

Radio Business Reporttm

Voice of the Radio Broadcasting Industry®

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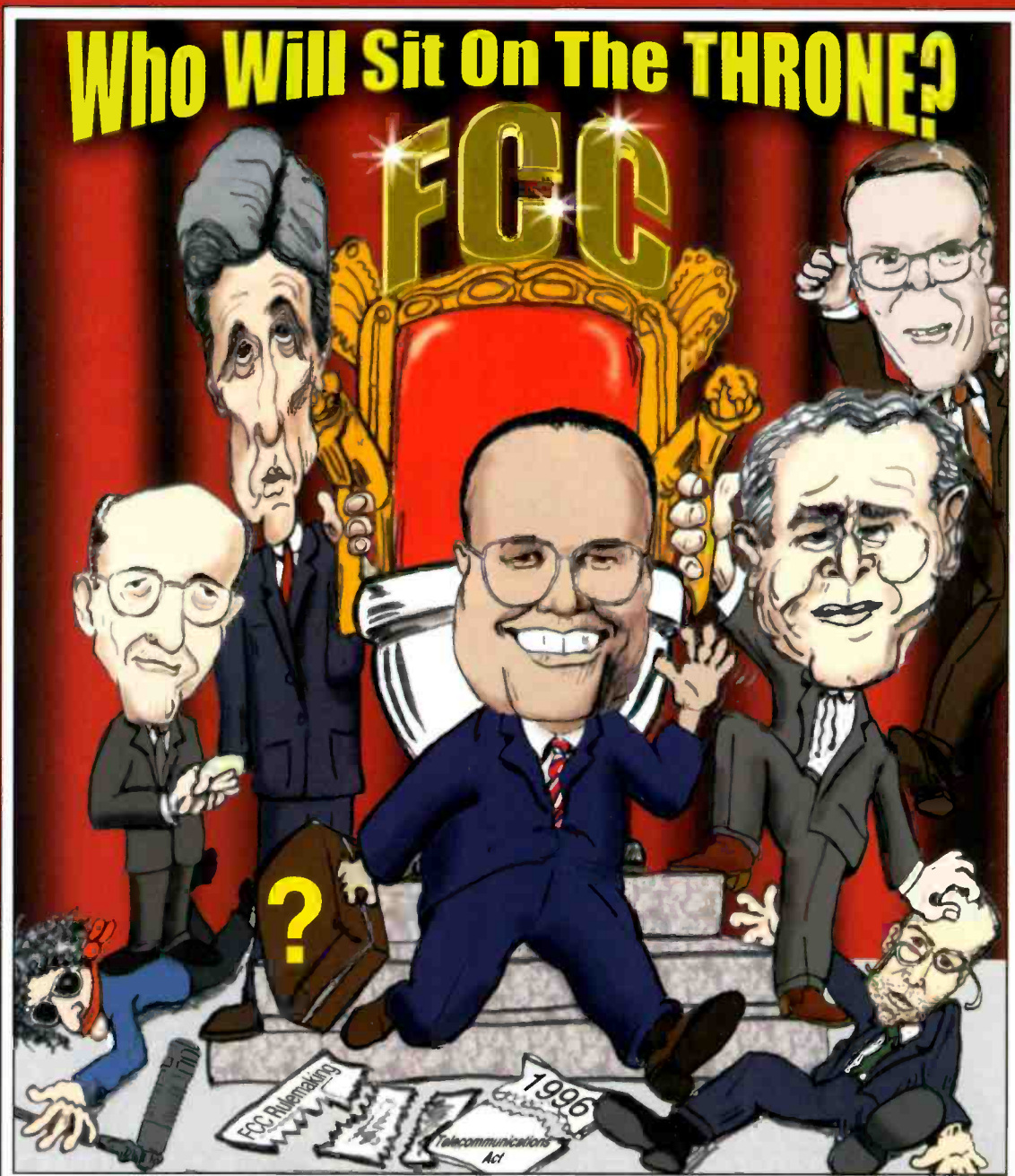
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The war ends: Infinity signs multi-year deal with Arbitron

By Jack Messmer / jmessmer@rbr.com

This battle lasted less than two months. Viacom's Infinity Broadcasting was back in the Arbitron fold by mid-August, after refusing to sign a new ratings contract in late June and vowing to develop a new radio ratings service (Radio Ratings USA) with The Media Audit. That project is said to be still going forward, but "not for at least six months, though," an Infinity source told RBR.

Although most observers saw Infinity as the one who blinked, President **Joel Hollander** insisted that he got something out of the settlement. "We had two issues: the short term problem and the longer term issue, which is related to where the industry is going. In the interim we did cut a favorable deal," he told RBR. "The longer term issue is where we are going to be five years from now: the people meter, diary, what form is this going to take? If we're going to PPM, all the broadcasters, including myself, certainly want cost certainty. It's time that the industry bands together in this very important issue."

On Wall Street, there seemed to be no doubt who came out ahead. "It is positive for Arbitron. It looks like they actually got a price increase, based on the guidance that Arbitron gave when the company commented on it. So it looks like Arbitron had more of an upper hand than we had thought," analyst **Kit Spring** of Stifel Nicolaus and Company told RBR. Spring said he wasn't surprised that Infinity came back to renew with Arbitron, but reiterated that the ratings company appears to have gotten a better rate than he had been expecting.

Similarly, analyst **Alissa Goldwasser** at William Blair & Co. was not surprised that Infinity came back, although she had expected Hollander to hold out longer. "I had expected them to return, but I had expected them to hold out until about the end of the year," she told RBR. In a note to investors, Goldwasser said renewing Infinity strengthens Arbitron's bargaining position as it faces the renewal of contracts at the end of the year with Clear Channel, its biggest client. Goldwasser said it was a little hard to inter-

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pret from Arbitron's revised guidance just what terms it reached with Infinity. "I suspect that Arbitron did not make any major concessions to Infinity," she said.

RBR Observation: Like the Wall Street analysts and most people in radio, we at RBR were not surprised that Infinity came back to subscribing to Arbitron's ratings after just a few weeks of operating ratings free. It had been tried before and the result was always the same. Clear Channel tried to solicit bids a few years back for creation of a new radio ratings company, but ended up renewing with Arbitron instead. Cumulus tested Eastlan earlier this year as an alternative for some of its smaller markets, but in the end also renewed with Arbitron. So it was not surprising that Joel Hollander didn't hold out for too long in his battle with the radio ratings gorilla. We'd thought Infinity might go a whole book without ratings, but the hold-out didn't even last that long.

Granted, there are many in the radio industry who are frustrated with Arbitron and believe it operates with a monopolistic approach which puts the people who provide most of its revenues, broadcasters, at a disadvantage. What's not clear is that there is any viable solution. As RBR Publisher **Jim Carnegie** noted in his Publisher's Perspective back in April (4/9/04 RBR Daily Epaper #70), the numbers just don't work for having two competing radio ratings companies.

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CC Radio's "Less is More" already meaning less with syndicators, nets

by Carl Marcucci / cmarcucci@rbr.com

Looks like CC Radio CEO **John Hogan** wasn't kidding when he agreed that CC GMs and PDs will be re-assessing relationships with some of the vendors out there as part of the company's "Less is More" strategy. Sources have been telling us off the record CC stations are cutting back on a lot of different syndicators and services, including promos, and that everybody in the industry is taking a hit who works on barter. As well, CC and Premiere staffers have been notified the show clocks are changing for Premiere programming. All that has to be fixed in October sometime for a 12/27 rollout.

"Less is More" is going to also have an impact on ABC News Radio and Westwood One's CBS Radio News and other news services. ABC runs 123-128 minutes per week on CC stations. Will ABC cut back their minutes to save these affiliations? Said a source at ABC: "We have a contract with CC Radio that extends well into next year. They're negotiating with everybody and I'm sure there's going to be inventory reductions in some places and in other places they're going to lose product. Not from just us, but from other vendors. They are pulling 90-day cancellations across the board with people. We have reduced our reliance on CC over the years. So if they pull, we can still survive. We can go to somebody else across the street. We're dealing with them on a whole wide variety of fronts. For the most part, it's going fairly well. I guess the best way to put the ABC-CC relationship is you could call it an 'uneasy alliance.' Because unlike Infinity and CC, who are at war, we're kind of more like Switzerland. We do some stuff for them—**Rush** is on our major market stations; we have **Jim Rome** on in NY and Chicago; they love **Hannity** on their sta-

tions because he keeps Rush's audience on their O&Os. So we've got a lot of moving parts together and we'll probably figure something out."

Hogan tells *RBR* his staff's goal is to work together with vendors in bringing forth the Less is Better strategy: "Clear Channel's local managers and programmers are making plans to initiate the Less is More plan at their stations. As part of that effort they are evaluating all programming choices and options, including those provided by networks and/or syndicators and they will be making the best decisions for their market and stations on a local basis as they have in the past. We have many long and mutually beneficial relationships with third party providers and it is my hope that they will support the initiative to improve radio for listeners and advertisers. And work with us to make Less is More the success it should be. We're focused on doing great radio with less clutter and commercial content and I know the networks and syndicators share the same goal and believe they'll work to accommodate CC stations in the Less is More world we're moving to."

RBR observation: What you're going to see is a contraction in the network radio marketplace that's going to weed out a lot of these people who have not been doing it with product, but with comp. That's the easiest low-hanging fruit for a station to cut. The days of people doing straight comp deals for spots may be numbered. So the net of this is going into the upfront, there will be less inventory to buy for next year. If demand stays constant from last year, it may outstrip supply in 2005 (We addressed this in Part I of *RBR's* Ad Biz series on the upfront in September. Also see our AdBiz Part II, p. 12 on the upfront).



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RESEARCH DATA

Quality Product Overview

The Crystal Media Networks product, as shown in Table 1 (*PRESTIGE*, *AMD*, *EXTEND*), represents a distinctive and demonstratively positive net result. The company has consistently delivered high indices in the Top 10, Top 25, and Top 50 markets- rendering the #1 or #2 positions in its RADAR-rated network.

Source: PRESTIGE- RADAR81 Special Tabulation, Audience to All Commercials. Base: Total US. Rank based on Top Market composition for all forty (40) RADAR networks in RADAR 81.

AMD & EXTEND- Arbitron Fall 2003 Nationwide DMA; Base: Total US.

CRYSTALNETS	PRESTIGE		AMD	EXTEND
	Index	Rank	Index	Index
Persons 25-54				
Top 10 Markets	222	1	228	159
Top 25	171	1	175	136
Top 50	142	1	144	122
Men 25-54				
Top 10	224	1	235	161
Top 25	169	1	175	133
Top 50	141	1	144	121
Women 25-54				
Top 10	220	2	221	158
Top 25	173	1	174	141
Top 50	142	1	144	123

Table 1

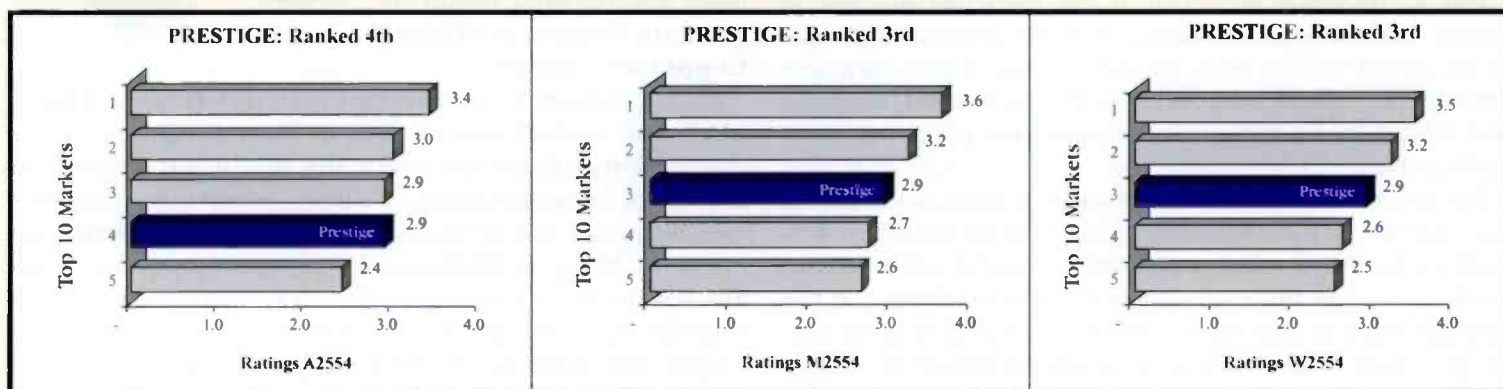


Table 2

In Table 2, CrystalNet PRESTIGE delivers a 2.9 rating for Adults 25-54 in the Top 10 markets with a gender composition of 51% women and 49% men. PRESTIGE is ranked #3 for Men 25-54 and Women 25-54, and it is ranked #4 for Adults 25-54.

Source: RADAR 81, volume 2, Audience to All Commercials, MS 6a-12m; Ranked on AQH in top 10 DMA markets against all 40 RADAR rated networks in RADAR 81.

New Product Overview

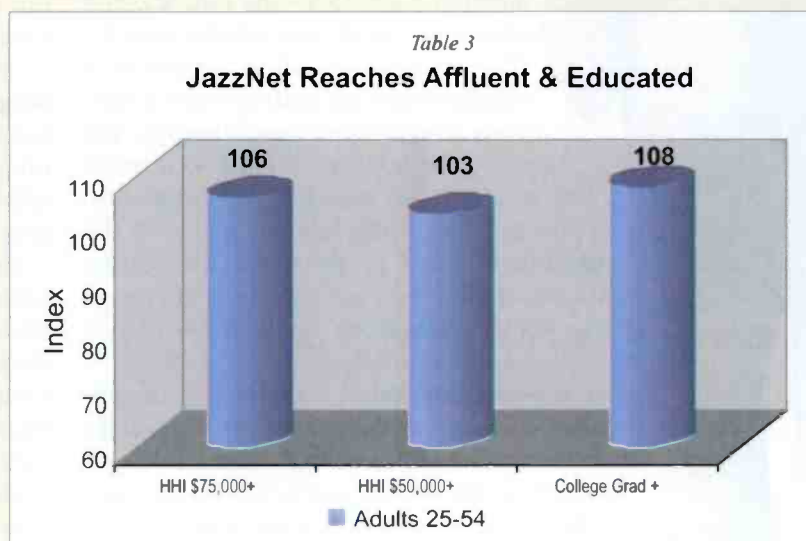
A new product- *JazzNet*- is debuting in the marketplace in Q4/04. The network includes 3-time Grammy nominated musician Dave Koz, "Chill with Chris Botti," and services provided to Smooth Jazz, A/C, and Urban A/C affiliates.

Affiliates include:

- WQCD-FM (New York)
- KTWV-FM (Los Angeles)
- WNUA-FM (Chicago)

This product targets educated, affluent consumers.

Source: Arbitron Fall 2003 Nationwide DMA



Election 2004: What's in it for broadcasters

by Dave Seyler / dseyler@rbr.com and Jack Messmer / jmessmer@rbr.com

Who will fill FCC's biggest chair?

For broadcasters, there are no bigger stakes in the 2004 than those revolving around the campaign for the White House. The reason is simple—whoever holds that piece of Washington DC real estate gets to move the furniture around at broadcasters' favorite government agency—the Federal Communications Commission. Most importantly, the prez gets to make sure that three of the five commissioners share his party affiliation, especially the one that sits in the Chair's chair.

This is especially important at this particular juncture in history. The infamous FCC ruling on broadcast ownership regulation of 6/2/03 has been on ice for over a year now, put there by the 3rd Circuit Court. Finally this summer, the court sent it back to the FCC, almost exactly one year after it was made public.

The court took philosophical stands on parts of the ruling. For example, it said it had no philosophical objection to a local media cluster which combined local print and broadcast media properties under one owner. For radio clusters, it had no philosophical objection to replacing a signal-contour market definition to an Arbitron-geographical definition.

However, in virtually all cases where numerical ownership caps were set, the court demanded better justification or modification (presumably any proposed modifications will require ironclad justification as well).

The FCC split on party lines on that fateful June morning last year, with the two Democrats vehemently opposing the new rules.

At this point it is important to remember a key fact—the FCC was not given any guidance whatsoever by the court as to what numbers it should come up with when it establishes ownership caps. Despite the fact that the court's decision to remand has widely been hailed as a repudiation of the 6/2/03 ruling, in fact, it leaves the question of what to do about that ruling entirely open. The FCC may well decide to try to justify even more liberal caps than it proposed last summer!

So, if **George W. Bush** is re-elected, the Republican-controlled FCC can try to justify rather than modify the 6/2/03 ruling (we doubt they'd succumb to the temptation to loosen the rules further after what happened last time around).

If **John Kerry** wins, look for a Democrat-

controlled FCC to modify the rules downward, making local caps tighter and keeping as much restriction on print/broadcast combinations as it can.

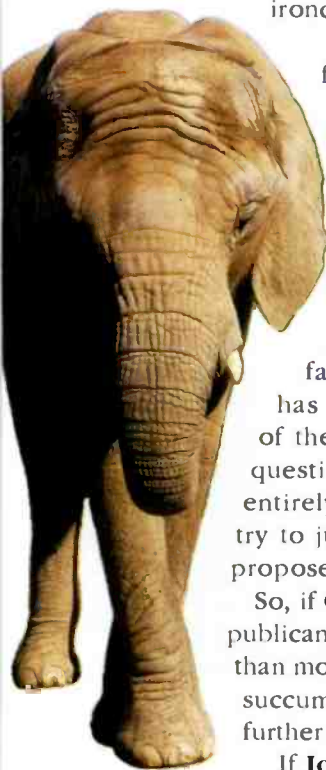
Will Republican Chairman **Michael Powell** stick around if Bush wins another term? If Kerry wins, would he promote Democrat **Michael Copps**? Who knows?

As for indecency enforcement, it still remains highly likely that radical new six-figure fines are going to become reality—there just is not any significant opposition anywhere in Washington. Without going into great detail, although the Democratic party has often been accused of being in Hollywood's hip pocket, it has actually led the charge against indecent programming. Powell initially was more of a free speech defender while Copps fought the "race to the bottom." The Super Bowl half time incident seemed to change Powell's stance for good, leaving no port in a storm for those who choose to broadcast on the edge.—DS

Four broadcasters have congressional hopes

There are currently only two broadcasters in the United States Congress—Sen. **Conrad Burns** (R-MT), who previously owned stations and a farm radio network in Montana, and Rep. **Greg Walden** (R-OR), who still owns radio stations—but their ranks could increase dramatically with this election. Four more broadcasters are vying for seats in the House. Two local station owners are running as Republicans: **Dave Magnum** in Wisconsin and **Rick Murphy** in Arizona. Former Cincinnati radio and TV personality Nick Clooney is running as a Democrat across the river in Kentucky and KIRO-AM Seattle talk host **Dave Ross** is now off the air to seek a seat as a Democrat on Capitol Hill.

The two Democrats appear to have easier paths ahead, since both are running for open seats—although the seat Clooney wants is the only one his party still holds in the state's congressional delegation and Ross wants one being vacated by a retiring Republican. Murphy faces a tough race because he is trying to unseat a fellow Republican in the state's primary, claiming that the incumbent hasn't represented the district's interests in Washington. And Magnum is running against an incumbent Democrat who coasted to an easy win two years ago.—JM



Commerce Committee:

Broadcasting's home in the Senate

Big changes are in store at the top of the roster in the Committee for Commerce, Science and Transportation in the US Senate. Chairman **John McCain** (R-AZ) has announced he will step down, turning the top Republican slot on the committee over to **Ted Stevens** (R-AK). (Obviously, the chair belongs to the majority party—as of this writing, a Democratic Senate takeover is possible but would be considered an upset.)

On the Democratic side, **Ernest Hollings** (D-SC) is retiring, leaving the top slot to **Daniel Inouye** (D-HI).

Other openings are being created by the retirements of **Peter Fitzgerald** (R-IL) and **John Breaux** (D-LA). There is no point in even speculating as to who will be selected by each party to fill those seats.

Several senators are up for re-election, including McCain, Inouye, **Byron Dorgan** (D-ND), **Ron Wyden** (D-OR) and **Barbara Boxer** (D-CA). All are expected to win their races handily.

Oh, the Democrats may have one more opening on the committee. A Democrat by the name of John Kerry has been travelling the country angling for a promotion.—DS

Handy dandy guide to the battleground

The USA is said to be divided between red states and blue states, but there is another color which must be taken into account—purple. Those are the states where each party feels it has a legitimate chance to win in the all-or-nothing competition for presidential electoral votes.

A list published on the CBS website lists two categories—states to big to ignore, and states settled by a 6% margin or so or closer in the 2000 race.

The big states, the top ten in terms of electoral votes, include California, Texas, New York, Florida, Illinois, Pennsylvania, Ohio, Michigan, New Jersey and Georgia.

The hotly contested states include Florida, New Mexico, Wisconsin, Iowa, Oregon, New Hampshire, Minnesota, Missouri, Ohio, Nevada, Tennessee, Pennsylvania, Maine, Michigan, Arkansas, Washington, West Virginia and Arizona.

Other states that have been put into play, at least somewhat, include North Carolina, Louisiana, Virginia and Colorado.—DS

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One on One

PHD's Patrick McNew



by Carl Marcucci / cmarcucci@rbr.com

On a recent trip to the Motor City, I had a chance to meet with **Patrick McNew**, PHD's EVP/Local Media Network (LMN) Director of Operations at his offices in Troy, MI. Pat's responsible for the management of the six PHD Local Media Network buying offices. He oversees the spot television, radio and cable buying practices of the LMN for the Chrysler Group as well as all other PHD clients. LMN is responsible for negotiating, buying and stewarding over \$1.5B of client money.

Patrick brings a unique perspective to the PHD LMN having held a number of broadcast sales and executive positions. He worked as an AE at WWJ-TV (now WDIV-TV) Detroit from 1970-1972 before moving to Katz Communications/Detroit. There, McNew served as an AE for one year before becoming a Divisional VP and SM, a position he held from 1973-1984, along with being the youngest VP in the history of Katz TV.

Pat moved to Petry TV in '84 as a VP/Regional Area Manager/Automotive Specialist and remained there until '96. He was responsible for sales and administration of Petry's Detroit, Cleveland, Boston, Philadelphia and Minneapolis offices' \$180M in broadcast revenue. From 1/96-3/97 Pat managed the CBS Cable Office in Detroit, marketing and selling The Nashville Network/Country Music Television/CBS Eye on People in Detroit, Cleveland and Minneapolis. Pat is also a member of the Detroit Adcraft Club and a recipient of the BBDO Founders Award.

How and why do you use radio? How can radio's strengths be maximized as part of a larger campaign?

What drives us to radio is that we think it's a terrific frequency medium. Radio enables us to emphasize a consistent message. We think it works extremely well in conjunction with other mediums. When you have a simple, straightforward message and you can remind people of what they saw on television, or what they read in print so the mediums work together.

We also use radio to cross promote and create multimedia contests that tie us to the individual radio stations in a local market. We firmly believe in radio's ability to drive a message into the local community using the station's DJ's, local personalities and local station events.

How is local radio better than local TV for some of your objectives?

You've got a captive audience, you've got DJ personalities, unique programming, on-site promotions, which television has been slow to embrace. There are so many great innovative elements in radio.

How do you use multicultural radio?

First off, we use it when and where the ethnic composition of the market makes sense. Secondly, it requires that the message we're trying to communicate is translatable and relates well to the group, or groups, we're trying to reach. All of that said we use it around event periods and in conjunction with our general market radio.

How do you use satellite radio? Do you believe it is a big threat to traditional radio? Why?

At this point, and to my knowledge, we're not doing any advertising on satellite radio. As you know, DaimlerChrysler is affiliated with Sirius. It's my understanding that the 60, or so, music channels on Sirius are commercial free. The other 40 program channels may contain commercial announcements.

Sirius is currently available as a factory option on about half of our product line, on models such as Pacifica, Durango, Minivan, and Ram, and by the end of next year, it will be available on virtually all models. Our research tells us that in the last two years there are some 2 Million subscribers to satellite radio between Sirius and XM. That's a pretty impressive growth number for new technology which suggests there seems to be potential broad appeal. Furthermore, DCX's research indicates a high customer satisfaction index, a 73% renewal rate, and solid appeal amongst younger men.

Do we believe it's a threat to traditional radio? Absolutely, and so apparently does Clear Channel, who I believe just announced a roll out of digital broadcasting equipment to 1,000 of their stations in a bid to improve sound quality. I'm not speaking on behalf of John Hogan from Clear Channel but I would suggest one of the reasons he's mandating stations to lower the commercial load is to ultimately retain listeners as satellite continues to grow in popularity. Speaking as a listener, how about more music and program content?

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Tell us about this year's Chrysler Summer Sales Drive. Last year the buy was \$100M. What was it this year? How much did radio get on the buy this time? How much did TV get?

The incentive strategy has changed this year. It's now much more of a continuity program running throughout the year rather than just a summer heavy up. They're trying to establish and link it around different times—a Labor Day Sale, spread it out and concentrate it more on specific days.

Summer budgets decreased this year, however, the DAA's continue to support the incentive programs heavily. Due to the reduced budgets the media mix was adjusted and spending was concentrated on the lower purchase funnel outlets such as newspaper, Internet and radio.

How about details on the planning: the buy, the target demos, formats, spot vs. syndicated/network components. For spot, what markets did you focus on and why?

The buying target remains the same, which is Adults 18-49. The market list was reduced from about 70 markets last year to 52 markets this year. PHD planning continually evaluates markets on an ongoing basis to determine where the best sales opportunities exist. This year the radio portion of the buy included a promotional component with the Infinity stations. Individual station DJ's direct listeners to their website where the listener takes a brief test to determine which of the brands, Jeep/Dodge or Chrysler, is best for them. It gets the listener involved, let's them get additional information about DCX products and provides an avenue for measurement.

How about promotional spend for added value?

The PHD Local Media Network negotiates, buys and stewards about \$240 Million of local market radio on behalf of our clients. As you can imagine, there is probably not a single added value, or promotional scheme, that we don't see. Our guiding principle is that first off there must be solid media value before there is added value.

On a purely spot basis, we recently purchased promotional events in individual markets on the West Coast targeting male oriented stations during summer months for the exciting, new Dodge Magnum. These individual station promotions enabled us to expose our vehicle to the station's core listener. Each promotion was a combination of product endorsement, on-site vehicle display, commercial spot banks and web promotions culminating in a Magnum giveaway for listeners.

How have Infinity and Clear Channel made it easier for you to implement last-minute buys, as with some of your summer spends over the last couple years?

First off, they are both realizing their size can be an asset. The Clear Channel/Katz and Infinity/Interp combo represent a substantial block of

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radio listenership. Both have done an outstanding job of listening to DCX's marketing needs, and responding on a dime with proposals, and then getting stations to execute those proposals.

Have some of the face-to-face meetings with John Hogan, Stu Olds, John Sykes and Joel Hollander been helpful? Why?

It's always wise for the top people to know each other. In today's media environment it simply makes sense. **Bill Burton**, President of the Detroit Radio Ad Group, is fond of saying, "Never take no from someone who can't say yes." It's sound advice. It also helps in the execution of a big idea if the big people are involved.

What can other radio groups do to get a larger chunk of your spend?

PHD planners say "idea generation." Our planners feel it is imperative that we continue to move forward with new thinking and innovative promotions. Today, it's not just about awareness, but about reaching the right people. Radio must remain true to the innovative roots that make it such an effective medium.

I'd like to see local stations have more local management that takes advantage of radio's uniqueness.

What do you look for in radio stations for them to get on buys?

Locally stations have to fit our target demos, be efficient against the target CPMs within our guidelines from planning. All of our buys are client specific, but overall we don't generally use massive amounts of broad rotators, or count overnight spots, or promotional spots toward the overall delivery of the schedule. Once the specifics of the media guidelines are met, added value and promotions can tip the scales in favor of one station over another.

What do you think about Hogan's decision to cut inventory across the board?

It's often been said, "when the big dog gets hungry, the big dog must eat." In the radio industry Clear Channel is the "big dog." With satellite radio looming large in the not too distant future, and the radio industry generally stagnating, we say "hats off" to John Hogan for listening to advertiser/agency complaints on clutter. Pure economics would suggest that if you reduce the commercial load and make the product more desirable with less clutter, the ratings and commercial effectiveness should go up. The tough part, however, will be executing the plan and sticking with it. Radio has always had the reputation of being low out of pocket cost, which can be enticing to agencies and advertisers, but with attendant high CPM's. My guess is that agencies and advertisers will closely monitor costs/cpms and plan other media if premiums become too large.

Finally, I think a lot of these station GMs and GSMs have revenue targets they've got to meet, and when you take pxxds away, they'll have to get out and become much more aggressive with the rate structure.

Tell us about your working relationship for big campaigns with Chrysler Group's Director/Media Operations Dave Rooney and Bill Morden, Chief Creative Officer/Vice Chairman of BBDO Detroit.

I work regularly with Dave. Dave is a great client. He's very willing to meet the vendor community, he's very willing to champion new ideas. So if we can bring Dave unique selling propositions that move cars for him, he's very willing to listen.

How do the regional dealerships associations play a part in your planning and buying with radio?

We use radio around sales events to create and heighten awareness during the sales drive. Radio is a great medium to explain an incentive or sales offer. You're often times reaching a listener in his, or her, car which is an added bonus. Frequency during the sales event period drives potential customers to the lots.

Our dealer associations, depending on the particular association, some are very pro-radio, some aren't. For instance, the folks in LA are very pro-radio. It's a large commuter market, it makes sense to reach people in drive time in the car.

In your opinion for radio, what is the best length for a national for a national spot to establish a brand—:60 or :30?

I think we look to the :60 for radio, because quite often we use radio to explain an incentive offer or we use it to become more detailed from a television offer. If we can get radio working in conjunction with print, Internet and television, we think we've really got something going. And radio is a great way to reach somebody by, in large, in the car and give them valid bullet point points.

How do you and Dave Rooney track the success of your spend?

Dave is very fond of saying "follow the money." In his business, and our business, it's all about selling the product. We follow the sales. The big thing is to identify what kind of product we've moved and how effective the campaign has been.

How and why do you use TV?

TV is a visual medium. If you're launching nine exciting new products it simply makes sense to show them to the customer. As we've said before, we simply believe it makes sense to have media work together.

What is your opinion on the state of :30s in TV? Are they losing their luster?

I think it's still, obviously, the basic medium of exchange. TV is geared for :30s. I think that down the road, though, we're investigating all kinds of alternative video sourcing, if you will, from Internet to motion picture/theater advertising.

What non-traditional advertising have you explored with success?

Gaming has become a big initiative for us. We have developed several games with product integration. The response has been great, and there is considerable measurement of actual sales coming from users. Jeep has done several interactive games. **Jeff Bell**, VP of Chrysler/Jeep Marketing, is very much interested in trying to embed the brand at a much younger age if possible. So he feels that integration with video gaming is the way to go.

Internet will continue to play a bigger part in our media mix. In my view you will continue to see clients and agencies try to link traditional advertising to web hits to measure ROI. The next step will be to link web hits to sales. Agencies and clients, particularly auto clients, will continue to assess shopping behavior online. I think you'll see more advertisers try to connect the mass market advertising to the Internet and then connect the Internet to the individual sale where you can.

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Upfront on the Upfront: Buyers and sellers speak—Part II

by Carl Marcucci / cmarcucci@rbr.com

The upfront network radio marketplace for most begins in September and runs through January. Up to 50% of year 2005 network billing could potentially be placed during this period. If networks wish to compete, they're usually ready by August to address upfront avails. In our fourth annual upfront series, buyers and sellers once again are *upfront* about the upfront. This month we look at predicting the upfront; what percent nets plan to sell now and hold for later and syndication and network opportunities getting some attention.

Predicting the upfront

Since Part I of the series, we're still hearing it's a slow start to the upfront and still a buyers' market for Q4. Most buyers are still predicting low to low-mid single digit increases. For the most part, everyone is looking for share and will price for it, which will keep down the CPP increases for now. Personality and program-specific sponsorships are the only commodities with traction for the upfront so far. As outlined in Part I, ongoing economic and political/geopolitical uncertainties are keeping a lot of clients' budgets held up later and later.



David Kantor

"It's slow so far," says Reach Media CEO **David Kantor**. "Most of the interest I've heard about so far is for the best inventory in network radio-like shows that are personality-driven or the best RADAR products. Right now there is plenty of supply so the buying community isn't feeling any pressure to move. Compared to last year's upfront, supply and demand this time around will be about the same, but with more demand for

the quality products, less for others. A lot depends on where pricing settles."

"I think it's a great upfront for polar bears, 'cause it's cold as hell," glooms and dooms **Rich Russo**, JL Media's Director of Broadcast Services.

Says **Rhonda Scheidel**, Premiere Radio Networks EVP/Director of Sales: "I see the market moving forward with many of the same fiscal 3rd-2nd quarter advertisers having completed their upfronts, and others that are Q3 and Q4 advertisers are in negotiation now. The heavier influx of upfront negotiations in general ratchet up in September and October. The advertisers in the upfront or negotiating are the larger retailers, package goods, and tune-in advertisers."

Natalie Swed Stone, US Director, National Radio Investment, OMD, tells *RBR* they're still in the planning process for most clients (early-mid August). However, "[We're] crafting strategies—much will not mirror last year—new directions, new ideas, new strategies."



Dana Detlefson

Dana Detlefson, Supervisor/National Radio, Carat USA, started rolling out her upfronts in August. "We have a few new clients this year as well as the ones from last year. We like to be one of the frontrunners...we would rather not wait for the market to hit."

What do the players predict for the just-beginning upfront? What about CPP/price increases? Much of the supply-demand equation depends on budgets. How might it

pan out? "Very well," according to Jones MediaAmerica SVP/Ad Sales **Cathy Csukas**. "2nd quarter was extremely strong. We don't have final industry numbers yet, but we could see double digit growth over last year. July was also better than last year and Q3 is steady."

"The upfront is going to be healthy," predicts **Irene Katsnelson**, Universal McCann VP, Director of National Broadcast. "All of the top advertisers are returning with some new ones as well. Spending will not go through the roof, but expected to be up respectably with single digits. Even though I can't comment on my clients or their budgets, I will say that we had a surge in expenditures during the past year which should continue into 05."

Others, like **Kelly Cadotte**, PHD SVP Director, Strategic Services Local Broadcast, aren't quite so optimistic: "There were great expectations for 2004, which we did not see, and so the networks want to continue or try to inflate the expectations for 2005, but we see the marketplace increases as minimal."

"I'd say if things don't pick up significantly by years' end it will be a slow start to 2005," admits **Kim Vasey**, Senior Partner/Director of Radio, mediaedge:cia. "Some of the networks will probably look to get double digit increases but I don't think they'll get anywhere near that especially if the market conditions remain soft. My guess is flat to 3-4% for upfront pricing."

Matt Feinberg, SVP/National Radio, Zenith Media Services, tells us overall spending should be flat to a 3% increase. He suspects his clients will have bigger budgets in '05.



Matthew Warnecke

Matthew Warnecke, VP/Network & Local Radio Services, MediaCom, says CPPs will be another year of plus 3-5%: "Long-term advertisers with consistent budgets will continue to receive the smallest increases than the market with their low bases. It's the scatter folks who will suffer both in terms of CPMs and programming—but this is nothing new. Many advertisers prefer to hold their dollars until the last minute even if it means slightly higher costs."

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Ranks based on English language stations; Arbitron Nationwide, Fall 2003, DMA, Dayparts Cume

More expensive? How much?

What about CPP/price increases for the upfront? How much up or down do buyers expect this time around? Much of the supply-demand equation depends on client budgets. A quick survey from some of the others:

Detlefson: "Flat to some increases. "We have not heard rumblings of any decreases."

Swed Stone: "Modest increases or flat."

Cadotte: Minimal increases in 2005 due to the marketplace—therefore rates/CPP's are expected to be flat or at most 2-3% increases.

Russo: Down 15-20%. Everybody's wheelin' and dealin' tried to blow smoke up Wall Street's ass.

Csukas: "We expect CPP increases across the board. The increased demand and high scatter CPP's in the market should give networks the confidence to hold rate for deals that make good long-term sense for the industry."

Purtan: "The upfront market demand will be equal to last year. Overall, we expect moderate increases, in the 7%-8% range. Demand for our brands and personality driven programming continues to be quite strong."

Kantor: "Flat to up slightly."

Higgins: "I would project mid single digit increases in this upfront. After all, as a full service radio network our operating costs continue to rise with investments in new talent, equipment, research, systems and better servicing affiliates and advertisers. That benefits all of our advertisers and this nominal increase allows us to defer some of those costs."

Scheidel: "Demand for RADAR inventory on top market, top ranked radio networks will continue to be in strong supply for the upfront. But advertisers are also looking for ways to create a presence in creative programming opportunities that can be built to customize their marketing message, as in the voiced program environments, like **Rush**, **Glenn Beck** and Fox Sports. Overall, I would predict that the CPPs in the market will average in the mid single digits. For specific RADAR inventory I believe higher."

While it's still a bit early to have concrete info on this upfront, **Jennifer Purtan**, SVP/Ad Sales and Marketing, ABC Radio Networks, says it's encouraging to see interest in upfront activity from new brands and categories for '05: "We know that advertisers' budgets have likely been impacted quite a bit by network & cable television's increases; therefore we do not anticipate double digit upfront budget increases for returning advertisers."

Who's in the upfront so far? Procter & Gamble starts the upfront based on the 7/1 start of their fiscal year. Other advertisers working on/already completed their upfronts are Red Lobster, Campbell's, Walgreens, Geico, Choice Hotels, AutoZone, ONDCP and Pfizer. We are hearing several additional advertisers have expressed their intent to release specs but the process has been fairly slow.

Holding and folding

What percent will networks sell now and hold for later in this vs. the last upfront? Depends on who you ask. The strategies vary.

"I think most of the inventory on the Tom Joyner Morning show will be sold in the upfront," predicts Kantor. "The nature of clients that buy inventory in Tom's show tend to be year-long partners. Since there is very limited inventory in his show several new clients, like P&G, have already committed for 2005. I think the industry as a whole will sell about 25%-35% in the upfront."

Says Scheidel: "The percent of inventory that we generally sell in the upfront is between 40-50 percent and I don't see that differently this year. Our new programs, **Trumped**, **Delilah**, **Jesse Jackson's**, 'Keeping Hope Alive' create new opportunities for advertisers to deliver their message in unique ways that in many instances include the on-line elements of those programs, giving a broader platform for associating with Premiere talent. I expect the market to be up as many of the scatter market advertisers look to solidify their unique positioning. That may require specific time frames, and trying to acquire day parts on certain networks is difficult to get by buying too close to air date."



Matt Feinberg

So what's new?

What new programs, syndication and network opportunities are hitting the radar screen (no pun intended) for this upfront? Jokes Feinberg: "I heard that **Ken Lay** may be doing a financial advice show...subject to his future availability. Unfortunately **Rush's** home remedy show has been put on hold for the moment."

Says **Ira Berger**, Director of National Broadcast, The Richards Group: "David Kantor and [former Jones MediaAmerica exec and current WYD MediaManagement CEO] **Ron Hartenbaum** are two of the most interesting players in the industry. I am always curious and interested in what they are going to do tomorrow."

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Vasey says a notable would be Trump, the continued growth of the Satellite Sisters, the return of The Dolans to network radio and the ever-increasing number of RADAR nets.

Swed Stone says Westwood's new networks are notable (see Part I) and will offer new opportunities for clients in upfront. As well, "Premiere's :10 second networks are going to :15s and will be placed in commercial pods—that is notable, it offers new length for advertisers."

She adds, "It may be time to reevaluate :60s on radio—maybe the length is too long for today's consumer who very rarely (or never) gets exposed to :60s in any other medium and may have no patience for these long ad messages. Imagine if the ad is not for you—and you can't get over it quickly—at least if it were short (:30s or :15s), you'd know it wouldn't be lasting much longer and you'd be on to the next one."

Says Russo: "I am still jazzed over **Little Steven's** Garage show. I find it an indication that people will seek out quality music programming."

Purtan points to ABCRN's recent announcement on a significant change to their ABC News/Talk RADAR network: "It's rating is now doubled and the network has tremendous top market coverage."

Csukas tells *RBR* she's very excited about several of Jones MediaAmerica's new long form programming opportunities introduced over the past year, including "Lifetime Radio for Women," "The **Marie Osmond** Show," their new nighttime adult contemporary personality **Alan Kabel**, political talker **Ed Schultz** and **Wendy Williams**.

"Additionally," says Csukas, "this will be our first upfront with our RADAR network, Jones MediaAmerica TWC Radio Network—which had top rankings in key demographics in both its debut in RADAR 80 and also RADAR 81. We continue to see a strong demand for our sports offerings including NASCAR,

NFL and NCAA Football. Also Sirius Satellite Radio, which offers marquee programming and creative product placement. Our **Kim Komando** show continues to also be in high demand, along with our Music Data Service Networks, which deliver top ranked stations in major markets."

Peter Kosann, President/Westwood One Sales, points to WW1's uptick in RADAR-rated audience, "due to the 52 FM Infinity stations we added to our line-up this year and our new ability, through the upcoming RADAR 82 Special Tab, to now offer clients more choice, more targeted networks, more female-driven properties, more copy-split networks, and more GIs."



Jim Higgins

Cadotte says she's interested in seeing what Premiere's Trump Radio Network is going to do, and "we will watch the impact of the new RADAR-rated networks—we believe this is beneficial for us as an agency. Westwood One has also realigned some networks, so that change will be interesting to monitor."

Jim Higgins, United Stations Radio Networks EVP/GM, notes United Stations will now

offer advertisers the only RADAR-rated sports property in network radio. The Sporting News Radio Network will appear in the upfront book, RADAR 82: "Most of the play-by-play audience numbers traditionally quoted to advertisers are projected using very different research that tends to inflate reality; being in RADAR with Sporting News will provide the market with a more reliable Sports alternative for a lot of these advertisers."

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The move should make folks like Berger quite happy. He discussed the issue in *RBR's* 12/03 print issue, "Let's Level the Sports Radio Playing Field": "While potentially very rewarding and beneficial for the clients in the right situation, live sports on national radio often can also be something very different. The grandiose ratings and efficient CPMs one sees are not what they appear to be."

As far as other hot properties from USRN, Higgins tells *RBR* his "Lou Dobbs Financial Report" is a unique network sponsorship opportunity for national advertisers interested in reaching an upscale adult listener: "Lou Dobbs has the ability to work with sponsors and deliver value way beyond simple media in a very rich editorial environment. The three daily shows are also done live and are satellite fed fresh each day so an advertiser can change their creative message daily if they so choose."

Without going into detail, Williams says he's launching a "major new entertainment network which will bring new excitement to the Urban audience." As well, he says, "AURN recently launched CRUNK Radio, a two hour weekend program that features Lil' Jon, a leading Hip-Hop producer. Interestingly, we've had tremendous success in the clearance arena, considering the corporately controlled local radio business and inventory pressure."

Online is something that Dellefson says they've taken a closer look at: "We have been and will continue to be supporters of the online medium. Our clients have been taking a closer look at online and they can see the opportunity to reach the younger demographic. We feel it is all about keeping them updated and educated about the medium. As people get broadband in the home, the listenership will increase faster and faster. I definitely see some dollars moving from terrestrial radio to online this year. Satellite radio subscriber bases are being met as well. As both of these mediums improve, our dollars will make slight shifts."

The good news for terrestrial radio is both XM and Sirius now do not offer inventory on their music channels, beyond a mention or promotion. It's a different story for their News and talk channels.

Speaking of online...

Online radio is taking its place more and more as an addition to radio media plans. Ronning/Lipset Radio, likely the largest seller in the space, was formed specifically to bring online radio into the traditional market. "We both grew up in the radio business, working for great radio sales companies like Interep, Katz and Clear Channel. As radio sales has always been considered an excellent envi-

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ronment to really learn how to sell the value of a intangible product, we were each approached several years ago by internet companies who were looking for that kind of insight and leadership to help them move from the type of 'technological sale' they were doing to a more traditional kind of thinking and process," says **Eric Ronning**, Managing Partner, Ronning/Lipset.

Those companies were Yahoo!'s LAUNCHcast and AOL's Radio@ Netscape and Radio@ AOL. He adds, "We identified the most recognized leaders in the space and created a viable network through our company with exclusive rights to sell the :30 and :60 audio inventory for AOL, Yahoo!, MSN Entertainment, and Live 365."

Ronning/Lipset clients run only three to five units per hour in "commercial island" type of breaks, where the advertisers' message is surrounded by music and not other commercials. Since people are using satellite radio, terrestrial radio and online radio for different reasons at different times of the day, the pitch often cites to use only one of these radio offerings would be short-changing the advertiser in any effort to truly reach the most and the best of the radio listening audience. Online radio is very strong in the 'at work' daypart, M-F 6a-7p where people currently have the greatest access to the medium—the computer.

So what about add-on online campaigns in conjunction with traditional radio in the network radio upfront? "Some of the elements of a blended radio campaign pursued by advertisers recently have been using online radio's strength in 'A' counties to help balance out some of the traditional network radio programming coverage they purchase that is less robust in those counties," replies Ronning. "Other examples include taking the traditional radio copy and customizing it slightly to speak directly to the online radio listener, appealing to their sense of uniqueness and love of music. Many savvy advertisers have also seen that online radio listeners are very much the 'influencer set,' who tell others about products and services they use—the people who extend the brand by their position as 'those in the know'."

What demos are hot/not?

While the usual answer is Adults 25-54 and Women 25-54, Purtan gave an in-depth view of what demos are looking hot and not, going into the upfront: "The most consistent buying targets we see are 18-49 and 25-54; both Adults and Females. We have a significant Urban business and see lots of activity there targeting multicultural audiences. Although there has been lots of trade attention over the past couple of years to the Baby Boomers we have not seen a commensurate increase in brands targeting that audience. I don't think 26 year-old planners think a 35-64 year old target audience is sexy and they can't relate. But there is tremendous potential with Boomers; they have significant disposable income, and they spend it. Recent studies in online usage show that growth is greatest among 35+ Adults, and Women in particular. This contradicts that notion of disproportionate online usage and growth among Tweens and Young Adults. There is a definite market for the Boomers and they aren't really being well-served."

The advertiser categories that have moved first and in the most traditional manner have been in Travel, Entertainment and Consumer Electronics.

Managing Partner **Andy Lipset** says over the past year his network has been focused on getting the message out in the right manner, meeting with the network buying community as well as the traditional radio planning and account teams: "We have built it to a point that many of the top network radio supporters are doing schedules in Q3 and Q4 of 2004 to prepare for the upfront of 2005. We've been told by a good number of clients that online radio has been given a line item' in their radio plans for 2005, so we feel strongly that the real growth is coming then."

We asked other traditional network buyers, how much will online radio/audio advertising play a role in their planning and buying recommendations for next year.

"An increasing amount, says Swed Stone. "Because the research indicates that for certain targets, this is an important part of the mix and good opportunities should be considered. They [Ronning/Lipset] are knowledgeable about the space and about radio generally, they are highly professional, reasonable and advertiser-focused. They have worked to provide a product that offers advertiser benefit and are working hard to articulate and demonstrate the benefit."

"While the online radio space is an area that we have paid very close attention too and I strongly believe that this is a viable advertising space for an advertiser I would venture to guess that our expenditure on these properties will be minimal for 2005 (probably less than 1%)," admits Vasey.



Natalie Swed Stone



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ABC News Radio's Ann Compton on covering the White House

Ann Compton Hughes is now covering a sixth US President for ABC News in a career that has taken her to the White House, Capitol Hill, from the height of the Cold War to the Internet revolution, and now eight presidential campaigns. Ann began her broadcasting career in Virginia where an internship led to a fulltime job reporting for WDBJ-TV Roanoke. Ann established a State Capitol Bureau in Richmond for the station. In 1973, ABC News hired Ann and she reported from New York until 12/74 when she was assigned to the White House. Weeks after the Watergate scandal ended, Ann became the first woman assigned to cover the White House on a fulltime basis by a network TV news organization. In 2000, Ann became Chief Washington correspondent for ABCNews.com where she wrote and anchored a daily political column "On Background." Currently she also holds the title of National Correspondent for ABC Radio News.

On 9/11/01, the veteran White House correspondent was the only broadcast reporter allowed to remain with President Bush onboard Air Force One when he was unable to return to DC.

Ann shares in the Emmy received by ABC News for its coverage of 9/11. In June 2000, Ann was inducted into the Journalism Hall of Fame by the Society of Professional Journalists. Here, Ann writes about how technology has improved the ability to do her job:

Waukesha, WI, 7/14/04 — The eager crowd gathered early in the barnyard of a dusty state fairgrounds in Waukesha, Wisconsin, aging farmers and young families restlessly waiting in the July sun for the arrival of the President of the United States. And near the center of the throng was a broad platform on which lunch tables were arranged in rows, and at each chair was a telephone line and an electrical extension cord. Behold a White House press room, al fresco, computer hook-ups and power supplies right smack dab in the middle of the news event we had arrived to cover.

Never before has it been so easy for journalists to file our reports as we follow presidents and candidates all across the country, hitting deadlines every minute in what Americans have come to expect in a 24/7 news cycle. And never have the political organizers been so able to use that same new age technology to react and get their own messages directly to the American people.

The gizmos that turn a Wisconsin barnyard into a high-speed computerized workstation are not mysterious, but their widespread use has made this an exciting new ballgame, especially for some of us broadcasters who remember the old days of pay phones and carbon paper. For ABC News I carry a Dell Latitude laptop — lightweight and streamlined with no peripheral drives, a Verizon wireless modem, a WiFi modem which many of my colleagues use to file their audio reports straight to an ABC Radio databank on the Internet, a Blackberry on which I can retrieve email and search the Internet, a tri-band cell phone, mini-disc recorder, and a Comrex Hotline — a magic red box the size of a corn

flakes box into which I plug a microphone in the front, a phone cord into the back. Tapping an 800-number into the pad on it's face, I have a portable radio studio linked directly to New York.

At that Waukesha Fairgrounds, I filed live and taped reports in what became a 14-hour marathon day. It was 6:40am Eastern Daylight Time that morning, in my room at Milwaukee's Pfister Hotel, when I logged my laptop onto the ABC News system with email, wire copy, and access to the radio news system of newscasts and what we quaintly still refer to as "tape" files. I dialed the Hotline into New York and joined the 7a newscast live then had the edit rooms there record a few short spots to be used on ABC newscasts and fed out to affiliates.

I packed up the Hotline into a lightweight travel bag and kept my laptop on, thanks to a new two-and-a-half hour battery. Down at the hotel curb my equipment was all screened by Secret Service agents and bomb-sniffing dogs, and then we loaded three coach buses for

the day's campaigning through the Wisconsin countryside. With power outlets onboard, and plenty of food, we followed the President's campaign bus past fields and silos, stopped at courthouse lawns and candy shops, and ended more than a hundred miles later in a huge evening rally in the Green Bay Packers sports complex. That same day the Senate defeated the constitutional amendment banning gay marriage and a terrible car bombing wracked Baghdad. We were able to file White House reaction within minutes. By 9:03pm ET we had boarded the White House chartered press plane for home, and I logged my computer off, having never once been

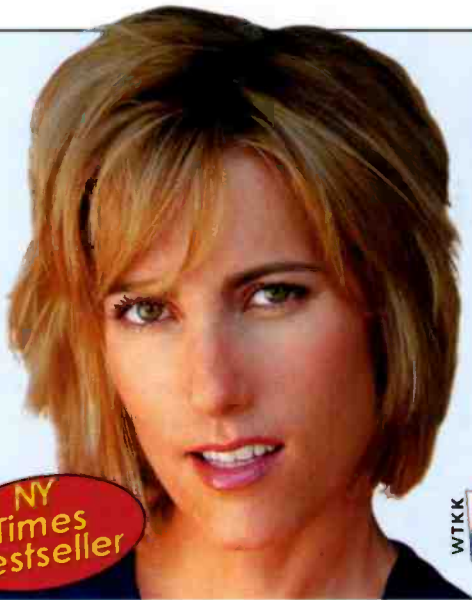


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Radio has never been easier. Newspaper reporters use the connectivity to file for their websites. And the people we cover have turned the same technology into a tool to get out their own version of what transpires during a presidential or campaign tour. There is unprecedented effort every day to respond to the other guy almost instantly. Our pagers buzz and inboxes fill with email reaction, answering every charge from the opposition camp.

Video and audio is often available free on the Bush websites. Email appeals and fact sheets also go out to supporters and surrogates who are urged to respond to local media. The President's high tech campaign bus, with digital satellite TV to track news coverage, serves as a rolling press room between rallies when he conducts interviews with local reporters who are far more generous with ink and airtime than the national press. Republicans even grant interviews with campaign officials at their Washington area headquarters in a room designed to look like a broadcast control center.

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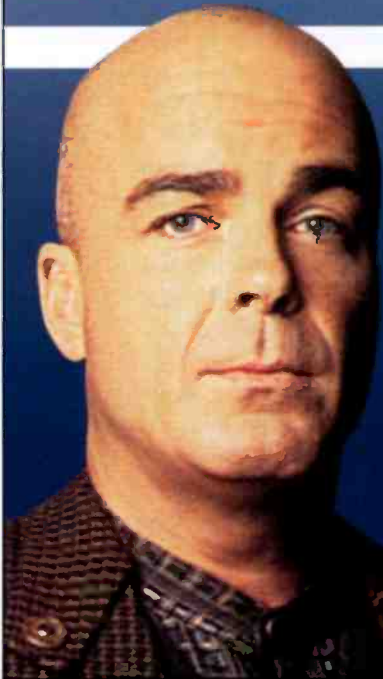
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2005 budgets and capital expenditures: VPs/Engineering discuss—Part II

by Carl Marcucci cmarcucci@rbr.com

In this two-part yearly *RBR* series, we ask top engineers at the groups where 2005 budgets and capital expenditures are heading. What's tops on the list for projects and new equipment? While not everyone opted to give answers to every question, we asked the following:

Glynn Walden, Infinity SVP/Engineering

Steve Davis, CC Radio SVP, Engineering & Capital Management

Talmage Ball, Bonneville VP/Engineering

Tom Ray, Buckley Broadcasting Corporate Director of Engineering

Norman Philips, Director of Technical Operations/Susquehanna Radio

Marty Draper, Emmis VP/Corporate Engineering

Cris Alexander, Director of Engineering/Crawford Broadcasting

Clay Steely, ABC Radio Director of Engineering

Milford Smith, VP/Engineering, Greater Media

Mark Stennett, VP of Engineering, NextMedia

Dave Remund, VP/Engineering, Regent Communications

Are you buying direct or working through independent reps?

Walden: It depends on the product.

Davis: No change in our policy from last year: we will buy direct when we are ordering an item in sufficient quantity and when the manufacturer is able to offer us a significant pricing incentive for doing this. We also buy "direct" from independent reps: we will once again send our full list of "box goods" out to all the major broadcast equipment suppliers for competitive bid, likely in November. We understand that resellers often bring real value to the table, since they have people on staff who know the product and are dedicated to helping customers, such as our engineers, correctly configure and spec out their equipment, thus increasing our own efficiency. Items which we aren't purchasing in sufficient quantity to result in any real savings from a direct buy, we will leave open to the local engineers to purchase from the vendor of their choice.

Ball: Both.

Ray: These decisions haven't been made yet – for the consoles, it all depends on which way we decide to go. Smaller items, such as CD players, would be purchased through reps.

Philips: SRC has arrangements for both. Independent reps are very beneficial as good ones can help recommend equipment solutions for engineers. I know their profit margin has eroded through the years but we still depend on them for advice. Smart broadcasters will pay in a timely manner for good discount mar-

gin with reps. Even Cash with order to keep prices down. When you look at 2% savings on a multi million dollar capital budget it's a lot of money to save.

Draper: We generally have a mix of both.

Alexander: This depends on the product. Some we buy direct. The vast majority, however, is purchased through trusted, service-oriented dealers.

Steely: Disney's purchasing department helps consolidate projects and negotiates pricing for large orders...usually directly with the manufacturer.

Smith: We tend to purchase large ticket items directly - things like transmitters, console/router systems and automation systems. The smaller items we generally work through a rep. We find it much more convenient and, since we bid almost everything, we get the best pricing.

Stennett: Both.

Remund: Both. We get competitive quotes on any major project.

Are profanity editing systems and delay equipment in the picture for next year (or was most of this already done)? Are you going to postpone anything else because of this?

Walden: If there are format changes where the installation is needed we will purchase additional equipment.

Davis: As has been widely reported, in response to John Hogan's "Responsible Broadcasting Initiative", Clear Channel made a significant investment in delay equipment in 2004. We didn't increase our capital budget to accommodate that. Rather, we used money we'd saved by doing group buys and via other means. This was mainly for our music stations: most of our stations with significant airtime dedicated to talk or call-in programming were already equipped with delays. We don't see a big investment in this technology in 2005, although I'm certain some of these units will be purchased.

Ball: This was already done.

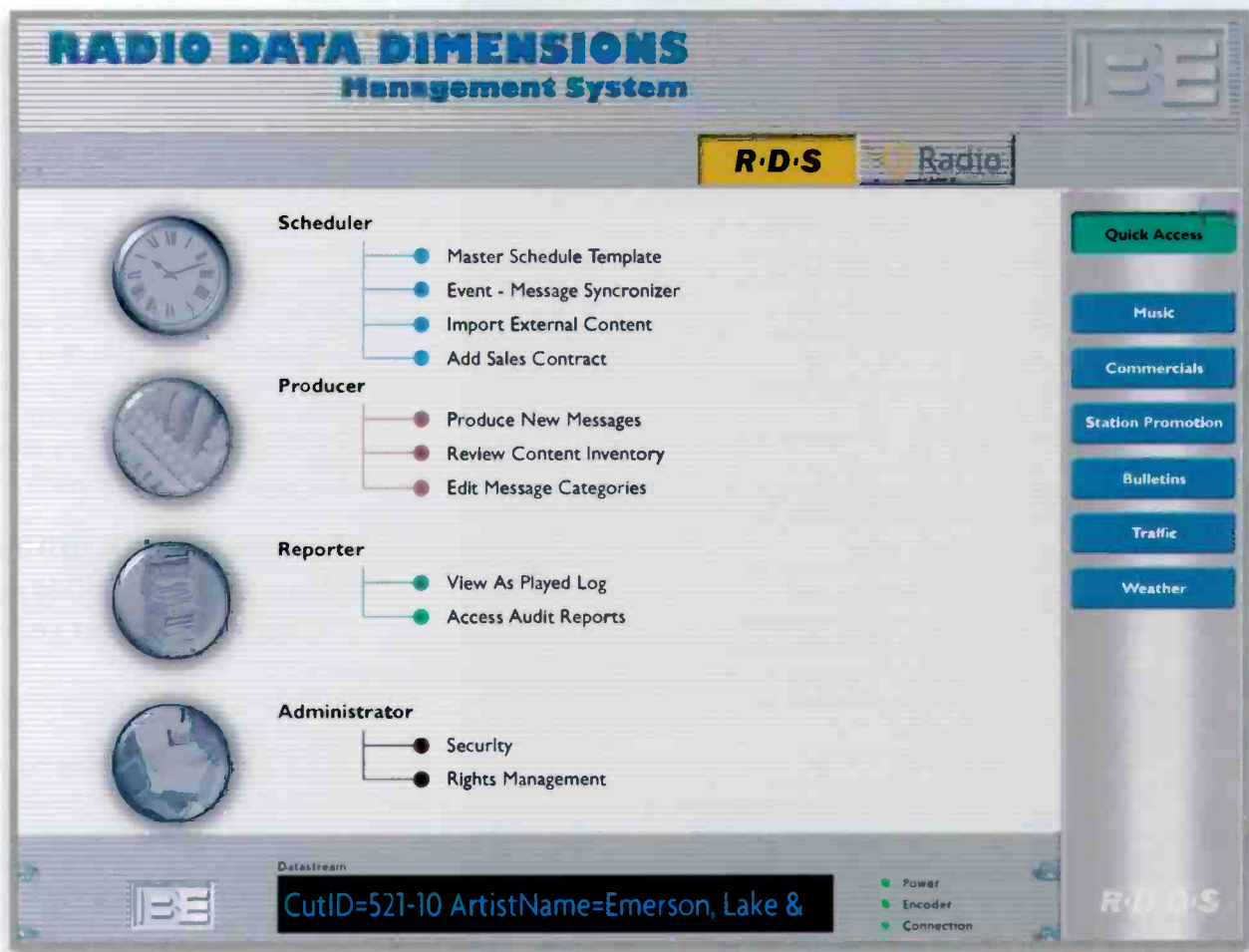
Ray: WOR was one of the first stations in the country to operate with profanity delay. We have added it to our other stations this year, and there will be new delays in the WOR studio project.

Philips: Pretty much already in place at this time. The delay units are Eventide and Symetrix.

Draper: We have completed implementation of profanity delays for our live programming.

Alexander: We have added profanity delays at most of our facilities this year. I don't plan to purchase any next year. We use Eventide profanity delays.

Steely: We're upgrading a few systems, but already in place at



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Smith: Some of this was implemented in '04. We have taken a somewhat selective approach in the application of these systems. Some of the stations simply are not candidates for them because the formats just don't raise issues in this area.

Stennett: NextMedia has identified a number of formats and programs in our lineup that are candidates for profanity delays. These needs were addressed in 2004.

Remund: This has already been covered (so to speak.) There were maybe two markets that added some delay equipment in the wake of "Janet-gate." I see the wake-up call as more for the operators to be more diligent at hitting the "dump" buttons that are already in place.

What's on the IBOC/HD Radio implementation frontier at your company for next year?

Walden: We like most broadcasters plan on adding HD Radio operations.

Davis: [CCU SVP Engineering Services] **Jeff Littlejohn** is spearheading Clear Channel's IBOC rollout. I have set aside a budget for this, in 2004 as well as the coming years, in response to Jeff's anticipated plan.

[**Editor's note:** Clear Channel Radio announced 7/22 it will immediately begin an aggressive rollout of digital broadcasting equipment to 1,000 of the company's stations, working with iBiquity Digital Corporation's HD Radio technology. CC plans to install 95% of its top 100 markets within three years. Former Prophet Systems President **Kevin Lockhart** was named to the newly created position of SVP/Technology Development to help with the rollout on the technology side.]

Littlejohn tells *RBR* about IBOC rollout for next year: "We'll be converting well over 100 stations to IBOC during 2005. We are currently formulating plans for which ones those will be."

Ray: WOR is presently IBOC, and the new transmitter site will be built from the ground up with digital in mind. We have licensed two of our FM's already, and had put together a guide for all station managers regarding the implementation of IBOC in their individual stations, and how to budget for the conversion. While we do not have concrete dates yet for implementation, these decisions will be made shortly.

Philips: Susquehanna will have converted almost 50% of our FM stations to HD Radio by the end of 2004. SRC is committed to HD Radio and will continue in 2005 to convert the rest of our higher powered stations. HD Radio equipment has been Harris and Broadcast Electronics.

Draper: Currently in development.

Alexander: Again, if the FCC authorizes AM nighttime IBOC, we will likely get aboard in a big way. We would likely convert our big guns first, with the smaller stations to follow. Stations with challenging antenna systems will likely be the last to convert. We have already done a number of our FM stations, but will likely consider converting others in 2005.

Steely: We have plans to continue rollout of IBOC. Next year we're targeting a significant number of stations...mostly FMs.

Smith: We hope to "finish" our suburban markets next year, at the latest. All of our major market stations should be on line this year.

Stennett: We are starting to take a look at our portfolio for rollout schedules.

Remund: We are not in any of the early roll-out markets, but with the additional options for implementation that are becoming available, the costs are coming down and we are considering it.

Are you attending the NAB shows this year? If so, what will you be looking at?

Walden: Yes. I'm always looking for equipment to support programming, improve efficiency and provide more reliable station operations.

Davis: I wouldn't miss these shows. Since I no longer work in the field as an engineer, they represent my best opportunity to see what new technology is available to us that could enable us to improve our level of service or quality, reduce expenses, or pursue a new revenue stream. Also the technical sessions are extremely beneficial. While I try and keep my eye open for everything, I am especially interested in networked audio mixing/routing/delivery systems, IBOC including means of implementing 5.1 surround sound with that, and anything that gives us increased redundancy.

Ball: AM station improvement ideas, HD Radio enhancements.

Ray: Yes. At this point, I don't know...all of our major projects will be pretty much done by then. Most likely, the latest in IBOC gear.

Philips: Yes, digital, of course.

Draper: Yes, NAB Vegas. The time is balanced between vendor/industry meetings and equipment research. We generally focus on major systems when looking at equipment (transmitters, STL, consoles, processors).

Alexander: I plan to attend the spring show, but not the fall show. I generally go with a laundry list of specific items or technologies that we're looking at. It's a little too soon to say definitively at this point what will be on next April's list.

Steely: Sure will. I'll be looking at IBOC related equipment, digital storage systems, logging (airchecking) equipment, etc.

Smith: Because of my involvement in the NRSC and the attendant meetings at these shows I will be at both. I'm interested in everything. I am particularly taken by the continuing development of integrated studio console/router networked systems. I'm also looking forward to seeing what new and innovative data applications come to fruition as a result of HD radio.

Stennett: Yes. We look at everything.

Remund: Yes. Obviously IBOC/HD Radio is still evolving, so that bears watching for new options.



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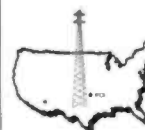
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Quartely Deals

\$4.1B spent on broadcast properties since the thaw

by Dave Seyler / dseyler@rbr.com

The FCC put a freeze on station trading after it issued its landmark 6/2/03 ownership ruling (which was itself fated to be frozen, but that's another story). The thaw was lifted in August 2003, and at the point RBR began keeping careful track of all deals filed at the Commission.

In the year that's going by, encompassing the third and fourth quarters of 2003 and the first two quarters of 2004, over \$4.1B worth of deals have been filed at the FCC. A little over half of that total, about \$2.2B, has gone to radio deals, with about \$1.9B going to TV stations.

The TV total is inflated by a restructuring agreement at Freedom Broadcasting. RBR valued the television portion of that \$2.25B transaction at \$750M. It was filed at the FCC 1/2/04, thus appearing in the Q1 2004 totals in the accompanying charts. Some, perhaps, would exclude it from consideration; we have chosen to put it in.

Station trading over the last 12 months

Quarter	Deals	AMs	FMs	TVs	Value
Q3 2003	138	88	110	22	\$354,354,096
Q4 2003	223	150	222	29	\$1,124,948,385
Q1 2004	157	111	145	30	\$1,722,661,542
Q2 2004	152	81	146	21	\$871,000,951
Total	670	430	623	102	\$4,072,964,974

Most of the action is in the hinterlands

Over the past 12 months, deals to sell 1,155 stations have been filed. Nearly half—43.9% to be precise—are located in areas beyond the scope of the ratings companies. And we're talking all the ratings companies—Nielsen, Arbitron and Eastlan. Almost all of the unrated activity has been on the radio side, since Nielsen accounts for most US counties and thanks to cable, can measure markets with a wider geographical footprint than can the radio raters.

Quarterly station trading by market size

Quarter	Total Stns	Mkts 1-50	Mkts 51-100	Mkts >100	Unrated Mkts
Q3 2003	220	15	23	62	120
Q4 2003	401	57	40	148	156
Q1 2004	286	50	19	114	104
Q2 2004	248	40	26	55	127
Total	1155	162	108	379	507

Radio consolidation: Been there, done that

Local radio ownership caps were loosened radically in 1992. Before then, local clusters maxed out at two - - one AM and one FM, with an extremely low national cap. The 1992 duopoly rules took local clusters up to four stations, two of each, and loosened the national cap a bit.

The dam burst in 1996. The local cap went to eight in the largest markets with a maximum of five same-service stations, and the national cap was eliminated entirely, making the 1,200+ juggernaut assembled by Clear Channel possible.

Eight years have passed since the radio rules were liberalized, and industry consolidation is mature, especially in the largest markets. It is continuing to an extent in the smaller rated markets and those outside the sphere of influence of the ratings companies. There have been a few brand new groups plying those waters over the past year or so.

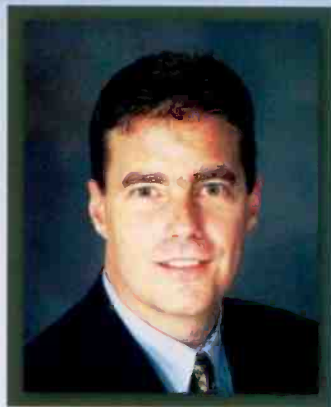
Most analysts say that the value of radio stocks will have to bounce back from the battering they've absorbed over the past few years before what few high-value, large-market mergers still possible will show up once again on the radar screen.

Radio only transactions

Quarter	Deals	Stns	Value
Q3 2003	123	193	\$199,729,096
Q4 2003	199	372	\$905,245,346
Q1 2004	146	256	\$543,789,543
Q2 2004	131	227	\$577,437,979
Total	599	1048	\$2,226,201,964

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Television primed to take off if rules change

While brokers were fattening their wallets on the radio industry, television owners could only sit back enviously and try to work out LMAs and JSAs to get the effective in-market duopolies they coveted. TV O&O duopolies were allowed only in the largest markets, and then only via waiver.

Theoretically, that all changed when the FCC issued its 6/2/03 ownership ruling. It opened up a wide swathe of TV territory to duopoly, created a brand-new triopoly possibility in the largest markets, and upped the national audience reach cap from 35% to 45%.

That last move in particular set off a firestorm of protest, and both the Senate and the House of Representatives overwhelmingly voted to restore the 35% cap -- it eventually found its way as a hitchhiker on a must-pass appropriations bill. An 11th-hour deal between the White House and Republican congressional leaders resulted in a 39% cap being installed by in conference committee, a move which legitimized the portfolios of Viacom/CBS and News Corp./Fox, both of which were over the 35% limit on waiver pending the FCC ruling.

The 3rd Circuit freeze put on hold a likely flood of TV duopoly deals, and the court's subsequent that the FCC justify or modify its proposed rules will extend the logjam -- and if the Democrats win control of the White House, and with it the FCC, the logjam could be around for some time. At least four years.

TV only transactions

Quarter	Deals	Stns	Value
Q3 2003	14	21	\$132,625,000
Q4 2003	24	29	\$226,708,002
Q1 2004	11	30	\$1,182,672,000
Q2 2004	21	22	\$331,062,972
Total	70	102	\$1,873,067,974

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No matter who gets elected, broadcasters win big bucks

by Jack Messmer / jmessmer@rbr.com

Back in early May when Harris Neshitt Gerard analyst **Lee Westerfield** projected that political ad spending this year would top \$1.47 billion, he was regarded at quite bullish—perhaps overreaching a bit. After all, wasn't the McCain-Feingold Campaign Finance Reform law supposed to curtail "soft money" and rein-in spending? But with the election approaching, the numbers are bearing him out. In fact, Westerfield now says he expects the final tally to be in the \$1.5-1.8 billion range.

And Westerfield is no longer viewed as pushing the envelope with his forecast. Just recently, the financial director of WPP Group, **Paul Richardson**, agreed that US election spending had been stronger than expected. He's now expecting ad spending on the US

election to be around \$1.5 billion—not the \$1 billion that WPP, the world's second largest advertising firm, had originally forecast.

"This remains a banner year for political advertising," Westerfield told *RBR* in August. "We continue to see not only record spending levels, but levels that would ultimately yield \$1.5 to as much as \$1.8 billion in political advertising. That, in practice, means there has been a step-up in fund raising, presumably going through the period from September through November."

Through July, according to reports filed with the Federal Election Commission, the presidential campaign of Sen. **John Kerry** (D-MA) had spent \$186 million and the re-election campaign of President **George W. Bush** (R) had spent \$209 million. And with complete tallies available only through June, candidates for the House and Senate had spent \$487 million and the Democratic and Republican national parties a total of \$400 million. That's nearly \$1.3 billion already spent, with the most intense months of campaigning yet to be tallied. And while those figures include all campaign costs, not just advertising, they indicate that the money is flowing freely in the battle for control of the US Government.

In his original forecast, Westerfield referred to what lay ahead as "a tsunami of election-year advertising." Campaign advertising isn't just up this year—it's up dramatically. Even at the low end of the analyst's projections, 2004 election-related advertising will be 50-60% ahead of the last two federal elections—an estimated \$910 million in 2000, including the Bush-Gore presidential contest, and \$970 million in 2002.

When we sought the latest update from Westerfield, he was feeling pretty good about having called the election spending spree

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correctly and early. His once-bullish estimates are now mainstream

"It has improved marginally since my outlook in May," he said. "The key development that occurred, in late May, was when the Federal Election Commission stepped aside from curtailing so-called 527 non-party organizations' fund-raising. When the FEC opted out of curbs on 527s, both Democrats and, more ravenously, Republican-oriented groups began fund-raising in size. The question now becomes—will the money be spent, and when? The tricky part for sales managers and analysts alike is anticipating, but not knowing when the money will be spent, since political advertising places so close to air time."

Back in early May, here's what the analyst projected as the election's impact on TV revenues this year: "If achieved, our estimate would add 6% to TV spot advertising in 2004, largely focused on top-rated TV news stations, and would thrust Q3 and Q4 growth rates by 15% or more, depending on exposure to just five of the more populated 'undecided' states."

The update in August: "In television, national spot advertising is now growing 17-18% for Q3—9-10 percentage points of which is coming from political advertising," Westerfield told us. "That amount of political ad spending should increase to 12-15% by the time the July-September quarter is done. And then we get on to the fun stuff!" So it's Katy bar the door for the final five weeks—October through election day.

In the last three weeks, Westerfield noted on August 10th, the percentage of national spot television booked in the third quarter for political has gone from 3-4% to 9-10% of the pie. So, the political season is ramping up rapidly for television.

Is there evidence yet of trickle down to radio?

"I think it's implicit. I don't hear any national media rep sales folks or media buyers talking about getting squeezed out of markets—I haven't heard that of any local markets in television. Yet, I think it's implicit because it's showing up in radio—there is growth in September right now, and fairly zesty growth in national and local radio," the analyst told us. "But isolating the cause for radio's bounceback in September, to isolate it as politics is just too simplistic. There is another dynamic, the economic soft patch, and yet another dynamic, the Olympics, which is distorting the normal July through September trending patterns. So I cannot tell you that what we're seeing in radio in September is a trickle down of pricing due to political advertising on TV alone."

Westerfield has encountered some skepticism from Wall Street investors about the intensity of political spending this year, because they aren't seeing it locally. "For many investors who reside in the New York and Boston areas, this phenomenal level of advertising might as well not be occurring at all. For all we in New York and our friends in Boston see on television, there is almost no politicking occurring," he noted. California and Texas are also left out, despite having large media markets, because they are not battleground states and have no hotly contested Senate or Governor races this year.

The biggest impact, Westerfield said, is not even in all 17 battleground states, but primarily in the five or six with the most electoral votes at stake. Those few states, he said, "are in a blizzard of political advertising, the depth of which is only going to increase over the next two and a half months."

The real battle, he said, is coming down to the undecideds in about five large electoral vote states. And of those undecided voters, those likely to vote on November 2nd number only 5-6 million. "It turns out that the substantial spending over the next eight weeks to that particular subset may be 40 or 50 thousand dollars per voter," Westerfield calculated.

Since he issued his first report in May, the Harris Nesbitt analyst says there have been a few changes in the landscape. In addition to heavy fund-raising by 527s, he notes some surprises in congressional contests. Westerfield points to the Senate races in Louisiana and

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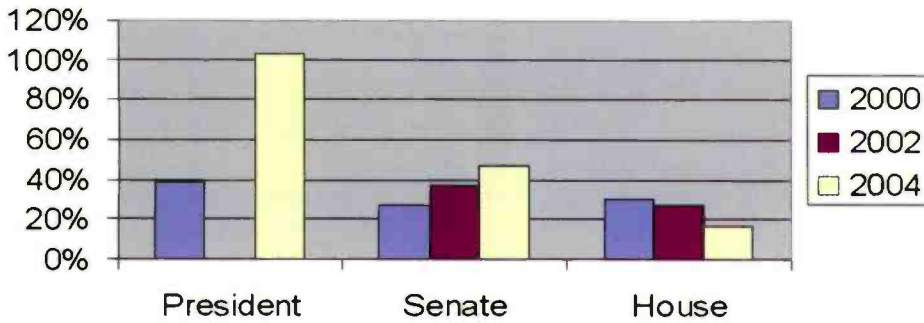
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Political ad spending growth



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Pennsylvania as having become surprisingly close, which should mean greater-than-expected ad spending. The Senate race in Illinois could also be heavily advertised if substitute Republican candidate **Alan Keyes** can raise money from his national base of supporters, forcing Democrat **Barack Obama** to buy ads to respond. Colorado and Florida are also seeing extremely heavy spending in Senate races for open seats, but those hot contests had been expected.

Two new surprises will likely develop, in Westerfield's opinion—North Carolina and New Hampshire. Although New Hampshire is a small state, it was carried by Bush by only 2% in 2000. "Bush, I'm told, is trailing right now among undecided voters in that state, with statistically a dead heat among all voters in New Hampshire," the analyst said. That may benefit not only TV and radio in New Hampshire, but perhaps even Boston in order to reach people in Southern New Hampshire and Portland, Maine, to reach adjacent areas of the Granite State. North Carolina was also solid Republican territory in 2000, but is now believed to be close enough for Kerry to target its 15 electoral votes.

There are even a couple of cases where the spending has been less than expected. "If you're looking under a microscope right now, in West Virginia the gubernatorial race there is an open seat—and in Washington State as well—and one would have thought spending would ramp up in those two states, but that has not yet occurred, nor has the fund raising been terrific in West Virginia," Westerfield said. He notes that West Virginia is a presidential battleground state and thus is still getting campaign ad money at the national level.

In Wall Street conference calls this year, Hispanic broadcasting companies have been touting their great gains in attracting political spending. But while those gains may be big in percentage terms, Westerfield says they are not substantial in dollar terms. "Some 85% of Hispanics reside in markets or in states where the electoral votes are already predetermined.

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Only the 4% of Hispanics in Illinois and the 9% of Hispanics in Florida are involved in the political horserace," he noted. So, like other broadcasters in California, Texas and New York, the Spanish groups are watching from the sidelines as the big bucks in the 2004 election are spent elsewhere.

Total political TV ad spending (\$ in millions)

Source	2000	2002	2004
President	\$205.9		\$417.3
Senate	\$268.4	\$193.2	\$283.5
House	\$338.1	\$364.8	\$395.4
Issues, state, local	\$97.6	\$411.0	\$375.0
Total	\$910.0	\$969.0	\$1,471.2

Source: Harris Nesbitt Gerard

SBS sells pair for \$120 million

In the first \$100 million+ deal of 2004, Spanish Broadcasting System is selling its 93.5 MHz simulcast in Southern California to de-leverage its balance sheet. The stations—KZAB Los Angeles and KZBA Riverside-San Bernardino—are going to Styles Media Group for \$120 million. Yes, that is the same Styles Media Group which currently owns stations in Panama City, FL, Dothan, AL and Southwest Georgia, so this will suddenly move the small-market group into competition in LA, which is the nation's #1 revenue market and #2 Arbitron market.

One of the managing partners of Styles, **Don McCoy**, already owns KWIE-FM Riverside-San Bernardino (Arbitron market #28), which will also be merged into Styles as it acquires the additional California stations.

Another Styles managing partner, **Tom DiBacco**, tells *RBR* that they had been talking to SBS since March about buying only KZBA for a duopoly, but SBS wasn't interested. Instead, Styles is now buying both stations and will split up the simulcast to launch new formats in both markets—neither of which will continue the current Spanish programming.

We asked the obvious question: Will Styles then sell the LA signal? "We want to keep it," DiBacco said. "It's not often you get to be in radio in the largest revenue market in America." He said Styles is currently debt free, so it has quite a bit of capacity to raise additional equity and borrow cash for the \$120 million buy.

From the SBS side, CEO **Raúl Alarcón** says the sale will improve his company's balance sheet. "This transaction is consistent with our strategic plan of disposing of certain non-core stations to de-lever the Company. A combination of cash-on-hand and divestiture proceeds from recently announced station sales totaling approximately 230 million dollars will be available to reduce outstanding debt and strengthen our balance sheet. This, combined with our Company's superior audience delivery, will enable us to focus on increasing our cash flow and capitalizing on the explosive growth of the U.S. Hispanic market," Alarcón said. Closing is expected in Q4.

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