past experience suggests that both Canada and the United States, as most other industrialized countries of the world, have found it difficult to maintain “sustained and balanced economic growth” over any length of time. On this point the Economic Council of Canada observed:

The peaks and troughs of business fluctuations in Canada have rarely diverged by as much as three months from the corresponding turning points in the United States economy. This similarity in timing extends back to the decades immediately following Confederation, even though trade and other ties with the United Kingdom were then relatively much stronger and those with the United States relatively much weaker. Moreover, many characteristics of the cyclical expansions and contractions in the two countries have been broadly similar.⁶

However, one encouraging feature of the economic fluctuations in North America since the end of World War II should be noted. Both in Canada and in United States, the periods of economic expansion have become longer and the periods of economic contraction have become shorter and less intense. This emerging pattern suggests that “compared with previous experience there has been greater stability in the economic growth of both Canada and the United States”⁷ in the post-war period than in earlier years.

But even with the more encouraging pattern of economic growth evolving in the more recent period, one of the key problems facing Canada, as is the case in other countries, is how to encourage *continuing* economic growth.

Continuing economic growth requires making full and productive use of available manpower, enterprise, capital and natural resources. It means ensuring a high level of demand for goods and services to make adequate use of the existing and expanding economic potential of the country.

Demand for goods and services will either come from the private and/or the public sector. It will come from domestic sales and/or foreign sales. If demand forthcoming from the

⁶ *Towards Sustained and Balanced Economic Growth, op. cit.*, p. 144.

⁷ *Ibid.*, p. 147.

private sector is inadequate, additional demand forthcoming from the public sector will speed up the rate of economic growth. If insufficient demand for goods and services from abroad is slowing down economic growth because of a drop in exports, expanding domestic demand can be used as an offset.

Some resources can be transferred fairly readily from serving one purpose to serving another. When there is a decline in private building, say of industrial plants and commercial buildings, construction workers could be employed in building houses or in erecting government buildings.

This ease of transferability of resources does not exist in many areas, where an attempt might be made to replace foreign demand by domestic demand. For example, when Canadian sales of uranium were severely cut back it was quite apparent that this country could not keep on stockpiling uranium in perpetuity and that sooner or later other ways would have to be found of employing the men laid off as a result of a decline in foreign sales. Some difficulties are also encountered when society endeavours to transfer resources devoted to capital spending to resources serving an expanding market for consumer goods and services. When a steel worker is laid off because of a decline in the demand for structural steel, he could be employed in producing steel sheets used in motor cars or refrigerators, but he could not be readily employed in a textile plant or as a hospital orderly.

Hence, if a nation wishes to ensure a continuing rate of economic growth, it must make several reasonable and realistic choices. First, it has to make the choice between work and leisure. Secondly, it has to make the choice of what portion of the output produced it wishes to consume, and what portion it wishes to save to be used for investment purposes, that is, a deferment of consumption. Thirdly, it has to make a choice, facing the kind of situation it does in Canada, to what extent it wishes the economy to remain dependent on foreign sales, and to what extent it can maintain a satisfactory growth rate and reasonable improvement in standards of living by relying on the expansion of the domestic market.⁸

In the past Canadians have made such choices on intuitive rather than on a rational basis. As a result, activity in

⁸ There are many other related choices: (a) how much private activity and how much public activity; (b) how much domestic control

the major sectors of the Canadian economy have fluctuated substantially contributing to varying rates of economic growth and at times to a substantial increase in the number of unemployed.⁹

The challenge thus facing Canada and other nations is to set about conducting their business in a more rational and forward-looking manner. The setting of economic goals such as put forward by the Economic Council of Canada¹⁰ and economic planning by the federal, provincial and municipal governments, business, labour and other groups in Canada, are all means designed to achieve progress in the direction of continuing expansion of the economy by making full or near full use of the country's economic potential. This in fact has been put forward as one of the objectives of national economic policy by the Canadian Government. For example, when the Minister of Finance, The Honourable Walter Gordon, presented his 1965 budget, he described it as a "growth budget" and he added: "It expresses the determination of the government to give a lead in achieving our national potential."¹¹

As Canada strives towards achieving continuing sustained and balanced economic growth, she is likely to face a number of obstacles, mainly of the deflationary and inflationary variety. Louis Rasminsky, the Governor of the Bank of Canada, made this point by observing:

The task of achieving this potential growth requires careful handling, for the less slack there is in the economy the greater is the risk of excesses or distortions in one form or another which would threaten the continuance of sound and sustainable expansion.

One risk is that total spending might rise at a rate that substantially exceeds the potential growth of our real output of goods and services. This could lead to the emergence of serious price and cost pressures and to balance of payments difficulties which might check the expansion.

of industry and resources, and how much foreign control; (c) how much social security and income redistribution without affecting adversely economic incentives, etc.

⁹ O. J. FIRESTONE, *Problems of Economic Growth*, Ottawa, University of Ottawa Press, 1965, pp. 16-18.

¹⁰ See ECONOMIC COUNCIL OF CANADA, *First and Second Annual Reports*, Ottawa, December 1964 and December 1965.

¹¹ *House of Commons Debates*, Ottawa, Queen's Printer, April 26, 1965, p. 445.

Another risk is that the economic expansion might become unbalanced, that certain important sectors might expand at rates that are unsustainable.¹²

MEASUREMENT OF ECONOMIC GROWTH.

Economic growth is usually measured in terms of the Gross National Product, either in total or per capita or per person working¹³ or per man-hour.

The Gross National Product, by totalling all costs arising in production, measures the market value of all final goods and services produced in a given period, usually a year or a quarter, by Canadian factors of production. Gross National Product equals Gross National Expenditure, which means the sum total of all expenditures made to purchase the total production of final goods and services at market prices, by tracing the disposition of production through final sales to persons, to government and business on capital account (including volume changes of inventories) and to non-residents (exports of goods and services). Imports of goods and services are deducted since the purpose is to measure only Canadian production.

Gross National Product is usually expressed in current prices, that is, prices applicable to the period in which production of goods and services takes place. To eliminate the effect of price changes and to arrive at variations in the volume of Gross National Product, the latter may be expressed in "constant" dollar terms. Constant dollar measurement expresses the value of Gross National Product in terms of the purchasing power of the dollar applicable to a base period.¹⁴

The major aggregate measurement of price changes in an economy is described as the "implied" index in Gross National Expenditure.¹⁵ This index is indicative of the overall changes in price levels, reflecting the various major flows that make up Gross National Expenditure. Thus it is a much more represent-

¹² Louis RASMINSKY, "Some Problems of Economic Expansion", Remarks to La Chambre de Commerce du District de Montréal, November 30, 1965, p. 12.

¹³ Average for the year.

¹⁴ The base period currently used by the Dominion Bureau of Statistics in the National Accounts is 1957 and it is also used in this study. Measurement in constant dollars removes the effect of price changes and indicates variations of output in real terms.

¹⁵ This index is shown in Table 4-2 later on in this Chapter.

ative index of changes in the general price level applicable to *total* economic activity than would be, for example, the consumer price index which measures changes only in one sector of the economy, covering usually a little over three-fifths of Gross National Expenditure.

Economic growth measured in terms of Gross National Product represents the rate of increase in total economic activity. It does not necessarily mean economic improvement for the individual or for society as a whole. For if the population of a country increases more rapidly than its real Gross National Product, then per capita real Gross National Product will decline. Similarly, if the labour force increases more rapidly than the G.N.P. in constant dollars this may mean that employment may not rise as much as the labour force and hence unemployment may increase. Or the number of hours worked per week may be declining and part-time work may be on the rise. Hence, there are a number of refinements of economic growth measurement possible. They usually take the form of G.N.P. in real terms per capita, per person working and per man-hour.¹⁶

The economic growth measurements, as described above, while generally in use, are not without limitations and inadequacies. The frequency of their use in most countries of the world and by most professional economists and others, should not be taken as an endorsement of their adequacy. Like all statistics they only measure the measurable and even then they do subject to a certain margin of error. They do not measure the full impact of what they purport to measure, nor do they measure the human satisfaction or dissatisfaction involved in gainful pursuit, nor do they measure effectively qualitative

¹⁶ In this study figures are shown of G.N.P. per capita and per worker, with changes in the number of hours worked per week and output per man-hour covered in the latter measurement. Supplementary data on output per man-hour projected to 1970 can be found in B. J. DRABBLE, *Potential Output 1946-1970*, Staff Study No. 2, Economic Council of Canada, Ottawa, December 1964. According to this study output per man-hour in total output rose on an average of 4.1 per cent per annum in the period 1946-56 and 2 per cent for the period 1956-63 (see p. 77). The study assumes a 3 per cent increase in real output per man-hour for the period 1963-70, an assumption endorsed by the Economic Council of Canada in its First Annual Review. A 3 per cent increase per man-hour per year in real terms would be equivalent to a 2.4 per cent annual increase in real output per person employed, allowing for a moderate decline in the number of hours worked per week (*Economic Goals for Canada to 1970*, op. cit., p. 43).

change. The importance of this concept has been emphasized in the United States:

Full employment, maximum purchasing power, rapid growth, and price stability are not the only tests of the performance of an economy or society... The quality as well as the quantity of economic progress must be our concern. A major task is to use the marvelously creative powers of our economy to make this a better world for every citizen to live in and to work in. Ours is the first nation in history to have the full economic power to create such a Great Society. The programs discussed are first steps on this road to a better, not just bigger, America.¹⁷

ASSESSING FUTURE ECONOMIC GROWTH.

Having established what economic growth means and how it is measured, the next question is: How can future economic growth be assessed ?

Future economic growth for a short period ahead, say a quarter or a year, is customarily assessed in the form of an economic forecast. The latter presents a systematic appraisal of the economic outlook within a comprehensive framework, usually the National Accounts. Thus it involves the formulation of a judgment, expressed in quantitative terms, of economic behaviour and economic achievements for a given period ahead.

An economic forecast represents a prediction of what is likely to happen, taking into account current conditions and their likely continuance or change, information on investment and other business plans, consumer expenditure and savings intentions, data on financial and international trends, known government economic policies as they currently apply or as they have been indicated to change for the period to which the forecast applies.

Such a forecast, therefore, does not allow for as yet unannounced economic policy changes of government, unforeseen variations in the international or domestic economic or political climate, natural or other disasters, etc.

Since the end of World War II various techniques have been developed to improve short-term economic forecasting and

¹⁷ *Report of the Joint Economic Committee, Congress of the United States*, Washington, U.S. Government Printing Bureau, 1965, p. 21.

in many instances both the quality of the forecasts and the sophistry of techniques used have improved with experience and a greater understanding of the working of the economy and better, more current, more comprehensive and integrated statistics.

While reasonably satisfactory results can now be achieved in making economic forecasts, say for a year ahead, the results obtained indicate that the margin of error is likely to increase the greater the period covered in the forecasts. In other words, a forecast two years hence is likely to be subject to a greater error than a one-year forecast assuming that both forecasts use similar techniques and are prepared with similar professional competence. Again, a forecast for three years ahead may be subject to a greater error than a forecast for the next two years.

Hence, in attempting to assess future economic growth a number of years hence, there is need to use different techniques. The method most commonly used is to estimate the "potential" growth of the economy and then to assume utilization of that potential at a given rate.

"Potential" growth may be defined as a rate of growth which maximizes the use of available factors of production over a period of time, thus obtaining an optimum level of output "without running serious instability of employment, output or prices".¹⁸

On the basis of this definition an economy may operate above its potential "for a limited period of time".

If the calculations of potential are reasonable, a level of operation higher than potential implies that it cannot be maintained for long without the development of instabilities (e.g. speculative excesses, bottlenecks, cost and price distortions) leading to subsequent corrections and lower levels of output.

For many years the unemployment rate was accepted as the best indicator of the general level of resources utilization in a national economy. This is to say, the fluctuation in unemployment around some minimum working level considered to be the lowest rate compatible with optimum eco-

¹⁸ James W. KNOWLES, "The Potential Economic Growth in the United States", Study Paper No. 20, in *Study of Employment, Growth and Price Levels*, Congress of the United States, Joint Economic Committee, Washington, U.S. Government Printing Office, 1960, p. 6.

conomic performance was generally regarded as the basic criterion for judging the current performance of the economy. More recently, it has come to be recognized that while the unemployment rate remains a reasonably satisfactory way of assessing whether the level of economic activity as any given time may be too low (or even too high), it does not provide a comprehensive and accurate measure of the *degree* of slack or excess that may exist. The reasons for this are quite simple. Labour is only one factor of production, although the most important one, and the unemployment rate is an imperfect measure of the degree of utilization of this factor. For example, in periods of slack it does not measure the under-utilization of labour represented by those who are still employed but are working on short time or have taken jobs less productive than those which they held formerly. Again, in any period of slack, capital as well as labour is generally under-employed and is being used at less than its optimum or most efficient rate. Consequently, even those remaining on a full-time basis in the same jobs may be employed less productively than formerly as a result of reduced production. In other words, in a period of slack economic conditions, the margin by which unemployment exceeds minimum or "potential" unemployment represents only one part — albeit a very important part — of the gap between the actual level of activity and potential output. An equally important element in this gap is that which is reflected in the short-fall below potential of the productivity of those employed. In effect, this productivity gap is the measure of (1) the additional output that could be achieved if the other factors of production — primarily capital — were also fully employed, and (2) the further additional output that would result from the more efficient utilization of both labour and capital at a potential level of operation.¹⁹

Thus, one purpose of constructing estimates of potential output for an economy is to produce a more refined measure for assessing past or current economic performance than is possible solely by study of the degree of labour force utilization. When considering, also, the implications for future growth of a return to potential by an economy which is emerging from a prolonged period of below-potential operation, it becomes essential to have a reasonably accurate measure of the current gap.²⁰

The technique of quantifying future economic growth over the long term is called an "economic projection". It is an attempt to express in numerical terms, again as in the case of economic

¹⁹ See Arthur F. BURNS, "A Second Look at the Council's Economic Theory", *The Morgan Guaranty Survey*, August, 1961, p. 13.

²⁰ *Potential Output 1946-1970*, *op. cit.*, pp. 1 and 2.

forecasting, within an integrated framework, usually the National Accounts, of what the economy may be like given the realization of certain assumptions about growth and changes in growth trends of the main ingredients contributing to economic activity over a period of time. The methods involved in making economic projections and their meaning is discussed in the section that follows.

Another related concept needs to be mentioned for it has become increasingly a part of the vocabulary of planners in business, labour and government. It is the concept of an “economic goal” or an “economic target”.

When the economic potential of a nation’s economy is established certain assumptions have to be made of what would constitute a realistic or desirable ratio of utilizing this potential. The resultant of applying this assumption, say 3 or 4 per cent of the labour force unemployed, may be described as an economic target or economic goal. This is a technique used by the Economic Council of Canada and many other economic planners or planning agencies. To quote:

The potential of an economy may be broadly defined as its inherent capacity for development or achievement. It generally refers to a calculated measure of the total volume of production consistent with reasonably full and efficient use of the economic resources available to a nation. Thus, it is essentially a measurement of the supply factors and capabilities of the economy, and assumes that the favourable and appropriate demand conditions necessary for its actual achievement can be generated. . .

We emphasize that such a measure of the country’s economic potential is not an economic forecast. It is a calculation of the possible — in a sense, a target to be aimed at — not a projection of the probable. Moreover, it does not represent the highest possible level of attainment under the best of all possible circumstances, but rather an indication of productive capabilities under reasonable expectations of performance. Thus, it is not impossible for an economy to exceed its indicated potential, at least for a time, under exceptionally expansionary conditions, or under conditions of exceptional exertion (during wartime, for example) in much the same way as the output of an industrial plant may occasionally exceed rated capacity.²¹

²¹ *Economic Goals for Canada to 1970, op. cit.*, pp. 31 and 32.

Estimating a country's future economic growth based on its potential and the degree of utilization of this potential is usually based largely on past rates of economic growth and patterns of economic behaviour. But, as knowledge of the workings of the nation's economy increases and deepens, and with it evolve improved ways and means to expand the nation's economic potential, new opportunities arise to do in fact better than may be indicated in the economic projections prepared. As such knowledge of impending changes and increasing economic potential unfolds, economic projections of a country's potential can be revised upward. As a result, it becomes possible to present higher economic targets or economic goals which would be achievable in the light of the country's expanding productive capacity. Similarly, national disasters or international occurrences that cannot be controlled, may affect the expansion of the economic potential and its effective utilization, necessitating the scaling down of economic projections and goals.

The main point then is: not only is the economy subject to change but so are economic targets or economic goals. The wise man, whether in business, labour or government, does not take any forecast, projection or goal as given. He looks at it with a sense of discrimination and he takes it with a grain of salt. He may use it in the formulation of economic decisions as representing the best information available at that time. But he may insist on a continuing review and up-dating of the short term forecast, the long range projection or the economic goal established so that his decisions are always as up-to-date as can be achieved with scientific knowledge, realistically applied.

METHODS OF MAKING AND THE MEANING OF ECONOMIC PROJECTIONS.

The methods employed in preparing economic projections in this study covering the period to 1975, follow the techniques generally employed in preparing such estimates. They have been described recently in detail in several Canadian studies and they do not require elaboration here.²²

²² See First and Second Annual Reviews of the Economic Council of Canada and staff studies prepared for the Economic Council of Canada, Ottawa, 1964 and 1965; and *Report of the Royal Commission on Health*

Put in its briefest form, an economic projection commences with the preparation of estimates of the future growth of a country's population, usually based on fertility trends, mortality rates, and assumed levels of net migration. Having established population levels for the period projected, labour force participation rates are chosen based on past trends, allowances for changes in the age and sex distribution and for variation in economic circumstances and motivation. Applying these participation rates to population of working age yields the number of persons in the labour force, that is those actively interested in obtaining gainful employment. Assumptions are then made as to a given level of employment (average for the year) considered to be acceptable to the nation. The Royal Commission on Health Services assumed that such a ratio would vary between 4 per cent and 5 per cent, while the Economic Council of Canada suggested 3 per cent as a desirable "target" rate. Applying such a ratio to the number of persons in the labour force yields the number of persons employed. Deducting the latter from the labour force results in a derived estimate of the number of persons unemployed (average for the year).

Hours of work are then projected into the future to arrive at the total number of man-hours worked by all persons employed during a full year. In determining a rate of change in the number of hours worked, account is taken of past trends, and forces at work which may change such trends in the future.

The resultant total number of man-hours of work projected into the future are then converted into estimates of total output in real terms by multiplying the total number of hours worked by an output factor. This output factor is determined on the basis of assumptions about the productivity of the Canadian labour force, its skill, education, attitude, health, on increases in the capital stock, on changes in technology, innovations, and industrial organization, variations in the industrial structure, and a number of other factors which Professor T. M. Brown has appropriately described as the "socio-technical determinants of economic growth".²³

Services, Ottawa, Queen's Printer, 1964, Chapter 19, and the study prepared for the Royal Commission on Health Services dealing with *Canadian Economic Growth*, by T. M. BROWN, *op. cit.*

²³ T. M. BROWN, *Canadian Economic Growth*, *op. cit.*, see particularly Chapters 7, 8 and 10 and Appendix E.

Combining the total number of hours worked with output per man-hour in real terms yields total national output or Gross National Product. The resultant, of course, is potential output, assuming that the nation is making "full" and "effective" use of the factors of production with all the economic gains that may come from domestic and international specialization, skilful management of national affairs, including a measure of economic planning to establish and accomplish the economic objectives considered to be desirable by the nation. Potential national output becomes actual output as a result of generating adequate effective demand equivalent in size to the volume of output the nation is capable of producing.

To establish where the demand will come from, Gross National Expenditure (equal to Gross National Product) by major components has to be estimated, including consumer expenditures, business gross capital formation including housing, the value of physical change in inventories, and government expenditures, as well as the demand to be met from exports of goods and services. From this latter, imports of goods and services are deducted since these represent goods and services produced abroad.²⁴

In this study the projection of population and Gross National Product in 1970 are those presented by the Economic Council of Canada in its First Review published in December 1964. Estimates of employment and unemployment for 1970 are based on both the basis assumed by the Economic Council of Canada of a 3 per cent ratio of unemployment to the labour force and a ratio of 4 per cent to allow for the possibility of an economic performance moderately below what the Economic Council has considered "a highly desirable" economic and social goal for Canada. In 1965, for example, when Canada recorded the greatest utilization of its economic potential since the Korean War, the rate of unemployment to the labour force averaged about 4 per cent for the year. At this rate the Canadian economy was still operating about 3 per cent below its economic potential.²⁵

The Economic Council of Canada presented Canada's future Gross National Product in constant dollars for 1970. This study

²⁴ *Problems of Economic Growth, op. cit.*, pp. 153-161.

²⁵ *Towards Sustained and Balanced Economic Growth, op. cit.*, p. 11.

supplements the estimates of the Council by including current dollar estimates on the basis of certain price assumptions, described later on.

The estimates for 1975 represent an extension of existing trends and additional information available from another study on economic growth which extends to 1991.²⁶

Professor T. M. Brown described the limitations inherent in the making of an economic projection in these terms:

An economic projection is an extrapolation of the systematic, long-term trends which have been observed in the economy in the past. But the structure of an economy is such that it produces more than long-term trends. It also produces cycles about the trends, and in addition is subject to many random influences which cause it to fluctuate irregularly. Most of the random influences are small, and arise from a myriad of irregular acts of non-systematic behaviour or disturbances in the economic system, which are added to the systematic behaviour of individuals and of the aggregate system. Some, however, are large influences arising from some major international event, natural phenomenon, scientific discovery, or social upheaval. These are classed as episodes. Their effects show up distinctly as large irregularities in economic time series.

Clearly an extrapolation of long-term trends will not allow for the inevitable cycles, random perturbations and major episodes which can be expected in the future. But it would be impossible to allow for these in any event. Only the cycle could perhaps be forecast for a little while into the future, but even it will be subject to whatever government policy is aimed at its control. Thus about the only kind of economic movement that one can hope to project for any considerable period into the future is that of the long-term trends of the economy. The result will be smooth and stately movements, not at all like the economic series of everyday life which have the cycles and irregularities superimposed upon them.

But even the trends which we project may turn out to be wrong, for these trends are produced by the underlying behaviour patterns and technological relationships of the economy; and these are likely to evolve slowly in such a way as to alter the long-term trends of the economy. To be more specific about the kinds of forces which may alter the longer term relationships in the growth of the Canadian economy,

²⁶ T. M. BROWN, *op. cit.*, pp. 132-137.

we can mention the following. In the first place the fact that Canada is an open economy means that her future prospects depend very much on developments in the pattern of world demand for the goods which Canada can produce in surplus with comparative advantage. Related to this pattern of demand is of course the terms of trade for Canadian exports versus imports. Canada's real income and future growth will depend on this imponderable linked with the state of the future world demand.²⁷

Notwithstanding the limitations inherent in making long-term economic projections, they may serve as a useful aid to decision makers in both the private and public sectors of the economy. For decisions have to be made continuously by businessmen, labour and government. And the choice these groups have, is to make decisions without adequate knowledge of the economic circumstances of tomorrow, that is, relying on hunches or on ad hoc decisions, or making such decisions on as carefully prepared forecasts and projections as professional skill and human ingenuity permits.

Most people in industry and in other sectors of the economy have increasingly accepted the need to formulate economic decisions on the basis of both short-term and long-term assessments of the economic outlook and on the basis of setting desirable targets or goals. The efforts of the Economic Council of Canada have stimulated the growth of economic planning and target setting in Canada, based increasingly on professional assessments of the economic prospects for the medium and longer term ahead.

The making of economic forecasts and economic projections are no more the speciality of the academician. They have become accepted tools for intelligent decision making in all major sectors of the nation's economy.

PROJECTING CANADIAN ECONOMIC GROWTH.

The economic projections for Canada covering the period to 1975 are presented in Tables 4-1 and 4-2. Table 4-1 covers population, labour force, persons working and persons unemployed. With respect to the last two mentioned items, two alternative projections are presented.

²⁷ *Ibid.*, pp. 107 and 108.

Alternative 1 assumes that the unemployment ratio prevailing in 1965 of 4 per cent of the labour force will decline to 3 per cent by 1970, the goal set in the First Annual Review of the Economic Council of Canada²⁸ and then remain at that level for 1975. Alternative 2 of the projection assumes a 4 per cent unemployment ratio for the period 1965 to 1975.

Table 4-2 presents projections of Gross National Product in current and constant dollar terms, totals, per capita and per person working, and the implied price index in Gross National Expenditure up to 1975. The constant dollar projections are those presented by the Economic Council of Canada for 1970, expressed in 1963 dollars, with one minor modification.²⁹ The constant dollar projections of Gross National Product for 1970 have been converted into 1957 dollars to facilitate a comparison covering four five-year periods: 1955-1960, 1960-1965, 1965-1970 and 1970-1975.³⁰

The Economic Council of Canada did not publish current dollar figures of Gross National Product for 1970. But it indicated that a 2 per cent increase in the implied index in Gross National Expenditure, representing the historical experience from 1953 to 1963, could be considered as a reasonable rate of price rises over the period 1963-1970. Such an increase "would represent the attainment of a satisfactory degree of price and cost stability".³¹

The general price level in Canada rose by 2.3 per cent from 1963 to 1964 and by about 3 per cent from 1964 to 1965, exceeding the 2 per cent rate set by the Economic Council of Canada by a modest margin in 1964 but to a more significant extent in 1965. In estimating Gross National Product in current dollars for 1970, it was assumed that the general price level in Canada would rise by about the same rate as it did during the 1955-1960 period, 13.4 per cent, which is equivalent to a little over 2½ per cent per annum (compound).³²

²⁸ *Economic Goals for Canada to 1970, op. cit.*, p. 40.

²⁹ The Economic Council of Canada used a preliminary figure of Gross National Product of \$43 billion for 1963. In this study a revised estimate of \$43.2 billion for 1963 has been used, as published in DOMINION BUREAU OF STATISTICS, *National Accounts 1964*, Ottawa, 1965.

³⁰ The Dominion Bureau of Statistics uses 1957 = 100 as the base for its constant dollar estimates as published in the annual issues of the *National Accounts*.

³¹ *Economic Goals for Canada to 1970, op. cit.*, p. 105.

³² A 2½ per cent compound rate of annual increases over five years

TABLE 4-1. — POPULATION, LABOUR FORCE, PERSONS WORKING AND PERSONS UNEMPLOYED, CANADA, PROJECTIONS TO 1975.

Year	Population ¹ Thous.	Labour Force ² Thous.	PERSONS WORKING ² THOUS.		PERSONS UNEMPLOYED ² THOUS.		PERSONS UNEMPLOYED AS PER CENT OF LABOUR FORCE	
			Alternative ³ 1	Alternative ⁴ 2	Alternative ³ 1	Alternative ⁴ 2	Alternative ³ 1	Alternative ⁴ 2
			1955	15,698	5,610	5,364	5,364	245
1960	17,870	6,411	5,965	5,965	446	446	7.0	7.0
1965	19,571	7,140	6,859	6,859	281	281	4.0	4.0
1970	21,729	8,127	7,884	7,802	243	325	3.0	4.0
1975	24,260 ⁵	9,115 ⁵	8,842	8,751	273	364	3.0	4.0
Per Cent Change								
1955-1960	13.8	14.3	11.2	11.2	82.0	82.0	—	—
1960-1965	9.5	11.4	15.0	15.0	-37.0	-37.0	—	—
1965-1970	11.0	13.8	14.9	13.7	-13.6	15.7	—	—
1970-1975	11.6	12.2	12.2	12.2	12.3	12.0	—	—
1955-1965	24.7	27.3	27.9	27.9	14.7	14.7	—	—
1965-1975	24.0	27.7	28.9	27.6	- 2.9	29.5	—	—

Source : Population data for 1955 and 1960 from *Canada Yearbook 1965*, p. 188; for 1965 from *Canadian Statistical Review*, December 1965; labour force, persons working and persons unemployed for 1955 and 1960 from *The Labour Force*, Supplement to March 1965 Report and for 1965, preliminary estimates based on monthly data from *The Labour Force*, Bulletins Jan. to Dec. 1965; population and labour force projections for 1970 from *Population and Labour Force Projections to 1970*, by Frank T. DENTON, Yoshiko KASAHARA and Sylvia OSTRY, Staff Study No. 1, Economic Council of Canada, Ottawa, Queen's Printer, 1964; pp. 9 and 38; projections of persons employed for 1970 from ECONOMIC COUNCIL OF CANADA, *Economic Goals for Canada to 1970*, First Annual Review, Ottawa, Queen's Printer, 1964, p. 40; all other projections are special estimates (see footnotes 3 to 5).

¹ Mid-year.

² Average for the year; civilian labour force.

³ Alternative 1 is based on the assumption that the ratio of persons unemployed to labour force declines from 4 per cent in 1965 to 3 per cent in 1970 and remains at that rate in 1975.

⁴ Alternative 2 is based on the assumption of little change in the ratio of unemployed to labour force from the 4 per cent prevailing in 1965 over the period to 1975.

⁵ Population and labour force projections were prepared by adjusting the projections contained in the *Report of the Royal Commission on Health Services*, Ottawa, Queen's Printer, 1964, p. 754, to the concept and techniques used in the First Annual Review of the Economic Council of Canada. The adjustment involved 1.8 per cent in the case of the population projections and 0.6 per cent in the case of the labour force projections.

To arrive at the Gross National Product per person working employment estimates as per Alternative 2 were used. This was done on the assumption that the 4 per cent ratio of unemployment to labour force was a more likely ratio applicable to 1970 than would be an annual average ratio of 3 per cent, which assumes achieving virtual full employment in Canada.

The question arises whether the value estimate of Gross National Product, arrived at by converting into current dollars the value estimate prepared by the Economic Council of Canada, should not have been scaled downward since the estimate used in this study is based on a 4 per cent instead of the 3 per cent ratio of unemployed to the labour force used by the Council. The answer is that there exists the possibility of offsetting influences. Therefore, the estimate of Gross National Product in constant dollars, as developed by the Economic Council, was used on the grounds that the average rate of increase in real Gross National Product may in some years be higher than the average rate stipulated by the Economic Council of Canada of 5½ per cent per annum over the period 1963-1970.³³ This assumption is supported by the increases that have taken place in real Gross National Product between 1963 and 1964 and between 1964 and 1965, exceeding 6 per cent in both years.³⁴

POPULATION PROJECTIONS TO 1975.

Canada's population numbered 19,571,000 in 1965, passing the 20 million mark by the end of 1966. When Canada reaches her centenary in 1967, the population will be about 20½ million, moving rapidly to 21¾ million by 1970 and 24¼ million by 1975 (see Table 4-1).

Hence, over the next decade Canada will likely be adding almost five million people to her population, the bulk from

represents a total rise of 13.14 per cent. But in this study the actual experience of price increases over the period 1955 to 1960 of 13.4 per cent was used. If the exact 2½ per cent average rate of annual price increases had been used, the current dollar values would have been moderately lower than the figures presented.

³³ *Economic Goals for Canada to 1970, op. cit.*, p. 57.

³⁴ In effect the Economic Council of Canada in its Second Review noted that in view of the greater output achievements in 1964 and 1965, the rate of increase required to reach the economic goals set by the Council would require an annual rate of increase in real Gross National Product of 5¼ per cent for the period 1965-1970 instead of the 5½ per cent stipulated earlier (see *Towards Sustained and Balanced Economic Growth, op. cit.*, p. 11).

natural increase, supported by some increase in the number of immigrants coming to this country's shores.

Population increases expressed in percentage terms over the four quinquennial periods are as follows:

1955-1960	13.8 per cent
1960-1965	9.5 per cent
1965-1970	11.0 per cent
1970-1975	11.6 per cent

The largest proportionate increase is likely to take place in the 15-24 age group, the young people who will be requiring a higher education and technical training, who will be ready to enter the labour force and who will be largely responsible for the population and marriage boom anticipated in the late 1960's and into the 1970's (for further details see Chapter 5).

LABOUR FORCE PROJECTIONS TO 1975.

Canada's civilian labour force³⁵ is likely to increase from 7,140,000 in 1965 to 8.1 million in 1970.³⁶ This means that over the next five years Canada can expect about one million young people looking for jobs, the biggest challenge ever faced by Canada in peacetime of absorbing such a large number of young people into the labour market.

By 1975 Canada's labour force will be over 9.1 million people. Hence the task facing Canada over the next decade is how to find adequate job opportunities for 2 million young Canadians seeking work (see Table 4-1).

Labour force increases in percentage terms over the four quinquennial sub-periods are as follows:

1955-1960	14.3 per cent
1960-1965	11.4 per cent
1965-1970	13.8 per cent
1970-1975	12.2 per cent

PERSONS WORKING, PROJECTIONS TO 1975.

There were a total of 6,859,000 persons working in Canada on the average during 1965. They represented 96 per cent of the labour force.

³⁵ That is, excluding persons in the armed forces.

³⁶ Average for the year.

Assuming that the number of persons finding employment rises from 96 per cent in 1965 to 97 per cent in 1970, persons employed in that year would number 7,884,000 (Alternative 1). This would mean finding jobs for about 1.1 million persons.

By 1975 persons working under Alternative 1 would number 8,842,000. And this would involve finding jobs for about two million persons.

In the case of Alternative 2, that is, assuming 4 per cent of the labour force being unemployed and 96 per cent working, persons with jobs would rise from 6,859,000 in 1965 to 7,802,000 in 1970 and to 8,751,000 in 1975. Hence under Alternative 2 the number of new jobs to be found between 1965 and 1975 would be 1.9 million, with about 100,000 people being added to the ranks of the unemployed. In other words, under Alternative 1 there would be relatively little change in the number of persons unemployed in Canada over the next decade, while there would be a moderate increase in that number under Alternative 2.

Between 7 and 10 per cent of persons working in Canada were employed in agriculture, depending on the season of the year, with between 90 and 93 per cent working in non-agricultural occupations.³⁷

Persons 14 to 19 years of age appear to have found it more difficult to obtain employment than persons in the older age groups. Some of the contributing factors were insufficient formal education and lack of experience or training. There also appears to be a tendency for young persons to try a number of jobs before settling on permanent employment.

The unemployment rate among teenagers has remained high in Canada, even in a year of comparatively high levels of employment such as prevailed in 1965. In that year the rate for the 14-19 age groups was about twice the rate in all ages.³⁸

This is a continuing problem facing Canada over the next ten years, requiring the pursuit of integrated and far-reaching policies by Government and the public at large.³⁹

³⁷ DOMINION BUREAU OF STATISTICS, *The Labour Force, November 1965*, Ottawa, December 1965.

³⁸ *Ibid.*, p. 2.

³⁹ See Section on "Labour Market Policy," in *Economic Goals for Canada to 1970*, *op. cit.*, pp. 170-184.

Employment increases in percentage terms over the four quinquennial sub-periods are as follows:

	<i>Alternative 1</i>	<i>Alternative 2</i>
1955-1960	11.2	11.2
1960-1965	15.0	15.0
1965-1970	14.9	13.7
1970-1975	12.2	12.2

PERSONS UNEMPLOYED, PROJECTIONS TO 1975.

In 1965 persons unemployed averaged 281,000, equivalent to 4 per cent of the labour force.⁴⁰ Over the four quarters the unemployment rates varied as follows:

1st quarter	— 5.8 per cent
2nd quarter	— 4.2 per cent
3rd quarter	— 2.8 per cent
4th quarter	— 3.2 per cent

By occupations the heaviest unemployment was found among labourers, with the figures in the third quarter 1965 indicating an 8.1 per cent rate. This group was followed by persons working in service and recreational industries, 3.1 per cent; transportation, tradesmen and production workers, 2.8 per cent, office and professional workers 1.2 per cent, average for all occupations, 2.8 per cent.⁴¹

On the basis of Alternative 1 the number of unemployed would drop from 281,000 in 1965 to 243,000 in 1970 and then rise slightly to 273,000 by 1975. Under Alternative 2 the number of persons without jobs would increase from 281,000 in 1965 to 325,000 in 1970 and to 364,000 in 1975.

Percentage changes in the number of persons unemployed over the four quinquennial sub-periods would be as follows:

	<i>Alternative 1</i>	<i>Alternative 2</i>
1955-1960	82.0	82.0
1960-1965	-37.0	-37.0
1965-1970	-13.6	15.7
1970-1975	12.3	12.0

⁴⁰ Preliminary Estimate.

⁴¹ DOMINION BUREAU OF STATISTICS, *The Labour Force, September 1965*, Ottawa, October 1965, p. 2.

GROSS NATIONAL PRODUCT, PROJECTIONS TO 1975.

Gross National Product amounted to \$51.5 billion⁴² in 1965. By 1970, Gross National Product is expected to reach \$76.6 billion, representing an increase of close to 50 per cent over the 1965 to 1970 period. Allowing for price increase, this involves a rise in the volume of about one-third.

By 1975 Canada's Gross National Product may be of the order of \$112 billion in current dollar terms and about \$75 billion in constant dollar terms (1957 dollars). Hence the economic challenge facing Canada over the next decade is how to increase the nation's output by about \$60 billion in terms of Gross National Product in current dollars, involving more than a doubling of the Gross National Product over the 1965 to 1975 period (see Table 4-2 and Chart 7).

Such high levels of economic activity and with it rates of economic growth will only be achieved if Canada pursues expansionist economic policies and if she is not affected detrimentally by adverse economic conditions emanating from abroad.

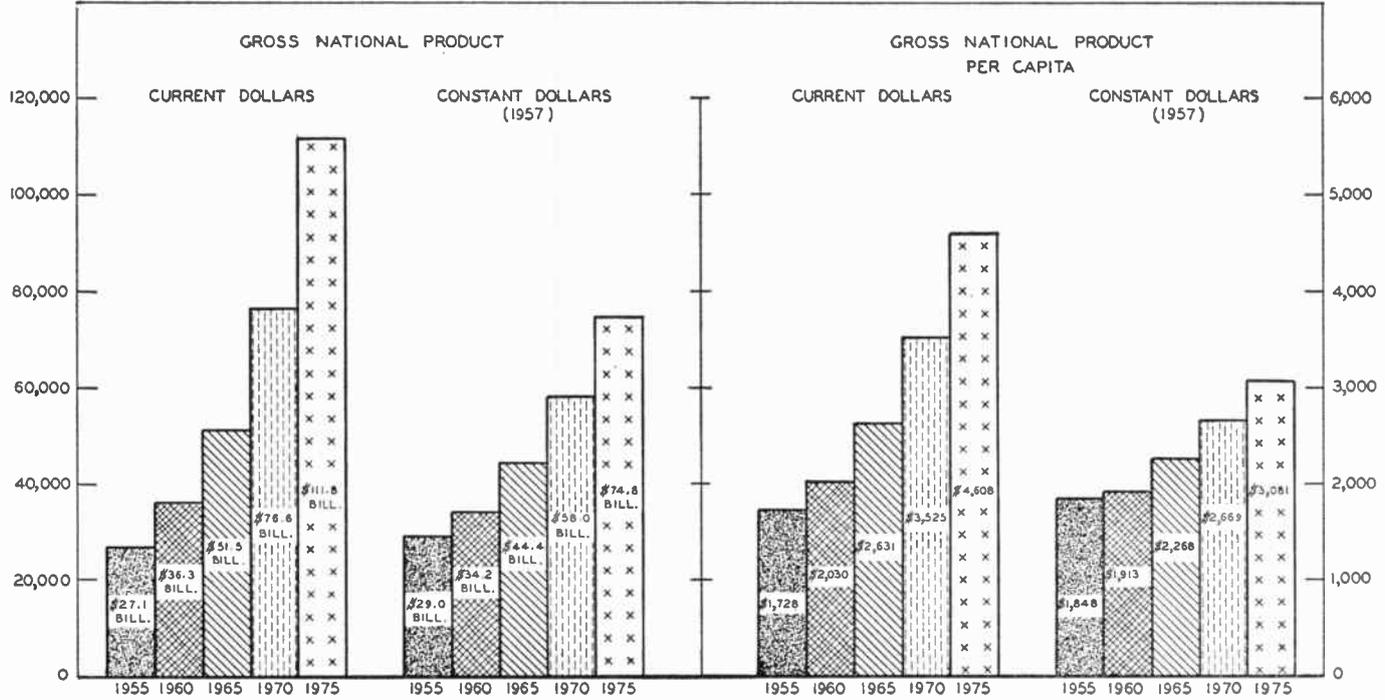
To achieve such an objective of continuing and sustained economic growth, Canada will have to pursue consistent economic growth policies. Such policies are not the responsibility of a single group or region in the country. They are the responsibility of society as a whole. They are a task entrusted to all those who make economic decisions in Canada, and that includes business, labour, farmers, governments, federal, provincial and municipal, and the public at large.

The Federal Government as the senior government has the responsibility to take the lead and to show what can be done and how economic growth policies can be put on a consistent long-term basis. This involves:

- (1) Planning and programming ahead for the next five years in terms of fiscal, monetary, trade and economic development policies, with special emphasis on human betterment, training and social services, education and research.
- (2) Establishment of machinery for cooperation with provincial governments (and municipalities) and other sectors

⁴² Preliminary estimate, with the revised estimate expected to be somewhat higher. Improved economic performance may make it necessary for the Economic Council of Canada to revise upwards its economic projections for 1970.

CHART 7
 GROSS NATIONAL PRODUCT IN CURRENT AND CONSTANT DOLLARS, TOTAL AND PER CAPITA,
 CANADA, PROJECTIONS TO 1975



SOURCE: SEE TABLE 4-2

TABLE 4-2. — GROSS NATIONAL PRODUCT IN CURRENT AND CONSTANT DOLLARS, TOTAL, PER CAPITA AND PER PERSON WORKING, AND IMPLIED PRICE INDEX IN GROSS NATIONAL EXPENDITURE, CANADA, PROJECTIONS TO 1975.

Year	GROSS NATIONAL PRODUCT		GROSS NATIONAL PRODUCT PER CAPITA		GROSS NATIONAL PRODUCT PER PERSON WORKING ³		Implied Price Index in Gross National Expenditure ³
	Current \$ Mill.	Constant ² \$ Mill.	Current \$	Constant ² \$	Current \$	Constant ² \$	
1955	27,132	29,018	1,728	1,848	5,058	5,409	93.5
1960	36,287	34,200	2,030	1,913	6,084	5,733	106.1
1965 ⁴	51,500	44,400	2,631	2,268	7,508	6,473	116.4
1970	76,600	58,000	3,525	2,669	10,650	7,434	132.0
1975	111,800	74,750	4,608	3,081	12,776	8,542	149.6
Per Cent Change							
1955-1960	34	18	18	4	20	6	13.4
1960-1965	42	30	30	19	23	13	9.8
1965-1970	49	31	34	18	42	15	13.4
1970-1975	46	29	31	15	20	15	13.4
1955-1965	90	53	52	23	48	20	24.5
1965-1975	117	68	75	36	70	32	28.5

Source: Gross National Product in current and constant dollars and implied price index in Gross National Expenditure from DOMINION BUREAU OF STATISTICS, *National Accounts*, 1964 and earlier issues; population and persons working data are from Table 4-1; the 1970 estimate of Gross National Product in constant dollars is the estimate provided in ECONOMIC COUNCIL OF CANADA, *Economic Goals For Canada to 1970*, First Annual Review, Ottawa, 1964, p. 57, converted from 1963 dollars to 1957 dollars to conform to constant dollar series, published by the Dominion Bureau of Statistics; constant dollar projections of Gross National Product for 1975 are based on extending Gross National Product per person data and multiplying these by number of persons working as per Table 4-1; current dollar projections of Gross National Product for 1975 are based on percentage increases reflecting price trends over the period 1955 to 1960 equivalent to about 2½ per cent per annum (compound).

¹ Number of persons employed as per Alternative (2) from Table 4-1.

² In 1957 dollars.

³ Base of Index: 1957 = 100.

⁴ Preliminary Estimate.

of the economy to work towards achieving continued economic growth at an adequate rate.

(3) Issuing from time to time a "White Paper on Economic Growth" indicating to the public what the government's plans and programs are over the next several years, so as to create an economic climate in which individual and corporate initiative and economic planning are encouraged in the knowledge of what the government intends to do.⁴³

One of the essential requirements in the policy arsenal of the national government must be "growth oriented" fiscal policies. They have been explained in these terms:

To assure continuing economic growth in line with the expanding productive capacity of the economy there is need to assure an equivalent volume of demand for the goods and services the country is capable of producing. If ordinary economic forces operating both in the domestic market and in foreign markets do not bring forth the required level of demand, then government through its fiscal policies (and other economic policies) can and should stimulate demand for the goods and services the country is capable of producing. This may involve cutting taxes, even though government expenditures are rising and the country is experiencing a budget deficit. It may mean running government deficits at all times the economy is operating below capacity, the latter defined by the Economic Council of Canada as operating below Canada's "economic potential".⁴⁴

The need to formulate government economic policies in line with the long-term objective of sustained and balanced economic growth has been emphasized by the Economic Council of Canada:

The analysis raises questions about the usefulness of orienting such policies to the peaks and troughs of short-term business fluctuations as the appropriate points of reference when the performance of the economy is being evaluated or when the need for action is being determined. A shift in the emphasis of such policies towards the promotion of sustained economic growth appears to be required, focussing attention on actual growth in relation to potential growth. This does not mean that fiscal and monetary

⁴³ O. J. FIRESTONE, "Canada in 1970, How to Keep the Economy Growing", paper given at the 5th Annual Meeting of the Grocery Products Manufacturers of Canada, Toronto, March 23, 1964, p. 5.

⁴⁴ *Ibid.*, p. 8.

policies will have any less effective role to play. Indeed the primary thrust of this conclusion is that these policies should be given wider scope to play the role which they can most effectively play, and that they should not be narrowly confined to the field of short-term cyclical stabilization where, in any event, their adaptability and usefulness has proved to be subject to important limitations, at least under post-war Canadian conditions.⁴⁵

If such growth-oriented economic policies are pursued in Canada and provided that they carry adequate support of all sectors of the economy, then the prime goal of making full use of the potential of the Canadian economy appears to be realizable. Gross National Product would then expand at the following rates over the next two five-year periods as compared with rates of increase during the preceding two five-year periods:

	<i>Current Dollars</i>	<i>Constant Dollars</i>
1955-1960	34	18
1960-1965	42	30
1965-1970	49	31
1970-1975	46	29

GROSS NATIONAL PRODUCT PER CAPITA, PROJECTIONS TO 1975.

Gross National Product per capita in 1965 amounted to \$2,631 in current dollars. By 1970 the average per capita income may rise to \$3,525 and reach by 1975 a level of \$4,608.

Over the period 1965-1975 the improvement in per capita Gross National Product in current dollars would be 75 per cent as compared with 52 per cent from 1955 to 1965. The corresponding increases in real terms would be 36 per cent and 23 per cent respectively.

Gross National Product per capita increases in percentage terms over the four quinquennial sub-periods are as follows:

	<i>Current Dollars</i>	<i>Constant Dollars</i>
1955-1960	18	4
1960-1965	30	19
1965-1970	34	18
1970-1975	31	15

⁴⁵ *Towards Sustained and Balanced Economic Growth, op. cit.*, pp. 163 and 164.

GROSS NATIONAL PRODUCT PER PERSON WORKING, PROJECTIONS TO 1975.

Gross National Product per person working amounted to \$7,508 in 1965.⁴⁶ By 1970 the average Canadian worker would be producing a Gross National Product of \$10,650 (in current dollars), representing an increase in potential income of the order of 42 per cent. By 1975 Gross National Product per person working may rise further to \$12,776 in current dollars, representing an increase of 70 per cent over the decade 1965-1975. This would compare with an increase of 48 per cent for the decade 1955-1965.

In constant dollar terms the relative increase for the decade ahead would be 32 per cent and for the decade past 20 per cent (see Table 4-2).

The rate of increase foreseen for the next decade per person working of 32 per cent would be one of the greatest improvements in the earning power of Canadians achieved in peacetime Canadian experience, quite apart from the fact that it would be realized as part of a continuing growth process, unimagined in length and in extent in Canada's economic history.

COMPARISON WITH THE U.S. MARKET.

These estimates of total Gross National Product, Gross National Product per capita and per person working, are illustrative of the truly great opportunities that are in store for Canadians if they are to make full or near-full use of the economic potential of their country over the next decade.

If Canada is able to continue to expand on a sustained and balanced basis over the next decade, it will represent a total market for the sale of goods and services valued at about \$112 billion⁴⁷ by 1975. This would be greater than the size of the U.S. market, of what American businessmen could sell in their country during 1939 and 1940. In those two years the Gross National Product in the U.S. amounted to about \$91 billion and \$100 billion respectively.

⁴⁶ The 1965 estimates are preliminary.

⁴⁷ In current dollars.

The time has come for Canadian businessmen to think "big" and to act "big". The same applies to the other sectors of the economy. Realizing the full or near-full economic potential of the Canadian economy throws a heavy responsibility on governments, particularly federal and provincial governments, to pursue realistic and forward looking economic policies directed towards economic expansion and the creation of an economic climate that will make it possible for individual initiative to thrive and thus make a major contribution to achieve continuing economic growth, equitable income distribution and higher standards of living for all.

CHAPTER 5

Total Advertising Expenditures Projections to 1975

INTRODUCTION.

The analysis presented in Chapter 4 has emphasized three main points which have a bearing on the future growth of the advertising business in Canada:

1. Over the next ten years there will be in Canada an additional five million consumers.

2. All consumers, the new five million and the existing 20 million, representing a total of close to 25 million, will be more affluent, with more money in their pockets to spend and substantially greater savings to splurge on goods and services which they consider worthwhile acquiring.

3. The dollar value of total sales in the Canadian market will more than double from \$51½ billion to about \$112 billion.

The further point was made that the opportunities to sell in Canada in 1975 would be as great as they were, and possibly greater than they were, in the United States at the beginning of World War II. For a country like Canada, with one-tenth the population of the U.S., this represents opportunities to do well in business unimagined in scale and diversity only ten years ago and even now hardly fathomed by many executives in Canadian industry charged with the task of planning the future expansion of their companies to cater to the explosively growing markets of this country.

It is possible to present economic projections assuming a slower growth rate or a lesser rate of price increase than has been assumed in preparing the estimates for this study. But even with a somewhat slower growth rate and a somewhat lesser rate of price increase, total sales in the Canadian market may approach and surpass the \$100 billion mark by 1975. But in planning ahead, business executives cannot and may not wish

to rule out the possibility that Canada will be making full or near-full use of her economic potential to reach a total Gross National Product in current dollars of \$112 billion by 1975. Hence business planning, and that of other sectors of the economy, could usefully be based on a range of projections, with the total market in Canada reaching \$112 billion by 1975, but in any event not being less than \$100 billion.

Putting it in general terms, the task ahead for business and other groups in the country is to plan ahead on the assumption that their sales should at least double in value terms over the next decade if they are to keep pace with the growth of the Canadian economy.

What is likely to be the role of advertising in this rapid expansion of the Canadian market foreseen for the next decade ?

Whatever the arguments are, whether advertising is an essential and constructive element in increasing sales or a wasteful expenditure of money and use of resources, the fact remains that advertising is an accepted part of the North American way of life and of the North American way of carrying on business.

Governments may on occasion try to influence the manner in which such advertising expenditures are spent and they may impose certain limitations in specific areas. Examples are — regulations governing broadcast advertising, advertising of cigarettes and alcoholic beverages, advertising in foreign publications aimed at the Canadian market (excluding the Canadian editions of *Time* and the *Reader's Digest*) and excessive promotion and advertising of such items as drugs.¹

But such regulations, while of some significance in the area to which they apply, do not materially affect the flow of advertising efforts in either the United States or in Canada. On the contrary, Governments have increasingly recognized the

¹ Recommendation No. 64 of the Report of the Royal Commission on Health Services reads as follows: "That in the application of the provisions of the Corporation Income Tax Act to manufacturers, importers and distributors of drugs, consideration should be given to establishing a maximum of 15 per cent of total sales as the allowable deductible expense for advertising, sales promotion, detail men and other similar items" (*Report*, Royal Commission on Health Services, Ottawa, Queen's Printer, 1964, p. 42).

value of advertising as a means of passing on information to the general public and government expenditures on advertising through many media have continued to rise and are likely to increase significantly in the future (see section on “More Public Advertising” later on in this Chapter).

Business, and this covers industry, trade, financial institutions and other sectors of the economy, is virtually full master in its house as far as its decisions to plan future advertising campaigns are concerned, to allocate the amount of money to be spent on advertising, and to choose the media to be used.

The question may be raised whether some of the decisions as to how much should be spent on advertising and how it should be spent are, in fact, made to a large extent in Canada. Since now about 62 per cent of Canada’s three major industrial sectors, manufacturing, petroleum and natural gas and mining are foreign controlled,² more economic decisions formulated in Canada may be affected by direct instructions or by general guidelines issued by parent companies with head offices abroad, mainly in the United States.

While management of some foreign companies operating in Canada do not deny that they hold budgetary discussions with the management of their parent companies and their advertising campaigns are dovetailed with those undertaken by their parent companies, and further that they may be getting some help in the formulation of their advertising programs from the parent companies and the advertising agencies serving these companies, the fact remains that Canadian subsidiaries are just as keen and determined as their parent companies are to do well in the market they serve. This, they realize, involves, among other things, the formulation and execution of farsighted and effective advertising programs.

Hence, considerable efforts are devoted by Canadian management, whether they serve companies domestically controlled or foreign controlled, to select the type of advertising that will yield the best results in terms of sales for their company for every advertising dollar spent.

² This compares with 54 per cent in 1954, (see *Report of the Royal Commission on Banking and Finance*, Ottawa, Queen’s Printer, 1964, p. 88).

TEN REASONS FOR SPENDING MORE ON ADVERTISING.

Canadian businessmen generally recognize that a great expansion is in sight for the Canadian market and they are determined to get their share of the growing market. While there exist great variations in the degree of forward planning in general and advertising planning in particular that is being done in Canada, most businessmen are aware of the need to formulate their expansion programs ahead of the actual growth of the market. Since advertising is an integral part of the efforts of reaching that growing market, expenditures on advertising are likely to rise by leaps and bounds to realize the target of full participation in the sales boom that appears to be in the making in Canada over the next decade.

Two questions arise:

(1) What specific factors will contribute to increase advertising expenditures over the next ten years ?

(2) How much money is likely to be spent on advertising in Canada during that period ?

These questions are answered in the sections that follow. Ten reasons are given for Canadians to spend considerably more on advertising over the next decade.³ They are:

1. Expanding population and changing age distribution.
2. Increasing rate of family and household formation.
3. Growing urbanization.
4. Rising incomes.
5. Variations in income distribution.
6. Greater consumer expenditures.
7. More intensive industrialization.
8. Higher imports.
9. Stepped-up flow of new and improved products.
10. More public advertising.

³ The estimates presented in this study cover two quinquennial periods, 1965 to 1970 and 1970 to 1975. Estimates obtained from other sources, e.g. the projections of the Economic Council of Canada, relate to 1970 only.

EXPANDING POPULATION AND CHANGING AGE
DISTRIBUTION.

As indicated in Table 4-1, Canada's population is likely to rise from 19.6 million in 1965 to 21.7 million in 1970 and to 24.3 million in 1975. As important as the addition of close to 5 million customers is to Canadian business, representing an increase of 25 per cent in terms of potential buyers, there are significant changes in the age distribution of the population taking place that businessmen might well be advised to recognize in planning their advertising programs for the future.

The largest relative population increase between 1965 and 1970 will take place in the 15-24 year age group. The increase is 22 per cent as compared with 8 per cent for the under 15 year age group, 10 per cent for the 25-34 age group, 7 per cent for the 35-64 age group and 9 per cent for the 65 and over age group (see Table 5-1).

An additional close to three-quarters of a million young people will be joining the 15-24 age group, equivalent to over one-third of all the additions to Canada's population over the next five years. This group will comprise the bulk of the new additions to the labour force, the bulk of the higher educational and technical training requirements and the bulk of marriages.

The total number of marriages is estimated at 894,000 for the period 1966-1971, up 30 per cent over the preceding five-year period. This means that Canada will be facing a marriage boom which will be gathering momentum in the 1970's, with the total number of marriages in the 1971-1976 period reaching 1,051,000, up another 18 per cent over the preceding five-year period (see Table 5-3). The marriage boom of the late 1960's and early 1970's will be followed by a baby boom. For example, it is estimated that children born between 1972 and 1976, i.e., aged 4 years or less, will number 3.1 million in 1976, as compared with 2.7 million in the same age group in 1971 and 2.4 million in 1966.⁴

Hence, the market which Canadian businessmen will be facing over the next decade will be largely youth oriented. The

⁴ See Dr. A. STUKEL, "Population Projections, Canada, 1961-1991", Appendix E in the study by T. M. BROWN, *Canadian Economic Growth*, *op. cit.*, pp. 302 and 303.

TABLE 5-1. — POPULATION PROJECTIONS, BY AGE GROUP, CANADA, AND TOTAL POPULATION, UNITED STATES, TO 1970.

Thous.

Year	POPULATION IN CANADA ¹						Total U.S.A. ¹ Population
	0-14 years	15-24 years	25-34 years	35-64 years	65 and over	Total	
1955	5,039	2,260	2,376	4,809	1,215	15,698	165,276
1960	6,030	2,553	2,490	5,439	1,358	17,870	180,676
1965	6,583	3,166	2,411	5,986	1,501	19,646 ²	194,298
1970	7,134	3,872	2,657	6,430	1,637	21,729	205,886 ³
Per Cent Change							
1955-1960	19.7	13.0	4.8	13.1	11.8	13.8	9.3
1960-1965	9.2	24.0	-3.3	10.1	10.5	9.9	7.5
1965-1970	8.4	22.3	10.2	7.4	9.1	10.6	6.0

Source: Data for Canada are from Frank T. DENTON, Yoshiko KASAHARA and Sylvia OSTRY, *Population and Labour Force Projections to 1970*, Staff Study No. 1, Economic Council of Canada, Ottawa, December 1964, p. 9; data for the United States are from *Economic Report of the President*, Washington, 1965 and *Monthly Economic Indicators*, prepared by the Council of Economic Advisors, Washington, November 1965.

¹ Mid-year.

² The age distribution is based on estimated population. A more recently published estimate by the Dominion Bureau of Statistics places Canada's population at 19,571,000 as of June 1965 (see Table 4-1.).

³ An alternative projection places the population of the United States at 211,430,000 for 1970.

requirements of young people differ greatly from those of people in other age groups.

The earning power of the young is still very much in ascendancy. But the requirements of the young are frequently as great or nearly as great as those of people in some older age brackets. The effective purchasing power of younger age groups is bolstered by their ability to borrow, partly based on their current earning power, partly on their expectations to improve their earnings. As a result, buying on credit is likely to become a much stronger element in total demand and many new opportunities will open up for financial institutions to meet this growing need for credit and finance.

The large number of young people entering tomorrow's market is likely to be the most important single factor in shaping the sales pattern in Canada over the next decade. Some of the effects of this trend, which is already in the making, include:

(1) the type of goods in demand, e.g. more homes and apartments, motor cars, appliances, furniture and household furnishings;

(2) the type of services required, with increased demand for recreation and leisure services;

(3) the quality and design of goods, with greater emphasis on eye appeal rather than on durability;

(4) the manner of financing purchases, with greater reliance on credit buying;

(5) the manner of advertising goods and services for sale, with some media and some forms of advertising having greater appeal to the younger than to the older people, e.g., sports broadcasts interlaced with commercials or programs catering to the latest musical fads or dramatic interests.

The dominance of the Canadian market by young customers in the 1970's will be somewhat stronger than is likely to be the case in the United States. In that country the age group 14-24 years may rise from about 34 million in 1965 to 40 million in 1970, or by 18 per cent. This compares with an increase from 3.2 million to 3.9 million in Canada, or by 22 per cent in the 15-24 age group over the same period.⁵

⁵ The figures are not fully comparable, because the U.S. data cover young people from 14 to 24 years, while the Canadian age group covers

In terms of total population, the Canadian market, is also likely to grow more rapidly than the American market. The population in the United States is estimated to increase from 194.3 million in 1965 to a range between 206 million and 211 million in 1970, or between 6 and 9 per cent (see Table 5-1). The comparable figures for Canada are 19.6 million and 21.7 million, representing an increase of 11 per cent.

This trend towards a more rapid rate of expansion of the Canadian market as compared with the U.S. will continue during the 1970's. This is illustrated by a comparison of the relative population increase in the two countries. Between 1970 and 1975 Canada's population is expected to increase from 21,729,000 to 24,260,000, or by 12 per cent (see Table 4-1). Over the same period, population in the U.S. may grow from 205,886,000 to 219,000,000, or by 6 per cent.⁶

INCREASING RATE OF FAMILY AND HOUSEHOLD FORMATION.

Advertisers are concerned not only in reaching the breadwinner but also as many members of the household as possible. Since the bulk of expenditures by the average family is usually made by women, advertisers aim at women not only as income earners in cases where they are working but also as spenders and as members of family units who have a major influence on the spending habits even when the spending is by male members of the family.

Some media, and this applies particularly to television, concentrates, in some of their programs, on reaching whole family groups, and measurement of advertising coverage is based on television homes reached and average numbers of viewers per television home reached.

Hence, one factor that is likely to contribute significantly to increasing advertising expenditures is the growth in the number of family and non-family households, for it is the total

from 15 to 24 years; hence, if fully comparable figures were available, the differences in growth rates between the two countries might be slightly greater than is indicated above.

⁶ An alternative projection suggests population increases in the U.S. over the same period from 211,000,000 to 230,000,000, or by 9 per cent. Estimates of the population in the U.S. for 1965, 1970 and 1975 are from the *Economic Report of the President, 1965, op. cit.*, p. 213.

number of homes, whether they are based on a family or on other groupings of people living in a common household, that represents the basic unit to which advertising is addressed.

In Canada, the total number of families is expected to increase from 4½ million in 1966 to over 5 million in 1971, and then on to about 5.7 million in 1976. This represents increases of about 12 per cent for each year over the next two five-year periods (see Table 5-2).

Over the same period, non-family households are expected to increase from 837,000 to 994,000 and then to 1,147,000, or by 19 per cent and 15½ per cent respectively. Total households would be rising from 5.1 million in 1966 to 5.9 million in 1971 and to 6.7 million in 1976, representing increases of about 19 per cent respectively for each of the next two five-year periods (see Table 5-2).

Reference has been made earlier to the marriage boom that Canadians can expect over the next decade, and that would be a major factor contributing to new family formation in Canada. The stepped-up rate of family and household formation is indicated by the following figures:

	ANNUAL AVERAGE — NUMBER	
	NET FAMILY FORMATION Thousands	TOTAL HOUSEHOLDS Thousands
1961-1966	72.0	112.2
1966-1971	108.2	144.9
1971-1976	126.2	164.7

These estimates suggest that the annual rate of net family formation is likely to rise by about three-quarters over the next decade and that total new households formed may rise by about one-half (see Table 5-3).

The Canadian market will be a more dynamic market if the comparison is made with the U.S. in terms of the increase in the number of new households formed. Between 1966 and 1976 households in Canada are expected to increase by over 1.5 million or by about 30 per cent. In the U.S. the increase over the decade ⁷ would be about 11½ million households, representing an increase of approximately 20 per cent (see Table 5-2).

⁷ The figures for the U.S. relate to the period 1965-1975.

TABLE 5.2. — TOTAL NUMBER OF FAMILIES, NON-FAMILY HOUSEHOLDS AND HOUSEHOLDS, CANADA AND UNITED STATES, PROJECTIONS TO 1976.

Thous.

YEAR	CANADA			UNITED STATES ¹		
	TOTAL NUMBER OF FAMILIES ²	TOTAL NUMBER OF NON-FAMILY HOUSEHOLDS	TOTAL NUMBER OF HOUSEHOLDS	TOTAL NUMBER OF FAMILIES ³	TOTAL NUMBER OF NON-FAMILY HOUSEHOLDS	TOTAL NUMBER OF HOUSEHOLDS
1951	3,282	459	3,421	38,900	4,700	43,600
1956	3,706	521	3,941	— ⁴	— ⁴	— ⁴
1961	4,140	664	4,569	44,900	7,800	52,600
1966	4,500	837	5,130	48,800	9,800	58,600
1971	5,041	994	5,854	52,800	11,100	63,900
1976	5,672	1,147	6,678	57,500	12,500	70,000
Per Cent Change						
1951-1956	12.9	13.5	15.2	— ⁴	— ⁴	— ⁴
1956-1961	11.7	27.4	15.9	— ⁴	— ⁴	— ⁴
1961-1966	8.7	26.1	12.3	8.7	25.6	11.4
1966-1971	12.0	18.8	14.1	8.2	13.3	8.0
1971-1976	12.5	15.4	14.1	8.9	12.6	10.6

Source: Data for Canada are from Wolfgang M. ILLING, Staff Study No. 4, Economic Council of Canada, Ottawa, 1964; data for the United States from L. Jay ATKINSON, "Long-Term Influences Affecting the Volume of New Housing Units", in *Survey of Current Business*, Washington, November 1963.

¹ In the case of the United States the data relate to the year preceding that listed in column 1.

² Not all families represent households because some families share a common household. In 1966, 95 per cent of families is estimated to represent households.

³ Covers family households.

⁴ Not available.

TABLE 5-3. — TOTAL NUMBER OF MARRIAGES, AVERAGE ANNUAL NET FAMILY FORMATION AND AVERAGE ANNUAL INCREASES OF FAMILY AND NON-FAMILY HOUSEHOLDS, CANADA, PROJECTIONS TO 1976.

Thous.

Period	Total Number of Marriages	Average Annual Net Family Formation	AVERAGE ANNUAL INCREASES		
			Family Households	Non-Family Households	Total Households
1951-1956	585.2	84.6	91.7	12.4	104.1
1956-1961	659.0	87.0	97.0	28.6	125.6
1961-1966	689.4	72.0	77.7	34.5	112.2
1966-1971	893.7	108.2	113.4	31.5	144.9
1971-1976	1,051.0	126.2	134.1	30.6	164.7
Per Cent Change					
1951-1956 to 1956-1961	12.6	2.8	5.8	130.6	20.7
1956-1961 to 1961-1966	4.6	-17.2	-19.9	20.6	-10.7
1961-1966 to 1966-1971	29.6	50.3	45.9	-8.7	29.1
1966-1971 to 1971-1976	17.6	16.6	18.3	-2.9	13.7

Source: Wolfgang M. ILLING, *Housing Demand to 1970*, Staff Study No. 4, Economic Council of Canada, Ottawa, 1964.

GROWING URBANIZATION.

Traditionally people living in urban areas earn considerably higher incomes than people living in rural areas.⁸ The needs of the city dweller for goods and services differ in many respects from those of people living on farms. Hence, in considering the future growth of the Canadian market account must be taken of the trend towards greater urbanization and less rural living, if this is likely to be the case.

Available evidence suggests that the trend is strongly in the direction of city living. Canada's farm population has been continuously on the decline since the end of World War II and this trend is likely to continue over the next decade. People living on farms numbered 1,874,000 in 1966, down from 2,073,000 in 1961. By 1970, the farm population may be down even further to an estimated 1,728,000 (see Table 5-4). Against this decline people living in cities and towns and in non-farm areas are expected to increase from 18,165,000 in 1966 to about 20 million in 1970, or by 10 per cent. Between 1961 and 1966, the number of people living in non-farm areas rose from 16,165,000 to 18,165,000, or by 12 per cent. The heaviest concentration of population growth involving over 1 million people in the period to 1970 will occur in about a dozen of Canada's largest metropolitan centres. It is in these dozen cities that the greatest increase in the volume of sales of goods and services will take place, and it will be there that the bulk of advertising expenditures will be made.

RISING INCOMES.

Canada's growing affluence is indicated in the increases in personal income per capita that appears to be in the offing over the next decade. Between 1965 and 1975 per capita income in current dollars is expected to rise from \$1,962 to \$3,434, representing a 75 per cent increase. This compares with a 56 per cent increase over the preceding 10-year period.

With population rising also at a significant rate, total personal income in Canada is likely to reach new record levels,

⁸ The differences have narrowed considerably in recent years mainly because of good crops, expanding sales and higher export prices. These three factors have contributed to raising significantly farm income, particularly in the Prairie Provinces.

TABLE 5-4. — POPULATION, URBAN AND RURAL, CANADA, PROJECTIONS TO 1970.

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YEAR	URBAN			RURAL			CANADA
	METROPOLITAN CENTRES	OTHER URBAN	TOTAL ¹	FARM	NON-FARM	TOTAL	
1951	5,637	2,996	8,633	2,564	2,812	5,376	14,009
1956	6,806	3,685	10,491	2,438	3,152	5,590	16,081
1961	8,164	4,536	12,700	2,073	3,465	5,538	18,238
1966	9,282	5,233	14,515	1,874	3,650	5,524	20,039
1970	10,285	5,867	16,152	1,728	3,849	5,577	21,729
Average Annual Per Cent Changes							
1951-1956	3.8	4.2	4.0	-1.0	2.3	0.4	2.8
1956-1961	3.7	4.3	3.9	-3.2	11.9	-0.2	2.7
1961-1966	2.6	2.9	2.7	-2.0	1.0	-0.1	1.9
1966-1970	2.7	3.1	2.7	-2.0	1.3	0.2	2.0

Source: Wolfgang M. ILLING, *Housing Demand to 1970*, Staff Study No. 4, Economic Council of Canada, Ottawa, 1964.

¹ Using 1961 Census definition of "urban" to include centres of 1,000 population and over, and fringe areas of metropolitan centres.

involving rates of increases unknown in Canada's peace-time history. Total personal income is likely to rise from about \$38 billion to 83 billion by 1975. This means that new potential purchasing power involving an additional \$45 billion may be put into the hands of consumers over the next decade. The increase between 1955 and 1965 involved an addition of \$18 billion in terms of personal income received by Canadians (see Table 5-5).

Looking to the future, if the increases in incomes projected are realized, they hold promise for an explosive expansion of the market for a great variety of consumer goods and services in Canada. Percentage increases in total personal income over the four quinquennial sub-periods are as follows:

1955-1960	39
1960-1965	40
1965-1970	49
1970-1975	46

VARIATIONS IN INCOME DISTRIBUTION.

The more affluent a family is, the more is it likely to spend in absolute terms. Hence, advertisers formulate their advertising messages — if these are designed to reach specific types of customers — by taking account of the income brackets of potential customers whom they wish to reach.

The point has been made that Canadians can expect substantial increases in total personal income. For example, during the period 1965-1970 total personal income may rise from \$38.4 billion to \$57.1 billion, or by 49 per cent. How is this significant rise in income likely to affect the distribution among earners in different income brackets ?

Estimates of changes of income distribution at a future date are of necessity very tentative. They are as a rule based on the assumption that past trends may continue in the future. There is, however, no assurance that such an assumption will be borne out by actual events. Changes may occur which may either favour people in the lower income brackets or people in higher income brackets. Various factors may contribute to such changes in trend conditions, including the general improvement in earning conditions, new skills acquired and retraining programs, more effective manpower policies and employment

TABLE 5-5. — PERSONAL INCOME AND CONSUMER EXPENDITURES, TOTAL AND PER CAPITA, CANADA, PROJECTIONS TO 1975.

YEAR	PERSONAL INCOME ¹			CONSUMER EXPENDITURES ¹		
	TOTAL \$ Bill.	PER CENT OF GROSS NATIONAL PRODUCT	PER CAPITA \$	TOTAL \$ Bill.	PER CENT OF GROSS NATIONAL PRODUCT	PER CAPITA \$
1955	19.7	72.6	1,255	17.4	64.1	1,108
1960	27.4	75.5	1,533	23.5	64.8	1,315
1965 ²	38.4	74.5	1,962	32.2	62.5	1,645
1970	57.1	74.5	2,628	47.9	62.5	2,204
1975	83.3	74.5	3,434	69.9	62.5	2,881
Per Cent Change						
1955-1960	39.1	—	22.2	35.1	—	18.7
1960-1965	40.1	—	28.0	37.0	—	25.1
1965-1970	48.7	—	33.9	48.8	—	34.0
1970-1975	45.9	—	30.7	45.9	—	30.7
1955-1965	94.9	—	56.3	85.1	—	48.5
1965-1975	116.9	—	75.0	117.1	—	75.1

Source: Data for 1955, 1960 and 1965 from the DOMINION BUREAU OF STATISTICS, *National Accounts*, 1962 and 1965; projections to 1975 are special estimates (see Table 4-2).

¹ In current dollars.

² Preliminary estimates.

TABLE 5-6. — INCOME DISTRIBUTION, AVERAGE INCOME AND MEDIAN INCOME, NON-FARM FAMILIES, CANADA, 1958, 1961, 1965 AND 1970.

INCOME	1958 PER CENT DISTRIBUTION	1961 PER CENT DISTRIBUTION	1965		1970	
			PER CENT DISTRIBUTION	NUMBER OF FAMILIES Thous.	PER CENT DISTRIBUTION	NUMBER OF FAMILIES Thous.
Less than \$3,000	25.5	21.9	17.0	682	11.0	495
\$3,000 to \$4,999	36.3	30.4	23.0	923	13.2	594
\$5,000 to \$6,999	21.6	26.3	32.4	1,200	40.3	1,814
\$7,000 to \$9,999	11.0	14.9	20.0	802	26.4	1,188
\$10,000 and over	5.6	6.5	7.6	305	9.1	410
Total	100.0	100.0	100.0	4,012	100.0	4,500
Average Income \$	4,921	5,318	6,763	—	9,062	—
Median Income \$	4,308	4,866	6,097	—	8,174	—

Source: Data on income distribution are from special surveys of Non-Farm Family Income, conducted in the Dominion Bureau of Statistics and published in summary form in CENTRAL MORTGAGE AND HOUSING CORPORATION, *Canadian Housing Statistics*, 1964, Ottawa, 1965, p. 58; estimates of income distribution for 1965 and 1970 are based on a straight line projection of changes indicated for 1958 to 1961, adjusted for rounding; estimates of average and median income are based on percentage increases indicated in personal income per capita from Table 5-5; number of families for 1965 and 1970 are adjusted estimates from Wolfgang M. ILLING, *Housing Demand to 1970*, Staff Study No. 4, Economic Council of Canada, Ottawa, 1964.

placement, the relative bargaining strength of different sectors of the economy, variations in government fiscal and social security policies, the varying effects of inflation on income recipients in different income brackets, etc.

Hence the estimates of changes in income distribution for non-farm families for the period 1965-1970 which are presented in Table 5-6 should be regarded only as an indication of the possible and not as a forecast of what is likely to happen. Still the estimates are suggestive of the possibilities that appear to exist. In essence, Canada can, with the pursuit of sensible and realistic economic policies, greatly reduce, in the future, the degree of poverty still in existence in this country.

At present, the demarcation line of families living in poverty is usually taken as \$3,000 per family.⁹ On this basis, 22 per cent of total non-farm families were in this bracket in 1961. This proportion appears to have diminished, reaching a possible 19 per cent by 1965 and declining further to 11 per cent by 1970. This would represent a drop in the total number of families in this income bracket from 682,000 in 1965 to 495,000 in 1970, or by 27 per cent (see Table 5-6).

The proportion of families in the \$3,000 to \$4,999 income bracket appears also to be declining, with a drop indicated from 36 per cent in 1961 to 23 per cent in 1965 and to 13.2 per cent in 1970. In absolute terms the decline in non-farm families earning between \$3,000 and \$4,999 would be from 923,000 to 599,000, or by 35 per cent.

The greatest relative improvement is expected to take place in the \$5,000 to \$6,999 income bracket, from 26 per cent of total non-farm families in 1961 to 32 per cent in 1965 and to 40 per cent in 1970. This would mean that over half a million families would reach this new income bracket, with the total rising from 1,200,000 to 1,814,000 in 1970 (see Table 5-6). Over the same period, non-farm families earning between \$7,000 and \$9,000 are expected to rise from 802,000 to 1,188,000, or by 48 per cent, and those earning \$10,000 and over from 305,000 to 410,000, or by 34 per cent.

The average non-farm family income may increase from \$5,318 in 1961 to \$6,763 in 1965, and to \$9,062 in 1970. This

⁹ *Problems of Economic Growth, op. cit.*, pp. 22 ff.

would represent increases of 34 per cent in current dollar terms for the average family living in non-farm areas over the next five years. As indicated earlier, prices may rise a little over 13 per cent over this period. Hence, the improvement in real income per non-farm family could be of the order of 20 per cent.

While poverty will still be a problem to be faced in Canada, as in many other countries, there are distinct indications to suggest that poverty is on the decline and that the number of families lacking the essentials of modern living will, relatively speaking, be notably fewer in numbers in 1970 than they were in 1965 or in 1961.

On the other end of the scale, non-farm families earning \$10,000 a year are likely to increase by over one-third in numbers, representing more customers than ever for the many luxuries which an affluent society can afford. Also, families in the \$7,000 to \$9,999 income bracket will be wanting to acquire many of the luxuries and they will be able to do so by having access to credit facilities likely to be more substantial and more sophisticated than those now available.

GREATER CONSUMER SPENDING.

Higher levels of incomes and improved income distribution will put more purchasing power in the hands of the Canadian public. Further, as the nation makes increasing provision for old age security and other social benefits through national programs, Canadians will be able to use a greater proportion of their disposable income to spend on goods and services they wish to acquire. An added factor will be expanded credit facilities which will make it possible for Canadians to increase their purchases beyond their current earnings.

As a result, per capita expenditures on consumer goods and services are expected to rise at a considerable pace. They are likely to increase from \$1,645 in 1965 to \$2,881 in 1975, or by 75 per cent. This compares with a rise of 48 per cent in the 1955-1965 period (see Table 5-5).

In total, the market for consumer goods and services in Canada is likely to rise from \$32 billion to \$70 billion, or by \$38 billion, over the decade 1965-1975. This represents a huge new market, more than double what it was at the beginning of this decade. It represents a potential market waiting to be

tapped by alert and farsighted management in industry in Canada.

There is little doubt that advertising will play an increasing role as different Canadian industries and distributors of foreign products will try to get their share of the new multi-billion dollar market for consumer goods and services coming into being over the next decade. The far-sighted businessman will not wish to under-estimate the potential of the Canadian market ten years hence because if this market for consumer goods and services reaches the \$70 billion foreseen in this study, it will be greater than the market for consumer goods and services was in the U.S. at the outbreak of World War II.¹⁰

Percentage increased of total consumer spending over the four quinquennial sub-periods are as follows:

1955-1960	35
1960-1965	37
1965-1970	49
1970-1975	46

MORE INTENSIVE INDUSTRIALIZATION.

Canada, with two-thirds of one per cent of the world's population, is among the eight leading industrialized countries of the world, following the United States, U.S.S.R., Western Germany, France, United Kingdom, Japan and Italy (in that order). On a per capita basis, Canada ranks fourth after the U.S., Western Germany and France and ahead of the U.K., U.S.S.R., Japan and Italy. Gross Domestic Product originating in manufacturing per capita in Canada amounted to \$481 in 1963, as compared with: U.S., \$813; Western Germany, \$686; France, \$606; U.K., \$472; Japan, \$257; and Italy, \$179. No comparable figures are published for the U.S.S.R. but partial data suggest that a comparable figure might be in excess of \$400.¹¹

¹⁰ Expenditures on personal consumption in the United States amounted to about \$67 billion in 1939 and \$72 billion in 1940 (*Economic Report of the President, 1965, op. cit.*, p. 189).

¹¹ Special compilation, expressed in U.S. dollars, based on data on gross domestic product originating in manufacturing, and supplementary estimates based on *Year Book of National Accounts Statistics, 1964*, United Nations, New York, 1965; population data are from *Monthly Bulletin of Statistics*, United Nations, New York, October 1965.

In Canada, close to one-quarter of all persons employed are engaged in manufacturing activity¹² and over one-quarter of all incomes earned in Canada originate in secondary industries.¹³

In 1965 the gross value of all manufacturing production is estimated at \$32 billion, representing an increase of about 38 per cent over the 1960 level of \$23.3 billion, and 64 per cent over the level of 1955 of \$19.5 billion (see Table 5-7).

Looking to the future, Canadian manufacturing industries may have to market a considerably greater output, the bulk of which is sold in this country. Sales of manufactured products may reach \$46 billion in 1970, if adequate use is to be made of the expanding capacity of the Canadian manufacturing industries. By 1975, the sale of goods manufactured in Canada, may involve a record total of \$67 billion, or more than double the value of 1965 (in current dollars).

Hence, Canadian manufacturing industries face the task of finding huge new markets for the products which they will be capable of turning out over the next decade and the main market will have to be found in Canada. And the task is truly gigantic: how to sell an additional \$35 billion of manufactured goods annually a decade hence? This presents a truly remarkable challenge to the ingenuity and skill of Canadian businessmen in developing markets, both at home and abroad, greater in extent and involving a more intensive penetration than ever before.

It will take a lot of sales and advertising planning to market \$67 billion worth of manufactured products both in the Canadian and the foreign markets by 1975, as compared with \$32 billion in 1965. There is little doubt that Canadian manufacturing industries and, particularly the national companies, are aware of the great marketing job ahead. Advertising agencies in turn will be assisting Canadian manufacturers to develop appropriate programs to achieve such huge sales targets made possible by rapidly expanding markets and a more affluent nation

¹² In the quarter September-November 1965, 1,647,000 persons were employed in manufacturing on an average representing 23½ per cent of the total number of persons employed (see the *Labour Force November 1965*, *op. cit.*, p. 4).

¹³ In 1964 Gross Domestic Product originating in manufacturing amounted to \$10.9 billion, equivalent to about 26 per cent of total Gross Domestic Product at factor costs (see DOMINION BUREAU OF STATISTICS, *National Accounts 1964, 1965*, p. 30).

TABLE 5-7. — GROSS NATIONAL PRODUCT, IMPORTS OF GOODS AND SERVICES AND GROSS VALUE OF MANUFACTURING, CANADA, PROJECTIONS TO 1975.

YEAR	GROSS NATIONAL PRODUCT ¹ \$ Mill.	IMPORTS OF GOODS AND SERVICES ¹ \$ Mill.	GROSS VALUE OF MANUFACTURING ¹ \$ Mill.	PER CENT OF GROSS NATIONAL PRODUCT	
				IMPORTS OF GOODS AND SERVICES	GROSS VALUE OF MANUFACTURING
1955	27,132	6,443	19,514	23.7	71.9
1960	36,287	8,172	23,280 ²	22.5	64.2
1965 ³	51,500	12,100	32,000 ⁴	23.5	62.0
1970	76,600	17,200 ⁵	46,000	22.5	60.0
1975	111,800	25,200	67,000	22.5	60.0
Per Cent Changes					
1955-1960	34	1	19	—	—
1960-1965	42	48	38	—	—
1965-1970	49	42	44	—	—
1970-1975	46	47	46	—	—
1955-1965	90	49	64	—	—
1965-1975	117	108	109	—	—

Source: Gross National Product and Imports of Goods and Services 1955, 1960 and 1965 are from DOMINION BUREAU OF STATISTICS, *National Accounts, 1962 and 1964*; Gross Value of Manufacturing for 1955 and 1960 are from DOMINION BUREAU OF STATISTICS, *Annual Census of Manufacturers, 1955 and 1960*; all other data are special estimates.

¹ In current dollars.

² The Dominion Bureau of Statistics changed the definition of gross value of manufacturing and the method of computation in 1957 with the result that the two series are only approximately comparable, the difference between the two series amounting to about 2 per cent.

³ Preliminary estimates.

⁴ An examination of the volume index of real Gross Domestic Product originating in manufacturing suggests that the \$32 billion estimates may be on the low side, with a margin of possible error of up to 5 per cent. If such is the case, the projections of the Gross Value of Manufacturing up to 1975 would have to be adjusted accordingly.

⁵ Assuming a slightly declining ratio from the high proportion of 23.5 per cent reached in 1965. The above estimate of \$17.2 billion is somewhat higher than the estimate presented in the First Annual Review of the Economic Council of Canada which placed imports of goods and services for 1970 expressed in 1963 dollars at \$10.2 billion (see *First Annual Review, op. cit.*, p. 93). This would be equivalent to about \$13 billion in current dollars assuming a 25 per cent increase in import prices between 1963 and 1970.

a decade hence. As a result of the substantial and more intensive industrial expansion foreseen for Canada in the 1970's, advertising expenditures made by secondary industries are likely to increase by leaps and bounds as business firms prepare to capture their share of growing markets for manufactured products in Canada and abroad.

HIGHER IMPORTS.

Canadian industry in marketing the substantial increase in goods and services it will be capable of producing over the next ten years will be facing growing competition, both in Canada and abroad.

In the domestic market, importers will also be endeavouring to sell more goods and services.

Hence, competition between domestic producers and importers in the Canadian market is likely to be intensified over the next decade, particularly if Canada continues — as is likely — to pursue current trade policies directed towards further gradual reduction of tariff barriers.¹⁴ Domestic producers will be endeavouring to retain their share of the market and they are likely to use increased advertising to achieve the appropriate expansion in their sales in line with their rising capacity to produce and the growth of the domestic market. Importers, in turn, will be pursuing strenuously the objective of making greater inroads into the Canadian market, and they, too, are likely to use increased advertising to achieve such an objective.

Hence, higher imports are likely to contribute to raising advertising expenditures in Canada, both by domestic producers and foreign suppliers.

Imports of goods and services in 1965, a year of rapid economic growth, amounted to about \$12 billion, as compared with \$8.2 billion in 1960, a year of slow economic growth, and about \$6½ billion in 1955, a year of rapid economic growth (see Table 5-7).

¹⁴ The Minister of Trade and Commerce, in stating that the objective was moving "forward in the freeing of channels of trade," pointed out that the task was becoming "increasingly complex and difficult". Said the Minister, "It will take all our ingenuity and that of our trading partners to devise suitable approaches and techniques to solve the problems which will arise" (see The Hon. Robert H. WINTERS, *Address*, Board of Trade of Metropolitan Toronto, Toronto, January 24, 1966, p. 12).

Over the next five years imports of goods and services may rise from about \$12 billion to about \$17 billion in 1970¹⁵ and then still further to about \$25 billion in 1975, in current dollars.

STEPPED-UP FLOW OF NEW AND IMPROVED PRODUCTS.

New products are continuously entering the Canadian market. They either originate in Canada or they are imported from abroad. To introduce new products in the Canadian market requires the mapping out of adequate sales programs accompanied by an effective advertising campaign.

“Time” will be considered a more significant factor in the changing values attached by consumers to goods and services offered for sale. Time-saving devices will become more important to industry, workers and consumers: to industry because it will enable it to raise productivity; to workers because it will bring them higher real incomes and more leisure; and to consumers because they will be able to obtain greater satisfaction from the goods and services they will purchase and the leisure time they will enjoy. Canadian businessmen, like industrial leaders in most other developed countries, are likely to recognize this trend, and this may bring a host of new goods and services on the markets in the next decade.

Since innovations in product creation, product design and product improvement are continuous, they require increasing advertising efforts to keep the public informed, safeguard the industry’s image and to enhance the acceptability by consumers of its products, both new and old.

Consumers are known to have short memories. Advertisers have learned that it is only by keeping a product continuously before the public that they will have a chance of selling their products in large enough quantities to ensure their economic and profitable production.

With thousands of new products coming on the market every year, with media more fragmented¹⁶ and markets more specialized, selling more competitive, many manufacturers and distributors have found it necessary and are likely to continue

¹⁵ The Economic Council of Canada suggests that the rate of increase in imports of goods and services into Canada may be somewhat slower (see footnote 5 of Table 5-7).

¹⁶ See Chapter 2.

to do so, to increase their advertising budgets substantially to achieve adequate marketing of the new products becoming available for sale.

MORE PUBLIC ADVERTISING.

Among the various advertising media, television has become a particularly important factor in political image building and a means of disseminating public information.

Advertising expenditures for political purposes have been increasing and so has government advertising serving public purposes. Political advertising expenditures are usually concentrated in election periods and are spread more thinly during periods between elections.

Government spending on public information advertising is continuous and the trend has been distinctly upward. This type of advertising takes many forms, from the Post Office advertising Christmas mailing dates to the Department of Labour advertising its "Do It Now" winter works program, from the Department of National Revenue advising tax-payers of their payment dates to provincial Highway Departments advertising safe driving rules, from civic authorities advertising proposals for new city by-laws to all levels of government meeting legal requirements that involve giving public notices.

To illustrate the large expenditures that may be involved in governments advertising one particular program: the Canadian Government spent \$1,964,596 on its advertising campaign to introduce the Canada Pension Plan which came into effect on January 1st, 1966.¹⁷

The role of government in economic affairs is increasing. One study suggests that the ratio of government expenditures to Gross National Product is likely to increase from 31.9 per cent in 1961 to 37.8 per cent in 1976, with this trend continuing, reaching 41.5 per cent by 1991.¹⁸

¹⁷ Written reply by the Minister of National Health and Welfare, House of Commons Proceedings, Ottawa, February 2nd, 1966.

¹⁸ The main increase in government spending is expected to occur in the provincial and municipal government sectors (estimates prepared for the Royal Commission on Health Services, discussed in *Problems of Economic Growth*, *op. cit.*, pp. 83 and 171).

Thus Canadians may expect that something like 40 cents out of every dollar spent in Canada in the 1970's will represent expenditures made by government agencies. And with the role of governments increasing in economic affairs, both directly and indirectly, public advertising is likely to assume much greater importance, both in absolute as well as in relative terms than it has been in the past.

CHARACTERISTICS OF CANADIAN MARKET IN THE 1970's.

Looking ahead, and taking into account the changing age distribution of the Canadian population, and changes in industrial structure, spectacular improvements in income levels and a significant upgrading in income distribution are in the offing for Canada over the next decade. Four effects are likely to follow from these developments, as far as the characteristics of Canada's future market are concerned:

- (1) The market will be more discriminating and leisure oriented.
- (2) The market will become more quality and design conscious.¹⁹
- (3) The market will be more specialized.
- (4) The market will be more competitive, both from domestic producers and foreign suppliers importing into Canada.

To cope with the exigencies of both the expanding and changing markets in Canada will require imaginative business leadership and comprehensive business planning. Part of this planning process will be the mapping out of sales campaigns to market the increasing volume of goods and services that the Canadian economy will be capable of producing in the 1970's. The devising of imaginative and appealing advertising campaigns will form part of the efforts of industry to assist Canada's more affluent society to choose between the goods and services it will be able to afford to acquire in the decade ahead.

¹⁹ Some conflicting trends may become apparent: higher incomes will enable people to buy better quality products, but with the average age of the consumer being reduced because of the very large numbers of young people reaching adulthood over the next decade, in certain areas the emphasis may be more on eye appeal of the products rather than on their intrinsic quality.

TABLE 5-8. — GROSS NATIONAL PRODUCT AND GROSS ADVERTISING EXPENDITURES, CANADA, PROJECTIONS TO 1975.

YEAR	GROSS NATIONAL PRODUCT ¹ \$ Mill.	GROSS ADVERTISING EXPENDITURES ¹ \$ Mill.		GROSS ADVERTISING EXPENDITURES AS PER CENT OF GROSS NATIONAL PRODUCT	
		ALTERNATIVE 1	ALTERNATIVE 2	ALTERNATIVE 1	ALTERNATIVE 2
1955	27,132	401	401	1.48	1.48
1960	36,287	584	584	1.61	1.61
1965 ²	51,500	733	733	1.42 ³	1.42
1970	76,600	1,233	1,150	1.61 ⁴	1.50 ⁵
1975	111,800	1,900	1,677	1.70	1.50
Per Cent Change					
1955-1960	4	46	46	—	—
1960-1965	42	26	26	—	—
1965-1970	49	68	57	—	—
1970-1975	46	54	46	—	—
1955-1965	80	83	83	—	—
1965-1975	117	159	129	—	—

Source: Gross National Product estimates are from Table 4-2; gross advertising expenditures for 1955 to 1965 are from Table 1-1; gross advertising expenditures for 1970 and 1975 are special estimates based on assumptions elaborated in footnotes 4 and 5.

¹ In current dollars.

² Preliminary estimates.

³ The ratio is the lowest since 1954 suggesting the possibility that the final estimates of gross advertising expenditures for 1965 may be higher than is indicated in preliminary estimates.

⁴ Assuming that the ratio of gross advertising expenditures to Gross National Product moves gradually upward reaching by 1970 the same ratio as prevailed in 1960. The ratio is then assumed to continue to rise to 1975 though at slower pace.

⁵ Assuming that the ratio of gross advertising expenditures to Gross National Product stabilizes around 1.5 per cent, i.e. a level between that prevailing in 1955 and 1960. The assumed ratio is slightly below the average ratio for the period 1955 to 1960 inclusive of 1.53 per cent.

What kind of advertising effort will be required? What expenditures are likely to be made on advertising, gross and net? What media are likely to be used?

The remainder of this Chapter answers these questions in aggregate terms, with Chapter 6 dealing more specifically with future broadcast advertising expenditures in Canada.

FUTURE RELATIONSHIP BETWEEN GROSS NATIONAL PRODUCT AND ADVERTISING EXPENDITURES.

It has been suggested earlier in this Chapter that Canada's total market is expected to increase in terms of Gross National Product from \$51.5 billion in 1965 to \$76.6 billion in 1970, and to \$111.8 billion in 1975.

Advertising expenditures are also likely to rise over the next decade. The question is: by how much? Are total advertising expenditures likely to rise more rapidly than Canada's total market, less rapidly, or at about the same rate?

The evidence examined in Chapter 1 suggests that Canada experienced two types of trends. One represented a slow rate of growth of advertising expenditures as compared with Gross National Product, and the other, a more rapid rate. For example, between 1955 and 1960, Canada's Gross National Product rose by 34 per cent as against an increase of 46 per cent for advertising expenditures. On the other hand, in the subsequent five-year period, 1960-1965, Gross National Product rose more rapidly, 42 per cent, than advertising expenditures, 26 per cent (see Table 5-8).

Looking to the future, a case can be made for advertising expenditures to rise at least at as rapid a rate as Gross National Product and possibly to increase at a somewhat greater rate. Some of the reasons include:

- (1) new technological advances will create new wants leading to new ways in meeting these wants;
- (2) growing complexity and specialization of markets;
- (3) significant changes in selling and advertising techniques;
- (4) increased competition.

Account of these factors has been taken in preparing projections of gross and net advertising expenditures for the period 1965-1975. Two alternatives are presented.

Alternative 1 assumes that gross advertising expenditures may rise at a slightly more rapid rate than Gross National Product. This assumption is based on extending towards the decade of 1965-1975, a trend applying to Canada's recent experience, with an allowance for the possibility of a slower rate of increase (see footnote 4 of Table 5-8).

Alternative 2 assumes that Gross National Product and gross advertising expenditures move up at approximately similar rates (see footnote 5 of Table 5-8).

Under Alternative 1, the proportion of gross advertising expenditures to Gross National Product moves from close to 1.5 per cent in 1955 to 1.6 per cent in 1960, and to a little over 1.4 per cent in 1965. The projections provide for this ratio to increase to 1.6 and 1.7 per cent in 1970 and 1975 respectively. Under Alternative 2, the ratio is kept at 1.5 per cent for both 1970 and 1975, reflecting about a mid-point of the experiences between 1955 and 1965.

Supplementing the estimates of gross advertising expenditures for 1970 and 1975 are estimates of commissions paid to advertising agencies. Deducting these from gross advertising expenditures provides estimates of net advertising expenditures for the period up to 1975 (see Table 5-9).

GROSS ADVERTISING EXPENDITURES PROJECTIONS TO 1975.

Gross advertising expenditures are expected to rise from \$733 million in 1965 to a range between \$1.1 billion and \$1.2 billion by 1970. This represents increases over the five-year period between 1965 and 1970 of between 57 and 68 per cent.

By 1975 gross advertising expenditures in Canada may reach a level between \$1.7 billion and \$1.9 billion, or between 129 per cent and 159 per cent above the level prevailing in 1965 (see Table 5-8).

The range of increases between 57 and 68 per cent from 1965 to 1970 compares with increases of 26 per cent over the 1960-1965 period, and 46 per cent over the 1955-1960 period.

The range of increase over the next decade, 1965-1975, between 129 per cent and 159 per cent compares with an 83 per cent increase for the period 1955-1965. Hence the projections indicate in quantitative terms the implications of the analysis presented earlier, suggesting the distinct possibility of a considerable expansion in advertising budgets in Canada.

ADVERTISING AGENCY COMMISSIONS, PROJECTIONS TO 1975.

As gross advertising expenditures rise, so will advertising agency commissions. By 1970 these are likely to amount to between \$80 and \$86 million, as compared with \$48 million in 1965. By 1975 advertising agency commissions may reach a range between \$117 million and \$133 million.

Taking the upper estimates as a basis of comparison, percentage increases in advertising agency commissions between 1965 and 1970 would be 79 per cent and between 1970 and 1975, 55 per cent. This compares with increases of 51 per cent and 20 per cent respectively for the five-year periods 1955-1960 and 1960-1965. Comparable percentage increases for the period 1965-1970 and 1970-1975 using the lower range of projections would be 67 and 46 per cent respectively (see Table 5-9).

NET ADVERTISING EXPENDITURES, PROJECTIONS TO 1975.

Net advertising expenditures are the revenues which the different advertising media will be receiving for the placement of advertising. This excludes revenues received for costs of producing programs, etc.

Net advertising expenditures may reach between over \$1 billion and over \$1.1 billion in 1970 and between \$1.6 billion and \$1.8 billion in 1975. This compares with \$685 million in 1965.

Net advertising expenditures thus would be increasing by 67 per cent over the 1965-1970 period, and 54 per cent over the 1970-1975 period on the basis of the upper range of estimates presented (see Chart 8). This would compare with increases over the 1955-1960 and 1960-1965 periods of 45 and 26 per cent respectively. Comparable percentage increases using the lower range of projections would be 56 and 46 per cent respectively for the next two quinquennial periods ahead (see Table 5-9).

CHART 8
GROSS AND NET ADVERTISING EXPENDITURES, CANADA,
PROJECTIONS TO 1975

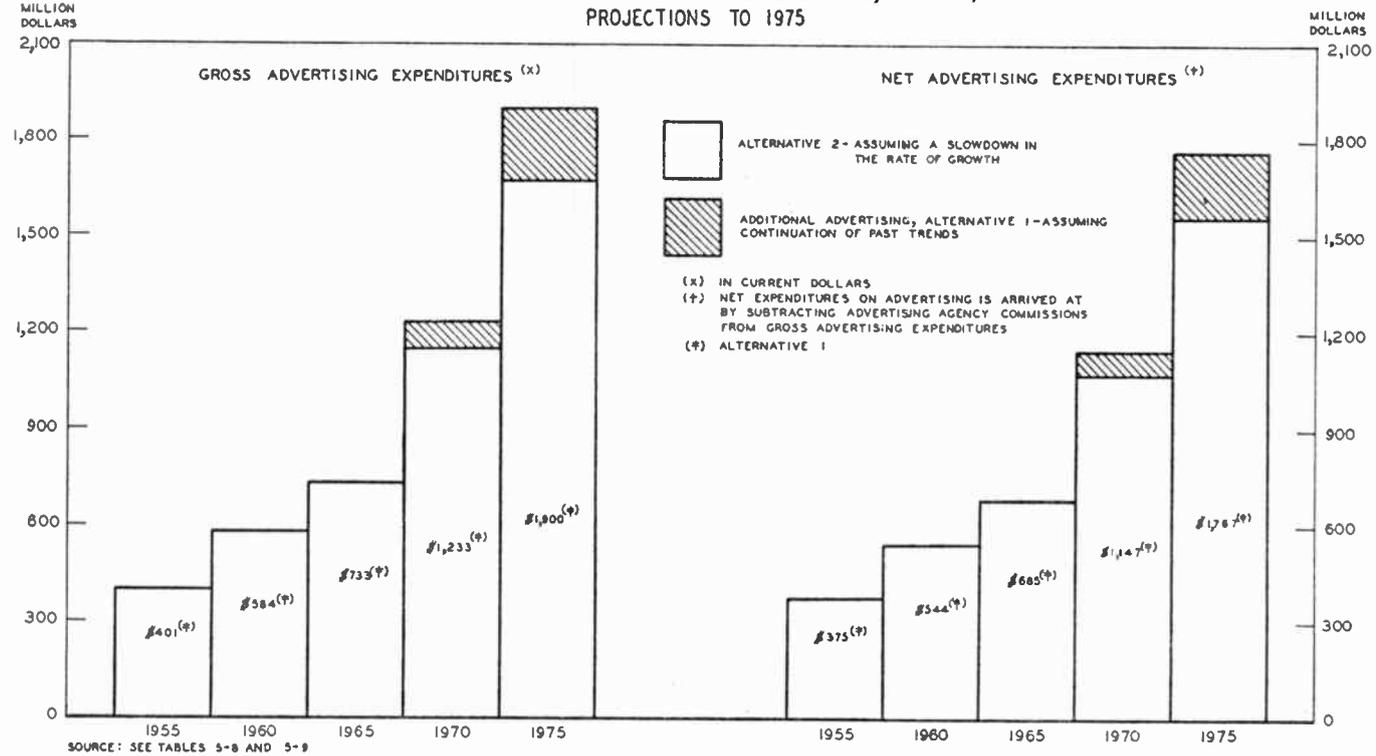


TABLE 5-9. — GROSS AND NET ADVERTISING EXPENDITURES AND ADVERTISING AGENCY COMMISSIONS, ¹ CANADA, PROJECTIONS TO 1975.

YEAR	NET ADVERTISING EXPENDITURES ² \$ Mill.		ADVERTISING AGENCY COMMISSIONS \$ Mill.		GROSS ADVERTISING EXPENDITURES \$ Mill.		ADVERTISING AGENCY COMMISSIONS AS PER CENT OF GROSS ADVERTISING EXPENDITURES
	ALTERNATIVE 1	ALTERNATIVE 2	ALTERNATIVE 1	ALTERNATIVE 2	ALTERNATIVE 1 ³	ALTERNATIVE 2 ⁴	ALTERNATIVES 1 and 2
1955	375	375	26	26	401	401	7.1
1960	544	544	40	40	584	584	7.4
1965 ⁵	685	685	48	48	733	733	7.0
1970	1,147	1,070	86	80	1,233	1,150	7.0 ⁶
1975	1,767	1,560	133	117	1,900	1,677	7.0 ⁶
Per Cent Change							
1955-1960	45	45	51	51	46	46	—
1960-1965	26	26	20	20	26	26	—
1965-1970	67	56	79	67	68	57	—
1970-1975	54	46	55	46	54	46	—
1955-1965	83	83	81	81	83	83	—
1965-1975	158	128	177	144	159	129	—

Source: Special estimates based on Tables 1-1 and 5-8.

- ¹ In current dollars.
- ² Net expenditures on advertising is arrived at by subtracting advertising agency commissions from gross advertising expenditures.
- ³ See footnote 4 of Table 5-8.
- ⁴ See footnote 5 of Table 5-8.
- ⁵ Preliminary estimates.
- ⁶ For the years 1970 and 1975, it is assumed that the ratio stabilizes at 7.0 per cent. This is slightly below the average for the period 1955 to 1965 of 7.2 per cent.

NARROWING THE GAP WITH THE UNITED STATES.

In 1950, advertising expenditures per capita amounted to \$16.02, equivalent to 42.2 per cent of the U.S. per capita figure of \$37.50. By 1960, the gap had narrowed somewhat with the Canadian figure of \$30.45 being equivalent to 46.1 per cent of \$66.04 for the United States. But since then the improvement appears to have levelled off, as both Canadian and American advertising expenditures per capita increased at about the same rate. As a result, the ratio remained at 46.1 per cent in 1965 with per capita advertising expenditures amounting to \$35.00 and \$76.17 for Canada and United States respectively.²⁰

There are reasonable prospects for the gap in per capita figures to be narrowing again in the next decade. Without attempting to quantify the difference that may exist ten years hence between Canada and the U.S. because of the many uncertainties involved and the inadequacies of international statistical comparisons in the advertising field, three reasons can be put forward in support of the possibility of narrowing the gap in per capita advertising expenditures between the two countries.

1. The Canadian market is likely to expand at a more rapid rate than the U.S. market over the period 1965 to 1975 necessitating increased advertising expenditures to sell all the goods and services that the economy will be capable of producing.

2. National advertisers are likely to become more important users of advertising media in Canada. Their advertising expenditures would increase more rapidly, partly because of a greater volume of advertising placed, and partly because of a somewhat relatively more rapid rate of increase in fees charged for national advertising. Further, the practice of granting quantity discounts to large advertisers encourages national firms to make increasing use of "productive" advertising media, i.e., media that pay-off in terms of greater sales in relation to advertising costs.

3. Government policies are likely to continue to encourage the use of Canadian media for advertising in Canada in line

²⁰ The Canadian figures are in Canadian dollars and the U.S. figures are in U.S. dollars. If Canadian advertising expenditures per capita were expressed in American dollars, the gap in the per capita figures between the two countries would appear to have widened again in the more recent period. The 1965 figures are preliminary.

with the recommendations of the Royal Commission on Publications: "The Commission concludes that a nation's domestic advertising expenditures should be devoted to the support of its own media of communication."²¹

IMPLICATIONS.

The estimates presented in this Chapter suggest that advertisers and advertising agencies advising them will be placing substantially increased amounts of advertising among different media running into many hundreds of millions of dollars. For the first time in Canada's history, advertising expenditures are likely to exceed the one billion dollar mark by 1970, and they may move towards the one and a half billion dollar mark in the second half of the 1970's.

As advertising expenditures increase, the industry may be able to overcome some of the handicaps of "scale", that is, the comparatively high costs of reaching markets because the latter are not large enough and advertising budgets too limited to achieve their full impact in a number of areas and for many products.

This is one of the great advantages of the U.S. market and the large advertising budgets at the disposal of national advertisers in that country. The projections of the growth of the Canadian market and the advertising budgets up to 1975 indicate the tremendous opportunities that lie ahead for Canadian business to cater to a much larger domestic economy and their likely increasing ability to set aside large enough advertising budgets to meet fully the challenges and grasp effectively the opportunities that will be presenting themselves during the next decade.

What this will mean for possible increases in broadcast advertising expenditures and the reasoning for supporting assumptions of such rapid rates of growth in radio and television advertising in Canada is outlined in Chapter 6.

²¹ *Report of the Royal Commission on Publications, op. cit., p. 76.*

CHAPTER 6

Broadcast Advertising Expenditures Projections to 1975

INTRODUCTION.

What increase in broadcast advertising expenditures can be expected over the next decade? In simple terms, the answer is: it will depend on the size of the total advertising pie and the portion obtained by broadcasting media.

In Chapter 5, the conclusion has been offered that total advertising expenditures in Canada, may rise by 1975 to between double and two and one-half times the level of 1965. Between one and three-quarters to double of the increase would represent an expansion in the volume of the advertising and the rest would be the result of higher prices paid for advertising placed.

Since the end of World War II, and particularly since the advent of television in Canada in 1952, broadcast advertising expenditures have increased at a more rapid rate than advertising expenditures going to the more traditional media, newspapers, periodicals, etc. This trend is likely to continue, for advertisers have found that the use of sight and sound together is often more effective than when used singly. However, the rate of relative improvement vis-a-vis other media is likely to slow down partly because of supply limitations particularly for television, referred to later on, and partly because of the greater efforts being made by other advertising media to become more competitive, all the way from introducing colour in newspapers to up-grading editorial matters and catering to specialized audiences.

It is on this basis of a continuation of a trend towards a greater share of the advertising dollar going to the broadcasting industry that the projections of broadcast advertising expenditures have been prepared for the period up to 1975, as presented in Tables 6-3 and 6-4.

Allowance has been made for some slowing down in the rate of improvement and a range of estimates is presented.

A number of special factors will be affecting the extent and the composition of advertising revenues by broadcasters in Canada. These are discussed in the sections that follow under the following headings:

1. Changes in the market and the product.
2. Radio homes and F.M. receivers.
3. Television homes and television set sales.
4. Colour television.
5. Programming.
6. Advertising rates.
7. Cable television.
8. Competition from other media.
9. The American influence.
10. Government policies.

Following the analysis of the factors that will affect Canadian advertising budgets using broadcasting media over the next decade, brief explanations are offered as to how the projections of broadcast advertising expenditures were prepared, their meaning and limitations. This is followed by a presentation of the estimates of the likely amounts that may be spent on television, radio and total broadcast advertising in Canada in 1970 and 1975. Lower and higher estimates are presented to indicate the range of possibilities that may develop in a growingly competitive field. Projections cover advertising revenues to which an allowance for earnings from program production and other "non-time" sales have to be added if estimates of commercial revenues from all sources received by broadcasting stations are to be obtained for the next ten years.

Estimates are presented as to how total advertising revenues for radio and television may be divided among the C.B.C., the private station operators and the private television network, C.T.V. Three different sets of assumptions are made, based first on what the C.B.C. considers a desirable approach, secondly on the basis of the recommendations of the Committee on Broad-

casting, and thirdly on the basis of what the Committee on Broadcasting considered a desirable target though it did not recommend its adoption, apparently out of deference to the C.B.C.'s point of view — of avoiding too great a commercial content in the programming of the public broadcasting system. In conclusion, an attempt is made to indicate what share of total broadcast advertising revenues may go to privately owned French language and to English language broadcasting stations in Canada in 1970 and 1975.

The purpose of this study is to outline what some of the possibilities are for the growth of the broadcast advertising business in Canada over the next decade, to quantify it and to give reasons for the expansion that may be anticipated. Alternative routes of reaching this target are offered, with the public and private broadcasting stations and network making different contributions, depending to an important extent on the direction Government policy will take in determining the pattern of expansion of public broadcasting facilities and their financing, and the opportunities offered and/or limitations imposed on private stations and the private television network.

While some government decisions affecting the pattern of dividing commercial revenues between the private and public sectors can be expected in the not too distant future, the complexity of delineating the areas of interest, problems of program quality, ensuring adequate Canadian content, questions of finance and what is "fair" or "unfair" competition, are likely to be matters requiring continuing attention by Government and Parliament.

Hence, by the time 1975 comes around, policy decisions by the Government may have altered significantly the pattern of operations of the Canadian broadcasting industry as compared with the way the system functions at present. In that case, the estimates, as presented in this report and, in particular, the division between private and public commercial revenues may have little application. On the other hand, the projections are likely to have more meaning if government policy modifies the existing system of broadcasting without, however, changing its basic character of a dual operation, comprising private and public enterprise, with the latter sharing in commercial revenues with the private sector (see section on government policy later on in this Chapter).

CHANGES IN THE MARKET AND THE PRODUCT.

The point has been made in Chapter 5 that the Canadian market of 1975 will be significantly different from the market that Canadians know in 1965. Not only will it be much larger, twice the size or even greater in dollar terms, but its composition will also change considerably. Many new and different types of goods and services will be sold to customers whose tastes, predilections and material means will be quite different from those of today.

As the Canadian market grows, the economic base on which private broadcasting rests, will be strengthened. Most major cities have now dual television and multiple radio service from Canadian operators. In the next decade, the time may come for some cities to justify third channels and additional radio outlets if such channels and radio frequencies are available. Alternatively, the pressure will grow for U.H.F. television channels to be opened up and new F.M. radio stations will be authorized. Progress in this direction will depend on the rate of economic expansion of major cities, technical considerations and public policy.

The future expansion of the broadcasting system, as far as the private sector is concerned, depends almost entirely on the growth of commercial revenues which radio and television stations and the network will be receiving from the sale of "time". The question arises: How will broadcast advertising be affected by changes in the character of the market of tomorrow? Advertisers using broadcasting as a medium of communicating commercials will have to allow for the fact that their viewers and listeners a decade hence will be comprised of (1) more young people, (2) more affluent customers, (3) more leisure-oriented audiences, and (4) more discriminating and better-informed public.

The market, as has been stressed in Chapter 5, will be a more youth-oriented market not only in terms of the demands of goods and services, especially required by younger people, but also in terms of different responses to advertising media. Buyers of tomorrow, unlike buyers of yesterday, will have been brought up in an era of television and thus be more accustomed than their parents were to relying on television as a source of information, amusement and advertising.

Changes in the market will also affect the broadcast advertising product or commercial, that is, the service the broadcaster sells and the advertiser buys. In the past, the broadcaster has been selling "time". In the future, he may become more concerned with selling "service" — a commercial communication designed to reach a given or sought-for audience and thus produce the desired results. Hence, the broadcaster, and this applies particularly to the private broadcaster, will of necessity have to take a much greater interest in the quality of the program and the commercials which his station is carrying. In fact, the broadcaster's own success may in the future depend much more on the advertiser's success than it has in the past.

Thus the future points to a much greater joint effort on the part of the advertiser, the advertising agency, the "rep" house, and the broadcasting station, to make more effective use of the limited advertising time available, particularly in prime time, than has been the case in the past. Such increased cooperation which is highly desirable, is likely to have, in the future, a significant impact on the advertising pattern and the size of advertising budgets using broadcasting as a vehicle of communication.

To turn now to a discussion of the main factors that are likely to affect the broadcasting advertising product over the next decade, these can be grouped under five headings: (1) higher quality, (2) increased believability, (3) improved program framework, (4) creating "specific" rather than "general" audience impact, and (5) greater experimentation.

1. HIGHER QUALITY.

What makes for quality in advertising, particularly as it applies to broadcasting, has been briefly explained in Chapter 2. The main point apparently is that there is no such thing as a "perfect" commercial. Some types of commercial suit one product better than another. One type of commercial may fit well into a program, another will not. Views about the quality of commercials differ and so does the assessment of their impact. Much more research, analysis and experience is needed to come up with specific answers.

But looking ahead to the next decade, several generalizations can be made. There is fairly broad agreement among



advertising experts that the quality of commercial messages and their fit can be improved and thus their impact on the public enhanced. Quality considerations apply to the contents and presentation of the commercial itself, to the product and services promoted in it, and to the frame-setting in which the commercial is presented.

There will be need for greater creativity on the part of advertisers and their agencies, thus reducing somewhat the current practice of copying successful campaigns. To make some progress in this direction will require better trained personnel and expanded training facilities providing advanced courses in broadcast writing, psychology, advertising, etc.

But views differ as to what could be done and what should be done to improve the quality of commercials. Some emphasize the believability of commercials; others mention message registrations; still others call for a broader or a narrower approach in maximizing the impact of the advertising message on their audience. Others suggest all these approaches are needed and they add a number of other considerations. One such claim is that a quality commercial should "make you think". But others hold that audiences are usually passive and that at times a "think" commercial may bring adverse reactions. The conclusion, therefore, appears to be that there is no single or generally acceptable formula of what constitutes a "high quality" commercial.

Without in any way suggesting which approaches or solutions appear to be the most appropriate, one can observe that efforts are under way in Canada, as in other countries, to improve the quality of the advertising message and the products and services which they promote. Such improvements are likely to lead to increased sales, justifying greater advertising expenditures in the next decade.

2. INCREASED BELIEVABILITY.

The trend in Canada, as in the United States, has been towards achieving greater believability in the advertising message carried by a commercial. This has led to an increasing emphasis on "truth in claims", away from stressing a "salespitch". More and more, exaggeration in advertisements is being avoided and the number of adjectives is being reduced. Television, in

particular, through sight and sound, lends itself to demonstrate product use and thus enhances believability.

The use of the catch phrase is diminishing in relative terms. Facts are increasingly used in advertising, followed by an explanation of the potential benefits to the consumer if he were to avail himself of the item offered for sale. In this process a new image is created — that of the “responsible” company, sponsoring a “responsible” product. The public becomes accustomed to associating quality with the name of a company and it gains confidence in the product that the firm sells. Hence building up a corporate image, if successful, is likely to bring greater sales.

This change in emphasis has led, and is likely to continue to lead, to an increase in the use of the informative type of advertising which may include the “soft” sell approach, as compared with the traditional approach of re-iterated claims or “hard” sell, though the latter type is still the prevalent method of sales promotion in North America.

The success of the “soft” sell depends on its impact in engaging the thought process of the viewer rather than relying on the catch phrase to overwhelm him. Expanded use of the “soft” sell will require a greater variety of approaches and this will add to the cost of the advertiser because he will have to produce a number of different advertisements rather than relying on one repetitive commercial.

The trend towards increasing the use of the “soft” sell is likely to continue over the next decade and it may lead to a greater willingness on the part of the broadcasting public to accept commercials. The result would be to increase the economic impact of broadcast advertising in the future.

Part of the effort to increase believability of the commercial itself, may involve greater endeavours to educate the public as to the usefulness of advertising as a factor contributing to the effective working of a market-oriented type of economy such as Canada's. Advertising assists industry to achieve mass sales. Mass sales are a prerequisite of mass production. Mass production is essential to achieve mass employment. And mass employment in the sense of “full” employment is essential to achieve continuing economic growth of an adequate rate in line with the expanding resources of the country.

3. IMPROVED PROGRAM SETTING.

As the quality and the believability in advertising increases, this will have a bearing on the quality of frame-settings or broadcasting programs in which commercials are placed. Proper surroundings create a receptive attitude towards both programs and commercials. Currently the quality of some commercials is better than the quality of the programs in which they are inserted. Just as a "bad" commercial detracts from a "good" program, so a "poor" program will make a "well-designed" commercial less effective. Thus there exists a close relationship between the advertising message and the program, a point not always realized, or if realized, not always taken into account by the advertising fraternity and the broadcast operators.

The Committee on Broadcasting has emphasized the need to improve the program content of Canadian broadcasting to achieve the national purposes of radio and television in this country (see section on programming, later on in this Chapter). To that can be added a strong economic argument. If the expansion of the Canadian broadcasting system in the future is to continue to rely wholly on commercial revenues, as far as private stations and networks are concerned, and partially, as far as the C.B.C. is concerned, then, the more effective broadcast commercials can be made, the more likely their increased use by advertisers and hence commercial revenues received by stations and networks alike.

This requires compatibility between the commercial and the program setting. There is need to develop new and more meaningful criteria to establish what makes for a "good fit" or a "poor fit" between commercial and program. To achieve this objective requires a joining of forces by advertisers, advertising agencies, "rep" houses, and broadcasters. There is need for a considerable amount of research (both qualitative and quantitative), experimentation, testing and evaluation of results obtained.

Currently, advertisers work largely on the basis of rule of thumb impressions. Broadcasting stations, and that excludes the C.B.C., have taken, with some notable exceptions, comparatively little interest in the qualitative relationship between commercials and programs. As long as "time" or a "spot" has been sold at the existing rates, the prime objective of the private

broadcaster has been achieved. There is the further factor that the final choices of commercial time selection is made by the advertiser who is guided primarily by quantitative rather than by qualitative considerations.

In following this approach the private broadcaster and the advertiser may be overlooking the results that may be achieved from a "better fit" between the commercial and the program. For if the latter were to be realized, the impact of the commercial may be greater and the sales response to the advertising message may be enhanced. As a result, the advertiser will be more satisfied with the commercial and he may allocate larger funds for broadcast advertising purposes in the future.

Hence, a strong case can be made for a cooperative approach made by all groups concerned with broadcast advertising to increase the effectiveness of radio and T.V. commercials by placing them in the most appropriate program setting of as high a quality as creative talent, technical ability, and financial resources permit. Increased spending on program improvement makes good economic sense even in the case of private broadcasting since it may make the vehicle more attractive to advertisers and, hence, over the long term, operations more profitable.

4. CREATING "SPECIFIC" RATHER THAN "GENERAL" AUDIENCE IMPACT.

In Chapter 1, the point has been made that the great emphasis on judging the effectiveness of advertising in terms of number of people reached presents an oversimplification if the objective is to establish the responsiveness of an audience to a commercial message.

In the broadcasting area a good deal of research and investigations have taken place, as advertisers and their advisors tried to learn more about the type, quality, incomes and other characteristics of the consuming public, and to apply this knowledge to formulating more effective advertising campaigns using television and radio as the vehicle.

Such efforts are likely to continue in the next decade and they may lead to the increasing use of more specialized types of commercials directed to specific audiences. While the "general type" advertisement is likely to continue to be the

prevalent form of advertising, the "specific" audience-oriented commercial may in certain situations bring better results than the "general type" advertisement. The broadcasting panorama may change somewhat from the present great emphasis on a "shot-gun" approach to one favouring more a "rifle approach". The former is designed to reach the largest possible audience in the expectation that there will be a sufficient number of people among the viewers or listeners who will become interested in the specific product offered for sale. The latter approach aims in communicating a specialized message to a more limited audience, in the hope that this message will bring the desired results.

Looking ahead, there are indications that the contents of the advertising message addressed to "general" audiences may also change. National advertisers may be prepared to increasingly sponsor "public service" programs. Their objectives would be to enhance both their own corporate image and serving national or community purposes. This approach is at the present time more widely used in the United States, with Canadian advertisers gradually moving in this direction.

C.T.V. presents commercially sponsored news in Canada. The public appears to have taken such sponsorship in its stride, and fears that news reporting could be influenced by advertisers have proven unfounded. Hence, there is the distinct possibility of further progress being made towards commercial sponsorship of news and public service programs on television.

Another type of sponsorship that may become more important in the broadcasting area over the next decade would be programs sponsored by industry and trade associations which wish to tell their story to the Canadian people and, at the same time, support improved programming.

The implications of this change in the advertising approach over the next decade may have significant consequences on the use of advertising time available on radio and television stations. As these demands for advertising time build up and the limitations imposed on supply of advertising time continue, this is likely to bring about increasing use of non-prime time as compared with the present ratio of utilization between prime and non-prime time.

5. GREATER EXPERIMENTATION.

Improvement of the advertising product is largely the result of increased investigation in depth, research and experimentation. The latter has been moving into new areas. One such area that has been tried but so far without practical application, has been subliminal advertising. This involves putting a message across the television screen at such a speed that it is registered by the eye and the subconscious but not the conscious mind. Instead of a spot advertisement of 20 seconds, 30 seconds, or 60 seconds duration, the message is flashed across the screen in a fraction of a second. To the ordinary viewer it represents just a flicker going across the screen and does not give him the feeling of an interruption of a program which results from viewing an ordinary commercial.

While subliminal advertising has great possibilities, the practical problems of doing something about it are formidable. Broadcasters feel that other experiments are likely to bring results more readily, e.g. changes in the advertising format, or changes in the times of advertising insertions, say from the present 12 or 13 breaks in a two-hour film to 6 breaks of four minutes each. Another possibility would be to produce programs entirely composed of commercials interspersed between commercial-free programs.

Experiments are also under way in producing new ways of bringing television and film programs to the home. One such experiment is the development of a metal disc that reproduces a motion picture through a television set in much the same manner as a long-playing record reproduces music through a high-fidelity phonograph. The disc is said to represent a major technical advance over magnetic tape for playing back pictures in the home. The pictures and accompanying sound are taken off the disc by electronic means, an adaptation of a process used in computers. The cost of the device into which the disc is inserted is put at about one half of the cost of a home videotape recording machine. The picture taken off the disc is reproduced on a television channel not assigned to a local broadcasting station.¹

Broadcasting developments and broadcast advertising are going through a formative stage. All that can be said is that

¹ As reported in the *Globe and Mail*, Toronto, March 1st, 1966, p. 12.

TABLE 6-1. — HOUSEHOLDS WITH RADIOS AND F.M. RECEIVERS, CANADA, PROJECTIONS TO 1975.
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YEAR ¹	HOUSEHOLDS — RADIO				HOUSEHOLDS — F.M. RECEIVERS		PER CENT OF TOTAL		HOUSEHOLDS WITH 2 OR MORE RADIOS AS PER CENT OF TOTAL RADIO HOUSEHOLDS
	With one receiver	With or more receivers	Total with receivers ²	Without receiver	With receiver ³	Without receiver	With radio	With F.M. receivers	
1960	2,796	1,440	4,236 ⁴	168 ⁴	— ⁵	— ⁵	96.2	— ⁵	32.5
1961	2,651	1,671	4,322	167	314	4,175	96.3	7.0	38.7
1962	2,794	1,619	4,413	179	463	4,129	96.1	10.1	36.7
1963	2,702	1,797	4,499	172	638	4,033	96.3	13.7	39.9
1964	2,705	1,860	4,565	192	846	3,911	96.0	17.8	40.7
1965	2,658	2,005	4,663	190	1,109	3,744	96.1	22.9	43.0
1970	2,948	2,562	5,510	200	1,713	3,997	96.5	30.0	46.5
1975	3,239	3,239	6,478	200	2,671	4,007	97.0	40.0	50.0
Per Cent Change									
1900-1965	-5	39	10	13	—	—	—	—	—
1965-1970	11	28	18	5	54	7	—	—	—
1970-1975	10	26	18	0	56	0.3	—	—	—
1965-1975	22	62	39	5	141	7	—	—	—

Source: Data for 1960 to 1965 are from DOMINION BUREAU OF STATISTICS, *Household Facilities and Equipment*, 1965, and earlier issues. Data for 1970 and 1975 are special estimates (see footnotes 2 and 3 below).

¹ As of May.

² Assuming little change in the ratio of radio households to total households.

³ Assuming a continuation of the trend ratios indicated for the period 1961 to 1965 at a slower rate though the possibility of the greater rate of increase in the ratio cannot be ruled out.

⁴ A roughly comparable figure for 1951 would be 3,143,000 households with radio and 266,000 without radio (data from the 1951 Census, Dominion Bureau of Statistics).

⁵ Not available.

the commercial of tomorrow will be somewhat different from the commercial of today as new forms of presentation develop as a result of experimentation and innovations. The heavy pressure of demand for more broadcast advertising messages and the limitations of time and channels available will contribute to make the commercial of tomorrow crisper, more pointed, more informative, and more economic in terms of time used to convey advertising messages.

The result may be to reduce the feeling on the part of the audience of programs being "cluttered" with and interrupted by commercials. The trend, therefore, may be in the direction of more skilful blending of programs and commercials to achieve a flow which preserves the feeling of continuity of a program.²

RADIO HOMES AND F.M. RECEIVERS.

In 1951, of the total number of households of 3.4 million, some 3,143,000 or 92 per cent were equipped with radio. By 1961, that number had risen to 4,322,000, equivalent to 96 per cent of total households.³

By 1965, the number of households with radio had risen still further to 4,663,000 in line with the general increase in the number of total households. Families and non-family units without radio remained at about 4 per cent of the total (see Table 6-1).

While 96 per cent of all households had radio, 88 per cent had both radio and television. In addition, 62 per cent had one or more radio-equipped cars quite apart from the large number of pocket transistor sets of which no full count is available.⁴

The Committee on Broadcasting claims that some 400,000 people out of nearly 20 million Canadians are not served by radio.⁵ If this figure connotes the number of persons who do not have radio sets, it appears to be on the low side. The estimate, elaborated below, suggests there might be about three-

² This would require, for example, greater care on the part of editors and program producers to choose carefully the position of the commercial insert.

³ There are some differences in the definition used in the 1951 and 1961 censuses. The changes indicated for the decade are therefore approximate.

⁴ *Report of the Committee on Broadcasting, op. cit.*, p. 68.

⁵ *Ibid.*, p. 67.

quarter million people who do not regularly hear radio broadcast because they do not have receivers in their homes.

In mid-1965, Canada's population numbered 19,571,000 and total households numbered 4,853,000, equivalent to an average of four persons per household.⁶ According to the Dominion Bureau of Statistics survey, taken in May 1965, there were 190,000 households without radios. Assuming that the average size of the household without radio was approximately the same as the average of all households, this would mean there were about 760,000 persons without radio in their homes in Canada in mid-1965. This does not mean that these people are not exposed to radio. Most of them would be listening to radio at one time or another though not through using receivers in their homes.

Of the 4,663,000 households with radios in 1965, 43 per cent had two or more receivers. The trend towards multi-set ownership of receivers has been upward since 1962 and the outlook is for this trend to continue. With radio listening becoming more and more a matter of individual preference and with radios available at low prices in relation to rising income, increasing ownership of several receivers per family is likely. It is on this assumption that the projection of households with radios were prepared for 1970 and 1975.

Households with radios are estimated to rise from 4.7 million in 1965 to 5.5 million in 1970 and 6.5 million in 1975. Households with two or more radios may increase from 2 million in 1965 to 2.6 million in 1970 and 3.2 million in 1975 (see Table 6-1.) By 1975 some 200,000 households may still be without radios or about 3 per cent of the total, representing largely residents in Northern and outlying areas, elderly people and persons in difficult financial circumstances.

During the decade 1952 to 1962 some 6.7 million Canadian-made radio sets were sold. During the next decade that number may approximate 10 million receivers used at home, in addition to several million car radios and transistor sets.

The number of households with F.M. receivers has been increasing rapidly in Canada, from less than 300,000 in 1960

⁶ See Tables 4-1 and 5-2.

to 1.1 million in 1965. By 1970 they may number 1.7 million and by 1975, they may approach 2.7 million (see Table 6-1).

Canada's population is estimated to reach 24.3 million people by 1975. With 97 per cent being reached by radio in their homes, this means a potential radio listening audience, covering people of all ages, of about 23½ million, an increase of approximately 5 million or close to 30 per cent over the listening audience available to advertisers in 1965. Increased potential audience exposed to radio advertising will make it possible for station operators to obtain higher commercial revenues. Advertisers are likely to be willing to incur greater advertising expenditures in line with the greater opportunities of reaching larger audiences.

A greater number of listeners exposed to radio advertising is likely to result in a larger number of customers for advertisers. Increased sales in turn will make greater advertising budgets possible. Allowing further for possible increases in rates charged, a substantial rise in radio advertising expenditures appears to be in sight for the decade 1965 to 1975.

TELEVISION HOMES AND SALES OF TELEVISION SETS.

The growth of television viewing in Canada has been spectacular. Starting from about 150,000 television homes⁷ in 1952, when regular television service commenced in Canada, this number rose to 373,000 in 1953, jumped to over 2 million in 1957, increased further to 3.8 million in 1961, and reached a high level of 4.5 million in 1965.

The result was that approximately 92½ per cent of the total number of households in Canada represented the television audience in Canada involving over 18 million people.⁸ Of

⁷ These were homes located mainly in cities near the U.S. border where T.V. reception in Canada was available before the introduction of television services in this country.

⁸ The Canadian ratio of television homes to total is about the same as that prevailing in the United States: "About 93 per cent of the families in the U.S. own television sets. The average television family watches television for five hours or more per day, and has for roughly a decade. About 60 per cent of all television sets are in use during peak evening hours. There is not more than a ten per cent variation from the national average when families are classified by income or education of head of household and when one measures the amount of viewing by each such class. Similarly, the distribution of the night time television audience, in terms of age and sex, is not substantially different from

TABLE 6-2. — HOUSEHOLDS, TOTAL AND WITH TELEVISION, CANADA, PROJECTIONS TO 1975.
Thous.

YEAR ¹	Total Households Thous.	HOUSEHOLDS — TELEVISION				Households with television sets as per cent of total households	Households with 2 or more television sets as per cent of total television households
		With one set	With 2 or more sets	Total with sets	Without sets		
1960	4,404	3,399	151	3,550	854	80.7	4.2
1961	4,489	3,593	178	3,771	718	84.0	4.7
1962	4,592	3,722	257	3,979	613	86.7	6.5
1963	4,671	3,865	330	4,195	476	89.8	7.9
1964	4,757	3,903	425	4,328	429	91.0	9.8
1965	4,853	3,968	527	4,495	358	92.6	11.7
1970	5,710	4,294	1,073 ²	5,367 ²	343	94.0	20.0
1975	6,678	4,441	1,903 ²	6,344 ²	334	95.0	30.0
Per Cent Change							
1960-1965	10	17	249	27	- 58	—	—
1965-1970	18	8	104	19	- 4	—	—
1970-1975	17	3	77	18	- 3	—	—
1965-1975	38	12	261	41	- 7	—	—

Source : Total households and households with and without television are from DOMINION BUREAU OF STATISTICS, *Households Facilities and Equipment*, 1965, and earlier issues. Data for 1970 and 1975 are special estimates (see footnote 2 below).

¹ The data relate to May.

² Assuming a continuation of the improvement of the ratio indicated for 1960 to 1965 though at a slower rate.

Canada's population, 95 per cent were in a position to receive programs from one Canadian station while about 75 per cent could receive alternate service from one or more other stations, Canadian or American.⁹

The Committee on Broadcasting reported that "of nearly 20 million Canadians [. . .] around 1,200,000 do not have television".¹⁰ This estimate appears to be on the low side. The Dominion Bureau of Statistics reported 358,000 households without television in May 1965. Since the average household numbered 4 persons,¹¹ this would indicate that some 1,432,000 Canadians did not have a television set in their homes.

Of the approximately 4.5 million households with television in 1965, some 527,000 had two or more sets. The total number of television sets in use in Canadian homes was estimated by the Dominion Bureau of Statistics at approximately 5 million in 1964.¹²

Sales of television sets numbered close to one-half million in 1965. Allowing for about 100,000 sets being taken out of circulation, this would place the total number of operative television sets at approximately 5.4 million for 1965.

By 1970, the number of television *homes* are estimated to reach 5.4 million representing a 19 per cent increase over the number in 1965. Further increases are indicated for 1975 with television homes reaching 6.3 million representing a 41 per cent increase over the decade 1965 to 1975 (see Table 5-2).

The increase in the number of television sets is likely to be even more dramatic than the rise in the number of television *homes*. Two main reasons are likely to contribute to this trend. One is the growing affluence of the average Canadian whose income is expected to rise by over 30 per cent¹³ in each of the

the distribution of the population residing in television homes" (see "The Quest for Quantity and Diversity in Television Programming", by David M. Blank of the Columbia Broadcasting System, Papers and Proceedings of the Seventy-Eight Annual Meeting of the American Economic Association, in *American Economic Review*, May 1966, p. 450).

⁹ *Report of the Committee on Broadcasting, op. cit.*, pp. 9 and 68.

¹⁰ *Ibid.*, p. 67.

¹¹ Households numbered 4,853,000 (see Table 6-2) and Canada's population numbered 19,571,000 (see Table 5-1).

¹² *Ibid.*, p. 68.

¹³ In current dollars.

next two five-year periods, 1965-1970 and 1970-1975 (see Table 5-5).

The other is the advent of colour television commencing in Canada in the fall of 1966, and likely to bring booming sales of coloured television sets to the industry for years to come (see following section).

By 1975 the 6.3 million television *homes* may have in excess of 8 million usable television *sets*. This would mean increases in the number of sets from 5.4 million in 1965 to over 8 million in 1975 or a *net* rise of at least 2.6 million television sets. Allowing for the withdrawal of 1 million sets during the period, for reasons of obsolescence, breakage, etc., this would represent potential sales of television sets in Canada during the decade 1965 to 1975 of something like 3½ million television sets.¹⁴

By 1965, households with television sets comprised 92.6 per cent of the total, up from 83.8 per cent in 1960 (see Table 6-2). In making projections for the future it is assumed that this improvement in coverage will continue though probably at a slower rate. This would be particularly the case if the Canadian Government were to accept the recommendation of the Committee on Broadcasting to extend Canadian television coverage to areas not yet in receipt of such services.¹⁵ To quote :

The urgent need, which should be given the highest priority in planning the future coverage of the Canadian broadcasting system as a whole, is the extension of service to those parts of Canada that now have none, and to all English-speaking and French-speaking Canadians who have no service in their own first language.¹⁶

¹⁴ The above figures are illustrative of the potential market for television sets in Canada over the period 1965 to 1975 rather than attempt to forecast sales. Sales of television sets made in Canada during the decade 1953 to 1962 numbered 4.8 million (*Ibid.*, p. 70).

¹⁵ Technological advances appear to be making it possible to bring television services to areas which cannot be served by traditional means. For example, Canada's northern areas are without television because costs of introducing such services are at present prohibitive. Some plans are presently under study to supply northern areas with low power mobile television transmitters operating on a semi-automatic basis. Further with the increasing use of communications satellites, television services for Canada's northern areas have become a distinct possibility within the next five to ten years.

¹⁶ *Ibid.*, p. 83.

Assuming that households with television represent 95 per cent of total households in 1975 this would involve over 23 million people, an increase of potential television viewers to the extent of 5¼ million over the decade 1965 to 1975. Hence, purely on a volume basis, that is, increases in the number of potential viewers, advertising charges for television spots could be raised by something like 30 per cent. But in fact, television advertising rates are likely to be raised by a significantly greater proportion — assuming that in the private sector the rate continues to be determined by market forces¹⁷ — because of three other specific developments:

The first is a significant increase in the use of television outside the home. Television in homes has in the past been considered a fairly full measure of potential audiences to be reached. Portable sets, while increasing in numbers, were being used partly in the home, partly away from the home, e.g. on travels, move to a cottage in the summer, etc. But in the future, portable sets are likely to achieve a greater relative significance as more and more receiving sets are used away from home. There are several reasons for this.

As the number of hours worked per week in Canada is reduced and as the practice of providing employees with paid holidays becomes more prevalent — including longer periods of holidays — more of the leisure time will be spent away from home and more Canadians are likely to take portable television sets with them to enjoy programs of their choice.

New types of movable television receivers may be coming on the market in Canada over the next decade. These may include television sets in cars mounted in the front section of the car which would be automatically turned off if the car is driven, television sets seen from the rear section of the car without the automatic turn-off and television sets used in planes, trains and buses.

The second factor involves the substantial increases in capital investment which will be required to introduce colour television *and* to keep pace with other technical developments.¹⁸

¹⁷ For a discussion of rates charged for commercial advertising by the C.B.C., see Chapter 2.

¹⁸ The costs of converting television to colour will weigh more heavily on new stations than older stations. The latter may be replacing

The third is the significant increase expected to take place in operating costs not only for the general reasons contributing to price rises, such as higher wages and salaries, but also for the specific reasons of improving the program fare offered by both private stations and the C.B.C. This point has been strongly emphasized by the Committee on Broadcasting and by the C.B.C. and is discussed further in the section on programming.

Higher capital and operating costs will make it essential for television stations and networks to charge higher advertising rates. But since television is likely to produce for advertisers larger audiences, business firms are likely to be prepared to pay such higher rates as long as they remain competitive in relation to services offered by other advertising media and in terms of "cost per thousand".¹⁹ Higher advertising rates and some increase in the volume of advertising on television, both in the prime and non-prime hours, are likely to contribute to a significant increase in total television advertising expenditures made in Canada in the 1970's.

COLOUR TELEVISION.

On June 15th, 1965, the Secretary of State, the Honourable Maurice Lamontagne, announced in the House of Commons that the Government had authorized the introduction of regular colour television transmission in Canada commencing January 1st, 1967, subject to compliance with certain standards to be established by regulation. Since then, the date was advanced to September 1st, 1966. Provision was made for preliminary work and testing to take place prior to that date. The announcement further indicated that the Government was seeking the authorization of the necessary funds by Parliament to enable the C.B.C. to proceed with a program of colour television broadcasting and

equipment that has been largely written off, while the former stations, having been in operation for only a few years, are not likely to be in a favourable position. There is the off-setting factor, however, that some of the newer television stations have acquired some equipment which can be adapted for colour use. But, generally speaking, the developments of the last decade bring out the rapid rate of obsolescence of equipment used in broadcast operations because of technical advancement. These are continuous, and colour television is only one of the major innovations that are in store for the broadcasting industry.

¹⁹ There will be exceptions to this practice when advertisers, in order to gain a competitive advantage, may use television even though such advertising involves higher costs.

the installation of colour television equipment at the Expo '67 to be held in Montreal.

American experience has proven that there are a number of advantages to be derived from televising programs in colour and that these are great enough to more than offset its main disadvantages, namely, the high cost of acquiring and installing the equipment required and the somewhat greater costs of operations as well as increased technical difficulties in ensuring adequate reception. Colour television may bring greater consumer satisfaction and therefore have greater audience appeal. But it does not increase the one commodity the broadcast advertiser has to sell, and that is "time". Still, if colour television can increase the "penetration" of broadcasting in attracting greater audiences for longer periods of viewing, an economic justification for the large capital expenditure and higher operating costs involved can be made.

There is also the factor of the American spill-over of colour television programs into Canada. Since a large number of Canadians living in the major metropolitan centres near the U.S. border can receive television programs from U.S. stations, and since the latter have been changing over to colour television at a rapid rate,²⁰ Canadian television stations and networks cannot afford to delay for too long the introduction of colour television in their own country, on the basis of sheer economic necessity. For if they did, Canadian broadcasting stations would lose an increasing portion of their audience to American stations which provide colour television programs. This would apply not only to those television viewers in Canada living near the U.S. border and able to receive American television programs directly, but it would also apply to an increasing number of Canadians living further inland because of the growing role played by cable television which would bring programs of American television stations in colour.

With more and more Canadian audiences changing over to viewing programs broadcast by American television stations,

²⁰ The Radio Corporation of America (R.C.A.), the firm that pioneered colour television in the United States, stated in its 1965 report that there were currently about 5 million colour television sets in use in the United States. The report contained this forecast: "The unfilled domestic market for colour represents a minimum of 50,000,000 receivers, and colour probably will require about 10 years to reach the present level of black-and-white T.V. in the United States" (as reported in the *Globe and Mail*, Toronto, March 1st, 1966, p. B3).

this would seriously affect advertising revenues and "cost per thousand" of Canadian stations, and alter significantly the competitive advantage presently enjoyed by Canadian television broadcasting in black and white.

With the decision now having been made for Canadian television, both private and public, to offer programs in colour commencing in fall of 1966, and with work in progress, the question arises : What will this mean to advertising revenues in the future ?

To introduce colour television into Canada would involve, according to estimates presented by the Committee on Broadcasting, an additional capital investment on the part of private and public stations and networks of "as much as \$60 million"²¹ and "additional operating costs of almost \$5 million a year".²²

Because of the large capital investment involved, views differ at what rate colour television should be introduced in Canada. The Committee on Broadcasting recommended introduction in stages.

During the first stage covering the period to March 31st, 1970, the C.B.C. would be limited to "the necessary network adaptation, the provision of one adapted studio in Montreal and one in Toronto, the installation of facilities at Expo '67, and the acquisition of a reasonable amount of mobile equipment". Capital spending during this stage could probably "be held to something around \$15,000,000 in the next five years, and there would also be some reduction in the additional operating cost figures".²³

The second stage, commencing after March 31st, 1970, might involve "equipping seven other centres to produce in colour and the equipping of other studios in Toronto and Montreal". The Committee added that this stage "should not be undertaken

²¹ Some experts in the broadcasting industry hold that the \$60 million estimate, mentioned above, is a conservative estimate and that actual capital expenditures required to convert to colour will be considerably in excess of that figure, with costs more likely to be closer to the \$100 million mark, including facilities to be replaced because of obsolescence.

²² *Report of the Committee on Broadcasting, op. cit.*, p. 249.

²³ *Ibid.*, p. 250.

during the next five years, and should be postponed until requirements can be more precisely determined".²⁴

The C.B.C. has presented to the Government a different point of view, emphasizing the necessity to proceed with the introduction of colour television programming as rapidly as possible to enable the Corporation to hold its own against the competition it will be facing from colour television programs offered by Canadian private stations and American television operators. The C.B.C.'s views were put in a nutshell in these terms:

The next five years should see a Canadian audience enthusiasm for colour, similar to that now occurring in the United States. [...] The fact [has] already [been] established in the U.S. that audiences prefer colour programs; that there is a higher percentage of sets in use there for colour programs; and that a mediocre colour program may well outdraw a better program in black and white.

To even maintain the present viewing level of national service Canadian programs, C.B.C. colour facilities additional to those recommended by the Committee will be required.

If commercial revenues for the C.B.C. are to remain a major, or even appreciable, factor there is cause for concern. It must be seriously questioned to what degree, if any, Canadian advertisers would continue their association with Canadian productions under too rigid colour limitations. If these must remain largely in black and white while sponsorable imports are available in colour, the sponsor has little choice; he must keep pace with his competition and go to colour. Under colour restrictions on C.B.C. as envisaged by the Committee, the Corporation might not be able to reach its own recommended commercial target let alone the increase in sales recommended by the Committee.²⁵

Subsequently, the C.B.C. announced that it will commence up to thirty hours colour telecasting a week on the English-language network and about 15 hours on the French-language network commencing October 1st, 1966. About one-third of the English-language programs would be produced by the C.B.C., with the remainder consisting of imported network and film colour series.²⁶

²⁴ *Ibid.*

²⁵ "Comments by the Canadian Broadcasting Corporation on the Report of the Committee on Broadcasting", Memorandum by the C.B.C., Ottawa, November 1965, pp. 37 and 38.

²⁶ As reported in the *Montreal Gazette*, Montreal, February 26th, 1966, p. 1.

Many private television stations are following the example of American broadcasters and they are proceeding with the conversion to colour as quickly as their financial resources and deliveries of equipment permit.

Producers of colour television equipment and colour television sets are expanding operations to meet the avalanche of orders for such equipment, likely to test the capacity of Canada's electronic equipment industry in this specialized field for years to come.

Sales of colour television sets are estimated to reach \$70 million in 1967 involving about 120,000 sets. This compares with an estimated 50,000 sets to be sold in 1966. Estimates for the three years following Canada's centenary are placed at: 210,000 in 1968, 300,000 in 1969, and 400,000 in 1970. "This means, that within five years, it is possible that — at least 1,100,000 Canadian homes will have colour T.V." ²⁷

The choice the Canadian broadcasting industry is facing is whether to proceed with colour television as speedily as resources, technical factors, availability of equipment and financing permit, or to introduce the system more gradually. In the private sector, the decision appears to have been made by the industry, particularly the larger stations and the C.T.V. network ²⁸ to go ahead full speed. In the case of the C.B.C., financial resources made available by Parliament will determine the ultimate rate of colour conversion by the Corporation.

In preparing the projections of advertising revenues to be received by the television industry, these have been based on the assumption of stations offering programs in colour in most of the large urban centres by 1970 with such programming extended more fully in terms of regional coverage and colour origination by 1975. As far as the C.B.C. is concerned, if the Corporation is unable to attain adequate colour programming by 1970, it would find it difficult to achieve the 25 per cent ratio of commercial advertising revenues becoming available to

²⁷ The above estimates include imports of colour television sets. The data are from TELEVISION BUREAU OF CANADA, *Report on Colour*, Toronto, 1965, p. 52.

²⁸ The C.T.V. network announced on October 1st, 1965: "Orders have already been placed which will enable us to offer the major portion of our schedule in colour by October, 1966, leading to 100% colour by January, 1967" (*Report on Colour, op. cit.*, p. 38).

television broadcasters by 1970. This would mean that the projections provided under Alternative 1 and Alternative 2, Assumptions B and C, as shown in Table 6-5, would not apply if the C.B.C. is unable to speed up the process of colour television programming and origination beyond that recommended by the Committee on Broadcasting.

It should be feasible, however, for the C.B.C. to maintain the \$25 million level of television advertising (see Alternative 1 and Alternative 2, Assumption A, as per Table 6-5), even with the limitations imposed, since there is a possibility for some increases in sales for black and white television advertising. Supply limitations of colour programs in prime time will make it necessary for Canadian advertisers to use black and white advertising as a supplementary means if they cannot get all the colour television they wish to purchase from Canadian stations.

Colour television may over the longer term contribute to raise the rates charged for television advertising, particularly in prime time because of the necessity of the broadcasting industry to charge at least part of the increased capital invested and higher operating costs against the advertisers who would be benefitting by it. An allowance for such a possibility has been made in preparing the estimates of television advertising expenditures that may be made and revenues that may be received by the broadcasting industry in 1970 and 1975. But the degree to which such rates will increase is uncertain, with the industry feeling its way as to whether and to what extent rates should be increased.

The situation in the United States where colour television has preceded Canadian development by several years has been one of "go slow" in changing rates for colour programs. The situation in the States has been summarized in these terms:

Individual stations in the U.S. appear to be in a general agreement that no additional charges to advertisers should be made for either programs or commercials.

The network situation is less clear cut. N.B.C., undoubtedly because of its tie-in with R.C.A. goes along with their affiliates. C.B.S. takes the same overall attitude, and has tried not to alarm advertisers by increasing rates for colour. But they do attempt to recover some of their added colour costs by increasing network origination costs to \$250 per

commercial, without tying the boost specifically to colour. A.B.C. makes a network origination charge of \$100 for black and white commercials, and \$115 for a colour commercial.²⁹

A similar view of caution has been expressed in Canada by the management of C.T.V. though this view is subject to change in the light of subsequent developments.³⁰

The network has no plans to charge premiums for transmission of colour commercials. The C.T.V. 1966-1967 rate card will contain a single rate for colour or black and white, which is related to the effectiveness of the network in reaching the level of audiences it has for black and white programming in the major markets. "But [...] we will be doing everything we can to encourage advertisers to think colour."³¹

Such views, however, may change over the next decade in the light of actual experience and the lead given by American networks. Further, C.T.V. being taken over and operated by affiliated stations is likely to develop a more extensive colour program schedule than present indications suggest in which both the large and small television station would be fully participating. In preparing the projections presented in Tables 6-3 to 6-5, allowance for rate increases in television advertising has been made, taking account of a number of factors that may contribute to such increases of which colour programming may be one factor among others.

PROGRAMMING.

In Chapter 2, reference was made to the conflict that Canadians face in developing indigenous programs for television and radio. It is not only because of cost differentials in producing such programs, but mainly because of the inherent preference of Canadians for many U.S. types of programs that, given a free choice, the majority of Canadians will in most instances turn to American instead of to Canadian programs, with some notable exceptions such as sports events.

One of the economic reasons for the difficulties faced in developing "suitable" program content in broadcasting has been

²⁹ *Ibid.*, p. 38.

³⁰ One possibility that exists may be the imposition of a surcharge for colour even before there is a substantial increase in the number of colour television sets in use.

³¹ *Ibid.*, pp. 39 and 40.

emphasized by Professor R. H. Coase of the University of Chicago :

With commercial broadcasting, the person who pays for the broadcast of a program is the advertiser. It follows that the programs broadcast are those which maximize the profits to be derived from advertising. The market for broadcast programs is one from which the consumer is barred : what he would pay plays no part in the determination of programs. The result is that some sectors of the public feel that they are not being catered for.³²

While the public appears to have taken generally the "mix" of Canadian and American programming in its stride, both the C.B.C. and the Committee on Broadcasting which reported to the Government about the state of the broadcasting system in Canada, took certain objections to the heavy concentration on American programs, particularly on Canadian television.

As far as the business community is concerned, available evidence suggests that whatever the merits or the lack of merits of programs provided by broadcasting stations and networks may have been, advertisers appear to have been reasonably satisfied with the results obtained for they have spent substantial and increasing amounts on commercials covering the program mix, as provided ever since the end of World War II and particularly since 1952 when Canadian television operations commenced.

According to the surveys undertaken by the Committee on Broadcasting, American programs play an important part in overall programming in Canadian television. (See section on "American Influence" later on in this Chapter.) Another factor that has a significant bearing on the program fare received by Canadian television stations is the *direct* accessibility of Canadian audiences to American television stations. For example, 54 per cent of Canadian television homes can receive American programs directly. In Quebec, the proportion is 50 per cent; in Ontario, 77 per cent; in Manitoba, 68 per cent; and in British Columbia, 84 per cent. Direct audience penetration by American television stations for major cities range from negligible, e.g. Halifax and Ottawa, to 56 per cent for Toronto. In that city, viewers have access to seven channels, four Canadian (two from

³² R. H. COASE, "The Economics of Broadcasting and Government Policy", Papers and Proceedings of the Seventy-Eight Annual Meeting of the American Economic Association, in *American Economic Review*, May 1966, p. 446.

Toronto, one from Hamilton and one from Barrie) and three American (all from Buffalo). Of these seven channels, one American channel attracts greater audiences than any other channel in Toronto and carries a considerable amount of Canadian advertising addressed to Canadian audiences.

In reviewing the situation the Committee on Broadcasting concluded: "Considering this situation, it is hard to contend that, particularly for private stations, the amount of American programs of the light entertainment type is not excessive, or that programming has not become seriously unbalanced."³³

The Committee on Broadcasting was critical of much of the fare presented on Canadian broadcasting stations, both that presented by private stations and the C.B.C. But it did not take issue with the principle of Canadians relying to an important extent on financing broadcasting services through advertising. In fact the Committee recommended that the C.B.C. might pursue policies which would yield it greater commercial revenues in the future than it received in the past.

To deal with the problems facing the Canadian broadcasting system, as seen by the Committee, it offered certain conclusions:

We regard the provision of good programming as the essential task of the Canadian broadcasting system. . .

We advocate the creation of a public agency to be called the Canadian Broadcasting Authority, which should be entrusted by Parliament with the supervision, control, and direction of all broadcasting in Canada. . .

We suggest that a system of individual program undertakings should be developed by the Authority, taking into account of the differences in size, wealth, and location of Canadian radio and television stations. These undertakings should be based on declarations by the Authority of its programming objectives and, when approved, should become formal conditions of each licence. The way in which any broadcaster has complied with the program-performance conditions of his licence should also be taken into account when the licence has expired and its reallocation is decided.³⁴

Both private broadcasters and the C.B.C. have objected to the recommendations made by the Committee on Broadcasting,

³³ *Report of the Committee on Broadcasting, op. cit.*, p. 35.

³⁴ *Ibid.*, pp. 57 and 58.

particularly the proposal of establishing a Canadian Broadcasting Authority with overriding control over programming. It is not within the terms of this study to deal with the merits or the demerits of the proposals made. It is, however, desirable to indicate the possible impact that changes in government policy may have on the future course of broadcast advertising expenditures made in Canada.

In this connection, some comments made by the C.B.C. are pertinent :

The Committee has made an impractical suggestion, based on the erroneous assumption that "quality" and "popularity" always go together in radio and television programming.

The desired program improvements can be made. But the Corporation must repeat its conviction that they can only be brought about, first, through a decrease in commercial requirements, and second, by replacing some imported programs with attractive Canadian productions. Both measures are essential and both require increased public financial support. . .

Increased commercializing for the C.B.C., as well as for the private stations, means in the long run increased Americanization in the form of escapist type programming.³⁵

Whatever course Canadian Government policies concerning broadcasting may take, assuming that the present "mixed" system is permitted to continue, both the C.B.C. and the private stations are likely to make increased efforts of improving their programming, each for special reasons of their own.

The C.B.C.'s endeavours are likely to be prompted mainly because of its responsibilities of serving the public interest, enhancing Canada's image and providing increased opportunities for the development of Canadian talent and improvement in the visual and audible presentation of creative works.

Private broadcasters are likely to press ahead with program improvements because it makes good economic sense to do so — quite apart from the fact that they might be required by public regulations to do so. The broadcaster is providing an entertainment service. It is true that the service is paid for directly by the advertiser and not by the consumer though the latter pays ultimately for these services since advertising expenditures are

³⁵ *Comments* by the Canadian Broadcasting Corporation, *op. cit.*, p. 15.

part of production and distribution costs and they are incorporated in the final price of the goods and services which consumers buy.

It is only if the public likes the program the broadcaster provides that he will be able to attract large enough audiences. And it is only if the broadcaster is able to attract large enough audiences that he will be able to obtain sufficient revenues from the sale of "time" — essential to the private broadcaster and helpful, to a degree, to the C.B.C.

The performance of the broadcasting industry since the end of the war and, particularly since the advent of television, has demonstrated that it is a growth industry. But perhaps it can learn an important lesson from the motion picture industry which faced a decade of protracted decline during the 1950's and the early 1960's. For it is only in the last few years that this industry has made a comeback in terms of increased motion picture theatre receipts. Why?

One reason is that for a decade the motion picture industry faced strong competition from the budding television industry. It found it difficult to cope with this competition and the film industry lost its magic touch of giving the public the type of films it wanted to see and was prepared to pay for.

The situation has changed in the last several years as the film industry took a completely new approach to film-making in terms of techniques, content and scale.³⁶ Now the greatest money-makers are road shows, spectaculars, and super-action films which cost — and this refers mainly to U.S. productions — many millions of dollars per film. But these large expenditures have paid off handsomely in a number of cases and the trend continues toward bigger and costlier films which the public apparently wants to see.

The moral for television of the experiences of the film-makers who incidentally have become increasingly interested in selling films for T.V. showing and in producing film episodes for T.V., is this: the public tires easily of old formats and traditional themes. There is therefore a need to search continuously

³⁶ Some film-makers are now beginning to make more money in producing television programs and selling rights for older films than they receive from theatre distribution of newly made feature films.

for new ways of expression and new forms of entertainment. The television industry, if it wants to remain the number one growth industry in the advertising field — and advertisers are only willing to pay for results in reaching an audience and not for programs per se — must produce the kind of program that will appeal to the public and thus attract increasing numbers of viewers.

The problem is how to reconcile two conflicting tendencies : “what people should see”, and “what they actually want to see and in fact do see”.

Most people appear to agree that program improvements are desirable. But what would be “improvement” to some, would not necessarily be acceptable as such to others. The argument is frequently advanced for more “diversified” television programming fare. Some tests have been undertaken in the United States to establish whether the public really wants more “diversified” programme fare using experience gained with pay television. An examination of the evidence led one investigator to observe : “At fairly comparable prices for all offerings, 80 to 90 per cent or more of all subscribers’ expenditures was directed to motion pictures and sports. Surely this is not the picture of an audience yearning for diversified fare ! Indeed, if there is an unsatisfied minority, these data suggest it has been a minority demanding more motion pictures and sports rather than more serious drama and exciting chess games.”³⁷ The following conclusion was offered :³⁸

Judging by the experience of the last half-decade, the vote of the public in the marketplace appears to have been

³⁷ “The Quest for Quantity and Diversity in Television Programming”, *op. cit.*, pp. 454 and 455.

³⁸ The validity of the conclusion offered for the United States has been questioned on two grounds : (a) “Small regional pay-TV experiments show nothing decisive about the nonexistence of unsatisfied viable minority tastes”; and (b) “There are some fragments of evidence the other way; to name just one, some classrooms of the air attracted significant numbers of viewers even at barbaric hours.” On the basis of the same evidence this different conclusion is offered : “The evidence — empirical as well as theoretical — that there is a frightful sameness to the programming fare is ample. It is true that if we could get enough channels, the choice would increase, but everyone knows there are constraints, and much of the question concerns getting a reasonably efficient use of facilities given those constraints” (see Peter O. STEINER, “Discussion of the Economics of Broadcasting and Advertising”, Papers and Proceedings of the Seventy-Eight Annual Meeting of the American Economic Association, in *American Economic Review*, May, 1966, pp. 474 and 475).

in favor of an increased quantity of signals providing similar kinds of fare, not for more "diversified" program fare.

The market tests have not been perfect, and plausible hypotheses might perhaps be invented that would explain away the public's response. [...] The weight of the evidence is substantial and that our conclusion must be that the public has opted for a substantial preponderance of entertainment programming³⁹ of the kind now being broadcast. Their desires have been for more such, particularly more movies and sports, and the evidence to show that there are large numbers of people eager for other kinds of programming is difficult to find.⁴⁰

In Canada the C.B.C. can and does experiment with many new types of programs. But private broadcasters appear to be facing greater limitations for they cannot afford diminished audiences for long periods of time since their continued existence depends on obtaining adequate commercial revenues which would fall off sharply if audiences dropped significantly.

This struggle for program improvement is a continuing one with progress being made intermittently. But program improvement in the future is more likely to be achieved if it were the result of joint endeavours on the part of broadcasters, public authorities and advertisers.

As advertising techniques are improved, it may become possible for Canadian industry, particularly through the use of television, to reach specific segments of the economy with special products. This will mean market penetration in depth bringing additional sales impetus, beneficial to business growth. And further, increased sales of goods and services will bring major corporations the economies of large scale so essential if they are to achieve increased productivity and greater profitability of their business operations. As advertisers will be able to afford to spend more on television advertising, private operators as well as the C.B.C. will have larger commercial revenues making it possible for them to improve program content.

Hence, business as a whole as well as the Canadian broadcasting industry and the public at large have a stake in "good" and effective programming.

³⁹ "Plus [...] a significant and growing amount of hard news."

⁴⁰ "The Quest for Quantity and Diversity in Television Programming", *op. cit.*, p. 456.

ADVERTISING RATES.

In Chapter 2 the point was made that the costs of broadcasting in terms of cost per thousand are generally lower in Canada than in the United States, though in some instances the reverse may be true, and that the rates charged by private operators in terms of cost per thousand are usually higher than those charged by the C.B.C. for comparable periods of "time" sold and this applies specifically to television rates.

Over the last several years, some rearrangement in the structure of television advertising rates has taken place. In the densely populated centres it has been possible to increase advertising rates, based on the performance of television stations in attracting increased audiences. Initially this had the effect of increasing commercial revenues received by the large stations and reducing the amounts going to the smaller stations. But not all of the increase that has taken place was wholly related to audience increases. Some of the rise in advertising rates consisted of raising the cost per thousand of the larger stations (see Chapter 2). When that happened, the cost per thousand of smaller stations whose business had declined, turned out to be more favourable in relation to cost per thousand of larger stations. As a result, the smaller stations began to win back some of the business they had lost.

The net effect of these changes in costs-revenues relationships and between different sized television stations was an increase in the total amount going to all stations from the sale of commercial time.

The projections presented in this Chapter are expressed in current dollar terms. This means that in arriving at the estimates of commercial revenues accruing to broadcasting stations, account was taken of possible changes in the rate cards that may be made, as well as changes in the volume of what the likely trend may be in rates charged by broadcasting stations to commercial advertisers in Canada.

It can be safely assumed that whatever rate increases may occur in the broadcasting area in Canada, these will be of an order which will not price radio and television stations out of the commercial market. For these stations face not only competition from other media such as newspapers, periodicals, etc.,

but also from broadcasting stations in the U.S. which obtain a share of Canadian advertising revenues.

It will be recalled that in preparing the estimates of Gross National Product in current dollar terms, presented in Chapter 4, allowance has been made for the general price level to rise on an average by about 2 ½ per cent for the period 1965 to 1975. While it is difficult to say at what rate fees for commercial time sales will increase over the next decade,⁴¹ it is possible to observe that such rates of increase are likely to be greater than 2½ per cent per annum, assumed to reflect increases in the general price level, mainly for two reasons :

Costs of providing broadcast advertising have been rising, making it necessary for some stations to raise advertising rates in terms of cost per thousand, and this trend is likely to continue. Substantial new capital expenditures will have to be made by the broadcasting industry to keep technically abreast of the latest developments including colour television, and to provide the improved services required by the public and advertisers. The large expenditures to be made will represent a charge against operating expenses. Costs of providing improved programs, particularly on television, are likely to rise at a significant rate, partly because the stations themselves will wish to improve their programs and partly because of the possibility of somewhat stricter enforcement by the Board of Broadcast Governors of content requirements of programs presented by Canadian broadcasting stations.

It is true that there will be an offsetting element against rising costs, namely, a significant expansion of the market which broadcasting stations will be catering to, including a larger number of viewers and listeners. Hence, some stations may be able to change their cost per thousand moderately, while others may raise them more significantly but still at a lesser rate than would have been the case, had their markets not been growing at a rapid rate.

To illustrate some of the cost problems which Canadian broadcast operators may be facing : only five years ago a half-

⁴¹ Cost per thousand of private television stations in six major markets rose by a little less than 5 per cent per annum during the period 1962 to 1965, and by little more than 5 per cent for C.B.C. television stations in the same cities over the same period (see Chapter 2).

hour television serial could be purchased in the United States for \$30,000 to \$35,000. Currently these costs have gone up to between \$75,000 and \$100,000. Costs of a Canadian half-hour television serial were ranging between \$20,000 and \$25,000 five years ago. Now they are more in the range between \$40,000 and \$50,000.

But Canadian advertisers are rarely prepared to pay more than \$10,000 for a single program for full network use. Hence, the balance of costs must be absorbed by the stations and/or the network. As a result only the C.B.C. has been able to schedule Canadian produced serials of dramatic programs involving such high costs, with the difference between commercial revenues received and actual costs being made up by a general government subsidy. Since neither the C.T.V. nor private stations are in receipt of public grants, they have been unable to justify on economic grounds the production of such expensive Canadian programs. This is a problem which will require attention in the future.

The basic question is : Should private broadcasters budget their programs on a specific commercial schedule, i.e. should every program pay for itself or should broadcasters look at their program schedule as a whole, and undertake Canadian produced programs even on a loss basis as long as these losses can be absorbed by profitable operations elsewhere ? Or should private broadcasting stations become eligible for public awards for outstanding Canadian artistic and creative performances which would have the effect of subsidizing meritorious achievements ?

These are the types of questions that government authorities and the private broadcasting industry may wish to consider in the future.

Turning now more specifically to a consideration of the relative difference in production costs, the lesser costs of producing a half-hour television program in Canada than in the United States, appear to be, at first glance, a cost-saving factor. But the real problem is not differentials in cost per se but the relations between the costs of programs and the size of the market. The Canadian market is considerably smaller than the U.S. market. Hence, in relative terms, the costs to television stations and to advertisers using Canadian produced programs are much greater than they are in the case of programs produced

for use on American networks. An added cost element is the necessity of national advertisers having to duplicate their programs in two languages (see section on French and English language broadcast advertising, later on in this Chapter).

There is a further fact of the great mortality rate of newly developed television programs. Only a small portion of such programs achieves adequate public acceptance, while the balance has to be scrapped and the costs written off — usually against the few programs that have turned out to be successful.⁴²

In general, then, the prospects are for a continuation in the efforts of Canadian broadcasting stations to improve their programs and the delivery of such programs, with costs of production rising, and this is likely to have an effect on broadcast advertising rates over the next decade.

The challenge facing the Canadian broadcast industry is to use their utmost ingenuity to produce high quality programs at relatively “low” costs.

CABLE TELEVISION.

Cable television is a term describing the system which brings television and radio signals (largely F.M.)⁴³ to individual home owners who either cannot receive these or only inadequately on their existing sets. Hence, cable television provides access to alternative programs and improved reception, particularly important for colour television. This is done through the use of a master receiving system which receives signals and then redistributes them through wire or cable to individual subscribers on a monthly fee basis, currently \$5.00.⁴⁴

To operate cable television requires a licence issued by the federal Department of Transport and such licences are granted

⁴² To illustrate: in the United States many programs are currently discarded that may have as many as 15 to 20 million viewers. “Network programs do not become ‘profitable’ before passing the 20 million mark, and popular shows command 30-50 million viewers, according to the rating services” (see “Television Pricing and the Theory of Public Goods”, *op. cit.*, p. 75).

⁴³ Towards the end of 1965, the Department of Transport listed 78 Canadian F.M. stations and 43 American F.M. stations as being carried on Canadian C.A.T.V. systems.

⁴⁴ Usually there is no connecting charge to introduce cable television into a home but in some systems such charges are being made.

provided that certain technical requirements have been met. Cable television is not subject to supervision by the Board of Broadcast Governors and this is a matter that has involved some controversy in Canada.⁴⁵

Cable television is also described as a community antenna conversion system or C.A.T.V. Both terms do not fully connote the extent of the operations they cover. The emphasis is on television. But the system is so designed as to transmit the full range of broadcasting services and that includes television and radio signals.

The main emphasis of cable television is on transmitting broadcasting services originated by others. But C.A.T.V. lends itself fairly readily to adaptation to transmit messages or programs produced within the system itself. When such an adaptation takes place, C.A.T.V. performs functions similar to those performed by "Pay-T.V." or a closed circuit television system which originates its own program for distribution to subscribers.

But generally speaking, cable television and "Pay-T.V."⁴⁶ represent two different systems. The former has been successful in a number of communities in Canada and U.S.A., and is on the ascendency. The latter has not, and one "Pay-T.V." system operating experimentally in Etobicoke (Toronto) has been discontinued because it turned out to be not economically viable.

In 1965 there were in Canada some 347 cable television systems in existence, serving some 273,000 homes, with the largest systems operating in Montreal and Vancouver.⁴⁷

This means that about 6 per cent of all households in Canada had connections with a central group antenna system,

⁴⁵ The B.B.G. has had an indirect say to the extent that it judges the economic impact of cable television on local television stations and the possible effect on the establishment of a second television station in that locality at a future date. The White Paper on Broadcasting tabled by the Government of Canada in the House of Commons on July 4, 1966, indicated that new legislation is to be brought down to put cable television under the jurisdiction of the B.B.G.

⁴⁶ "Pay-T.V." is also described as a "metered" television system.

⁴⁷ More recent figures published by the *Television Fact Book* in the United States suggest that there are in Canada somewhat greater numbers of television cable systems in operation than the above figure indicates: 439 cable television systems (see *Television Fact Book 1966*, edition No. 36, published by T.V. Digest Inc., Washington, D.C.).

with these households prepared to pay a monthly fee to increase their choice of receiving alternative broadcasting services. In the United States, on the other hand, only a little over 3 per cent of all households appear to be provided with C.A.T.V.,⁴⁸ indicating the relatively greater impact of cable television on regular television in Canada as compared with the United States. On this matter, the Committee on Broadcasting observed :

The growth rate of C.A.T.V. in Canada is evidently greater than in the United States; the size of each system tends to be as great; and the total coverage, relative to population, is much greater in Canada than in the United States. It tends to support strongly the view that the effect of C.A.T.V. on the Canadian broadcasting system is actually and potentially much greater than it seems to be, so far at least, in the United States.⁴⁹

The prospects are for a very rapid expansion of cable television in the U.S. with conservative estimates placing homes connected with a cable television system at 9 million ten years hence.⁵⁰ This would represent 4½ times the current number and would make cable television one of the most important growth industries in the electronic field. There is little doubt that this trend in the U.S. will have its impact on Canadian developments where progress in this field has already been comparatively rapid.

The operators of C.A.T.V. systems claim that they are providing existing broadcasting services and that their main function is to improve reception and to increase the choices of programs made available to subscribers. They achieve this objective by means of a central relay system. They are thus not in the television business, which involves originating and transmitting broadcasting services.

Broadcasting station operators, and this applies mainly to television stations, point to the fact that cable television diminishes the audience to which they cater in a particular community. This represents direct competition for the public's

⁴⁸ Some 1,600 U.S. cable television systems are estimated to have grossed about \$115 million in 1965, representing about 2 million homes out of a total of close to 54 million T.V.-viewing homes. (As reported in *Business Week*, February 19, 1966, p. 104.)

⁴⁹ *Report of the Committee on Broadcasting, op. cit.*, p. 253.

⁵⁰ At present, 852 cable television systems are in the process of development and 1,240 applications for franchises are pending (*ibid.*).

attention and thus reduces the “direct” advertising value. Since television stations sell “time” and “audience” delivered, any diminution of that audience may mean one of several things : loss of advertising, reduction in rates to advertisers, or increased advertising rates in terms of cost per thousand.

Another complaint is that television stations are subject to Canadian content requirements but cable television is not. Further, sponsors pay large amounts to obtain advertising rights for sports broadcasts. Black-out provisions to show on television apply to the city in which the game takes place. But cable television bringing in the signal from other cities is able to circumvent the black-out provisions.

The competitive nature of cable television vis-à-vis television is, however, not as clear cut as claims, such as the above, would indicate, mainly on three grounds.

(1) Cable television will bring local television services to residents in a community in locations in which such signals are not adequately received. In that case, C.A.T.V. actually supplements and furthers the reception of a local television service.

(2) Most urban centres where cable television systems are located, are rapidly growing communities. Television viewers are added by the dozens in the larger cities and sometimes by the hundreds, every day. Hence, all that can be said is that the television audiences are expanding notwithstanding the growth of cable television in Canada, though the rate of growth for particular stations may be somewhat less than it would have been had cable television not come into existence.

(3) Most of the successful television stations, and that applies particularly to the private stations in major urban centres, are operating close to capacity — in the sense that they have little prime time advertising unsold. Thus, so far at least, cable television does not appear to have created a particularly serious problem for television operators in Canada as far as the sale of “time” to advertisers is concerned. Rate cards, if anything, have been rising as the provision of television services became more costly and the demand for such services increased relative to supply.

The Committee on Broadcasting, in examining cable television in Canada, noted some difficulties created by C.A.T.V. To quote :

There are, however, many single-channel areas where regulatory policy to nourish or support the licensee has been negated by the sudden intrusion of a number of new signals which dilute the audience and damage commercial support. Several of these instances were brought to our attention by private television stations affiliated with the C.B.C., and it is a matter of concern to us that the viability of the national network system could be disrupted if unrestrained or unregulated growth of C.A.T.V. systems is allowed to continue. A careful study of this problem should be made, recognizing the conflict of interests that is at work. . .

Safeguards are required against the linking up of the several systems into some partial or complete form of C.A.T.V. network, which would pose yet another threat to the national broadcasting system. The performance of C.A.T.V. operators should be examined to see that they do indeed act as common carriers, and do not use their service to restrict the subscribers' range of choice. Most of the new systems can handle quite a number of channels. They could conceivably black out the channels of the local broadcaster insofar as their own subscribers are concerned, and, by so doing, exercise undue influence in the competitive situation.⁵¹

The Committee on Broadcasting concluded by urging for the field of national broadcasting, and that would include the operations of cable television systems,⁵² the adoption by Parliament and the Government of a "consistent policy and effective controlling legislation".⁵³

In the United States, control over cable television by the Federal Government authorities appears to be increasing as the following report suggests :

The F.C.C. is extending its jurisdiction over the industry and setting out some ground rules; at issue is whether C.A.T.V. should be kept a supplement to broadcasting, or allowed to compete in the marketplace. At first, F.C.C. will restrict C.A.T.V. operators to picking up near-in signals before they

⁵¹ *Ibid.*, pp. 253 and 254.

⁵² The British Columbia Court of Appeal recently ruled, in an action brought by the Public Utilities Commission of that province, that the broadcast receiving stations known as Community Antenna Systems were a part of broadcasting and could only be regulated by the competent authority, which is the Parliament of Canada.

⁵³ *Ibid.*, p. 255.

reach out further, also prohibit them from duplicating local programs. It is considering keeping them out of big cities, too.⁵⁴

As far as the future of broadcast advertising expenditures in Canada is concerned, these will expand at a rapid rate notwithstanding the growth of operations of cable television in this country. It should not be overlooked that to the extent that cable television brings local television services to members of a community not adequately served at present, it increases the number of viewers of that station rather than diminishes it. Further, to the extent that programs of Canadian stations are carried further afield in Canada through C.A.T.V., advertising messages originating in Canadian stations will be received by a growing number of viewers. National advertisers may lose out in some diminution of audience in one location but they may gain additional audiences in another locality.

It will require the undertaking of comprehensive audience measurement surveys to assess the economic impact of cable television in terms of the size of the viewing audience covered, in terms of the competitive or supplementary effects on local broadcast stations, and in terms of compensatory national advertising achieved by adding audiences in some locations while diminishing the number of potential viewers in other locations. This is a task for the future. It will probably come when cable television reaches a more substantial level of operations in this country than is the case at present.

Such surveys, as and when they are undertaken, will not only assist advertisers and broadcasters to assess the effectiveness of television advertising, both that carried directly by stations and that disseminated indirectly via cable television, but they will also aid the Canadian Government and the agencies concerned with broadcasting operations to formulate appropriate policies and to administer these effectively and fairly.

In preparing the projections of broadcast advertising expenditures for the next decade, as presented in Tables 6-3 to 6-5, account has been taken of the growth of the C.A.T.V. systems in Canada. It has been assumed that, on the whole, national advertisers will continue to have access to the Cana-

⁵⁴ See *Business Week*, *op. cit.*, p. 104.

dian viewing public, and that in *relative* terms the loss of viewing audiences to American television stations and networks would not materially change over the next decade. If, on the other hand, a rapid expansion of cable television would cause a substantial diminution of Canadian audiences viewing programs broadcast by Canadian television stations by switching to American stations, this could affect the size of the audience available to Canadian broadcasters. In that case, the estimates of broadcast advertising expenditures foreseen for the next decade would have to be revised downward (see also section on the "American Influence", discussed later on in this Chapter).

COMPETITION FROM OTHER MEDIA.

Reference has been made in Chapter 1 to the competition facing broadcasters from other media for the advertising dollar. These other media include newspapers, periodicals, other print media, and outdoor advertising.

Over the past decade the trend has been for considerably more rapid growth of broadcast advertising, particularly on television, than advertising placed in the older media. From 1955 to 1960, for example, broadcast advertising more than doubled, while advertising in other media rose by only a little over one-third. In the next five-year period, 1960 to 1965, the rate of growth, while significant, was somewhat reduced. Still total broadcast advertising rose by 59 per cent, with the rise of "other" advertising expenditures slowed down further, involving an increase of 18 per cent (see Tables 6-3 and 6-4).

In preparing estimates of the extent of competition which broadcast advertisers may be facing from the older media over the next decade, these have been based on the assumption that the other media will continue to keep pace with technical innovations in the publishing fields and to improve editorial and advertising contents. It was further assumed that government regulations would not unduly limit the flow of advertising expenditures and that both their level and destination will continue to be determined largely by market forces.

On that basis, advertising expenditures going to non-broadcasting media are expected to more than double over the next decade, as compared with about a tripling of broadcast advertising expenditures over the same period. In absolute

TABLE 6-3. — RADIO AND TELEVISION ADVERTISING EXPENDITURES AND TOTAL NET ADVERTISING EXPENDITURES, CANADA, PROJECTIONS TO 1975.

\$ Mill.

YEAR	TOTAL NET ADVERTISING EXPENDITURES		RADIO ADVERTISING EXPENDITURES		TELEVISION ADVERTISING EXPENDITURES		BROADCAST ADVERTISING EXPENDITURES	
	Alternative 1	Alternative 2	Alternative 1	Alternative 2	Alternative 1	Alternative 2	Alternative 1	Alternative 2
1955	374.5	374.5	32.7	32.7	13.4	13.4	46.1	46.1
1960	544.1	544.1	50.4	50.4	50.0	50.0	100.4	100.4
1965	685.0	685.0	68.6	68.6	91.0	91.0	159.6	159.6
1970	1,147.0	1,070.0	120.0	112.0	184.0	171.0	304.0	283.0
1975	1,767.0	1,560.0	195.0	172.0	335.0	296.0	530.0	468.0
Per Cent Change								
1955-1960	45	45	54	54	273	273	118	118
1960-1965	26	26	36	36	82	82	59	59
1965-1970	67	56	76	64	102	88	91	78
1970-1975	54	46	62	53	83	73	74	65
1955-1965	83	83	110	110	579	579	246	246
1965-1975	158	128	183	150	269	226	232	193

Source : Data for 1955 to 1965 are from Tables 1-1 and 1-2; estimates for 1970 and 1975 are based on assumptions elaborated in footnote 4 of Table 5-2.

¹ Assuming a slower rate of increase as explained in Table 5-8.

² Assuming a moderately more rapid rate of increase as explained in Table 5-8.

TABLE 6-4. — RADIO AND TELEVISION ADVERTISING EXPENDITURES AND OTHER NET ADVERTISING EXPENDITURES AS A PROPORTION OF TOTAL NET ADVERTISING EXPENDITURES, CANADA, PROJECTIONS TO 1975.

YEAR	OTHER NET ADVERTISING EXPENDITURES ¹		PER CENT OF TOTAL NET ADVERTISING EXPENDITURES			
	Alternative ² 1 \$ Mill.	Alternative ³ 2 \$ Mill.	Radio ⁴	Television ⁴	Broadcasting	Other net Advertising Expenditures
1955	328.4	328.4	8.7	3.6	12.3	87.7
1960	443.7	443.7	9.3	9.2	18.5	81.5
1965	525.4	525.4	10.0	13.3	23.3	76.7
1970	843.0	786.4	10.5	16.0	26.5	73.5
1975	1,237.0	1,093.0	11.0	19.0	30.0	70.0
Per Cent Change						
1955-1960	35	35	—	—	—	—
1960-1965	18	18	—	—	—	—
1965-1970	60	50	—	—	—	—
1970-1975	47	39	—	—	—	—
1955-1965	60	60	—	—	—	—
1965-1975	135	108	—	—	—	—

Source : Data for 1955 to 1965 are from Tables 1-1 and 1-2. Estimates for 1970 and 1975 are based on assumptions elaborated in footnotes 4 and 5 below.

¹ Covers newspapers, periodicals, other printed media and outdoor advertising.

² Assuming a slower rate of increase as explained in Table 5-8.

³ Assuming a moderately more rapid rate of increase as explained in Table 5-8.

⁴ Assuming a moderate slowing down in the improvement of the ratio of radio and television advertising to total net advertising expenditures for the period 1965-1975 as compared with the period 1955 to 1965.

terms, advertising expenditures in the "other" media group may increase from \$525 million in 1965 to a range between \$1.1 billion and \$1.2 billion in 1975.

Over the next decade broadcast advertising expenditures may increase from about \$160 million to between \$468 million and \$530 million (see Table 6-3). The proportion of broadcast advertising expenditures to total advertising expenditures would thus rise from 23 per cent in 1965 to 30 per cent in 1975 (see Table 5-4). Still broadcast advertising would represent less than one-half the advertising expenditures going to other media. For many types of advertising, particularly in the area of local advertising and specialized national advertising, media other than television will remain the dominant outlets because these media are particularly geared to meet the specific needs of such advertisers.

THE AMERICAN INFLUENCE.

Several Royal Commissions, Parliamentary Committees and other Committees have examined the American influence on Canadian cultural affairs including the fields of publication,⁵⁵ broadcasting,⁵⁶ and the arts, letters and sciences.⁵⁷ They have dealt with some of the national, political, economic and social problems that result from the overwhelming cultural impact of a dynamic nation of some 200 million Americans on some 20 million Canadians who live to the north of them in a country larger than the continental United States.

The gist of all these inquiries led to the reaffirmation of one basic principle : If Canadians want to survive as an independent nation with a destiny of their own, they must pursue policies that will strengthen the cultural development of this

⁵⁵ *Report of the Royal Commission on Publications (the O'Leary Commission)*, Ottawa, Queen's Printer, 1961.

⁵⁶ *Report of the Royal Commission on Radio Broadcasting (the Aird Commission)*, Ottawa, Queen's Printer, 1929; *Report of the Royal Commission on Broadcasting (the Fowler Commission)*, Ottawa, Queen's Printer, 1957; *Report of the Committee on Broadcasting (the Fowler Committee)*, Ottawa, Queen's Printer, 1965. A number of the recommendations of the Fowler Committee were adopted by the Canadian Government in presenting its White Paper on Broadcasting to Parliament on July 4, 1966.

⁵⁷ *Report of the Royal Commission on National Development in the Arts, Letters and Sciences (the Massey Commission)*, Ottawa, Queen's Printer, 1951.

country and that will provide increasing and adequate opportunities for Canadians to follow creative pursuits in their own country in the fields of letters, sciences, and the arts.

This point was emphasized eloquently in the Report of the Massey Commission and re-emphasized in most of the reports by other Royal Commissions and Committees. To quote :

We are now spending millions to maintain a national independence which would be nothing but an empty shell without a vigorous and distinctive cultural life. We have seen that we have its elements in our traditions and in our history; we have made important progress, often aided by American generosity. We must not be blind, however, to the very present danger of permanent dependence.⁵⁸

Translating this principle in terms of the problems faced in the field of broadcasting, the Fowler Commission refers to the overwhelming influence on Canadians of the highly developed and expertly operated networks in U.S.A. and American films, particularly those originating in Hollywood. To quote :

Many American programs are good programs, well and imaginatively conceived and produced. The great artistic wealth of the United States is able to produce programs of great variety and interest. Their material wealth enables them to command the services of good writers and performers, and the best technical skills in program production. To compete with such programs with Canada's limited resources of creative talent and money is very difficult indeed. . .

Many of these American programs necessarily and properly deal with American values. They help to create an American consciousness and sense of national identity but not, naturally, Canadian values in these areas. To match such American programs is a difficult but essential task of Canadian television.⁵⁹

In economic terms, problems are created for Canada not as a result of "bad" American programs but because of an increasing flow of "good" American programs. The term "good" is used in the sense of programs which appeal to Canadian audiences and thus attract the largest proportion of a potential audience to whom a television or radio station caters. For it is the degree of audience appeal which gives a commercial its economic value, as reflected in cost per thousand.

⁵⁸ *Ibid.*, p. 18.

⁵⁹ *Report of the Royal Commission on Broadcasting, op. cit.*, p. 8.

It is beyond the scope of this study to examine the virtues claimed for Canadian produced programs or the disadvantages that may accrue to Canadians from relying on too great a content of foreign produced programs, mainly American.⁶⁰ Regulations exist that require a 55 per cent overall Canadian content⁶¹ in programming and 40 per cent in prime time.⁶²

It is assumed for the purpose of preparing the projections of broadcast advertising expenditures presented in this study that regulations relating to Canadian content requirements will continue to remain in effect and that they will not adversely affect to a significant extent the pattern of advertising on Canadian television or radio stations. If new and considerably more stringent regulations were introduced, and if Canadians were permitted freely to listen or view American programs as an alternative, either through direct reception or via cable television, then a substantial shift of audiences from Canadian to American stations may occur. If this were to happen, Canadian advertising expenditures may follow the trend and more of such expenditures may go to American stations.

On the other hand, advertising on Canadian broadcasting stations could be stimulated if regulations were introduced similar to those currently affecting advertising in foreign publications distributed in Canada.⁶³

In preparing the projections of broadcast advertising expenditures, allowances have been made for increasing emphasis on improved programming and possibly somewhat stricter administration of content requirement regulations. It was further assumed that the present system of non-discriminatory tax treatment of broadcast advertising expenditures would continue.

⁶⁰ In Quebec, French-made programs are as popular as American programs, particularly feature films dubbed into French. In the rest of Canada, British-made television films are increasing in popularity.

⁶¹ The Board of Broadcast Governors has permitted a certain flexibility in the interpretation of the content regulations, as for example, temporary relaxation in the off-season period, i.e. the summer months.

⁶² Content requirements regulate the quantity of Canadian-produced programs and not the quality.

⁶³ Commencing January 1st, 1966, advertisers in Canada cannot claim income tax deductions for advertising placed in foreign publications aimed at the Canadian market. Canadian editions of foreign publications which have been edited, printed and published in Canada at least since Spring 1964 are exempt (and that includes the Canadian editions of *Time* and *Readers Digest*).

There are several other areas where American developments may affect broadcasting practice in Canada over the next decade. They include :

1. New broadcast advertising methods and new forms of commercial sponsorship.

2. Improved broadcasting techniques including the increasing use of communication satellites,⁶⁴ computerized broadcasting and fully automated transmissions.

3. Introduction into Canada of U.H.F. equipped television sets which would make it possible to embark on the establishment in this country of a number of U.H.F. television channels. Such a development would increase the number of channels several times over the number presently available. The introduction of U.H.F. channels would involve very large capital expenditures, as well as higher prices for television sets. Hence this development may be introduced into Canada only after it has been in operation in the United States for some time, particularly in larger markets where pressure is greatest and the availability of V.H.F. channels is least.⁶⁵ But the likelihood exists that such developments may come closer to realization in the next decade as the pressure for advertising time, growing markets and increased affluence of Canadians makes it economic to proceed with such undertakings.

⁶⁴ "The prospect is that within a relatively few years communication satellites could provide multiple-channel service to communities the nation over. Original broadcasts could be bounced off the satellites directly to homes or to local T.V. suppliers (C.A.T.V., subscription T.V., and local broadcast companies). The cost of service to the national advertiser and network would be markedly less than the present network system of distribution. The availability of programs in each locality could be much larger than at present" (see Harold J. BARNETT, "Discussion of the Economics of Broadcasting and Advertising", *op. cit.*, p. 469).

⁶⁵ Legislation exists in the United States requiring "that the tuners of all new T.V. sets be able to pick up signals of 70 U.H.F. channels as well as the 12 V.H.F. channels. This overcomes one major bottleneck to expansion in the number of programs available in each locality." While some progress is being made in this direction in the United States, major obstacles have still to be overcome. "As compared with existing V.H.F. stations, the new U.H.F. stations will tend to face higher investment costs for tower and transmitter, smaller population coverage and ratio of audience to coverage, and lesser access to program material and advertiser dollars. Nevertheless, there is a significant likelihood that gradually U.H.F. will amplify service to the public. But this depends on whether monopolistic restrictions and practices are prevented, particularly in supply of program material, and on development of additional networks or quasi-networks" (*Ibid.*, p. 468).

4. Changes in advertising rates particularly those charged to national advertisers for prime time commercials. Canadian broadcasters usually follow the American practice after a time lag.

This listing of American influences on English language Canadian television is by no means complete. But perhaps it is sufficient to illustrate that the practices and policies pursued by Canadian advertisers are North American and they cannot be separated from the pattern evolving in the United States. The pull of the United States on Canada is not only cultural, economic and political. It is a reflection of the reality of two nations living on one continent, speaking for the most part the same language, with broadly similar traditions, institutions, wants, technology, and social and political attitudes.

As long as Canadian broadcasting relies on commercial revenues, and as long as it continues as a "mixed" system combining the best that private and public enterprise can produce, American progress will affect Canadian progress and this is likely to be particularly apparent in the fields of television programming and television advertising. Even if the Canadian system were solely a publicly owned and tax supported system, there does not appear to exist an effective and practical way of preventing the Canadian public from being exposed to U.S. influences, quite apart from the fact that this would run contrary to Canadian traditions and national interests. It is a fact of geography and technology that Canadian viewers have direct access to U.S. television channels and this coverage is likely to be extended substantially with the growth of cable television in this country.

GOVERNMENT POLICIES.

The projections of advertising expenditures for the next decade have been based on government policies relating to the commercial aspects on broadcasting as they are known at present. Since government policies, however, may change, a range of estimates is presented allowing for various possibilities

to take place.⁶⁶ To restate the areas where no basic change in government policies have been assumed :

1. The mixed system of broadcasting operations will continue in Canada, that is the C.B.C., and private stations and the C.T.V. network, supplemented possibly by the establishment of a private French language television network for which approval in principle has already been given, and possibly further, a second private English language network.

2. Commercial revenues will remain the main source of income for private broadcasting stations and represent a significant though varying proportion of the income of the C.B.C.

3. There will be no discriminatory tax treatment of advertising inserted in American or other foreign programs carried by Canadian broadcasting stations.

4. There will be no prohibition or serious limitation of American broadcasting programs received *directly* by Canadian television viewers or radio listeners.

To summarize now some of the main possibilities of changes in government policies that may affect broadcasting in Canada over the next decade and for which allowances have been made in the projections of broadcast advertising expenditures presented in this study :

1. There may be greater emphasis on Canadian content and quality of programming.

2. New regulations may be introduced affecting the number of hours per broadcasting day and the advertising content per hour of programming.

3. Additional licences may be granted for television and radio stations to improve coverage and to offer increased opportunities for alternative programs from Canadian sources.

4. Increased government grants may be made available to the C.B.C. both for capital and operating purposes, with the extent of the latter affecting the degree to which the C.B.C. will continue to rely on commercial revenues.

5. Changes in regulatory and administrative arrangements may be made which will have a bearing on the operations of the broadcasting system but which will still leave the C.B.C. and

⁶⁶ This assumes that North America would not become involved in a major world conflict. If war came, the private network and stations would become part of the emergency measures communications network.

private broadcasting stations with the responsibility of running their operations within the framework established by Public Authority.

6. Supervision over cable television will be extended.

7. Some exploratory moves may be made in the direction of introducing U.H.F. stations and other major technical innovations in the electronic communications field in Canada.

8. More research will be undertaken in the areas of social, psychological, cultural, economic, and financial implications of broadcasting services provided in Canada.

The manner in which allowance is made for such possible changes in government policies affecting broadcasting over the next ten years is to provide a lower and an upper range of advertising revenues that may be received by the broadcasting industry, covering separately radio and television. There exists the further possibility that even with a given volume of advertising revenues becoming available to the broadcasting industry, the Canadian Government may decide to make the C.B.C. either more or less dependent on commercial revenues by recommending to Parliament to raise public grants either substantially or less so depending on national policies.

To allow for such contingencies three different calculations are presented of the results of a possible split of advertising revenues between private broadcasters and the C.B.C. depending on government policies. This three-fold split is provided for both the high and the low estimates so that in the concluding Table 6-5, six variants are presented of how the total broadcast advertising business may be divided between the C.B.C. and private stations in 1970 and 1975.

With all the care that has been applied in developing the estimates there still exists the possibility of major changes in government policies affecting broadcasting operations in Canada, not foreseen in this study. If these occur, the estimates would have to be adjusted accordingly. And government policies are not the only factor — there are many others — the result of changing market forces, technical innovations as well as international factors such as alterations in the Canada-U.S. agreement governing broadcasting arrangements affecting the two countries. Hence, if the projections presented in this study are

to be of continuing usefulness, they will require review and change from time to time in the light of altered circumstances.

ASSUMPTIONS UNDERLYING PROJECTIONS OF BROADCAST ADVERTISING EXPENDITURES.

Two estimates of advertising expenditures for each 1970 and 1975 are presented, separately for radio, television and total broadcasting. The reason for presenting alternative projections is to illustrate the range of possibilities for expansion that appears to exist over the next decade. Both projections allow for continuing growth in the broadcast advertising business in absolute terms, with the lower of the two estimates assuming a slower rate of growth than is indicated by existing trends which are broadly applied in preparing the higher estimates.

The basis of projecting broadcast advertising expenditures for 1970 and 1975 is the range of estimates of total net advertising expenditures in Canada for these two years, presented in Table 5-8 and reviewed in Chapter 5. It will be recalled that the lower range of the projection was based on the assumption that the ratio of gross advertising expenditure to Gross National Product stabilizes around the level that prevailed between 1955 and 1960, slightly above the 1965 ratio.

As to the higher range of the projection, the latter was estimated on the assumption that the ratio of gross advertising expenditures to Gross National Product moves gradually upward reaching by 1970 the same ratio as prevailed in 1960. The ratio is then assumed to rise to 1975 though at a slower pace.

From gross advertising expenditures are deducted advertising agency commissions on the basis of the assumption that the ratio stabilizes slightly below the level prevailing in the 1955 to 1965 period (see Table 5-9). The resultant figure represents net advertising expenditures.

To arrive at advertising expenditures on radio and television a further improvement in the ratio of broadcast advertising to total net advertising is assumed, but at a slower rate of improvement than took place in the period 1955 to 1965. This assumption allows for the fact that television advertising may continue to show further relative improvement though it may not do so at the rapid rate of increase recorded in the last decade. The

resultant projections are presented in Tables 6-3 and 6-4, showing separately advertising expenditures for radio, television and other advertising media, the latter figures arrived at by the residual method, that is, by subtracting broadcast advertising expenditures projected from total net advertising expenditures.

RADIO ADVERTISING EXPENDITURES PROJECTIONS TO 1975.

Radio advertising expenditures amounted to \$69 million in 1965. They are expected to rise to a range between \$112 million and \$120 million by 1970 representing increases between 64 and 76 per cent respectively. By 1975 radio advertising expenditures may reach a level between \$172 million and \$195 million representing increases over the period 1970 to 1975 between 53 per cent and 62 per cent. These increases compare with 54 per cent between 1955 and 1960 and 36 per cent between 1960 and 1965 (see Table 6-3).

While these projections show a substantial growth in commercial revenues to be received by radio operators in Canada over the next decade, they are mainly the result of major increases expected in total advertising expenditures to be made by Canadian business and public authorities. Only a moderate improvement in the ratio of radio advertising expenditures to total have been assumed, with the latter rising from about 10 per cent in 1965 to approximately 11 per cent in 1975, as compared with 8.7 per cent in 1955 and 9.3 per cent in 1960 (see Table 6-4).

TELEVISION ADVERTISING EXPENDITURES PROJECTIONS TO 1975.

Television has been the star performer as far as growth in advertising revenues is concerned, partly because of its newness and partly because of its effectiveness as an advertising medium. Over the next decade television advertising is likely to remain the most dynamic sector of the advertising business in Canada though it cannot be expected that it will continue to make the gains in relation to total advertising as has been the case in the past. Hence, as indicated earlier, allowance has been made for some slowing down in the rate of improvement of the ratio to total advertising over the next decade as compared with the last decade.

The Canadian ratio of television advertising to total advertising is estimated at 13.3 per cent for 1965. This is the same percentage as applied in the United States in 1960. The ratio assumed for Canada for 1970 is 16 per cent and this is about the same ratio as prevailed in the United States in 1965.⁶⁷ It appears that the Canadian industry is about five years behind in the relative progress made by television in capturing its share of the advertising dollar. In making the projections of television advertising expenditures in Canada for the next ten years, it has been assumed that the time lag between the two countries will continue, with the gap narrowing a little. If, on the other hand, the time lag would vary significantly, either up or down, or if the U.S. trend of relative improvement would slow down, then the projections presented in this study would have to be adjusted accordingly.

Quite apart from possible changes in the rate of progress made between Canadian and American television advertising, special factors applying specifically to Canada may affect the rate of growth of broadcast commercial revenues in this country. An example would be government regulations limiting significantly the number of hours per broadcasting day. Such possibility cannot be ruled out. If it occurs, the projections presented in this study would have to be adjusted.

Bearing in mind the limitations inherent in the process of making economic projections and the illustrative nature of the results obtained, television advertising expenditures in Canada are likely to expand at a remarkable rate over the next decade.

Revenues received by television stations from the sale of time for commercials is likely to rise from \$91 million in 1965 to a range between \$171 million and \$184 million, that is, they may double over the next five years. By 1975, advertising expenditures flowing to television may reach a range between \$296 million and \$335 million involving a level of three times that reached in 1965, or better (see Table 6-3). Television may be responsible for 16 per cent of total advertising expenditures in Canada in 1970 and 19 per cent in 1975. This would compare

⁶⁷ A preliminary estimate places the ratio for the United States in 1965 at 16.5 per cent (see "Ad Volume Increased 6.8% in 1965", *op. cit.*, p. 12).

with 9.2 per cent in 1960 and 13.3 per cent in 1965 (see Table 6-4).

TOTAL BROADCAST ADVERTISING EXPENDITURES, PROJECTIONS TO 1975.

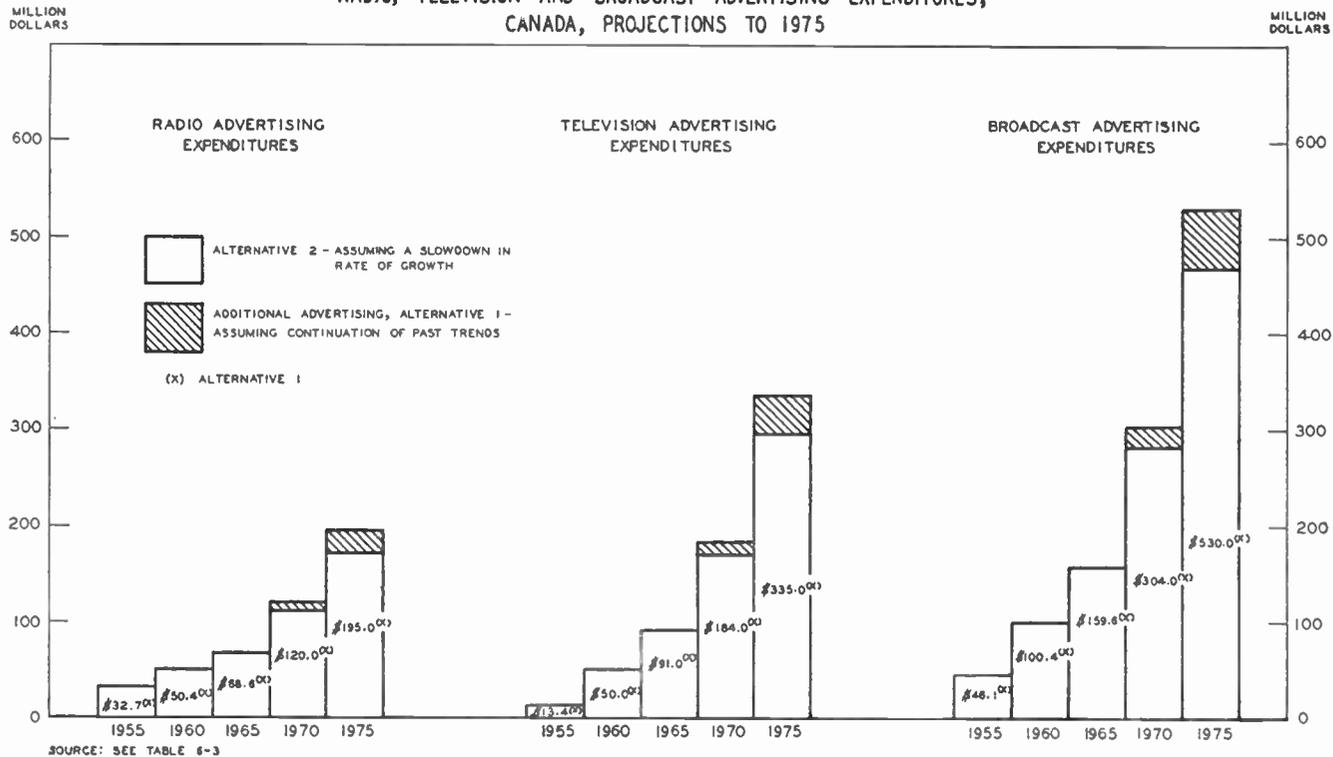
Total broadcast advertising expenditures may rise from \$160 million in 1965 to a range between \$283 million and \$304 million in 1970, and still further to a range between \$468 million and \$530 million by 1975. This represents increases over the next decade between 193 per cent and 232 per cent, and compares with a rise of 246 per cent over the decade 1955 to 1965 (see Table 6-3 and Chart 9). In making this comparison it must be borne in mind that in 1955 Canadian television development was still in its infancy and that it is only in the more recent period that this medium has achieved the relative significance in the total advertising picture that it now occupies.

Broadcast advertising comprising both radio and television made up 23.3 per cent of total net advertising expenditures in 1965. The ratio has been assumed to rise to 26.5 per cent in 1970 and to 30 per cent of the total by 1975. The ratios for the previous decade were 12.3 per cent and 18.5 per cent in 1955 and 1960 respectively (see Table 6-4).

The estimates presented so far refer to total broadcast advertising expenditures. They *exclude* an allowance for commercial revenues received by broadcasting stations for program production and for other "non-time" sales.

The definitions of what constitutes non-advertising broadcast revenues differ and this is explained in the statistical note in Appendix A. According to the Dominion Bureau of Statistics, such revenues amounted to \$6.9 million in 1963 or a little over 5 per cent of total operating revenues of both private stations and the C.B.C. amounting to \$136.3 million excluding government grants to the C.B.C. (see Table 3-3 in Chapter 3). According to estimates prepared for the Committee on Broadcasting, billings to sponsors for broadcasting facilities and programs amounted to \$20.3 million out of a total operating revenues of the C.B.C. and private stations combined amounting to \$139.6 million in 1963. This represents approximately 14 per cent of the total. Hence, depending on what the definition of non-time sales is, 5 per cent or more has to be added to arrive at total

CHART 9
 RADIO, TELEVISION AND BROADCAST ADVERTISING EXPENDITURES,
 CANADA, PROJECTIONS TO 1975



commercial revenues. Since there does not exist at present a generally accepted definition of what constitutes non-time sales, the projections presented in this study exclude such sales. But anyone wishing to arrive at a more comprehensive estimate can do so by adding a proportion considered appropriate to cover non-time sales of broadcasting stations, with this ratio varying anywhere between 5 per cent and 14 per cent depending on the definition used.

PRIVATE STATIONS AND C.B.C. — PROJECTIONS OF BROADCAST ADVERTISING EXPENDITURES TO 1975.

The preceding projections indicate the sums of money that might be spent in Canada on broadcast advertising over the next decade. The question arises : How could this total be divided between the publicly operated C.B.C. and the private stations and private television network ?

The alternatives are numerous and it is difficult to choose one in preference to another until more is known about the course of government policies, among other things, with respect to the extent that the C.B.C. will be expected to pay for its expanding services from commercial revenues. Even if government policies are announced in the form of a White Paper such as has been recommended by the Committee on Broadcasting, or in a statement in Parliament, such policies may be modified in the light of experience over the next decade.

Hence, the projections of the split of broadcast advertising expenditures as between the C.B.C. and private broadcasting stations have been made on the basis of three assumptions.

Assumption A is based on the proposal by the C.B.C. itself that "there be a reduction in the C.B.C. commercial business".⁶⁸ Specifically, the C.B.C. recommended, "a complete withdrawal from radio advertising over the next five years and a set target of only \$25 million a year for total net revenue".⁶⁹

Assumption B is based on the possibility that the C.B.C. would aim at trying to maintain a given share of the commercial advertising business becoming available to broadcasting

⁶⁸ *Comments by the Canadian Broadcasting Corporation, op. cit., p. 3.*

⁶⁹ *Report of the Committee on Broadcasting, op. cit., p. 220.*

TABLE 6-5. — ADVERTISING EXPENDITURES, RADIO AND TELEVISION, PRIVATE STATIONS AND C.B.C., CANADA, PROJECTIONS TO 1975.

\$ Mill.

Year	PRIVATE STATIONS			C.B.C.			PRIVATE STATIONS AND C.B.C.		
	Radio	Television	Total Broadcasting	Radio	Television	Total Broadcasting	Radio	Television	Total Broadcasting
1960	46.0	23.4	69.4	— ¹	— ¹	30.8	—	—	100.2
1963	57.0	48.7	105.7	2.1	21.6	23.7	59.1	70.3	129.4
1965 ²	66.6	68.0	134.6	2.0	23.0	25.0	68.6	91.0	159.6
1970- Alternative 1 ³ Assumption									
A ⁴	120.4	158.6	279.0	—	25.0	25.0	120.4	183.6	304.0
B ⁵	115.6	143.9	259.5	4.8	45.9	50.7	120.4	183.6	304.0
C ⁶	113.2	128.6	241.8	7.2	55.0	62.2	120.4	183.6	304.0
1970- Alternative 2 ⁷ Assumption									
A ⁴	112.4	146.2	258.6	—	25.0	25.0	112.4	171.2	283.6
B ⁵	107.9	128.4	236.3	4.5	42.8	47.3	112.4	171.2	283.6
C ⁶	105.7	119.8	225.5	6.7	51.4	58.1	112.4	171.2	283.6
1975- Alternative 1 ³ Assumption									
A ⁴	194.4	310.6	505.0	—	25.0	25.0	194.4	335.6	530.0
B ⁵	186.6	250.7	437.3	7.8	84.9	92.7	194.4	335.6	530.0
C ⁶	182.7	234.9	417.6	11.7	100.7	112.4	194.4	335.6	530.0
1975- Alternative 2 ⁷ Assumption									
A ⁴	171.6	271.4	443.0	—	25.0	25.0	171.6	296.4	468.0
B ⁵	164.7	222.3	387.0	6.9	74.1	81.0	171.6	296.4	468.0
C ⁶	161.3	207.5	368.8	10.9	88.9	99.2	171.6	296.4	468.0

TABLE 6-5— ADVERTISING EXPENDITURES, RADIO AND TELEVISION, PRIVATE STATIONS AND C.B.C., CANADA, PROJECTIONS TO 1975. (Continued.)

Per Cent Change									
1960-1965	45	191	94	—	—	-19	—	—	59
1965-1970									
Alternative 1	74	112	93	104	99	103	76	102	90
Assumption B									
1970-1975									
Alternative 1	61	74	69	63	85	83	61	83	74
Assumption B									

Source : Data for 1960, 1962 and 1963 are from DOMINION BUREAU OF STATISTICS, *Radio and Television Broadcasting* 1963, and earlier issues. Data on total advertising expenditures for 1965 are preliminary estimates from MACLEAN-HUNTER RESEARCH BUREAU, *A Report on Advertising Revenues in Canada*, Toronto, October 1965. Data on C.B.C. advertising relate to net advertising revenues received and are from *Report of the Committee on Broadcasting*, Ottawa, Queen's Printer, 1965, pp. 288 and 332. The data were adjusted to arrive from gross to net expenditures. They are only roughly comparable with those shown for earlier years obtained from the Dominion Bureau of Statistics because the C.B.C. and the Dominion Bureau of Statistics follow different classification methods. This would affect also the estimate of advertising revenues received by private broadcasting stations since they are arrived at by a residual method.

¹ The C.B.C. receipts show net advertising revenues for radio of \$1.5 million and for television of \$25.7 million for a total of \$27.2 million (see *Report of the Committee on Broadcasting, op. cit.*, p. 332) as against a total of \$30.8 million recorded by the Dominion Bureau of Statistics.

² Preliminary estimates.

³ See footnote 1 of Table 6-3.

⁴ Assumption A : C.B.C. will withdraw from commercial radio advertising by 1970 and will limit its net commercial revenues from television to \$25 million annually.

⁵ Assumption B : C.B.C. will maintain its radio advertising revenues at 4 per cent of the total and its television advertising revenues at 25 per cent of the total.

⁶ Assumption C : C.B.C. will increase its ratio of radio advertising revenues to 6 per cent of the total and its ratio of broadcast advertising revenues to 30 per cent of the total (see *Report of the Committee on Broadcasting, op. cit.*, pp. 220 and 221).

⁷ See footnote 2 of Table 6-3.

stations. The Committee on Broadcasting suggested that the C.B.C. "should actively seek to retain its present 25% share of the television advertising market and 4% share of the radio advertising market".⁷⁰

Assumption C is based on a possible desirable objective of the C.B.C. endeavouring to raise the proportion it may obtain from commercial revenues. To quote from the Report of the Committee on Broadcasting: "If television and radio sales can be increased to capture, say, 30% and 6% of the respective advertising markets, so much the better, for the additional revenue so obtained could be devoted to further improvements in programming quality."⁷¹

It will be recalled that in Tables 6-3 and 6-4, alternative projections of total broadcast advertising revenues becoming available in Canada for 1970 and 1975 have been presented. In Table 6-5 these totals have been split into commercial revenues accruing to the C.B.C. and to private station operators. The reader is referred to this Table which gives considerable detail of the projections for 1970 and 1975 based on the three different sets of assumptions mentioned above. For the sake of simplicity, the quantitative implications of only one of the assumptions is presented here, with the figures illustrating the implications of the other assumptions speaking for themselves.

On the basis of Assumption B, namely, that the C.B.C. may endeavour to obtain 4 per cent of radio commercial revenues and 25 per cent of television advertising income, some of the highlights of the projections are as follows :

Total broadcast revenues (net) received by the C.B.C., excluding income from program production and other "non-time" sales, may rise from about \$25 million in 1965 to a range between \$47 million and \$51 million in 1970.

Total broadcast revenues from radio and television received by private station operators including the C.T.V. may increase from \$135 million in 1965 to a range between \$236 million and \$260 million in 1970. Sales of advertising on television

⁷⁰ *Ibid.*, p. 221. The White Paper on Broadcasting endorsed this particular recommendation made by the Committee on Broadcasting (see *White Paper on Broadcasting*, tabled by the Government of Canada in the House of Commons on July 4, 1966, Queen's Printer, Ottawa, p. 17).

⁷¹ *Report of the Committee on Broadcasting, op. cit.*, p. 221.

by private operators may rise over the same period from approximately \$68 million to between \$128 million and \$144 million. Radio advertising expenditures may be increased from \$67 million to between \$108 million and \$116 million.

It bears emphasis that the estimates of potential broadcast advertising expenditures being generated in Canada, as presented in this study, are based on the assumption of much greater buoyancy than is indicated in the estimates prepared for the Committee on Broadcasting. This is indicated by the following figures for 1970, based on comparable assumptions, namely, that the C.B.C. will share in commercial revenues to the extent of 4 per cent of the total for radio and 25 per cent for television.

C.B.C. — Advertising Revenues as per Report of the Committee on Broadcasting ⁷² to \$37 million.

C.B.C. — Advertising Revenues as per this study from \$47 million to \$51 million.

Whether the more conservative estimates contained in the Report of the Committee on Broadcasting will be realized or the more growth-oriented estimates presented in this study will come close to the mark, only the future will tell. But there may be some merit in considering the alternative growth possibilities that may be in sight for Canada's broadcast advertising business and what this may mean in terms of potentially greater commercial revenues for the C.B.C. were the Government of Canada to decide that the Corporation obtain an increasing amount of commercial revenues rather than keep commercial revenues at more or less present levels, as has been recommended by the C.B.C.

Looking beyond the intermediate terms into the mid-1970's and again limiting the comments to projections based on Assumption B, the following increases in total commercial broadcast revenues for the period 1965 to 1975 appear to be in sight (see Table 6-5 and Chart 10).

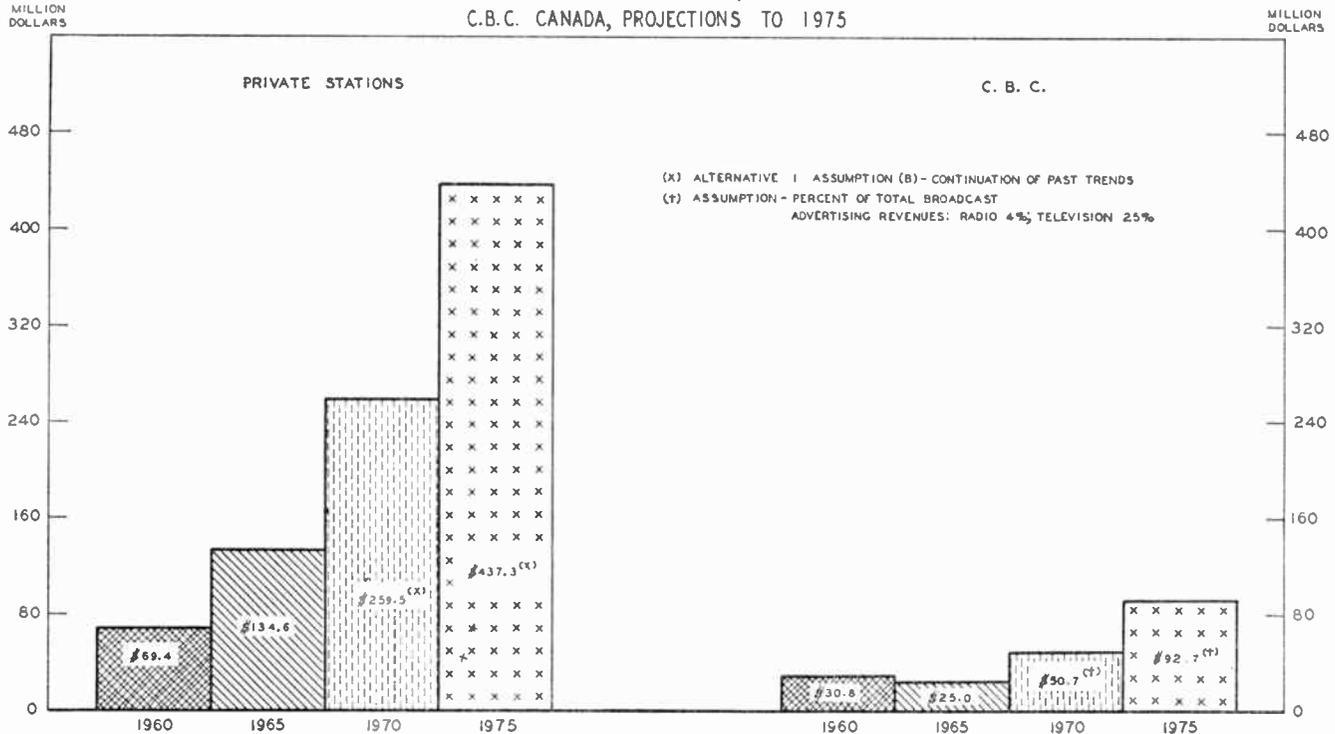
C.B.C. — Increase from \$25 million to between \$81 million and \$93 million.

Private Stations ⁷³ — Increase from \$135 million to between \$387 million and \$437 million.

⁷² *Ibid.*, p. 367.

⁷³ Including C.T.V.

CHART 10
BROADCAST ADVERTISING EXPENDITURES, PRIVATE STATIONS AND
C.B.C. CANADA, PROJECTIONS TO 1975



SOURCE: SEE TABLE 8-5

What the projections suggest is that in current dollar terms private radio and television stations may be doing about three times the business they are doing at present, assuming that Canada's economy remains prosperous and her market continues to grow at a rate which it is capable of growing if business, labour and governments pursue sensible and effective policies. Of course, if Canada should face major economic difficulties — which remain unresolved for any length of time — and Gross National Product does not rise at the rate assumed in this study, this would contribute to some reduction in the rate of growth of broadcast advertising expenditures in Canada over the next decade.

The increase of broadcast advertising revenues for private stations, separately for radio and television for the period 1965 to 1975 are as follows (see Table 6-5) :

Radio — Increase from \$67 million to between \$165 million and \$187 million.

Television — Increase from \$68 million to between \$222 million and \$251 million.

C.B.C. : IMPLICATIONS OF PROJECTIONS — TIME DEVOTED TO COMMERCIALS.

One of the reasons for the C.B.C. recommending that it should not be required "to earn too much commercial revenue" was its concern that this might be "to the serious detriment of its programming". As a result, the Corporation may be "forced to compromise on its proper objective of providing a comprehensive broadcasting service that is basically Canadian in content and character."⁷⁴

With this in mind, the C.B.C. recommended to both the Government and the Committee on Broadcasting that it should be permitted, as indicated earlier, to withdraw completely from radio advertising and confine, in the future, its take from commercial revenues from television to \$25 million (net), close to the amount obtained in 1965.

Of the three projections presented in this Chapter of what the C.B.C. commercial revenues may be like five or ten years hence, one projection appears to be more realistic than the other

⁷⁴ *Ibid.*, p. 220.

two because it allows for further growth and it takes account of the ratio to total which the C.B.C. has achieved in the recent past. This is projection B, based on the recommendation of the Committee on Broadcasting that the C.B.C. "should actively seek to retain its present 25 per cent share of the television advertising market and 4 per cent share of the radio advertising market".⁷⁵

On the basis of this assumption, the C.B.C.'s commercial revenues could increase from about \$25 million in 1965 to a range between \$47 million and \$51 million in 1970. The question arises whether such an increase, involving as it does a doubling of commercial revenues (net, exclusive of revenues from "non-time" sales) will in fact involve a significant increase in the time which the C.B.C. will have to devote to commercials thus reducing the time at its disposal to provide the Canadian public with improved unsponsored programming.

The answer is : the C.B.C. could about double its commercial revenues *without* significantly increasing the time devoted to commercial messages provided the Corporation wished to pursue appropriate policies concerning the pricing and the marketing of commercial time it has at its disposal.

In Chapter 2, a comparison was presented of cost per thousand for major television stations, operated by the C.B.C. and private broadcasters in six cities across Canada for the years 1962 and 1965. The data show : first, that the C.B.C.'s cost per thousand in prime time was on the whole about one-third below those charged by private broadcasters in comparable time periods, and secondly, that over the last four years, cost per thousand of private television stations had been rising on an average at a rate close to 5 per cent per annum and of C.B.C. stations by about 5½ per cent.

In applying these two quantitative findings of the recent past to the projections of 1970, the results thus obtained are subject to certain qualifications. They represent only a general indication of what could possibly be achieved and not a forecast of what may actually happen. There are certain simplifying assumptions underlying the application of past ratios to future

⁷⁵ *Ibid.*, p. 221.

development and the reader will wish to bear this in mind.⁷⁶ The purpose of the exercise is not to claim statistical precision that has no meaning per se in economic forecasts but rather to indicate in broad terms that the C.B.C. could obtain *substantial* increases in commercial revenues without increasing *significantly* the commercial content of its television broadcasting services — in terms of time devoted to presenting commercials — beyond the level it now provides.

Three stages are involved in illustrating this possibility :

1. Assume that the C.B.C. were to charge approximately the same cost per thousand on an average as private television broadcasters do (allowing for regional variations). This could add one-third to the commercial revenues of the C.B.C. without increasing the number of minutes devoted to advertising by a single minute a week. The effect of this assumption is to add one-third to \$25 million to arrive at a total of \$33.3 million.

2. Assume that the number of viewers watching television programs offered by the C.B.C., as represented in the number of television homes, would increase at the same rate as the rate of growth of urban population. This rate has been estimated in a study prepared for the Economic Council of Canada as 2.7 per cent per annum for the period to 1970.⁷⁷ If this assumption is realized, this would represent an increase in television homes over the period 1965 to 1970 of about 13.5 per cent. Since cost per thousand refers to costs related to T.V. homes tuned in to a particular program at a given point of time, commercial revenues presumably could be increased by 13.5 per cent without raising cost per thousand if the number of T.V. homes covered is increased by 13.5 per cent. Assuming that this is the case, this could raise the C.B.C.'s commercial take of \$33.3 million by 13.5 per cent to \$37.8 million.

3. Assume that private television stations in major markets would raise their cost per thousand over the next five years at 5 per cent per annum, that is, a rate similar to that applicable

⁷⁶ Another simplification exists in that the about \$25 million commercial revenues (net) cover both television and radio, the latter involving about \$2 million. The above adjustments are based on trends of television commercial revenues *only*.

⁷⁷ See Table 5-4 in Chapter 5.

to the period 1962 to 1965, and the C.B.C. would raise its cost per thousand on an *average* at a corresponding rate. This could add another approximately 25 per cent to \$37.8 million to yield commercial revenues for the C.B.C. totalling \$47 million in 1970.

Projection B shows that broadcast advertising revenues of the C.B.C. may reach between \$47 million and \$51 million by 1970. Hence, the above calculations, if the assumptions can be realized, and allowing for the oversimplified nature of the statistical exercise presented, are indicative of the possibility that the C.B.C. could through appropriate pricing policies about double the commercial revenues without increasing significantly the advertising content in terms of the number of minutes of commercials in its television broadcasting schedule.

The additional question may be raised: Would higher cost per thousand not make it difficult for the C.B.C. to sell commercial time in competition with private broadcasters?

Two factors are likely to strengthen the C.B.C.'s position in selling commercial "time".

One is, and this is the main conclusion of the study: the substantial *increase in demand* for advertising time on broadcast media will press heavily on *limited supply* and thus there are likely to be adequate opportunities over the next five to ten years for both the publicly operated network as well as private stations to sell most of the commercial time they have available. This is almost certain to be the case in prime time and is probably true to a greater extent in non-prime time than has been the case in the past.

The other factor is the possibility that the C.B.C. may decide to pursue more active sales policies such as have been recommended by the Committee on Broadcasting.⁷⁸ These could be backed up either by expanded sales efforts on the part of the Corporation, or the C.B.C. could use independent sales agencies to do some of its selling.⁷⁹ In this connection, it may be useful

⁷⁸ Specifically the Committee on Broadcasting recommended that "the C.B.C. should engage in more radical market research in relation to programs of high 'cultural' content, and should develop more positive efforts to reduce the number of programs categorized as 'available — not sold'" (*ibid.*, p. 222).

⁷⁹ There is a precedent for such an arrangement. In the 1950's, the C.B.C. employed a "rep" house to sell advertising time for one of its major

to recall the advice offered by the Royal Commission on Broadcasting : "Advertising has its place in the broadcasting pattern and when the C.B.C. is engaged in commercial activities it should do so vigorously and with the objective of earning the maximum revenue from these activities."⁸⁰

FRENCH LANGUAGE AND ENGLISH LANGUAGE STATIONS PROJECTIONS OF BROADCAST ADVERTISING EXPENDITURES TO 1975.

In Chapter 3, two points were brought out in examining the growth of advertising revenues received by private French and English language radio and television stations. One was that commercial revenues received by French language stations in recent years have expanded more rapidly than those received by English language stations. The other was that about 20 per cent of total advertising expenditures going to the private broadcasting sector went to French language stations.

In establishing what proportions of broadcast advertising revenues projected for 1970 and 1975 might go to French language stations and what proportion to English language stations, two assumptions have been made.

One assumption is that private French language stations would continue to represent 20 per cent of the total. The other is the possibility that this proportion may rise slowly in line with recent experience to 21 per cent by 1970 and 22 per cent by 1975.⁸¹

To simplify the presentation of the split of broadcast advertising expenditures, the above ratios are applied only to Alternatives 1 and 2, Assumption B, as per Table 6-5. The results are presented below and they cover a possible division of broadcast advertising revenues as between private French language and English language broadcasting stations.

radio stations where it wished to make this station more successful commercially.

⁸⁰ *Report of the Royal Commission on Broadcasting, op. cit.*, pp. 174 and 175.

⁸¹ The increase of broadcast advertising expenditure received by French language stations rose from 18.4 per cent of total broadcast advertising expenditures in 1961 to 19.8 per cent in 1963 (data from *Report of the Committee on Broadcasting, op. cit.*, pp. 387 and 389).

PROJECTIONS FOR 1970.

	Low Estimate	High Estimate
	\$ Mill.	\$ Mill.
<i>Basis of 20 Per Cent Ratio</i>		
French Language Stations	47.3	51.9
English Language Stations	189.0	207.6
Total	<u>236.3</u>	<u>259.5</u>
<i>Basis of 21 Per Cent Ratio</i>		
French Language Stations	50.7	54.6
English Language Stations	185.6	204.9
Total	<u>236.3</u>	<u>259.5</u>

PROJECTIONS FOR 1975.

<i>Basis of 20 Per Cent Ratio</i>		
French Language Stations	77.4	87.5
English Language Stations	309.6	349.8
Total	<u>387.0</u>	<u>437.3</u>
<i>Basis of 22 Per Cent Ratio</i>		
French Language Stations	85.1	96.3
English Language Stations	301.9	341.0
Total	<u>387.0</u>	<u>437.3</u>

Summarizing, possibilities exist for broadcast advertising revenues for French language stations to increase from \$26.9 million in 1965⁸² to a range between \$47.3 and \$54.6 million or between 76 per cent and 103 per cent by 1970. Commercial revenues from advertising received by English language stations may rise from \$107.7 million in 1965 to a range between \$185.6 million to \$207.6 million or between 72 per cent and 93 per cent.

Over the next decade, that is to 1975, broadcast advertising revenues may increase as follows :

French language stations — from \$26.9 million to a range between \$77.4 million and \$96.3 million or between 188 per cent and 258 per cent.

English language stations — from \$107.7 million to a range between \$301.9 million and \$349.8 million or between 180 per cent and 225 per cent.

⁸² Assuming that the close to 20 per cent ratio observed for 1963 applies in approximate terms to 1965. A preliminary estimate places total broadcast advertising revenues for that year going to private stations at \$134.6 million (see Table 6-5).

FINANCING OF FUTURE EXPANSION.

The projections of advertising expenditures presented in Table 6-5 suggest that total commercial revenues of broadcasting stations may rise :

1. During the period 1965 to 1970 from about \$160 million to a range between \$284 million and \$304 million.

2. During the period 1965 to 1975 from about \$160 million to a range between \$468 million and \$530 million.

About two-thirds of the very substantial expansion of the commercial broadcasting business may be accruing to television station operators and one-third to radio station operators. The bulk of the revenues will go to private stations. The C.B.C. is likely to receive a smaller proportion of commercial revenues, in part because of the deliberate policy of not permitting certain programs to be sponsored, and in part because the C.B.C.'s commercial rates are in many instances below those charged by private operators. There is also the possibility that the C.B.C. may not wish to pursue as aggressive a sales policy as private broadcast operators do.

Broadcasting stations in Canada will have to expand television and radio facilities and equipment extensively if they are close to double their income over the next five years and about triple it over the next ten years.

What order of capital investment may be required to finance the very substantial expansion in broadcasting facilities required to cope with the large volume of commercial business ahead? It will involve the opening of new stations, the expansion and re-equipping of existing stations, the building of new and additional transmission facilities, the introduction of the latest technological developments including colour, computerized operations, etc., equipment to participate in the expanded space satellite program operating on an international scale and involving exchanges of programs on a world-wide basis, the introduction of U.H.F. channels, first experimentally but later on a much greater scale, and many other projects required to cope with new scientific advances in the communications field lying ahead for the 1970's and beyond.

Only limited information is available of what capital expenditures might be involved. One such estimate was prepared

by the C.B.C. indicating what the Corporation considers it may require to bring radio and television operations up to desirable standards and to a high level of performance and efficiency. Such a program, according to the Corporation, would require \$185 million over the five-year period 1966 to 1970.⁸³ This total consists of capital requirements for television of \$74 million, radio, \$15 million, and consolidation of facilities, \$95 million.

The Committee on Broadcasting, after reviewing the proposed program suggested economies and adjustments which would reduce capital expenditures required for this five-year period to \$159 million.⁸⁴

No comparable figures are available of expenditure plans contemplated by private broadcasters. But some guidelines as to the relative importance of capital expenditures by private stations and the C.B.C. are available covering the period 1960 to 1965. As was indicated in Chapter 3, during these six years the C.B.C. spent on buildings and equipment (that is excluding land purchases and other capital items) \$45 million while private stations put up about \$61 million. But the last six years were years when private operators expanded more rapidly than the C.B.C. chiefly because a number of second television stations, privately owned, came into operation in Canada's major cities.

Hence, a case can be made for private capital expenditures over the next five years to increase at a lesser rate than those proposed by the C.B.C. for the publicly operated broadcasting system. But then, the privately owned system is likely to grow more rapidly over the next decade than C.B.C. operations, mainly in response to strong demand forces for more air time from advertisers assuming that government policies permit market forces to have their full impact within the framework of government regulations presently being evolved.

In 1965, the private and the public sector were roughly equivalent in size. The private operators are estimated to have obtained about \$129 million in commercial revenues (see Table

⁸³ Some of the projects proposed by the C.B.C. would be completed after 1970 so that the above figure requires a downward adjustment if expenditures relate to the period 1966 to 1970. Such adjustments were made in the estimates presented by the Committee on Broadcasting (*ibid.*, p. 305).

⁸⁴ *Ibid.*, p. 307.

6-5). Operating costs of the C.B.C. for the fiscal year ending March 31st, 1965, are put at \$123 million,⁸⁵ with a total for the calendar 1965 probably somewhat higher.

By 1970 the operating costs of the C.B.C. are put at approaching \$150 million.⁸⁶ But commercial revenues for private operators may range between \$226 million and \$279 million, at least 50 per cent higher than the C.B.C.'s operating costs and possibly more than that. It may well be that the C.B.C.'s estimate of operating costs for 1970 are on the low side and the estimates of commercial revenues to be obtained by private stations operators are on the high side. But the trend appears to point to a more rapid growth in the private sector than in the public sector unless government policies influenced this trend in process.

Hence, on the basis of a possibly more rapid rate of growth of the private sector, a case could be made for anticipating that capital expenditures in this area would increase more rapidly than capital requirements foreseen for the public sector by the C.B.C. But even if capital spending by the private sector were of a similar order as appears to be indicated for the public sector, Canada faces, on the basis of the lower range of estimates, capital requirements of some \$300 million between 1966 and 1970 to finance the expansion of the broadcasting system covering both the private and the public systems. And in the subsequent five-year period, that is to 1975, in view of the tremendous scientific and technological advances being made in the communications field and the exigencies of satellite developments, capital expenditures are likely to exceed the \$300 million program of the late 1960's by a substantial margin.

Will the private sector be able to finance its share of the capital expenditures required over the next decade to enable it to handle the commercial business if it were to reach the dimensions as indicated in the projections shown in Table 6-5? The answer is : Yes — very likely.

During the period 1960 to 1965, capital expenditures by the private sector averaged over \$10 million a year. On the basis of the above estimates, the requirements may go up to as

⁸⁵ *Ibid.*, p. 288.

⁸⁶ The figure quoted is \$148 million for the fiscal year ending March 31st, 1970 (*ibid.*, p. 306).

much as \$30 million a year for the next five years.⁸⁷ But since operating income is expected to about double by 1970, with prospects for a three-fold increase by 1975, increased net earnings, additional borrowings and new equity capital are likely to combine to provide the private broadcasting industry with the funds required to meet the expanding capital needs of a rapidly growing industry. Since foreign investors are limited to holdings not exceeding 25 per cent of the equity in Canadian broadcasting stations, the bulk of capital expenditures of expanding broadcasting services in this country will come from domestic sources.

However, the sources of investment funds may change. More and more of the capital is likely to come from large investors and institutions and possibly from some individual investors if some stations went "public". Thus the broadcasting industry may be losing some of the aura of an industry that — as far as a private sector is concerned — was put on its feet by a number of experienced broadcasters and others that had a great deal of foresight but comparatively little money.

This changing pattern of financing, as far as private broadcasting is concerned, may bring new problems to the fore which have been raised recently in Canada under the heading of "concentration" — concentration of ownership of communication media, particularly joint ownership of publishing interests *and* of broadcasting stations, concentration of foreign ownership in the hands of a few large international corporations, etc. The problems that Canadians may be facing have been put in these terms :

The mass media are too influential, too powerful, and too essential to be left to a *few* people. Both for the sake of advertising competition, editorial competition, and programming competition as well as diversity of thought, we have

⁸⁷ The estimate of capital expenditures in the private broadcasting sector is based on the assumption that the sector would be expanding in terms of physical facilities at about the same rate as the public sector. It would assist greatly in assessing the validity of this assumption if a survey were undertaken of the capital expenditure requirements of private broadcasting stations and networks over the next five years. And the possibility exists that capital expenditures of both the private sector and the public sector may sky-rocket in the 1970's if the present types of involved television networks and local broadcasting stations become obsolete as a result of new advances in program transmission and reception via satellites.

no choice. Concentration of ownership of the broadcasting media is a critical question which must concern all of us.⁸⁸

This concern points to the necessity of finding ways and means which make financial and managerial participation possible in developing Canada's "mixed" broadcasting system guided by two principles : (1) to obtain the best managerial talent and adequate financial backing to enable the private sector of the broadcasting industry to fulfil both its business and its national responsibilities; and (2) to obtain the benefits of "bigness" without its disadvantages such as significant diminution of competition and lack of diversity of programming.

As far as the C.B.C. is concerned, since it plays such a vital role in the national affairs of the country, there is every expectation that after careful scrutiny by Parliament and the Government, adequate funds will be forthcoming to enable the Corporation to proceed with its necessary expansion plans to continue to provide the Canadian people with quality programs in keeping with the requirement "for a continuing self-expression of the Canadian identity".⁸⁹

The implications of the various projections of commercial revenues that may be received by Canadian broadcasting stations and networks over the next decade, contained in this study, are dealt with in the conclusions, presented in Chapter 7.

⁸⁸ Address by John MUNRO, M.P., Parliamentary Secretary to the Minister of Citizenship and Immigration, The Rotary Club of Toronto, Toronto, August 26, 1966, p. 15.

⁸⁹ Report of the Committee on Broadcasting, *op. cit.*, p. 124.

CHAPTER 7

Conclusions

FINDINGS.

The main quantitative findings of this study are :

1. Total advertising revenues of all media may rise from \$685 million in 1965 to a range between \$1,560 million and \$1,767 million by 1975.

2. Advertising revenues of both radio and television stations would rise from \$160 million in 1965 to a range between \$468 and \$530 million by 1975.

3. Advertising revenues of private broadcasting stations would rise from \$135 million in 1965 to a range between \$387 million and \$437 million by 1975, assuming that the C.B.C. maintained its share of 25 per cent of television commercial revenues and 4 per cent of radio commercial revenues. In that case the Corporation's take from the sale of broadcasting time would rise from about \$25 million (net) in 1965 to a range between \$81 million and \$93 million in 1975.¹

4. Advertising revenues of private French language broadcasting stations, both radio and television, appear to be rising more rapidly than revenues received by English language broadcasting stations. Over the period 1965 to 1975, commercial income of French language broadcasting stations may rise from \$27 million to a range between \$77 million and \$96 million. Over the same period, commercial income of English language broadcasting stations may rise from \$108 million to a range between \$302 million and \$350 million.

¹ The 25 per cent and 4 per cent respective shares are the proportions which the Committee on Broadcasting recommended for the C.B.C. to strive for. But the C.B.C. itself recommended that its commercial revenues should be frozen to \$25 million a year. In that case commercial revenues of private broadcasters would rise from \$135 million in 1965 to a range between \$443 million and \$505 million by 1975. If, on the other hand, the C.B.C. should reach 30 per cent of total commercial revenues becoming available in 1975, considered desirable by the Committee on Broadcasting, but not recommended, its commercial revenues would rise from \$25 million to a range between \$99 million and \$112 million by 1975, with revenues of private stations rising from \$135 million in 1965 to a range between \$369 million and \$417 million.

5. Advertising revenues of television stations including networks would rise from \$91 million in 1965 to a range between \$296 million and \$335 million by 1975.

6. Advertising revenues received by radio stations in Canada would rise from \$69 million in 1965 to a range between \$172 million and \$195 million by 1975.

7. Advertising revenues of "other" media including newspapers, magazines, periodicals, etc., would rise from about \$525 million in 1965 to a range between \$1,093 million and \$1,237 million by 1975.

8. In terms of radio advertising, the share of total advertising expenditures, about 10 per cent, is of the same order in Canada as it is in the United States. But in terms of television advertising, Canada is running about *five years behind* the United States in relative terms : Canada — 1965 ratio, 13.3 per cent; United States — 1960 ratio, 13.3 per cent; Canada — 1970 ratio, 16 per cent; United States — 1965 ratio, 16 per cent. Canada is likely to continue to be about five years behind the United States in relative terms as far as television advertising is concerned for the foreseeable future though there exists the possibility for some moderate closing in the gap in view of the more rapid growth of the Canadian economy as compared with the United States economy over the next decade.

9. Canadians spend on advertising about 1½ cents out of every dollar of goods and services sold in this country; Americans spend 2¼ cents. That gap has persisted for many years, and any progress made over the next ten years in narrowing this differential is likely to be moderate. There are many economic, human, and cultural factors explaining the differences that exist and these are likely to continue to affect the pattern of advertising spending between the two countries.

PROBLEMS.

What are some of the key problems facing the various sectors of the Canadian economy as they relate to matching *supply* of, and *demand* for broadcast advertising services in this country in the future ?

1. The key problem facing the broadcasting industry as a whole is how to expand the supply of air time to meet the

tremendous growth of demand for broadcasting commercials coming from business, governments and other non-profit institutions in Canada. While private broadcasters, like all business motivated enterprises, can be counted upon to do all they can to meet growing demand, special considerations apply to the expansion of commercial activities on the part of the C.B.C.

2. The key problem facing the C.B.C., in the commercial area, is how to meet the growing demand for expanded and improved program services within a budgetary framework that requires it to rely at least in part on commercial revenues to finance its operations. The basic problem is not so much the principle of obtaining some revenue from the sale of advertising time and programs but the extent to which reliance on such revenues should be placed. For there is a point at which "too much" time devoted to commercials would infringe on the ability of the C.B.C. to serve fully and effectively the national objectives of a broadcasting service in Canada.

3. The key problem facing business is how to formulate advertising plans which will make it possible to use effectively expanding advertising budgets becoming available to market in Canada goods and services which are expected to increase in value terms from close to \$52 billion in 1965 up to \$112 billion in 1975.

4. The key problem facing the specialized occupations who advise both advertisers and the broadcasting industry in selecting and selling time on broadcast media and that includes advertising agencies, audience ratings survey firms, and "rep" houses, is how to advise both the sellers and buyers of advertising services about improving the quality of programs and commercials and how to achieve a maximum impact on consumers. To realize this objective, more is needed than persuading people to tune in to a program and to be counted in rating surveys. What is needed is to ensure that people actually listen to or view such programs including the commercials inserted.

5. The key problem facing the Government of Canada is to formulate policies which are designed, within the framework of a "mixed" system, relying in part for its existence and growth on commercial revenues, to strengthen the Canadian broadcasting system as a whole. The primary task is to realize the

national objective of providing a "varied and comprehensive broadcasting service [...] basically Canadian in content and character", setting out broad guide-lines and procedures to be followed both by the publicly owned C.B.C. and by private broadcasters, not only to inform, educate and amuse Canadians, and to advertise the sale of goods and services to them, but also to "awaken Canadians to Canadian realities".²

TASK AHEAD.

This study is concerned with the growth of broadcast advertising expenditures in Canada, past and future. Thus it is beyond the terms of reference of this report to deal with measures that can be taken to cope with problems of strengthening the Canadian broadcasting system and to assist it to serve national objectives. This, in fact, has been the main task of the Committee on Broadcasting which submitted its report to the Honourable Maurice Lamontagne, Secretary of State, Government of Canada, on September 1st, 1965. And beyond this, the Canadian Government is in the process of developing a set of policies which may lead to a clarification of objectives, methods of financing, and regulatory arrangements, incorporated in legislative changes, proposed to Parliament. Parliament in turn will be considering at length, in committees and in both Houses, the operations of the Canadian broadcasting system and what could be done to facilitate its effective operations and serving broadly the national interest.

This study, therefore, confines its concluding observations to the limited subject of its inquiry and that is: Given the substantial growth in demand for broadcast advertising services and the limitations in the supply of such services, both within the system as it now exists and as it may be modified in the future, what are some of the things that can be done,

1. to make more effective use of the limited supply of broadcast advertising time,
2. to improve the quality of commercial messages and of the program framework to attract greater audiences, and
3. to increase the impact of commercial messages on consumers.

² *Report of the Committee on Broadcasting, op. cit., p. 17.*

In essence, the task is : how to increase the *productivity* and the *productiveness* of the Canadian broadcasting system as it relates to the commercial part of its operations. Productivity refers to increasing the output of broadcast advertising products with a lessened input. Productiveness refers to the results that business can obtain from using broadcasting as the medium to communicate advertising messages to the public.

First, a comment about the approach. Broadcasting is an unique and complex medium. It has characteristics that differ from any other commercial medium and its impact varies from audience to audience, from product to product, from region to region, and from time to time. It has a mass appeal, unmatched by any other medium of communication in the history of civilization. But broadcasting must be used with discretion and feel if it is to produce maximum commercial results. For the latter must not interfere in the system fulfilling its broader objectives — of a prime medium of communication of Canadians, by Canadians, and for Canadians.

There is this further point. No broadcasting system is perfect and the Canadian system is no exception. Improvements of the system come with the passage of time, clear thinking, purposeful direction, advance planning, and continuing efforts. Broad guide-lines and policy measures, developed by Parliament and Government, will establish the framework within which the Canadian broadcasting industry can develop and thrive, and fulfil its national obligations of using responsibly a public asset, the airwaves, entrusted to it.

But the results achieved will depend largely on the manner in which such policies and guide-lines are implemented by Government authorities, and the manner in which the broadcasting industry together with business generally respond to the challenges of tomorrow. A case can therefore be made for the need for wise, flexible, and purposeful administration by government authorities, and for farsighted responsible and decisive action on the part of private industry.

In the broadcasting field, more than any other area of business activity, management must concern itself with the public interest. The profit motive may be the main incentive on the part of the private broadcaster to be in this business.

But unless it is blended with a high regard for the national purposes of broadcasting, Canada's "mixed" system which aims at bringing to the people of this country the best that private and public enterprise can produce in radio and television, will wither away.

Both private broadcasters and the C.B.C. face major tasks of overhauling their management systems to achieve their main objectives : greater productivity in using air time, improved quality of advertising product, and better program content. There is need to apply modern management concepts to achieve these objectives through a closer relationship between the management team and the end product.

To be effective, whatever actions are taken by government authorities and private industry, should be directed to where they will do the most good, and such actions should be mutually consistent. For example, if private broadcasting stations are to be encouraged to improve their programming during day hours, this will raise their cost of operation. Little practical purpose would thus be served to reduce broadcast advertising time for entertainment broadcasting including commercials during daytime. Another example would be the inclusion of a number of smaller television stations in a network operation. Such stations have limited access to national advertising because of the size of their markets. They could thus obtain access to a substantial source of potential commercial revenues, because of the "must buy" provisions of "time" bought from the network. Such a development would strengthen the viability of smaller television stations across Canada, as well as achieve the objective of having two truly national television networks operating in Canada. As in other areas of regional economic development in Canada, the saying that a chain is as strong as its weakest link, has also particular application in the broadcasting field.

There is also the need for the broadcasting industry to observe not just the letter of the law or to comply with the wording of broadcast regulations, but to act in accordance with the full intent and true spirit of the provisions. For example, in meeting the requirements of the 55 per cent Canadian content per broadcasting day, it is not enough to fill the time required by any type of program, without regard to its quality and public appeal. Programs must serve a constructive purpose.

There is the further need to use the medium to provide increasing opportunities for Canadian creative talent to express Canadian ideas, and to inform, educate and amuse Canadian audiences. It is true that in developing Canadian content, the requirements of economic necessity and financial limitations cannot be overlooked and such considerations apply both to the C.B.C. and private broadcasters.

But broadcasters themselves would be among the first to admit that a more effective job can be done. And as this study shows, it will be possible to pay for such improved broadcasting services from the considerable increase in commercial revenues that can be expected to be generated in the next decade.

GUIDE-LINES.

Now, what are some of the things that can be done to increase both the productivity and productiveness of the commercial part of the broadcasting system in Canada? There is no simple or single answer to this question. The areas of problems faced and the choices of remedies possible are numerous.

The first task then is to delineate clearly the areas of problems and to establish alternative policy actions to deal with the problems. The Committee on Broadcasting has tackled this task on a comprehensive plane, as has been done before by several Royal Commissions and a number of Parliamentary Committees. The Government of Canada has done so, as indicated in numerous policy announcements from time to time. The Board of Broadcast Governors has done so, as it struggled valiantly to administer fairly and flexibly the requirements as set out in the Broadcasting Act of 1958. The C.B.C. has done so in presenting to Parliament, to the Government, to the Committee on Broadcasting, and to the public generally, an accounting of what it has achieved, of what it plans to do in the future, and how it proposes to proceed, subject to approval by Parliament, in developing broadcasting services serving Canada's best national interests. Private broadcasters have done so, either singly or in groups, either on their own or aided by their advisers, in presenting their case and suggestions for remedies.

Little would be gained in going over all this ground and adding further comments. There has already been more verbiage, either written or spoken, and heat generated in Canada in recent years than on any other domestic issue, bilingualism and biculturalism excepted, and this issue cuts across broadcasting in more than one way.

A few general observations may be helpful and serve as guide-lines for further consideration by policy makers, administrators, and broadcast operators alike. They are presented under five headings :

1. Supply and Demand.
2. Planning.
3. Measurement.
4. Research.
5. Cooperation.

1. SUPPLY AND DEMAND.

In formulating policy action and working out administrative arrangements, and in making business decisions affecting broadcasting, there is need to relate the existing and the future *demand* for broadcasting services to the existing and future *supply* of such services.

The essential message, and in fact, the first sentence of the Report of the Committee on Broadcasting is : "The only thing that really matters in broadcasting is program content; all the rest is housekeeping."³ Demand for broadcasting services in Canada encompasses a distinctly broader area than this statement implies.

The public wants programs and the advertiser wants to use broadcasting as a vehicle to communicate commercial messages to the public. Hence, there is demand for program and advertising product. In the Canadian "mixed" system of private and public ownership, the two aspects of the demand picture of broadcasting services will remain inextricably intertwined.

³ *Report of the Committee on Broadcasting, op. cit., p. 3.*

To plan ahead and to deal effectively with problems faced by the broadcasting industry, account must be taken of both sides of the coin — the *demand* and the *supply* side. For the two sides are an integral part of the system. One cannot be resolved without the other.

The greatest concentration of thought and debate in Canada has, in the past, been placed on the supply of broadcasting services. There is now need for greater balance in considering the supply *and* the demand side of the type of broadcasting services which Canadians really want and can afford.

One of the conclusions that a supply-demand analysis of future broadcasting services may point to, may be the need to consider another national television network, presumably privately owned, to provide adequate outlets to meet the growing demand for advertising time on Canadian T.V. Thus, within the next ten years, there may be the need to operate in Canada three national television networks broadcasting in the English language (one public and two private)⁴ and two in the French language (one public and one private).

2. PLANNING.

The broadcasting industry is an important sector of the Canadian economy. It influences not only the thoughts and the attitudes of Canadians, representing as it does one of the most effective media of communicating ideas and impressions; it also provides directly or indirectly jobs and incomes to many thousands of Canadians.

The broadcasting industry spends many millions of dollars a year on new equipment, installations, buildings, etc. As significant as such capital expenditures have been in the past, the prospects are that they may triple over the next decade. Thus the industry has made in the past and will continue to make in the future an even greater contribution to the economic growth in Canada.

Like other industries, the Canadian broadcasting industry has a responsibility to pursue its growth objectives in a manner

⁴ There are presently efforts under way in the United States to establish a fourth television network, to become operative in 1967, based on a combination of U.H.F. stations and some V.H.F. independent stations.

that will contribute to a sustained and balanced economic expansion of the country. This involves planning ahead — to formulate expansion programs which will bring about increases in capacity, improvement in quality of services and greater productivity.

The Economic Council of Canada has set economic goals for the Canadian economy as a whole for 1970 in terms of the nation's output and the number of jobs required to make "full" use of the country's growing economic potential. These goals have been offered as a guide to Government, business, labour, and the public generally to assist it in visualizing the dimensions of the economic challenges facing the nation over the next five years. But such goals are not likely to be achieved unless there is a concerted effort on the part of all sectors in the economy to strive for their realization.

In planning its own expansion, and in raising productivity and quality of service, the broadcasting industry will be serving the broader national objectives of continuing economic growth of the type which will most effectively enhance Canadian welfare and serve Canadian aspirations. Beyond it, adequate planning undertaken in cooperation with the users of broadcast advertising services will assist business generally to realize their growth objectives. For, as this study has shown, Canadians appear to be facing the challenge to market more than double the \$52 billion worth of goods and services sold in this country in 1965, within the next decade. And doubling of sales, or even better than doubling as may be necessary to make full use of Canada's expanding capacity, is a task, as every businessman only too well knows, that cannot be achieved without great effort and continuing perseverance.

Advertising on broadcast media, particularly on television, has proven to be the single most effective means of creating buying impulses on the part of consumers. The more effective broadcasting becomes as an advertising medium, the greater would be its usefulness to business generally to sell the substantially increased volume of goods and services industry will be able to produce in Canada a decade hence.

Planning will assist the broadcasting industry itself to do a better job, to serve the public better through improved programming, to serve the advertiser better through increasing the

consumer impact of his commercial messages, and to serve the national interest better by providing a “varied and comprehensive broadcasting service [...] basically Canadian in content and character”.

3. MEASUREMENT.

There do not exist in Canada comprehensive and fully comparable statistics covering broadcast advertising including commercial operations.⁵ The Committee on Broadcasting has emphasized strongly the need for better, more integrated and timely statistics on broadcasting in Canada.⁶

With the pressing demand for current and comparable statistics on broadcasting, such statistics are likely to be forthcoming sooner or later from official sources, with the Dominion Bureau of Statistics being in the best position to provide such services since this agency already publishes such data, usually about two years after the event. Presumably such improvement in statistical collection will be developed in cooperation with the various parties involved, and that includes broadcasters, advertisers, and government authorities concerned with broadcasting affairs in Canada.

Apart from the collection of official broadcasting statistics there is a need to improve the type, quality and coverage of audience studies undertaken by independent and industry supported private survey firms. These improvements may take many different forms from redesigning the statistical samples on which these surveys are based, to rephrasing the questions asked and developing better techniques of measurements in keeping with the progress made in the computer era. The former may increase the accuracy of reporting and the latter may produce more meaningful results for advertisers. Entirely new surveys may be developed such as measuring the impact on specialized groups of potential consumers so that advertisers in the future can more effectively devise their advertising messages to audiences which would respond favourably. Another area that holds great promise in assessing the effects of television is through “controlled” experiments. Proposals for such

⁵ This point is elaborated in Appendix A.

⁶ *Ibid.*, p. 335.

investigations have been advanced by Messrs. Goodman, Towers and Zeisel.⁷

A good deal of work needs to be done also in the area of pre-testing programs and advertising messages to achieve better integration of commercials, to improve selling techniques and to enhance consumer acceptance.

Still another type of new survey may involve measurement of audiences which listen to programs and commercials brought to them via cable television, particularly as and when such operations become more widespread in Canada and demand for such services justify their undertaking.

4. RESEARCH.

Measurement alone, as sophisticated as it may be, does not fully answer the questions occupying broadcasters and advertisers alike. Why is one commercial more effective than another? Why does one program appeal to people more than another? Who listens or views what program and why? How do people react to certain commercials and what are the concrete results? What is the public attitude towards the increasing volume of advertising and at what stage does advertising approach a saturation point? What special groups are interested in special products and how can these special groups best be reached in terms of exposure and costs?

To these questions, many others could be added. But they may suffice to suggest that there is a great need for research and analysis, both quantitative *and* qualitative, to establish in a more meaningful and realistic manner what the economic, social, and human implications of broadcasting are and how they affect the Canadian public — the audience that enjoys

⁷ "To assess reliably the effects of television and to measure accurately their magnitude, controlled experiments are necessary... Such 'controlled' experiments aim at measuring the sales effect of an advertiser's message injected into a broadcast programme or series... It is not enough to say that sales have increased since a company began to sponsor the particular show, because there may be other factors in the marketing picture that may have caused the increase (e.g., new packaging, new pricing, a programme of distributing samples of the product, local advertising, etc.). The question is how much was contributed by this specific promotional effort, by this particular show or series of shows" (Leo GOODMAN, Irwin TOWERS and Hans ZEISEL, "A Technique For Assessing The Effects Of Television Through Controlled Field Experiments", in *Stimulus*, Toronto, May/June, 1966, pp. 56 and 59).

the programs and the consumers whose purchasing decisions are influenced by broadcasting commercials.

Such research is both a private and public responsibility. The need for it has been emphasized repeatedly in reports of Royal Commissions and other public bodies.⁸ But so far, little has been done. Like research in every other field, there is need for competent staff, adequate financial resources and the will to carry out such research on a continuing basis.

Research, however, has much broader ramifications than just program and advertising research. There is the area of supply and demand analysis that requires considerably greater attention in the future than it has received in the past. Royal Commissions, parliamentary and special committees and government agencies have over the last four decades explored in depth many aspects of the supply side of providing broadcast advertising services to Canadians. But comparatively little attention has been given to the changing, and in fact, growing demand for such services. There is the further need to explore more fully and more effectively the impact of the Canadian broadcasting system on the economy as a whole and the individual, covering social, psychological and human relationships and responses of the individual to the broadcasting medium.

Research in the broadcasting field is likely to be particularly fruitful if it is the result of both private and public initiative and support. For the Canadian system is a "mixed" system, and Government authorities and business alike have a common interest in seeing that the system does well.

Research is costly. It is also essential. But to delay research will cost the nation even more in terms of inadequate decisions formulated, without the required knowledge of where the Canadian broadcasting system is going and what it must accomplish. Hence the need to undertake research is — *now*.

Increased knowledge as to how the system works and how it can be made more effective in the future, is likely to prove of great assistance to decision makers in the private as well as the public sectors in Canada.

⁸ The latest such recommendation is contained in the *Report of the Committee on Broadcasting* (*op. cit.*, p. 99).

5. COOPERATION.

The Committee on Broadcasting offered this comment : "Television in Canada will not achieve its full potential if the task is left to the C.B.C. alone. It must be shared by the private broadcasters as part of a coordinated Canadian broadcasting system."⁹ The same is true for radio.

But cooperation extends beyond the working towards common objectives by private and public authorities alike. It encompasses the whole spectrum of people and institutions that can contribute to making the Canadian broadcasting system a nationally more effective and economically more viable system — and that includes, besides broadcasters, the whole business community that uses broadcasting as an advertising vehicle and the people who advise it and the broadcasting industry, the advertising agencies, the "rep" houses, the pollsters, professional researchers, etc. And beyond, there is Parliament and the Government with its overriding control over the broadcasting system, setting out objectives, formulating policies and supervising the operations of the system, and the public whose daily lives are affected by what they see and hear on television and radio.

Hence, if the Canadian broadcasting industry is to achieve the rapid rate of expansion involved in a better than doubling commercial revenues over the next decade, the realization of such a target would be greatly facilitated if the concerted efforts required were the result of joint and cooperative action taken by all major groups involved — the broadcasting industry, the advertisers (and their advisors and aides), and the Government. And such cooperative efforts will require the overwhelming support of the public at large if a truly national broadcasting service is to grow and prosper in Canada.

⁹ *Ibid.*, p. 245.

CHAPITRE 7

Conclusions

CONSTATATIONS.

Les principales constatations résultant de cette étude *sur les revenus provenant de la publicité commerciale*, peuvent se résumer dans la statistique suivante :

1. De \$658 millions qu'il était en 1965, le revenu total encaissé par les organes de diffusion de toutes catégories, pourra atteindre, en 1975, un niveau se situant entre \$1.500 millions et \$1.767 millions.

2. Le revenu des postes de radio et de télévision, partant de \$160 millions en 1965, s'élèverait en 1975 à un niveau situé entre \$468 et \$530 millions.

3. En supposant que la Société Radio-Canada maintiendrait sa quote-part des revenus de publicité des organes de diffusion : soit 25% pour la télévision et 4% pour la radio, les revenus des postes privés de radio et de télévision s'élèveraient, de \$135 millions en 1965, à un niveau s'établissant entre \$387 et \$437 millions en 1975. Dans cette hypothèse, le revenu net de Radio-Canada passerait, de 25 millions en 1965, à un niveau se situant entre \$81 et \$93 millions en 1975¹.

4. Le revenu des postes privés — et de radio et de télévision — de langue française semble s'accroître plus rapidement que celui des postes privés de langue anglaise. Durant le laps de temps s'étendant de 1965 à 1975, le revenu des postes de langue française passerait de \$27 millions à un niveau situé entre \$77 et \$96 millions. Durant la même période, le revenu

¹ Le Comité de la Radiodiffusion avait recommandé que la Société Radio-Canada s'en tienne à cette quote-part de 25% et de 4%. De son côté, la Société Radio-Canada avait recommandé que ses propres revenus commerciaux soient fixés à \$25 millions par année. Dans ce cas, le revenu commercial des postes privés s'élèverait, de \$135 millions en 1965, à un niveau situé entre \$443 et \$505 millions en 1975. Si, par contre, le revenu de Radio-Canada devait atteindre 30% du revenu commercial qui pourra être disponible en 1975 — ainsi que le Comité de la Radiodiffusion le jugeait désirable, sans le recommander — il s'élèverait, de \$25 millions, jusqu'à un niveau situé entre \$99 et \$112 millions en 1975; tandis que celui des postes privés passerait de \$135 millions à un niveau situé entre \$369 et \$417 millions en 1975.

commercial des postes de langue anglaise s'élèverait de \$108 millions à un niveau s'établissant entre \$302 et \$350 millions.

5. Le revenu des postes de télévision, y compris celui des réseaux, s'élèverait, de \$91 millions en 1965, à un niveau s'établissant entre \$296 et \$335 millions en 1975.

6. Le revenu des postes canadiens de radiodiffusion s'élèverait, de \$69 millions en 1965, à un niveau situé entre \$172 et \$195 millions en 1975.

7. Le revenu des autres organes de diffusion, y compris les journaux, les revues et autres périodiques, etc., s'élèverait, de \$525 millions en 1965, à un niveau situé entre \$1.093 et \$1.237 millions en 1975.

8. La proportion du revenu total provenant des annonces publicitaires, que représente la quote-part des postes de radiodiffusion, soit 10%, est la même au Canada et aux Etats-Unis. Mais en ce qui concerne la proportion représentée par les annonces publicitaires à la télévision, le Canada est 5 ans en retard sur les Etats-Unis : au Canada en 1965, 13% ; aux Etats-Unis en 1960, 13% ; au Canada en 1970, 16% ; aux Etats-Unis en 1965, 16%. Tout indique que le Canada continuera d'être 5 ans en retard sur les Etats-Unis en ce qui concerne la proportion des revenus de la publicité commerciale dévolus à la télévision ; bien qu'il soit possible de diminuer cet écart, par suite de l'expansion rapide de l'économie canadienne comparée à celle des Etats-Unis, durant la prochaine décennie.

9. Pour vendre la valeur d'un dollar en marchandises ou en services, les Canadiens dépensent 1 cent et demi en publicité ; les Américains, 2 cents et demi. Cet écart persiste depuis plusieurs années et il semble bien que la tendance vers la diminution de cet écart doive demeurer très faible. Bien des facteurs économiques, humains et culturels expliquent cette différence, et il est probable qu'ils continueront à influencer la courbe comparée des dépenses de la publicité commerciale des deux pays.

PROBLÈMES.

Voici quelques-uns des problèmes-clefs que devra affronter l'économie canadienne quant à l'équilibre de l'offre et de la demande dans le domaine de la publicité commerciale à la radio et à la télévision.

1. Le problème-clef confrontant l'industrie canadienne des télécommunications en général consiste à trouver plus de temps disponible sur les ondes pour suffire à la demande croissante de publicité commerciale provenant des firmes d'affaires, des gouvernements et des autres institutions sans but lucratif. Tandis que les postes privés, comme toutes les autres entreprises commerciales, font tout en leur pouvoir pour satisfaire à la demande croissante, une attention spéciale doit être apportée à l'expansion des activités commerciales de la Société Radio-Canada.

2. Le problème crucial de la Société Radio-Canada, dans le domaine commercial, est de répondre à la demande croissante de programmes meilleurs et plus nombreux, tout en demeurant dans les limites d'un budget qui suppose qu'au moins une partie des dépenses soient défrayées par les revenus provenant des annonces commerciales. Le problème fondamental ne consiste pas tant à déterminer si on doit rechercher ces revenus provenant de la vente des programmes et du temps réservé aux annonces publicitaires, mais plutôt à savoir jusqu'à quel point on doit compter sur ces revenus. Car on pourrait atteindre un point de saturation où la « trop grande abondance » de temps consacré aux annonces commerciales empêcherait la Société Radio-Canada de remplir pleinement et efficacement le rôle qui lui est dévolu : servir la nation canadienne dans le domaine de la radio et de la télévision.

3. Le problème-clef auquel doit faire face le monde des affaires réside dans l'élaboration d'un plan qui permettra d'utiliser efficacement les budgets de publicité sans cesse croissants, budgets disponibles pour lancer des produits sur le marché canadien et y offrir des services qui ensemble atteindront probablement en 1975 une valeur de \$112 milliards, alors qu'ils ne valaient que \$52 milliards en 1965.

4. Le principal problème des spécialistes qui conseillent à la fois les annonceurs et l'industrie de la radiodiffusion dans le choix et la vente de la publicité sur les ondes — et ceci comprend les agences de publicité, les firmes d'enquêtes sur les barèmes d'auditoires et les « maisons de représentation » — consiste à savoir comment conseiller ceux-ci sur la façon d'améliorer la qualité des émissions et des annonces publicitaires pour obtenir le maximum d'influence sur le consommateur. Afin d'atteindre cet objectif, il ne suffit pas de persuader les gens de syntoniser leurs appareils sur une émission donnée et de faire

nombre lors d'une enquête sur la popularité de cette émission; il faut viser à amener les gens à écouter ou à regarder telle ou telle émission y compris les annonces publicitaires qui l'accompagnent.

5. Le problème fondamental que le gouvernement canadien doit résoudre, c'est d'élaborer une politique propre à renforcer l'ensemble des réseaux canadiens de radiodiffusion, système « mixte » qui dépend, en partie, pour vivre et croître, des revenus commerciaux. Il doit se donner comme premier objectif à atteindre, au plan national, de fournir « les services de radiodiffusion variés et complets [...] dont le contenu et la physionomie soient bien canadiens ». A cette fin, il lui faut tracer une ligne de conduite souple et un ensemble de règles qui devront être suivies et par la Société Radio-Canada et par les postes privés de radiodiffusion, afin non seulement de renseigner, d'éduquer et de distraire les Canadiens et de les amener à acheter telle marchandise ou à se prévaloir de tel service, mais aussi « d'attirer l'attention des Canadiens sur tout ce qui est canadien ² ».

TÂCHES À VENIR.

Cette étude porte sur l'augmentation, passée et future, des sommes affectées à la publicité sur les ondes. Par conséquent, ce rapport n'a pas pour but de s'attaquer aux moyens de consolider le système canadien de radiodiffusion, ni de lui aider dans sa tâche au service de la nation. Ces problèmes ont été étudiés par le Comité de la Radiodiffusion, qui a présenté son rapport, le 1^{er} septembre 1965, à l'honorable Maurice Lamontagne, secrétaire d'Etat dans le Cabinet fédéral. De plus, le gouvernement canadien est en train de préparer un ensemble de lignes de conduite qui pourront déterminer et préciser les fins à atteindre, les méthodes de financement, les dispositions statutaires à observer, et qui seront incorporées dans les textes législatifs soumis à l'approbation du Parlement. En temps opportun, le Parlement étudiera en détail, en comités et dans les deux Chambres, le fonctionnement du système canadien de radiodiffusion et les moyens à prendre pour accroître son efficacité au service des meilleurs intérêts de la nation.

Par conséquent, la présente étude limite ses conclusions à l'objet restreint de son enquête: étant donné, d'une part,

² *Rapport* du Comité de la Radiodiffusion, *op. cit.*, p. 17.

l'accroissement considérable de la demande de services publicitaires sur les ondes et, d'autre part, les possibilités limitées de répondre à cette demande, non seulement dans l'état présent du système de radiodiffusion, mais même en tenant compte de ses améliorations futures, quelles mesures doit-on prendre

1° pour utiliser de la façon la plus efficace possible les périodes de temps limitées mises à la disposition de la publicité sur les ondes;

2° pour améliorer la qualité des émissions afin d'attirer un plus grand nombre d'auditeurs ou de téléspectateurs;

3° pour rendre plus intéressantes les annonces publicitaires et accroître ainsi leur influence sur les consommateurs ?

En un mot, il s'agit d'augmenter la productivité et le rendement du système canadien de radiodiffusion quant à l'aspect commercial de ses opérations.

Par *productivité*, nous entendons une augmentation de sa production d'annonces publicitaires tout en diminuant le temps réservé à cette fin; le *rendement* se rapporte aux résultats que les firmes commerciales peuvent obtenir par l'utilisation de la radiodiffusion comme moyen de transmettre des messages publicitaires aux consommateurs.

Tout d'abord, une brève observation sur le point de vue adopté. La radiodiffusion est un médium unique et complexe. Ses caractéristiques sont bien différentes de celles des autres organismes de publicité. Son influence varie selon les auditoires, les produits annoncés, les régions atteintes et l'heure de la journée, le jour de la semaine ou la période de l'année. Elle exerce une attraction sur la masse, jamais égalée par aucun autre moyen de communication dans l'histoire de la civilisation. Mais elle doit être utilisée avec une grande discrétion et un fin discernement si l'on veut en obtenir le maximum de rendement commercial. En effet, cet aspect commercial ne doit pas empêcher la radiodiffusion de remplir sa plus importante fonction de principal moyen de communication entre les Canadiens, par les Canadiens et pour les Canadiens.

De plus, il ne faut pas oublier qu'aucun système de radiodiffusion n'est parfait et le système canadien ne fait pas exception à la règle. Il peut être amélioré avec le temps par la réflexion aboutissant à une conception claire et à une planifi-

cation prévoyante, et moyennant des efforts soutenus. Des lignes de conduites souples et une réglementation de la politique à suivre, élaborées par le Parlement et les organismes gouvernementaux, détermineront les cadres à l'intérieur desquels l'industrie de la radiodiffusion pourra se développer, progresser et remplir sa mission à l'égard de la nation : utiliser une ressource nationale — les ondes — qui lui est confiée.

Cependant, les résultats obtenus dépendront en grande partie de la façon dont les autorités gouvernementales traceront les lignes de conduite et la politique à suivre, ainsi que de la manière dont l'industrie de la radiodiffusion et le monde des affaires en général relèveront le défi de l'avenir. Il faut donc insister sur le besoin urgent d'une administration gouvernementale sage, souple et bien orientée, en même temps que d'une action prévoyante, responsable et ferme de la part de l'industrie privée.

Dans le champ de la radiodiffusion, plus que dans tout autre domaine de l'activité commerciale, les administrateurs doivent se préoccuper de l'intérêt public. Le profit à retirer peut être le motif principal incitant le propriétaire d'un poste privé à se lancer dans ce genre de commerce. Mais à moins que ce motif ne soit accompagné d'une sérieuse considération des objectifs nationaux visés par le système « mixte » de la radiodiffusion canadienne : fournir à la population de ce pays ce que l'entreprise privée ou publique peut produire de meilleur dans le domaine de la radio et de la télévision, ce système va déperir.

La tâche la plus importante à laquelle la Société Radio-Canada et les postes privés doivent faire face, consiste à réorganiser leurs services administratifs de façon à pouvoir atteindre leurs principaux objectifs : une plus grande productivité dans l'utilisation du temps sur les ondes, une meilleure qualité de l'annonce publicitaire et une amélioration du contenu des programmes. Il est nécessaire d'appliquer les méthodes modernes d'administration afin d'atteindre ces fins par une plus juste proportion entre le rouage administratif et le produit final obtenu.

Pour être efficaces, toutes les mesures prises, soit par les autorités gouvernementales, soit par l'industrie privée, devront être orientées là où elles produiront le plus de fruit. De plus, ces mesures devront être en harmonie les unes avec les autres.

Par exemple: si l'on encourage les postes privés de radiodiffusion à améliorer leurs programmes diurnes, leur coût d'exploitation va nécessairement augmenter. Il ne serait pas logique, alors, de réduire la longueur des périodes accordées durant le jour à la radiodiffusion récréative, y compris les annonces publicitaires. Autre exemple: l'incorporation dans un réseau, de plusieurs petits postes de télévision qui, à cause de l'exiguïté de leur marché, peuvent difficilement avoir accès à la publicité commerciale sur le plan national, permettrait à ces postes de profiter d'une source appréciable de revenus, par suite des contrats de publicité achetés du réseau. Une telle conjoncture apporterait une certaine sécurité aux petits postes de télévision à travers le Canada, tout en assurant l'existence de deux réseaux de télévision vraiment nationaux. De même que dans les autres domaines du progrès économique au Canada, l'adage voulant qu'une chaîne n'ait que la force de son plus faible chaînon s'applique à la radiodiffusion.

Il est également nécessaire que l'industrie de la radiodiffusion ne se contente que d'observer la lettre de la loi en s'en tenant au texte des règlements concernant la radiodiffusion, mais qu'elle agisse en conformité avec l'intention et l'esprit de ces règlements. Par exemple, pour satisfaire aux exigences de la loi stipulant que 55% du contenu quotidien des programmes doit être de provenance canadienne, il ne suffit pas de remplir le temps requis par un programme donné, sans tenir compte de sa qualité ni de son attrait pour la population. Les programmes doivent apporter quelque chose de constructif.

Il est aussi nécessaire d'utiliser ce médium pour fournir aux talents créateurs canadiens des occasions de plus en plus nombreuses d'exprimer des idées et des conceptions canadiennes, de renseigner, d'éduquer et de récréer les auditoires canadiens. Il ne faut pas oublier, cependant, tout en développant le potentiel canadien, les exigences économiques et les ressources financières limitées; et ceci s'applique aussi bien à la Société Radio-Canada qu'aux postes privés de radiodiffusion.

Les dirigeants de la radiodiffusion eux-mêmes seront les premiers à admettre que l'on pourrait faire beaucoup mieux. Et comme cette étude le démontre bien, l'accroissement considérable des revenus commerciaux que l'on peut espérer durant la prochaine décennie, permettra de défrayer le coût d'une telle amélioration des services de radiodiffusion.

LIGNES DE CONDUITE.

Que peut-on faire pour accroître, au Canada, la productivité et l'efficacité de la publicité commerciale sur les ondes ? Il n'existe pas de solution simple, ni unique. Les difficultés touchent à des domaines nombreux et le choix des remèdes est complexe.

La première tâche qui s'impose consiste à délimiter clairement les domaines qui présentent des problèmes et à établir un choix de plans d'attaque de ces problèmes. Le Comité de la Radiodiffusion s'est appliqué à cette tâche d'un point de vue d'ensemble, ainsi que l'avaient déjà fait plusieurs commissions royales et un certain nombre de comités parlementaires. Telle fut la politique du gouvernement du Canada, comme l'indiquent de nombreuses déclarations énoncées à différentes époques. Telle fut également le souci constant du Bureau des Gouverneurs de la Société Radio-Canada dans ses courageux efforts pour faire respecter, d'une façon équitable et souple, les exigences déterminées par l'Acte de la Radiodiffusion de 1958. Ce fut également la ligne de conduite de la Société Radio-Canada dans sa présentation au Parlement, au gouvernement du Canada, au Comité de la Radiodiffusion et à la population en général, un compte rendu de ses réalisations, de ses plans d'avenir et des moyens qu'elle se propose de prendre — sujets à l'approbation du Parlement — pour développer ses services de radiodiffusion dans le meilleur intérêt du Canada. Ce fut enfin la façon d'agir des postes privés, soit individuellement ou en groupes, soit de leur propre initiative ou sur le conseil de leurs aviseurs, dans la présentation de leurs difficultés et dans la suggestion des remèdes à y apporter.

Il n'y aurait guère d'avantages à revenir sur ce sujet et à y ajouter des commentaires. Au cours des dernières années, plus de paroles ont été prononcées ou écrites au Canada sur cette question que sur toute autre, plus de passions ont été soulevées que par tout autre sujet d'intérêt national, le bilinguisme et le biculturalisme exceptés, lesquels intéressent la radiodiffusion sur plus d'un aspect.

Quelques remarques générales pourront être utiles et servir de lignes de conduite à de plus amples études de la part des responsables de la politique à suivre, des administrateurs et des

propriétaires de postes de radiodiffusion. Elles se résument sous cinq chefs:

- 1° l'offre et la demande;
- 2° la planification;
- 3° la statistique;
- 4° la recherche;
- 5° la coopération.

1. *L'offre et la demande.* — Dans l'élaboration de la politique à suivre, dans l'adoption des mesures administratives et dans les délibérations sur des questions d'affaires touchant la radiodiffusion, il est nécessaire de mettre en relations *la demande*, actuelle et future, et *l'offre*, actuelle et future, dans ce domaine.

Le principal enseignement — contenu en fait dans la phrase initiale — du *Rapport* du Comité de la Radiodiffusion, s'énonce ainsi: « La seule chose qui compte vraiment dans la radiodiffusion est le contenu des programmes; tout le reste, c'est du travail de cuisine ³. » La demande des services de radiodiffusion au Canada embrasse un domaine quelque peu plus étendu que cette déclaration ne le laisse entendre.

La population désire des programmes et l'annonceur veut utiliser les ondes comme moyen de transmettre à la population des messages commerciaux. Il y a donc demande à *la fois* de programmes et de production publicitaire. Aussi longtemps que le Canada sera doté d'un système « mixte » constitué de postes privés et de postes d'Etat, ces deux aspects du panorama de la demande de services de radiodiffusion demeureront inextricablement entrelacés.

Afin de faire des plans à l'avance et de résoudre efficacement les problèmes auxquels l'industrie de la radiodiffusion a à faire face, on doit tenir compte des deux côtés de la médaille: l'offre et la demande; car les deux font partie intégrante du système. Les problèmes de l'un ne peuvent être résolus sans tenir compte de ceux de l'autre.

Par le passé, on s'est surtout attaché à étudier et à discuter les problèmes de l'offre de services de radiodiffusion. Il est

³ *Rapport* du Comité de la Radiodiffusion, *op. cit.*, p. 3.

maintenant nécessaire de mettre plus d'équilibre dans la façon d'envisager l'avenir de la radio et de la télévision au Canada: dans l'étude des genres de services de radiodiffusion que les Canadiens désirent vraiment et qu'ils peuvent se payer, il faut considérer *à la fois* les deux aspects de l'offre et de la demande.

Une analyse de l'offre et de la demande de services de radiodiffusion dans l'avenir peut aboutir à cette conclusion : il serait nécessaire d'envisager l'organisation d'un autre réseau national de télévision, de préférence privé, afin de satisfaire à la demande croissante d'annonces commerciales à la télévision canadienne. Ainsi, dans les dix prochaines années, il pourrait devenir nécessaire, d'avoir trois réseaux nationaux de radiodiffusion en langue anglaise (un réseau d'Etat et deux réseaux privés ⁴) et deux en langue française (un réseau d'Etat et un réseau privé).

2. *La planification.* — L'industrie de la radiodiffusion constitue un secteur important de l'économie canadienne. Non seulement elle exerce une influence sur les idées et les attitudes des Canadiens, car elle est un des plus puissants moyens de transmettre les idées et les impressions, mais elle procure, directement ou indirectement, des emplois et des revenus à plusieurs milliers de Canadiens.

L'industrie de la radiodiffusion dépense chaque année plusieurs millions de dollars en équipement, en installations, en constructions, etc. Aussi importantes qu'aient pu être, par le passé, ces dépenses en immobilisations, on peut prévoir qu'elles tripleront au cours de la prochaine décennie. Cette industrie a donc contribué à la croissance économique du Canada et va continuer d'y apporter une part encore plus grande dans l'avenir.

Comme toutes les autres industries, la radiodiffusion canadienne a le devoir de poursuivre ses objectifs de croissance de façon à favoriser une expansion continue et équilibrée de l'économie canadienne. Cela suppose une planification des projets de développement en vue d'apporter un accroissement des possibilités, une amélioration de la qualité des services et une plus grande productivité.

⁴ Aux Etats-Unis, on tente actuellement d'organiser un quatrième réseau de télévision, qui entrerait en fonctions en 1967 et qui serait constitué de quelques postes du réseau U.H.F. et quelques postes indépendants (V.H.F.).

Le Conseil économique du Canada a fixé les objectifs que l'économie canadienne devra atteindre en 1970 quant à la production nationale et au nombre d'emplois nécessaires pour utiliser à *plein* le potentiel économique croissant du pays. Ces objectifs ont été présentés comme un guide au gouvernement, ainsi qu'au monde des affaires et du travail; ils ont aidé la population dans son ensemble à se faire une idée de l'ampleur des défis que la nation devra relever dans le domaine économique durant les cinq prochaines années. Mais de tels objectifs ne pourront être atteints sans des efforts coordonnés de la part de tous les secteurs de l'économie, en vue de leur réalisation.

Par la planification de sa propre expansion, l'accroissement de sa productivité et l'amélioration de la qualité de ses services, l'industrie de la radiodiffusion aidera à la croissance économique de la nation de la façon qui servira le mieux à promouvoir le bien-être des Canadiens et à combler leurs aspirations. De plus, une bonne planification entreprise en coopération avec les usagers des services de publicité sur les ondes aidera les maisons d'affaires à réaliser le degré de développement qu'elles se proposent d'atteindre. Car, ainsi que cette étude l'a démontré, il semble que d'ici dix ans les Canadiens auront à relever le défi jeté par la vente annuelle de marchandises et de services dont la valeur s'élèvera à plus du double des 52 milliards de dollars que représentent les ventes de 1965. Doubler ou plus que doubler les ventes, ainsi que l'exigera probablement la pleine utilisation des possibilités croissantes du Canada, est une tâche qui ne peut être accomplie, comme tout homme d'affaires le sait trop bien, sans de grands efforts et une persévérance de tous les instants.

La publicité sur les ondes, en particulier à la télévision, s'est avérée un moyen singulièrement efficace de créer chez les consommateurs un besoin d'acheter les produits annoncés. Plus la radiodiffusion deviendra un moyen efficace de publicité, plus elle sera utile au monde des affaires dans la vente des marchandises et des services que l'industrie sera capable de mettre sur le marché canadien en quantité considérablement accrue d'ici dix ans.

La planification aidera l'industrie de la radiodiffusion elle-même à accomplir un meilleur travail, à mieux servir la population par l'amélioration des programmes, à mieux servir l'annon-

ceur par l'accroissement de l'influence des messages publicitaires sur le consommateur, à mieux servir la nation en fournissant « des services de radiodiffusion variés et complets [...] fondamentalement canadiens quant à leur contenu et à leur physionomie ».

3. *La statistique.* — On ne dispose pas, au Canada, de statistiques complètes et comparées touchant la publicité sur les ondes et comprenant les opérations commerciales⁵. Le Comité de la radiodiffusion a insisté fortement sur la nécessité de statistiques mieux faites, plus complètes et plus à jour sur la radiodiffusion au Canada⁶.

Par suite du besoin urgent de statistiques à jour, et comparées, sur la radiodiffusion, on peut espérer que de telles statistiques nous viendront tôt ou tard de sources officielles: c'est le Bureau fédéral de la Statistique qui est le mieux placé pour fournir un tel service, étant donné que cet organisme publie déjà de tels renseignements, habituellement deux ans environ après les événements. Une telle amélioration dans la compilation des statistiques pourra probablement se réaliser avec la coopération des différentes parties en cause: les postes de radiodiffusion, les annonceurs et les autorités gouvernementales responsables de la radiodiffusion au Canada.

En plus des statistiques officielles sur la radiodiffusion, il est nécessaire d'améliorer le genre, la qualité et l'ampleur des études entreprises sur les auditoires par des firmes indépendantes d'enquêtes. Ces améliorations peuvent revêtir diverses formes, telles que la réorganisation de l'échantillonnage qui a servi de base à ces études, une nouvelle formulation des questions posées, la mise au point de nouvelles techniques adaptées à l'âge des cerveaux électroniques. La première pourrait augmenter la justesse des informations; la dernière pourrait apporter aux annonceurs des renseignements beaucoup plus significatifs. Des enquêtes entièrement nouvelles pourraient être préparées pour mesurer l'influence de la publicité sur certains groupes spéciaux de consommateurs-commerçants, de telle sorte que les annonceurs pourraient à l'avenir organiser efficacement leur publicité destinée aux auditoires dont on pourrait espérer une réaction favorable.

⁵ Cette question a été étudiée en détail dans l'Appendice A.

⁶ *Rapport* du Comité de la Radiodiffusion, *op. cit.*, p. 335.

Un autre champ qui laisse entrevoir de grandes espérances dans l'appréciation de l'influence de la télévision, c'est celui des expériences *dirigées*. MM. Goodman, Towers et Zeisel ont soumis des projets en vue de telles enquêtes⁷.

Beaucoup de travail devra être également accompli dans le domaine de l'expérimentation préalable des programmes et des annonces publicitaires, afin d'arriver à une plus complète intégration de la publicité commerciale, d'améliorer les techniques de vente et d'accroître l'accueil favorable du consommateur.

Un autre genre d'enquête pourrait établir des statistiques sur les téléspectateurs qui regardent les programmes et les annonces publicitaires transmis par câble électrique; ce genre d'enquête sera d'autant plus nécessaire que ce mode de transmission se répandra davantage au Canada par suite de la demande croissante de tels services.

4. *La recherche*. — Les statistiques seules, aussi parfaites qu'elles puissent être, ne peuvent donner une réponse adéquate aux questions qui préoccupent et les producteurs de la radiodiffusion et les annonceurs. Pourquoi telle annonce publicitaire est-elle plus efficace que telle autre ? Pourquoi tel programme exerce-t-il plus d'attrait sur la population que tel autre ? Qui écoute ou regarde tel programme, et pourquoi ? Comment la population réagit-elle à telle annonce publicitaire et quels en sont les résultats concrets ? Quelle est l'attitude de la population en face de l'accroissement de la publicité commerciale et à quel stage précis la publicité commerciale risque-t-elle d'atteindre le point de saturation ? Quels groupes particuliers sont intéressés à tels produits et comment peut-on les atteindre plus efficacement avec le maximum d'étalage au coût minimum ?

⁷ « Afin d'apprécier sûrement les effets de la télévision et de mesurer avec précision leur étendue, les expériences « dirigées » sont nécessaires. [...] De telles expériences *dirigées* ont pour but de mesurer l'influence exercée sur les ventes par un message publicitaire inséré dans un programme ou une série de programmes de radiodiffusion. [...] Il ne suffit pas d'affirmer que les ventes de telle firme ont augmenté depuis qu'elle commandite tel spectacle particulier, car cet accroissement aurait pu être causé par d'autres éléments affectant le marché (par exemple, un nouvel emballage, un changement de prix, la distribution d'échantillons du produit en question, la publicité locale, etc.). Il s'agit plutôt de savoir quel apport a été fourni par tel effort particulier en vue de promouvoir les ventes, par tel spectacle ou telle série de spectacles » (Leo GOODMAN, Irwin TOWERS and Hans ZEISEL, « A Technique For Assessing the Effects of Television Through Controlled Field Experiments », dans *Stimulus*, Toronto, May/June, 1966, p. 56 et 59).

On pourrait y ajouter plusieurs autres questions. Mais cela suffit à démontrer la nécessité de la recherche et de l'analyse pour déterminer d'une façon plus significative et plus réelle quelles sont les répercussions économiques, sociales et humaines de la radiodiffusion et comment elle affecte la population canadienne : les auditeurs qui jouissent des programmes et les consommateurs dont les achats sont influencés par la publicité commerciale sur les ondes.

Ces recherches devraient être faites et par l'Etat et par des entreprises privées. Leur nécessité a été mise en évidence à plusieurs reprises dans les rapports d'enquêtes royales et ceux d'autres organismes d'Etat ⁸. Mais jusqu'ici, les réalisations sont minimales. De même que pour la recherche dans les autres domaines, on a besoin de personnel compétent, de ressources financières suffisantes en plus de la volonté ferme de poursuivre ces recherches sans arrêt.

La recherche doit, cependant, étendre ses ramifications au-delà des programmes et de la publicité. On devra également, à l'avenir, porter une plus grande attention qu'on ne l'a fait jusqu'ici à l'analyse de l'offre et de la demande. Les commissions royales d'enquêtes, les comités parlementaires, les comités spéciaux, les organismes gouvernementaux ont, au cours des quatre dernières décennies, examiné en profondeur plusieurs aspects des services de radiodiffusion offerts aux Canadiens. Mais on n'a prêté que peu d'attention à la demande variable et, en fait, croissante de tels services. Il est également nécessaire d'examiner plus complètement et plus efficacement l'influence exercée par la radiodiffusion canadienne sur l'ensemble de l'économie et sur l'individu, en tenant compte des rapports de ce dernier avec le médium de la radiodiffusion — ainsi que de ses réactions sur les plans social, psychologique et humain.

La recherche dans le domaine de la radiodiffusion devrait être très fructueuse si elle résulte de l'initiative de l'Etat et des entreprises privées et qu'elle jouisse de leur appui. Car le système canadien de radiodiffusion est « mixte » : les autorités gouvernementales et le monde des affaires sont tous deux également intéressés à son bon rendement.

⁸ La plus récente de ces recommandations est contenue dans le *Rapport* du Comité de la Radiodiffusion (*op. cit.*, p. 99).

La recherche est dispendieuse, mais elle est également nécessaire. Cependant, retarder la recherche coûterait encore plus cher au pays, par suite de décisions prises sans savoir au préalable où va la radiodiffusion canadienne, ni ce qu'elle doit accomplir. D'où la nécessité d'entreprendre la recherche *dès maintenant*.

Une connaissance accrue du fonctionnement du système, ainsi que des moyens de le rendre plus efficace dans l'avenir, ne pourra qu'aider ceux qui auront à prendre les décisions au Canada, soit dans le domaine privé, soit dans le domaine public.

5. *La coopération.* — Le Comité de la Radiodiffusion a fait la remarque suivante : « La télévision au Canada ne pourra atteindre son plein épanouissement si la tâche est laissée à la Société Radio-Canada seule. Elle doit être partagée par les sociétés privées de télévision en qualité de parties intégrantes d'un système canadien coordonné de radiodiffusion⁹. » Cela s'applique également à la radio.

La coopération dans les efforts vers la réalisation d'objectifs communs ne doit pas être le fait des seules autorités privées ou publiques. Mais elle doit s'étendre à l'ensemble de la population et des institutions qui peuvent contribuer à faire du système canadien de radiodiffusion un système plus efficace et plus rentable — et ceci inclut, en plus des sociétés de radiodiffusion, tout le monde des affaires qui utilise la radiodiffusion comme moyen de publicité, les experts qui conseillent les annonceurs et l'industrie de la radiodiffusion, les agences de publicité, les maisons de représentation, les investigateurs, les chercheurs professionnels, etc. Cela inclut également le Parlement et le gouvernement dont l'autorité suprême sur la radiodiffusion fixe les objectifs à atteindre, trace les lignes de conduite à suivre et surveille le fonctionnement du système. Il ne faut surtout pas oublier la population, dont la vie quotidienne est influencée par ce qu'elle voit et entend à la télévision et à la radio.

En un mot, pour que l'industrie canadienne de la radiodiffusion puisse atteindre facilement l'objectif proposé, c'est-à-dire plus que doubler le chiffre de ses revenus commerciaux au cours de la prochaine décennie, il faut que les efforts concertés à cette fin soient le résultat de mesures conjointes et coordonnées

⁹ *Ibid.*, p. 245.

prises par tous les groupes importants concernés — l'industrie de la radiodiffusion, les annonceurs (ainsi que leurs conseillers et leurs auxiliaires) et le gouvernement. Si l'on veut qu'un service vraiment national de radiodiffusion se développe et prospère au Canada, il va falloir que l'ensemble de la population apporte à ces efforts conjugués un appui sans restriction.

APPENDIX A.

Note on Statistical Sources

The bulk of the data used in this Report comes from the Dominion Bureau of Statistics. Where such data were not available, supplementary information was used from other sources and these are indicated in the Tables and, where appropriate, in the text. In the case of data on broadcast advertising revenues and "other" revenues received by broadcasting stations, the supplementary source was the Report of the Committee on Broadcasting, submitted to the Honourable Maurice Lamontagne, Secretary of State, in September, 1965.

In choosing the basic data for analysis in this Report, a problem was encountered : the data published by the Dominion Bureau of Statistics and the Committee on Broadcasting showed a number of differences, not substantial in aggregate but significant for individual sectors that make up total operating revenues of broadcasting stations.

The Committee on Broadcasting found that there did not exist a uniform standard form of presentation of data relating to broadcasting in Canada and it strongly recommended that efforts be made to achieve greater statistical uniformity and consistency in this field.

The Committee on Broadcasting explained that it found it necessary to ask their financial advisers, Messrs. Touche, Ross, Bailey and Smart, Chartered Accountants, to undertake special compilations drawing on data obtained directly from private broadcasting stations and the C.B.C., as well as on existing sources which included the Dominion Bureau of Statistics, the Department of Transport and the Board of Broadcast Governors.

The Committee referred to some of the statistical difficulties it encountered in these terms :

At present the D.B.S. analysis of operating results does not clearly distinguish station results by revenue groups. The operating results of English-language and French-language stations are not separately analyzed. The investment in plant and equipment is not shown by revenue groups and the number of stations operating at a loss is not indicated.

There are other problems that could not be resolved from the D.B.S. statistics, even by a detailed examination of the individual station returns. Where companies operate more than one type of service — for example, radio and television, or A.M. and F.M. radio, or even radio and some other business such as a newspaper — the results are presumably affected by an arbitrary allocation of overhead expenses between the two elements of the company's operations. Allocation of income taxes between radio and television operation are also often arbitrary. For example, if the radio station had a profit and the television operations resulted in losses exceeding the radio profits, no tax would be payable, thus distorting any analysis of the two operations.¹

The Committee concluded :

The purpose of these observations is to draw attention to the need for a review of the reporting requirements. An improved presentation should be designed to give a clear picture of the precise position of each broadcaster. This is important, it seems to us, not only as an aid to public understanding but also to assist the Broadcasting Authority in the performance of its duties.²

This study, as indicated earlier, has relied largely on the Dominion Bureau of Statistics since this agency is the official statistical agency of the Government of Canada and it has published data on advertising in the broadcasting field and other fields on a comparable basis for a number of years thus making it possible to examine the behaviour of broadcast and total advertising expenditures over time and in relation to such broad aggregates as Gross National Product.

It bears emphasis, however, that for purposes of detailed analysis, additional information to that published would be required, as well as a reconciliation between the data published by the Dominion Bureau of Statistics and the Committee on Broadcasting. Further, there is need for more comparable data. For example, advertising expenditures by Canadian business and others on broadcast advertising is not equal to advertising revenues received by broadcasting stations. Canadian advertisers will be purchasing commercial time from Canadian as well as American broadcasting stations. Similarly, some Canadian broadcasting stations will be selling "time" to American advertisers. And to go one step further, there is no agreement

¹ *Report of the Committee on Broadcasting, op. cit., p. 300.*

² *Ibid.*

as to what constitutes sale of "time" and receipts for the production of "programs and commercials". Hence, the resulting figures may mean different things to different people.

In this study, expenditures made on broadcast advertising expenditures have been equated with commercial revenues received by broadcasting stations from advertising. This represents an over-simplification because it assumes that there is little difference between commercial revenues received by Canadian broadcasting stations from American advertisers and payments made by Canadian advertisers to American broadcasting stations. If subsequent studies indicate that there are significant differences between these two sets of figures, then the estimates presented in this study would have to be adjusted accordingly.

The comment may be appropriate that in the present stage of data available, the statistics can be regarded only as broad indicators of trends and not necessarily as a full measure of actual commercial revenues received by broadcasting stations and advertising expenditures made by business and others for the use of broadcasting media.

Development of an adequate statistical reporting system in the broadcasting field remains a task for the future. It would be greatly facilitated if the Government of Canada were to accept the recommendations of the Committee on Broadcasting to adopt a standard procedure of reporting and a uniform presentation of statistical results obtained on a continuing and timely basis.

It may, however, assist the reader to obtain a bird's eye view of what some of the differences are between the data published by the Dominion Bureau of Statistics and the Committee on Broadcasting. The relevant figures for the year 1963 are summarized in Table A-1.

The Dominion Bureau of Statistics uses the following definitions:

Network advertising revenue consists of revenue received for advertising when a station is attached to a network. Arrangements are generally made by the advertiser or his agency directly with the network. In the case of a non-C.B.C. network, arrangements may be made with the station originating the program. Since part of the revenues received by the originating station for network ad-

vertising are paid out to other stations carrying the advertising, only the net advertising revenue is reported by the originating station.

National advertising revenue is revenue received from national or regional advertisers for programs or announcements broadcast on a non-network basis. This advertising is generally arranged by advertising agencies in the major cities with the various station representatives.

Local advertising revenue is revenue received from local or district advertisers for programs or announcements broadcast on a non-network basis. This type of advertising is generally arranged by the station's local sales force.

Other non-broadcasting operating revenue is revenue received from operations of the station which are incidental to broadcasting (i.e. rental of station facilities, recording services) plus any broadcast revenues of a non-advertising nature.

Total operating revenue is the sum total of broad-revenues from advertising carried on networks and national and local advertising, and other non-broadcasting operating revenues.³

The Committee on Broadcasting uses the following definitions:

Network sales is revenue received for time when a station is attached to a network.

National sales is revenue received from national or regional advertisers for time on a non-network basis.

Local sales is revenue received from local or district advertisers for time on a non-network basis.

Billings to sponsors for broadcasting facilities and programming represents revenue in respect of charges for artists' and other talent fees, line and recording charges, production charges and any other revenues incidental to broadcasting. These include, in the case of the private television stations, the payments received from independent producers for the use of facilities.

Operating revenues represent a total after deducting (a) payments to private stations of a share of C.B.C. and C.T.V. network time charges, (b) advertising agency commissions, (c) allowance to U.S. networks.⁴

³ *Radio and Television Broadcasting 1963*, Dominion Bureau of Statistics, Ottawa, September 1965, p. 7.

⁴ *Report of the Committee on Broadcasting*, *op. cit.*, pp. 371 and 398.

Besides some differences in definitions and classifications, there is also a difference in the time period covered. The Dominion Bureau of Statistics covers the calendar year, the Committee on Broadcasting covers the calendar year for private broadcasting stations and the fiscal year ending March 31st, for the C.B.C. Hence, in presenting the figures for 1963, these include for private broadcasting stations the calendar year 1963 and for the C.B.C. the fiscal year ending March 31st, 1964.

As Table A-1 shows, the difference between the two statistical sources is not great, with total operating revenues recorded as \$136.3 million by the Dominion Bureau of Statistics and \$139.6 million by the Committee on Broadcasting, a difference of about 2 ½ per cent, with the higher figure indicated in the Committee's report.

The difference is greater when the comparison is made on the basis of commercial revenues obtained from advertising : Dominion Bureau of Statistics — \$129.4 million; Committee on Broadcasting — \$119.3 million; a difference of about 4 per cent with the higher figure contained in the Dominion Bureau of Statistics' report. The main reason appears to be in interpreting differently as to what should and should not be included under the heading of non-broadcasting revenues.

The projections presented in this study are based on data published by the Dominion Bureau of Statistics, supplemented by preliminary estimates prepared by the MacLean-Hunter Research Bureau. To the extent that at some future date, the Dominion Bureau of Statistics' data are revised, and to the extent that the preliminary estimates prepared by the MacLean-Hunter Research Bureau are superseded by different actual data, the projections presented in this study will require appropriate adjustments in the light of such new statistical information becoming available. But because the differences between the data published by the Dominion Bureau of Statistics, and the Committee on Broadcasting are only minor in aggregate, the statistics used form a reasonably firm basis for the making of projections of broadcast advertising revenues for the next decade in the light of presently available knowledge.

TABLE A-1. — ADVERTISING AND OTHER REVENUES, PRIVATELY OWNED STATIONS AND C.B.C., DIFFERENCES OF DATA FROM TWO SOURCES, DOMINION BUREAU OF STATISTICS AND COMMITTEE ON BROADCASTING, CANADA, 1963.

\$ Mill.

Source	Advertising Carried on Networks and National Advertising	Local Advertising	Total Broadcasting Revenue	Other Non-Broadcasting Revenue	Total Operating Revenue
<i>Dominion Bureau of Statistics Privately Owned Stations</i>	58.2	47.5	105.7	6.1	111.8
C.B.C.	21.9	1.8	23.7	0.8	24.5
All Stations	80.1	49.3	129.4	6.9	136.3
<i>Committee on Broadcasting Privately Owned Stations</i>	57.6	47.2	104.8	11.1	115.9
C.B.C. ¹	13.1	1.4	14.5	9.2	23.7
All Stations	70.7	48.6	119.3	20.3	139.6
<i>Difference Privately Owned Stations</i>	0.6	0.3	0.9	— 5.0	—4.1
C.B.C. ¹	8.8	0.4	9.2	— 8.4	0.8
All Stations ²	9.4	0.7	10.1	—13.4	—3.3

Source : Dominion Bureau of Statistics data are from *Radio and Television Broadcasting 1963*, published in 1965; Committee on Broadcasting data are those prepared for the Committee by its Financial Advisers and published in the Committee's Report (Ottawa, Queen's Printer, September 1965, p. 399).

¹ The C.B.C. data refer to the fiscal year 1963-1964.

² There are also some minor differences due to rounding.

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