Funding media projects - financiers' risks, expectations

Pressure continues to mount on financial institutions, including banks and developmental agencies, to do more to fund struggling media companies that are finding it difficult to survive in the fast-growing yet ruthless industry. Last week the Industrial Development Corporation (IDC), disclosed its fears, risks and anxiety about funding media projects.

By Issa Sikiti da Silva 6 Dec 2010

Speaking last week at the Africa Media and Broadcasting 2010 Congress in Johannesburg, Basil Ford, ID head of media and motion pictures business unit, said there is always a high risk in funding a media startu because the company is still finding its feet to establish production and penetrate the market, while trying t prove that the concept works.

Losses and track records

"There is also the issue of losses and the company not having a track record," Ford said, adding that research shows that 40% of start-ups fail within the first two years and 60% of start-ups fail within the first four years.

"There is a medium risk when the company starts growing, and its capacity expands due to market acceptance, the brand-building process and breaking even (small profit) - all this generating some track record."

The IDC media and motion picture business unit was established in 2001 to support SA media entrepreneurship and media-related businesses in increasing production capacity, expanding product line or extending operations into other African countries.

Mature media businesses preferred

According to Ford's theory, it appears that many financial institutions would prefer supporting mature medi businesses (established brands with a good track record), where there is a possibility of consolidation (mergers and takeovers), imminent strong margins and brand extension (new products).

In this stage, Ford said, there is a low risk, and equity and debt stand at 40% and 60% respectively. "Debt cheaper than equity," he pointed out.

If Ford's theory is indeed the case, it means SA's small media operators, upcoming and existing, stand no chance at all to get any sort of funding from organisations of the nature of the IDC, further compromising t SA government' goal of promoting media development and diversity, and putting a dent on the country's extremely high media white ownership and concentration.

Risk in new media investment

"Financiers become very anxious when it comes to funding new media," Ford admitted, adding that traditional media, including print, TV and radio, filmed entertainment and music, has been there for a long time and many of them have a track record.

"As for new media nobody knows what is going to happen tomorrow, as they have no clear defined model he said. "Anything that is not traditional media and not convergent we throw it in the new media category."

Nevertheless, despite Ford's tasty choice for traditional media, it is believed that the IDC will not fund any project that is just under R2 million.

And given the IDC's strict possible funding models, there is a possibility that many community media outle print and TV, as well as struggling film and music ventures, regardless of their track record and establishe brands, will not even pass the IDC's funding test.

IDC finding models

Ford's business unit, which is run on a portfolio of R13 billion, has the following funding models: newspape R50-R100 million (investment horizon five to eight years), magazines R15-R25 million (three to five years) TV R1 billion (eight to 15 years), radio R20-R50 million (four to six years), and outdoor R20 million (three t five years).

The IDC's financing approach includes instruments such as equity, quasi-equity (BEE, preference shares shareholders loans), ccommercial loans, wholesale finance (franchising), share warehousing (risk cap facility, RCF), import-export finance, short term finance (revolving credit against contract), limited recourse finance (against a contract or specific project), and guarantees.

ABOUT ISSA SIKITI DA SILVA

Issa Sikiti da Silva is a winner of the 2010 SADC Media Awards (print category). He freelances for various media outlets, local and foreign, and has travelled extensively across Africa work has been published both in French and English. He used to contribute to Bizcommunity.com as a senior news writer.
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