

Manager's Business Report™

Radio Business Report, Inc.

15 Years

July 1998



MBR Stats

We're having a heat wave!
Demand for radio sizzles.

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Mercury Rising . . . Radio celebrates its creative best.



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“We thought the FCC was going to get it, and they haven't gotten it yet.”



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REMOTE JACKPOT

with a **COMREX HOTLINE**

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Business Remains Brisk; Duopoly Hits 70%

Radio enjoyed its second consecutive month of double-digit revenue gains in April, and the overall 13% gain (11% local, 17% national) pushed the year-to-date gain to 10%. That's about 1% better than radio was projected to gain before the year began. There's no end in site; our pacing report shows a very healthy percentage of presold advertising going into the Summer.

With this issue, *MBR* and the Wall Street Journal Radio Network debut The Radio Index™, which tracks the stock market performance of the major companies focused on the operation of radio stations and/or networks. The Radio Index, which uses a base of 100 from the end of 1997, includes 13 radio stocks.

Although not a significant increase, the number of stations in a duopoly or superduopoly nosed over the 70% mark. Station trading has slowed and a significant number of deals these days actually decrease the number of consolidated stations as owners jump through various hoops to keep the regulators happy.

—Dave Seyler

Radio Revenue Index

April Revs Put Radio Ahead of Forecasts

Who says April is the cruelest month? With an 11% gain in local revenue and a 17% leap in national, radio enjoyed overall gains of 13% for the month. Perhaps more importantly, April results pushed year-to-date gains into double-digits, defying industry soothsayers who have been predicting 9% gains in 1998.

The boom continues to be in effect from coast to coast and everywhere in between. The weakest gainer in local revenues was the East, which nevertheless enjoyed a respectable 8% gain, and augmented it with a 14% jump in national. All other regions had double-digit gains locally. Likewise, only one region was below the East in national revenue—the Southwest with a gain of 7%—but it more than offset this with a 16% jump in local revenue. The other three regions were at 20% or better in national revenue.

April 1998	Local	Nat'l
All Markets	11%	17%
East	8%	14%
Southeast	12%	21%
Midwest	11%	22%
Southwest	16%	7%
West	13%	20%

Local & Nat'l Revenue April 1998	
All Markets	13%

Forward Pacing Report

Heat Wave Continues 1998 Sales Pace Sizzles

Radio is on pace to outperform 1997 as demand for radio time continues to be strong. As of June, August was almost half sold out. If the pace keeps up, radio can beat the prognosticators.



Jan-Apr 1998	Local	Nat'l
All Markets	9%	13%
East	8%	8%
Southeast	8%	18%
Midwest	9%	14%
Southwest	12%	8%
West	10%	15%

Local & Nat'l Revenue Jan-Apr 1998	
All Markets	10%

Superduopoly Dimensions

Industry consolidation (as of June 15, 1998)

Superduopoly: 46.8%		
Market	# of stns	percent
1 to 50	717	49.9
51 to 100	524	49.3
101 to 150	353	44.1
151 to 200	373	44.9
201 to 261	346	42.6
All markets	2,310	46.8
Total Industry: 70.3%		
Market	# of stns	percent
1 to 50	1,063	74.0
51 to 100	760	71.6
101 to 150	534	65.8
151 to 200	577	69.6
201 to 261	544	67.0
All markets	3,478	70.3

Note: The "# of stns" shows the total count for stations in either a superduopoly or, in the case of total industry consolidation, in an LMA, duop or superduop. The "percent" column shows the extent of consolidation for each market segment.

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YTD Stock Performance

As the Dow Jones Industrial Average retreated from all-time highs in May, radio stocks followed suit. Look for lots of changes in next month's chart, as three radio companies disappeared in early June due to takeovers—American Radio into CBS, SFX into newly-public Capstar and Faircom into Regent, which then became a public stock.

Company	5/29/98 Close	YTD Gain/Loss	Pct. Gain/Loss
Ackerley	20.000	3.063	18.08%
Alliance Bcg.	0.812	0.562	224.80%
Am. Radio Sys.	66.125	12.813	24.03%
AMSC	11.500	4.500	64.29%
Belo Corp.	51.500	-4.625	-8.24%
Big City Radio	9.375	1.250	15.38%
Capstar	19.000	0.000	0.00%
CBS Corp.	31.750	2.313	7.86%
CD Radio	34.500	17.563	103.70%
Ceridian	54.000	8.188	17.87%
Chancellor	41.812	4.500	12.06%
Childrens Bcg.	3.218	-0.844	-20.78%
Clear Channel	95.875	16.438	20.69%
Cox Radio	42.125	1.875	4.66%
DG Systems	3.875	1.375	55.00%
Disney	113.250	14.250	14.39%
Emmis Bcg.	44.187	-1.438	-3.15%
Faircom	1.000	0.157	18.62%
Fisher	71.500	11.500	19.17%
Gaylord	33.687	1.750	5.48%
Granite	10.750	1.688	18.63%
Harris Corp.	48.375	2.500	5.45%
Heftel Bcg.	37.875	-8.875	-18.98%
Jacor	52.875	-0.250	-0.47%
Jeff-Pilot	57.250	-20.625	-26.48%
Jones Intercable	21.500	4.063	23.30%
Metro Networks	39.750	7.000	21.37%
NBC Radio Networks	2.000	0.000	0.00%
New York Times	70.500	4.375	6.62%
News Comm.	1.375	-0.062	-4.31%
OmniAmerica	48.000	35.250	276.47%
Otter Tail Power	32.000	-5.875	-15.51%
Pacific R&E	4.000	0.625	18.52%
Pulitzer	88.500	25.688	40.90%
RealNetworks	23.125	9.250	66.67%
Saga Commun.	20.750	-0.500	-2.35%
Sinclair	25.437	2.125	9.11%
SportsLine USA	27.187	16.437	152.90%
TM Century	0.500	-0.125	-20.00%
Triangle	0.090	-0.035	-28.00%
Triathlon	10.375	-0.125	-1.19%
Tribune	66.875	4.625	7.43%
Westtower	25.750	14.000	119.15%
Westwood One	26.750	-10.375	-27.95%
WinStar Comm.	37.500	12.563	50.38%

Major Stock Market Indices

Index	Value	YTD Gain/Loss	Pct. Gain/Loss
The Radio Index™	103.970	3.970	3.97%
Dow Industrials	8,899.950	991.700	12.54%
Nasdaq composite	1,778.870	208.500	13.28%
S&P 500	1,090.820	120.390	12.41%

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MBR Stats

Formats: Air Presence and Web Presence Compared

The young, led by Alternative listeners, are a big target of radio websites, along with the information seekers who listen to News-Talk stations. For fans of Standards and Oldies, the old-fashioned way of interacting with their favorite station seems to be enough.

Air Rank	Format	Air Pct	Web Rank	Web Pct	Web +/-
1	News-Talk	15.8	1	18.8	+3.0
2	Country	14.5	3	11.6	-2.9
3	AC	13.6	2	12.5	-1.1
4	Religion	7.5	4	9.4	+1.9
5	Oldies	7.2	10	4.1	-3.1
6	Standards	6.3	14	1.8	-4.5
7	CHR	6.2	7	7.8	+1.6
8	Urban	5.9	12	2.1	-3.8
9	Classic Rock	5.9	8	5.6	-0.3
10	Rock	5.4	5	9.1	+3.7
11	Spanish-Ethnic	5.3	9	4.6	-0.7
12	Alternative	4.0	6	8.8	+4.8
13	New AC-Jazz	1.8	11	2.4	+0.6
14	Classical	0.7	13	1.4	+0.7

Source: BRS Consultants, Source Guide database

Winter 1998 Format Shares: Top 25 vs 92 C-M Markets

For the most part format strength holds steady when comparing the top 25 markets to all 92 continuously-measured markets. The +/- number shows if the format is stronger or weaker in the top 25. As you would expect, Country suffers the most in the more densely populated markets, while News-Talk, Spanish and Urban thrive.

92-mkt Rank	Format	92-mkt share	25-mkt rank	25-mkt share	25-mkt +/-
1	News-Talk	14.3	1	15.9	+1.6
2	Urban	10.1	2	11.0	+0.9
3	AC	9.3	3	8.8	-0.5
4	Country	8.7	6	6.3	-2.4
5	CHR	7.4	5	6.9	-0.5
6	Spanish	5.8	4	7.2	+1.4
7	AOR	4.9	8	4.3	-0.6
8	Oldies	4.7	7	4.5	-0.2
9	Classic Rock	4.1	9	3.8	-0.3
10	New Rock	3.4	10	3.4	—
11	Standards	3.0	12	2.9	-0.1
12	NAC-Jazz	2.8	10	3.4	+0.6
13	Hot AC	2.2	13	2.2	—
14	Classical	1.6	14	2.1	+0.5
15	Adult Altv	1.0	15	1.1	+0.1
15	Black Gospel	1.0	16	0.6	-0.4
17	Religion	0.7	16	0.6	-0.1
18	Contemp Chrstn	0.4	18	0.4	—
19	Easy	0.3	19	0.2	-0.1
19	Ethnic	0.3	19	0.2	-0.1
21	Chrstn Ctry	0.1	23	0.0	-0.1
21	Variety/Other	0.1	21	0.1	—
21	Children's	0.1	21	0.1	—

Source: Interop analysis of Arbitron data.

Web Stats

Webcasters by Format

(as of June 7, 1998)

755 radio stations (658 commercial) are now putting audio on the Internet. Of the total 1,431 audio websites now in operation, 50.2% (718) are of US origin.

Country remains the number one commercial format on the web with a total of 76 stations. However, if the various News, Talk and Sports categories are combined, they account for 124 stations, or 18.8% of all commercial webcasters.

RealAudio remains the streaming platform of choice, with 88.1% of the business. Microsoft NetShow has a solid hold on second place; third place Streamworks actually lost a few clients.

Formats on the Internet

Format	Stns	Pct.
Non-commercial	97	12.8%
Country	76	10.1%
Religion	62	8.2%
Rock	60	7.9%
News/Talk	51	6.8%
CHR	51	6.8%
Sports	36	4.8%
Classic Rock	35	4.6%
Hot AC	34	4.5%
Alternative	32	4.2%
AC	31	4.1%
Oldies	27	3.6%
Adult Altern	26	3.4%
Talk	25	3.3%
Soft AC	17	2.3%
New AC-Jazz	16	2.1%
Ethnic	15	2.0%
Urban	14	1.9%
News	12	1.6%
Standards	11	1.5%
Classical	9	1.2%
AC-Spanish	7	0.9%
Talk-Spanish	4	0.5%
CHR-Spanish	4	0.5%
70's Oldies	2	0.3%
Easy List.	1	0.1%

Audio on the Internet Medium Websites

Medium	Websites	Pct.
Radio Stations	755	52.8%
International	517	36.1%
Networks	42	2.9%
Internet Only	117	8.2%
TOTAL	1,431	100.0%

Streaming Players

Player	Websites	Pct.
RealAudio	1,260	88.1%
Microsoft NetShow	120	8.4%
StreamWorks	40	2.8%
AudioActive	7	0.5%
Radio Destiny	4	0.3%
Interflix	1	0.1%
GTS Audio	1	0.1%
Vosaic	1	0.1%
TOTAL	1,431	100.0%

Source: BRS Consultants

Non-Traditional Revenue Track

Food/Grocery Dominate May NTR

Heading into the summer months, stations crank up events and promotions. As a rule, May tends to be a big month for station NTR and this May was no exception. Food/Grocery, a tough category overall for radio stations was strong. As expected, business picked up in both the Office and Automotive categories.

Category	% of Vendor/New Business by Category					
	Jan	Feb	March	April	May	YTD
Automotive	23.04	17.54	15.95	14.25	14.79	17.23
Food/Grocery	21.57	33.70	31.99	26.84	35.10	30.79
Leisure/Electronic	24.42	14.15	24.94	22.25	18.16	19.99
H&BC	3.11	7.82	13.51	13.59	7.90	8.53
Home Improvement	7.72	12.45	10.18	13.31	11.25	10.87
Office	17.58	12.25	1.04	6.35	8.78	9.70
Clothing	2.56	2.10	2.38	3.41	4.03	2.89

Source: Revenue Development Systems; based on revenues from 76 stations in 32 markets.

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S&P Mid-Year Forecasts Strong Year

Mid-way through the year, the forecast for radio is holding strong while TV and cable are looking less robust. That's according to the revised media forecast from Standard & Poor's William Donald.

Radio is expected to end the year at \$14.7B, up

8.9% from 1997. That forecast is down only slightly from Donald's 9% January projection (RBR 2/9, p. 4). Long-term, Donald's forecast for radio through the year 2000 is revised up to 9.6% from 9.1%.

After a sluggish upfront, TV and cable projections have been revised down. Instead of ending the year up 8.3%, broadcast TV may be up only 5%. Cable, which reportedly has been siphoning off dollars from TV networks in upfront, could still come in up a healthy 16.9%, less than S&P's earlier 18.4% projection. ♦

Cable, Radio & TV Ad Expenditures (in billions of dollars)

	1990	1995	1996	1997	E1998	E1999	E2000	Average Annual Growth Rate (%)	
								1990-1995	1995-2000
Broadcast TV	22.62	27.91	31.27	32.46	34.10	36.80	41.00	4.3	8.0
Cable TV	2.88	5.11	6.44	7.95	9.30	11.10	13.50	12.2	21.4
Radio	8.75	11.47	12.41	13.49	14.70	16.30	18.10	5.6	9.6
Total	34.25	44.49	50.12	53.90	58.10	64.20	72.60	5.4	10.3

E-Estimated by S&P

Source: Television Bureau of Advertising; Radio Advertising Bureau

Radio Networks Shift with the Times

The syndication and radio network landscape continues to change as it responds to new pressures in a consolidated radio marketplace.

- Jones Radio Network (JRN) purchased its rep, MediaAmerica, and increased its syndicated lineup with another dozen shows (RBR 6/8, p. 4).
- Jacor's (O:)COR) Premiere Radio Networks signed a multi-year contract with Statistical Research Inc. (SRI), bringing four new RADAR-rated networks to the market plus "The Dr. Laura Schlessinger Program," beginning in September (RBR 6/8, p. 3).
- Chancellor's (O:)AMFM) AMFM Radio Networks is on the syndication fast track, acquiring several Rock shows from Global Satellite Networks, tapping its own in-house talent to launch "RuPaul Radio" and "Hollywood Hamilton's Rhythm Countdown," and marketing and distributing Ben Manilla Productions' "The Guitar Show with Kevin Bacon" (RBR 6/15, p. 2). ♦

Memo Ignites Ad Controversy

Katz Radio has been at the center of a controversy over no-ethnic dictates (NEDs) and no-Urban dictates (NUDs). A Katz memo, leaked to the press, told buyers to avoid such stations. Katz apologized, and is now meeting with media executives to work out ways to funnel more money to Urban and Hispanic radio stations—both of which, while often times a huge ratings success, lag far behind in the battle to win ad dollars.

"We are #2 in the ratings and #13 in revenue; we have to close that gap," says Carey Davis, GM, WSKQ-FM New York, a Spanish station that now

tops the list in the key 25-54 age demo, according to Arbitron.

"Yes there is inequity," agrees Nancy Tallet, managing director/consumer planning, Conill Advertising, New York. "Budgets in the Hispanic market represent only one percent of all ad expenditures, while Hispanics make up 10% of the population."

This incident has been a black eye for advertising and radio alike, but Spanish Broadcasting System VP Luis Diaz-Albertini hopes it will work to change attitudes. "This will definitely bring some changes because now it has come to the forefront." ♦

Who Won't Advertise

Which advertisers are handing down dictates not to advertise on Urban or Hispanic radio? Here are some we've heard from MBR sources.

Urban

Armor All
Aruba Tourism
Astoria Bank
Buick
Cadillac
Chock Full O'Nuts
Continental Airlines
The Discovery Channel
Jos. A. Bank Clothier
The Learning Channel
NYC Science Center
Saab
Starbucks Coffee
Trans World Airline
Volvo

Hispanic

Baskin-Robbins
CompUSA
Ikea
Macy's
New Jersey State Lottery
Paramount Studios
Sony Pictures
Starbucks Coffee
Universal Studios

Bryant Marcum of FJCN/W&R, Salt Lake City won the \$100,000 Radio Mercury grand prize June 4 for a spot he wrote and produced for UTA Summer Youth Pass. KUPL-FM Portland, OR won both the gold and silver awards for Radio Station Produced spot. Honors went to Eric Stephens and Mark Evans for ads they wrote and produced for Clutch Doctor.



Ness & Tristani Want Tougher Review

Commissioners Susan Ness and Gloria Tristani want the FCC to conduct more DOJ-style reviews of pending sales in search of groups taking too big a bite out of a market's ad pie.

"We work independently of DOJ," said Ness. She believes many smaller markets can support fewer owners, but when an application comes in where there may be a higher concentration percentage, Ness believes an automatic review should be triggered at the FCC.

DOJ's magic number has been 40%, but Ness said the FCC should not use such a hard and fast figure. ♦

CD Radio Grabs Content from Radio

Broadcasters may find the competitive threat from satellite DARS companies CD Radio (O:)CDRD) and American Mobile Radio Corp. is a lot closer to home. As CD Radio gears up for its 1999 launch date, it is already announcing content from radio syndicators to fill the rest of its 50 channels (30 will be uninterrupted music). So far, it contracted with Sports Byline USA for one channel, Bloomberg News for two channels, Hispanic Radio Network for two channels, Dick Brescia Associates' Classic Radio for one channel, C-Span Radio for two channels and Personal Achievement Radio.

Sports Byline's station affiliates are still evaluating the impact CD Radio's contracts with radio syndicators on the bottom line. "We carry them overnights, so not being a key daypart, I don't think our ratings would be impacted. I would re-evaluate after the first quarter [of the CD Radio debut] to see if I notice any trend in it. However, for stations carrying Byline in afternoon drive or early evening with the possibility of people listening to CD Radio in their cars, I think it could be a major concern," said Mitch Rosen, PD of 50kW WMVP-AM Chicago.

David Margolese, chairman/CEO, CD Radio, says that CD Radio won't necessarily be airing the same content as that provided to radio stations. "Bloomberg will deliver programming to us that won't be available anywhere else. We will share revenues 50/50 with virtually all of our content providers—50% of commercial time is allocated to us, 50% to them."

In addition, Margolese points out other key differences: "Most content providers are not carried 24 hours a day in any particular market. We will have it on demand, so that's a different service. You'll be able to get that signal in vast areas that current affiliates won't reach, and in the markets you can get it, we're going to offer the networks 24 hours a day, not two or three." ♦

Radio's Local Ad Share Grows to 18%

by Katy Bachman

The radio stations in the 10 markets that make up the MBR/Miller Kaplan Total Media Index got a bigger piece of the local ad pie in March, capturing 18.2% of the total, compared to 15.5% in February (MBR May, p. 9). The top 25 categories listed represent 90% of the local ad dollars.

Radio's gain was newspapers' loss. Newspapers' share declined from 46.5% in February to 42.8% in March. TV gained a percent up to 39% from 38% in February.

In the leading media categories, radio's share was up across the board: Automotive to 11.1% from 7.7%; Restaurants to 12.3% from 10.4%; Department Stores to 11.6% from 9.6%.

Radio gets the largest share of dollars by far—85.4%— from its competitor, TV. It is the only category in which radio breaks a 50% share. Other strong categories for radio in March were Communications/Cellular at 27.5%, Medical/Dental/Health Insurance at 33.5% and Beverages at 41.0%.

Newspapers, still the local market share leader, continue to dominate the Department Stores category with 76.7% of the business, Appliances & Electronics with 59.3%, Computers/Office Equipment with 51.4% and Transportation with 57.1%.

TV dominant categories include Drug Stores/Products at 57.9%, Auto Parts/Service at 51.0%, Music Stores/CDs/Videos at 54.2%, Professional Services at 63.6%, and Personal Fitness & Weight Centers at 72.1%. ♦

MBR/Miller Kaplan Total Media Index - March 1998 (Expenditures in 000)

Category	Newspaper	TV	Radio	Total Media	Radio % of Total
Automotive	54,483	60,734	14,383	129,600	11.1%
Restaurants	19,894	24,442	6,218	50,554	12.3%
Department Stores	28,686	4,387	4,350	37,423	11.6%
Foods	12,767	12,595	4,167	29,529	14.1%
Communications/Cellular	10,962	10,181	8,010	29,153	27.5%
Furniture	8,678	7,745	3,354	19,777	17.0%
Financial Services	9,670	9,087	5,613	24,370	23.0%
Movies/Theater/Concerts	6,147	8,020	2,279	16,446	13.9%
Grocery Stores	7,192	4,498	3,456	15,146	22.8%
Appliances & Electronics	9,375	4,603	1,820	15,798	11.5%
Hotels/Resorts/Tours	11,904	3,010	1,762	16,676	10.6%
Drug Stores/Products	3,984	8,117	1,912	14,013	13.6%
Computers/Office Equipment	5,980	3,101	2,558	11,639	21.0%
Other Retail	5,728	3,764	3,713	13,205	28.1%
Medical/Dental/Health Insurance	3,129	3,248	3,210	9,587	33.5%
Auto Parts/Service	2,438	5,171	2,539	10,148	25.0%
Music Stores/CDs/Videos	1,097	3,060	1,493	5,650	26.4%
Transportation	4,128	1,864	1,241	7,233	17.2%
Entertainment-Other/Lottery	1,155	1,842	2,946	5,943	49.6%
Home Improvement	3,905	3,271	2,633	9,809	26.8%
Professional Services	617	4,007	1,673	6,297	26.6%
Beverages	799	4,715	3,825	9,339	41.0%
Television	709	476	6,917	8,102	85.4%
Personal Fitness & Weight Centers	416	2,110	401	2,927	13.7%
Publications	498	934	705	2,137	33.0%
TOTAL	214,341	194,982	91,178	500,501	18.2%

*Based on Media Market X-Ray composite data for 10 markets (Atlanta, Dallas, Hartford, Minneapolis-St. Paul, Pittsburgh, Portland, OR, Providence, Sacramento, San Diego, Seattle). Newspaper and television data compiled by Competitive Media Reporting and radio data compiled by Miller, Kaplan, Arase & Co., CPAs. For further information contact George Nadel Rivin at (818) 769-2010.

From the Bayou to the Beltway Tauzin Takes on the FCC

by Frank Saxe



On a sunny Washington day Congressman W.J. "Billy" Tauzin (R-LA) sits at his desk talking to hometown broadcaster WJBO-AM Baton Rouge about 9-1-1 calls on cell phones. On the coffee table a smiling crocodile mouth with Mardi Gras beads hanging between its teeth looks up at you. Across the room, a mock satellite dish sits on his window sill while the head of three deer, plus a mounted owl and a wild turkey fill the walls. All were bagged by Tauzin. He is a hunter—both in the woods back home and in the halls of Congress.

Tauzin hails from Chackbay, Louisiana and was first elected a Democratic congressman in 1980, although he grew fed up with his party and switched to the Republican side of the aisle in 1995. In January 1997, Tauzin became chairman of the influential House subcommittee on Telecommunications. If all goes well, Tauzin is poised to become chair of the powerful House Commerce Committee when Rep. Tom Bliley (R-VA) steps down in 2001.

When he steps in for talk show host Michael Reagan on occasion, he says his acting experience comes in handy. When he is not hosting or being interviewed, Tauzin is listening to Talk. While in Washington, he is tuned to WMAL-AM and back home it is WTIB-AM Tallulah and KHOM-FM Houma.

Tauzin recently sat down with Radio Business Report to discuss some of the leading issues facing broadcasters.

What is your general view of the Telcom Act and the result it had on the radio marketplace?

We're concerned about the consolidation that has occurred in radio and some of the other services. We're encouraged by the expeditious move to digital, and I think that is going to change the face of radio. We're also encouraged by the explosive growth of the Internet and the seeming willingness of most of the telcom providers to invest heavily in the Internet.

Obviously, there are an awful lot of radio voices out there, but consolidation is somewhat troublesome by the fact that many of the local radio stations are no longer local and you lose some of that local flavor in broadcasting. We always favor localism in broadcasting so we are constantly watching that to make sure we don't lose that in this transformation to digital and while consolidation occurs.

DOJ is looking at it in the terms of antitrust concerns, and that's probably where the focus needs to be. But from a telecommunications policy our focus is on localism.

You have described Telcom as a "war zone." Do you think the Telcom Act has played out the way you and others in Congress thought it would?

We thought that policy would keep pace with technology a little better. We thought the telephone companies would be busy now offering cable services. We thought cable subscribers would be in charge of a marketplace where they were picking and choosing from among different providers so prices would come down.

We thought the FCC was going to get it, and they haven't gotten it yet. They still think they're living in the 1930s. They're still living with a horse-and-buggy mentality when technology is now super-sonic. To a large extent I think we need to take the blame for that, we forgot to reform the FCC when we reformed the Act. We took a 1930s act that was based on monopolies and separated functions and we moved it into a modern world of communications that is driven by bits. Companies are merging and technology is emerging. We pro-

vided an open market format for all that but we left in place a monopoly-regulatory-consumer-protection type agency that doesn't know how not to regulate. So mea culpa, we made a mistake, we need to go back and finish the job.

What would you like the new FCC to do differently?

We're beginning to examine that right now. For example, is the FCC organized properly? It is still organized in bureaus, but if you look at its structure you would think that telecommunications is still divided in all these functions when it's all merging. [The FCC] is still organized to regulate rather than to do policing. In a monopoly world you want to regulate and control prices and terms to protect consumers. In a free market context you want to police it to make sure people are playing fairly in the marketplace.

But instead of performing that function the FCC still wants to regulate, they still want to micro-manage the transformation of this monopoly telecommunications economy to a free market one and

it seems to me we would do the nation a lot of good by changing the agency so that it becomes an agency that's more of an enforcement agency rather than a regulatory agency.

What should be the FCC's role in this new environment?

Enforcing, managing the spectrum, making sure that all the players respect the boundaries so they don't interfere with your broadcast and at the same time enforce certain policies that would protect consumers against dominant players where people are taking advantage of someone else.

How are Bill Kennard and his fellow commissioners doing so far?

On a personal level, I think he's one of the nicest people I've ever met. I like him a great deal. Unfortunately, he is very much like his predecessor, Reed Hundt. I think he still wants to run a highly regulatory agency with a lot of social planning mixed in, and I have concerns about that. Again, I don't

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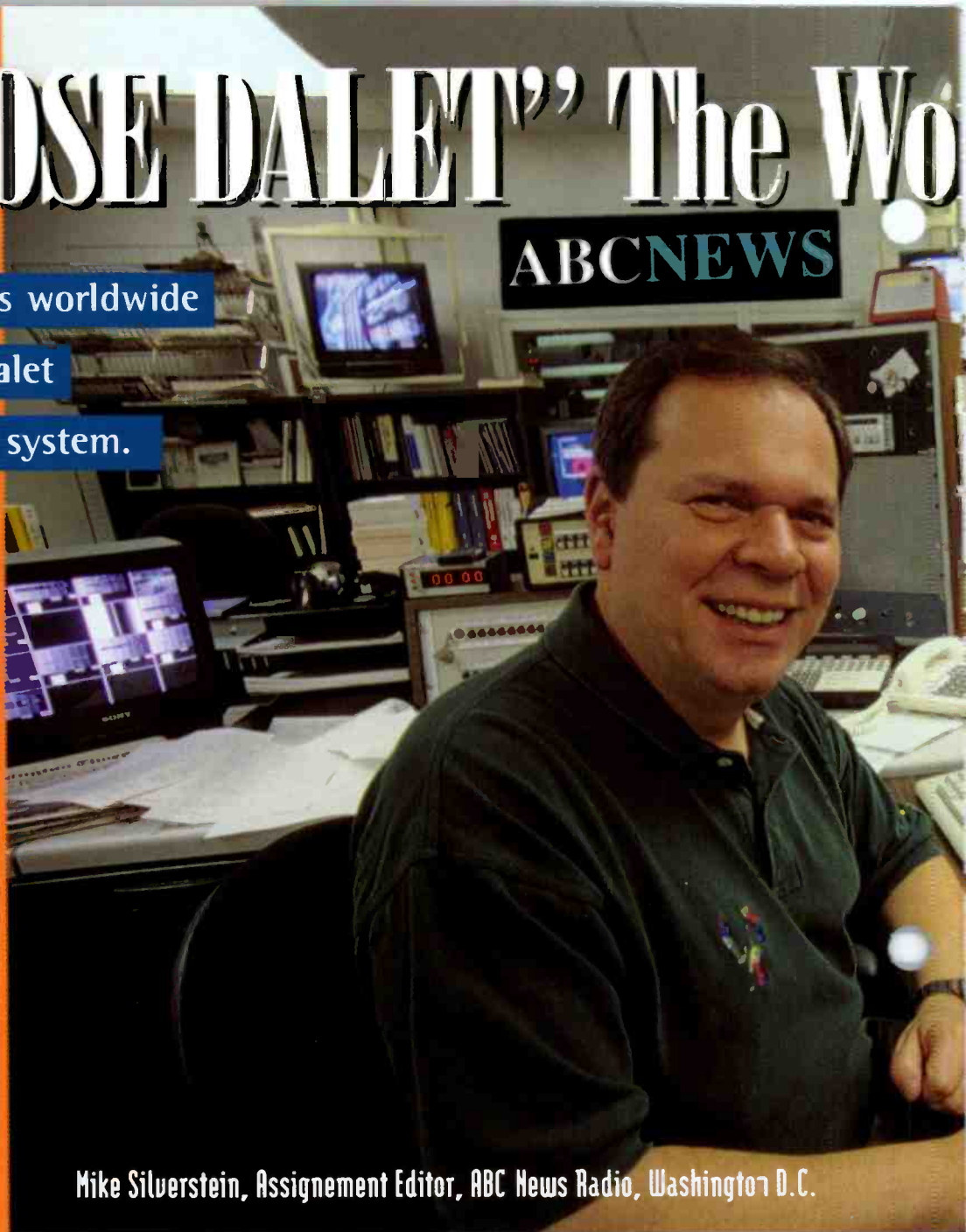
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think the new chairman has really caught on to the notion that Congress intends for things to change, and I don't think he and the Commission have figured out that they're subject to Congress not the White House and the Vice President. They should get their cues from this end of the street and not the executive branch.

You might recall when Bill Kennard left the State of the Union speech and immediately announced that he was going to provide free over-the-air television to politicians whether or not Congress liked it. You can image what kind of reaction he had. That is what I'm concerned about with the new chairman.

What about the other commissioners?

Mike Powell is a delight. Bright, thoughtful, conservative—which I like. He is right in tune with the notion that the FCC needs to be more of an enforcer rather than a regulator.

I'm tickled pink with Harold Furchtgott-Roth, who used to work with our committee and is a good friend of mine. Again, he is right on point that the FCC needs to change its ways.

I met Gloria Tristani recently, for the first time, and got a chance to know her, and again, a delightful individual with a rural touch interested in making sure rural customers don't get left out, so she and I share a lot in common.

Susan Ness and I disagree philosophically, nevertheless there are a lot of commonalities.

It's a Commission that is bright, talented and with different phi-

losophies. But here's my problem with it. It is still a politically-appointed Commission. Democrats and Republicans designed on a 1930s model—and I'd love to change that. It has nothing to do with the individuals, it has a lot to do with the nature of the beast.

Do you think Kennard got the message on the issue of mandating political free time from radio and TV?

Whether or not the FCC has the authority here, which I really question, there are times when even if you can interpret the law to say you have the authority to do something you ought not do it because it really isn't your business. It is of such an important nature that it should be left to the Congress to decide. Here is a case in point.

The question of how we conduct elections in America is central to the notion of our democracy. That is not the business of bureaucrats to change. It's not the business of appointed individuals in our society to make the rules of how we are going to elect the elected officials. The people of this country elect the elected officials who then tell the bureaucrats what to do. The FCC, with or without the authority, ought to stay out this. This ought to be for the people of America to decide for their elected representatives.

You've said the Clinton Administration sees the FCC as its bully pulpit. How does that affect its dealing with Capitol Hill?

I think the FCC is damaging its relationship with Congress when

its chairman talks about doing things with or without Congress. When they create corporations that the GAO says are illegal without Congressional authority. When they pass a tax and set up a grant program when Congress is the only authority in Washington that has the power to pass a tax. I made that case to Bill [Kennard] too; that our entire relationship is going to get poisoned if this continues.

Is Congress concerned with rate hikes, as reported by some ad agencies?

I don't think so. While no one likes to see rates go up, nevertheless we have to respect the fact that information is much more diverse in form and delivery. There are many more conduits, many more channels of communication. So advertisers are going to have a lot of choices now and if rates go up somewhere they have other choices, they can go somewhere else. That is exactly what is going to happen here. If someone tries to take advantage of someone in the marketplace they're going to find out there is another marketplace for them somewhere else. For example, you're seeing more advertisements on the Internet now, you see more and more advertisements on cable channels that were formerly ad-free, as marketers are finding different ways to advertise their products.

Do you believe broadcast ownership rules should be changed?

Consolidation beyond a certain point is not necessarily good, [but] some of the old rules are archaic. For example, does it make any sense that you have a newspaper monopoly in town and the radio station that would like to invest in a second newspaper can't do so? It doesn't make any sense. You would think that would be a good idea, by creating a little diversity in print as well as in radio, and yet we have all these cross-ownership rules that restrict that.

We have duopoly rules that prevent two stations from operating in a town where they may be op-

erating different formats doing entirely different programming and when there are many other stations that you can pick up on your local radio or off satellite or the Internet. So there are some questions on whether those old rules need to be examined, and I've asked the FCC to do that.

It sounds like you support those changes..

Yes, but with the concern always out there that changes in the rules don't end up eliminating localism. That remains sort of a backdrop concern. This is something, frankly, that I don't like the government having a heavy hand regulating except that our common policy should be to promote localism where we can in the context of an open marketplace. Our common policy ought to be to encourage diversity of expression in our country, so long as new channels are opening up and there are new ways to deliver radio, then our concerns about who owns it is less relevant.

What about the Gore Commission?

I don't mind anybody meeting and giving us ideas about what public policy should be. But the Gore Commission has no business dictating all these public mandates for commercial broadcasters.

Congress said in the 1996 Act, that if they use the new spectrum to do anything that is commercially viable outside of broadcasting then they would be obligated to pay for it. Congress did not say that when we move commercial broadcasters to digital signals that they all of a sudden would have all kinds of new public requirements—to provide free time to candidates—we did not say that. The Gore Commission should not be trying to make the FCC accomplish that. It has no business doing that. The policy questions of what commercial television and radio are going to do in return for spectrum from the government are policy questions that Congress ought to make and will be deciding as we go along.



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So my advice to the Gore Commission is have all the meetings you want, send us all the reports you want, but in the end Congress will make the decisions. And I hope we have the good sense to put the public mandates on public broadcasting to help provide them the money to carry it out and not to do that to commercial broadcasters.

What about EEO challenges and tax credit programs?

The courts have spoken there, and what they've said is that the days of discrimination against someone for ethnic, racial or gender purposes in order to help someone else have to come to an end. Those criteria have to go away, as criteria by which we try to help people who are otherwise disadvantaged.

What are your committee's plans for the rest of 1998?

We're in the middle of hearings on the Internet as we try to make certain policy decisions this year on encryption, on privacy, on copyright and taxation of the Internet, to make sure the Internet can continue to grow and prosper. All those issues have an indirect effect on radio, by the way, as radio is becoming an important element on the Internet.

We're also filing a bill dealing with public broadcasting to make sure it still has a place in our society and that they have a place in the digital age.

My concern is that Congress has been schizophrenic on the issue of public broadcasting. On the one hand, we push public broadcasting to go find their money somewhere else and then we complain because they look more and more like commercial television. The fact that advertisements have now crept into public broadcasting in the form of all sorts of attributions and the fact that public broadcasters have had to go out and buy commercially viable syndicated programming in order to keep an audience seems to me to have defeated the purpose of public broadcasting, which was supposed to be

about doing the things that aren't necessarily commercially viable but the education and cultural quality you might not find on regular commercial cable or broadcast television.

So what I would like to do is to reform public broadcasting so that it can operate in a digital age by examining the potential of forming a trust fund for public broadcasting which will more adequately provide for its needs without pushing it into the commercial world. We constantly are pushing public mandates on commercial broadcasters. We tell them they've got to do so many hours of educational programming, the Gore Commission is talking about free time for candidates, maybe even free channels for political discourse. Those public things maybe ought to go to public broadcasting. Maybe we ought to ask the commercial broadcasters to help us fund those efforts at public broadcasting rather than mandating those things on commercial broadcasters. That sounds

like too much common sense to make policy in Washington, but I'm pushing and perhaps one day we'll adopt it.

Any early handicapping for the 1998 elections or even the next Presidential race?

Al Gore is the best example of everything I think is wrong in the old FCC policy of trying to micro-manage communications policy in America in attempting to use commercial broadcasters as the messenger for whatever government program that Al Gore likes. That's wrong.

I hope broadcasters in America pay a lot of attention to that as we enter the next election cycle. There are going to be a number of candidates out there besides Al Gore. I would hope Mr. Gore and the other candidates are asked specifically as they go around the country being interviewed by broadcasters, "Do you really think it's the business of the government to tell commercial broadcasters what they ought to be saying and what

the content of their program ought to look like... and if you think that's the business of government, what's the First Amendment all about?"






Any final thoughts for broadcasters?

The big questions for radio in America are "What is radio going to look like in an age when audio and video and data all converge in a digital era? What role does radio play in that new era when more and more information will be contained in data services over the Internet? What new function will radio provide for us in an era where satellite services are fully deployed? Will radio become something different?"

Those are some quite interesting questions that I don't know the answers to, but I would again challenge radio broadcasters to think through those things and to continue educating Congress on what they feel their role is going to be in the new world of communications. ♦

Washington Scorecard

by Frank Saxe

	Radio Rating	Praise/Complain to:
<p>FCC Streamlining They'd make it easier to make technical changes by considering allowing owners to work out differences among themselves and present solutions to the FCC. They'd also allow up to four simultaneous filings. They're even considering reworking their propagation model which has been flawed for years. What worries us is the potential to "AM-ize" the FM band, and the overhaul of Class D stations could be a move toward microbroadcasting.</p>		FCC and Bill Kennard
<p>Free Political Airtime FCC Chair Bill Kennard backs down on his proposal to use the public interest obligation to force radio and TV to give candidates free air time, beyond the massive coverage they already get. He still wants the FCC to look at the idea though, and that could provide ammunition to free time supporters down the road.</p>		President Clinton, FCC, your local Congressional Representatives
<p>DOJ DOJ forced CBS to spin seven ARS stations to close their merger, forced Capstar and SFX spinoffs, and has had Jacor swapping away with CBS. Justice Department lawyers are even becoming edgy about small markets, where some owners will have to try not to go beyond DOJ's magic 40% figure. Meantime, they're whining to Congress that their budget is too small to keep up with merger-mania.</p>		DOJ's Joel Klein and Reid Horwitz
<p>Gore Commission The Gore group will likely propose a code of conduct for broadcasters. Its minimum standard of public service would be modeled after the old NAB Code. Whether they will propose voluntary or mandatory standards remains to be seen. Gone from the radar screen is free time for candidates. The Commission also seemed to have realized they're a toothless monster.</p>		Vice President Al Gore, Commission Co-Chairs Leslie Moonves and Norman Ornstein
<p>Clinton Merger Panel The President has set up a high-level panel to look at whether competition is suffering as a result of the large number of mergers, including among broadcasters. The good news is they spent their first meeting examining consolidation in the meat packing industry.</p>		The White House

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Pay for Play

Chasing Revenue and Keeping Ratings

by Carl Marcucci

The latest (and highly publicized) NTR concept, Pay For Play, has been a topic of meetings, analysis, modeling, conventions and conferences since February's CRS 29 in Nashville. Not to imitate the payola scandals of the early 60's, Pay For Play has taken on many meanings and drawn just as much controversy.

A Touchy Subject

Pay for Play arose partially from new financial pressures caused by consolidation. "The new focus is on insecurity from management that needs that extra \$500,000 to make their numbers. What if 10 labels decide to do this? There's not a radio company that's going to refuse their dollars, I promise you. They could make PDs play the records from the corporate level down to all the stations. They may never say 'play this record,' but they never have to. It's implied," said Ed Shane, president, Shane Media.

Many radio execs are salivating over label dollars going to retail from discounting CDs and to newspaper advertising. "The record industry has done research that shows over 70% of record sales are a derivative of what people hear on the radio. Best Buy and a lot of retailers are extorting record labels to buy end-caps and newspaper ads, along with shelving only discounted CDs. We're trying to act as partners with the record labels to subvert this extortion," said Brian

Burns, OM, WDCG-FM Raleigh, whose station is currently leveraging Pay for Play.

Call it extortion or not, retailers advertise most in newsprint. And because most records are sold at retailers like Wal Mart, K-Mart, Best Buy and Musicland, labels will subsidize the retailers' print ad budgets as co-op. Retailers sell so many records because they are sold cheaper than at record stores, initially at a loss (later it becomes profitable with economies of scale). "To get records on the shelf, labels may subsidize the loss leader—selling something at a loss to get people in the door to buy something more expensive. CDs are one of the cheapest things in these stores," said Tom Barnes, Partner, Sinton, Barnes & Associates, a Pay for Play consultant.

There has always been pay for play in the form of promotional tie ins, record-company sponsored contests and special appearances at radio station events and concerts. But the new Pay for Play versions still have many GMs taking a wait-and-see position. "I would have to be convinced that

we do not damage our product. I might set aside certain times of the day for something like this. I certainly wouldn't want to hear this going on all day long. I would rather err on the side of conservatism and what we think is good for programming. Because in the long run, the majority of our support is still going to come from traditional advertising. For \$100K or even \$1M, if you give up enough points, did it cost you \$2M?," said Deborah Parenti, GM, WXTU-FM Philadelphia.

Pete Booker, President, Delmarva Broadcasting, is more open to the idea as an infomercial: "I'm certainly not opposed to the idea, but I like to take sort of an infomercial approach to it. An opportunity for stations to generate more revenue can be taken by saying to the labels we'll sell you three minutes of airtime, and it doesn't necessarily change the perception of listeners to the radio station. It highlights the artist and puts the label in a position it wouldn't otherwise be in."

The Ultimate Pay-for-Play; Label Buys Station

Here is a new twist on the pay-for-play phenomenon. Gold Circle Entertainment laid out \$2.1M in May for an Omaha combo, KOTD (*ABR* 3/2, p. 14). It owns Black Nine Records, a label whose fare of AC and roots artists could fit nicely into a Triple A format.

"At this point we are not making any changes," said KOTD-FM GM Steve Warga. The station presently airs ABC Radio Network's Adult Standards Stardust format, but Gold Circle had considered switching formats to Adult Alternative to spin their own artists' records. "I know that was in the back of their minds when they bought the stations but we've had advertising success with the format, and they're sticking with this format for now," said Warga.

The possibilities are endless for cross-promotion and market-

ing, but their first priority is building new studios and upgrading the 3kw signal to 25 kw. "That has not materialized, so this may not be the time to make a change like that," he added.

The FCC does not prohibit cross-ownership between record companies and radio stations. Gold Circle is backed by the deep pockets of Norm Waitt, co-founder of Gateway Computers in nearby North Sioux City, SD.

This is not Gold Circle's first foray into ownership. It already owns a Sioux City, SD TV station. Besides using radio, Gold Circle relies on direct-response TV, mail advertising and the Internet.

Black Nine has released three artists to date, including McKinley, Douglas September and the Day I Fell Down. A new work by David Crosby of Crosby, Stills & Nash fame is also in the works. — **Frank Saxe**

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Programming & Positioning

The Models

Pay for Play is different things to different people and several "models" have evolved in a short time.

1 Atlanta-based Sinton, Barnes & Associates' model offers labels the most control over a playlist—if the label wants a song played, and played often, it can pay for it. Pay for Play's only legal requirement is the song must be tagged with a minimal disclaimer, "This song was brought to you by XXX Records."

Sinton, Barnes was the first reported Pay-for Play dealmaker with KUFO-FM Portland and Flip/Interscope Records. With already over a dozen clients, a number of proprietary strategies have been employed, as with Alternative KUFO. Said Barnes: "You have to listen really hard at our clients to hear

the announcement. We found a few really cool ways of making it good for everybody (artist, label and radio station). One is we cut sequential voices of different people that sound like listeners. Voice One: "Here's the new song by Semisonic." Voice two: 'Its a four piece band. They're based in Minneapolis.' Voice

three: 'This is from their third album.' Voice four: 'Closing time, brought to you by MCA records.' Voice five: 'On WXXX.'" Of course, the voices are matched with the stations' demo. KUFO spun "Counterfeit" by the band Limp Bizkit 50 times over five weeks (Jan-Feb) for the sum of \$5,000.

2 Another model was developed by CBS (N:CBS), whose high-profile CEO, Mel Karmazin is known to have his eye on getting more than a meager share of record company ad dollars.

CBS's WUSN-FM Chicago GM Steve Ennen and CBS Radio's VP programming Rick Torcasso crafted a Pay for Play model for CBS's eight Country O&Os and now CHR WBBM-FM Chicago: The radio station informs labels of new songs that have been chosen for airplay. They have the option of guaranteed pre- or backsells in 10-second song trail-

ers that are sold as short spots tagged to the record.

"CBS back-announces pretty often. What they don't do is advertise [those songs]. So what I bought was 10-second commercials tied to the song being played. So let's say that a song plays for three minutes. I'll get the next ten seconds immediately without any announcer. I did some research with consumers and it turned out to be a very powerful buy compared to a regular 60-second commercial," said Pat Quigley, President Capitol Records.

Country artist Steve Warner's "Holes in the Floor of Heaven" is one example. In the CBS model, Steve says "Hi, this is Steve Warner. Thanks for listening to Holes in the Floor of Heaven. It's from my new album, Burning the Roadhouse Down." The announcer then comes on for the second five seconds and says "Steve's new album is available at K-Mart for \$11.99."

"I just bought a straight out commercial tied to the song being played," said Quigley. "This is really the opposite of pay for play. We don't say it's brought to you by Capitol

Records. It's been played for eight weeks already before I started advertising—we always put the single out before the album, no sense advertising the album before its available." Because they are considered spots only, the announcement satisfies legal requirements.

Capitol Nashville is spending \$500,000 on the project. While not "paying" for a particular song to get on the playlist, the deal accomplished two goals: getting the artist and title mentioned and a location to buy it, which also opens up the co-op ads with retailers.

3 Instituting a third model at WDCG (Alternative CHR), Music America Promotions' partner Bill Rusch has instituted "CAMP," the Comprehensive Artist Marketing Plan: "When we go to a station, we give them a checklist,

take what's indigenous to the station, and form the plan from there. That can also include leveraging stations' seasonal CD samplers, tie-ins with concerts and festivals, magazines and music listening lines."

Stations add a record and Rusch informs the label that there are CAMP opportunities for sale. Like the other models, the label is mentioned. Says Rusch: "We don't pair it with the song. It goes like this: You're listening to G-105, and be

sure to be listening for the new one from Athenaeum, coming up later. And don't forget, Athenaeum is our Buzz Track of the Week, brought to you by Atlantic Records." The track plays in the background throughout the mention.

Tailored specifically to each station, WDCG's CAMP plan has three very considerable options for the labels ranging from \$2500 to \$6340:

a "G105 "Buzz Track of the Week"—includes a minimum of 22 title and artist backsells per week for five weeks, promo announcements for the band's highlighted spot on the station's Web site and a link to the label's and band's Web sites.

b Includes all of option one, plus a minimum of 48 new music promos during the first two weeks of airplay, an album review by PD Kip Taylor on the Web site for five weeks after the album's sale date, a dedicated message board on the Web site from listeners' feedback on the

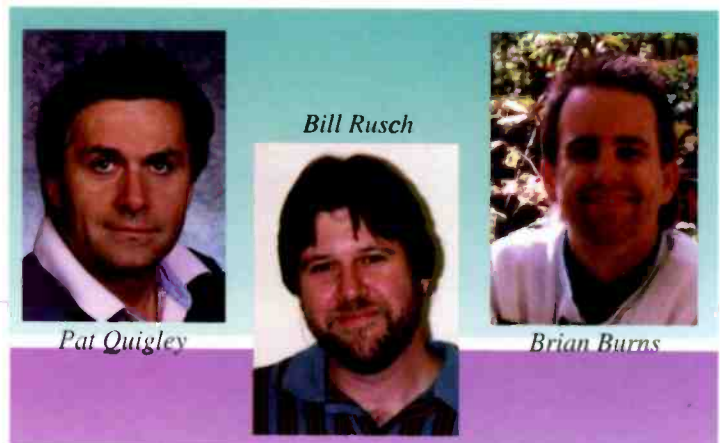
artist, and statistical callout research results reported to the label twice monthly from Critical Mass Media.

c Includes both options one and two, plus a prominent place at G-105's end-cap displays at eight Blockbuster locations in the market, 12 Blockbuster spots featur-

ing the artist, live DJ appearances at Blockbuster featuring the album, 30+ on-air promos for the album at Blockbuster, a written promo on the Web site and a mass e-mail promo to 6000+ loyal listeners of the station a week before the album's sale date.

So far, CAMP has promoted "Athenaeum" on Atlantic, "Agents of Good Roots" on RCA, "Semisonic" on MCA and "Sister 7" on Arista. Next in line: Natalie Merchant on Elektra and "Bare Naked Ladies" on Reprise and two others.

Breaking down the numbers, Burns says the labels have been happy with the costs for CAMP: "Basically what this program comes out to without the Internet is over 800 GRPs and at \$85 a point, which is what WDCG sells for, this is about \$41,000 in value of everything that goes on the air. And, by testing songs in one or two markets, if it doesn't sell, it saves the labels the cost of a national promotion," said WDCG's Burns.



Pat Quigley

Bill Rusch

Brian Burns

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