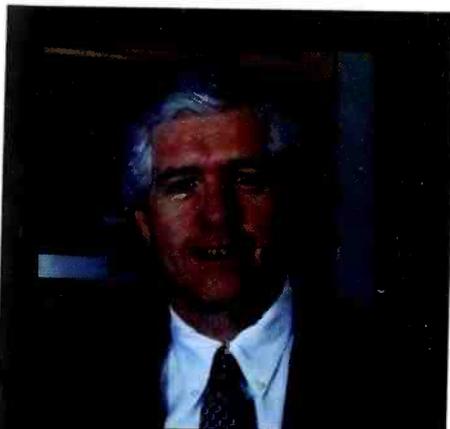


Radio Business Report™

The Management, Sales & Technology Journal

February, 2003

Volume 20, Issue 2



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Peter Smyth and other groups guys "getting digi"
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FCC's ownership rulemaking generates heat

The FCC is releasing the results of its omnibus six-headed rulemaking on broadcast and newspaper ownership rules late this spring. At least, that's the target date espoused by FCC Chairman **Michael Powell**.

Everybody, but everybody, has an opinion on this topic. And, even though the deadline date for filing comments with the FCC is long past (it was 1/2), that has not stopped the flow of comments. They are just being made orally, now.

The deadline for reply comments has not yet passed—it's February 3.

FCC Commissioners have already attended one public forum on the topic, held at Columbia University (*RBR* Daily Morning Epaper, 1/17). There, a series of panels convened looking at different aspects of the rulemaking. If you were on a panel, and were an executive with a broadcasting company, you were in the minority. We'd guess that media execs were outnumbered by media critics from unions, associations, watchdog organizations, consumer groups and academic institutions by a four to one margin. *continued on page 2*



Michael Powell

Congressmen move to muzzle drug ads

House of Representatives members Jerrold Nadler (D-NY) and Joseph Crowley (D-NY) are taking aim at pharmaceutical advertisements - - not right at them, actually - - but the pair are aiming potshots at the companies putting out the ads.

"The Say No To Drug Ads Act" would not ban the ads. It would, however, eliminate the tax write-off companies can currently take for direct-to-consumer television ads.

"Consumers pressure their doctors to prescribe the latest 'wonder drug,' whether they need it or not, and drug sales go through the roof. By artificially increasing demand for their drugs, the pharmaceutical companies are able to keep prices high, gouging our constituents," said Nadler.

RBR Observation: Wait a minute. Who the hell are these doctors who are running around prescribing unnecessary medication because of TV commercials? If this is true, this is much bigger than a simple advertising problem. Why put yet another dent in the First Amendment when it would be a mere band-aid on such a criminal conspiracy between drug manufactures and MDs?

We think the Congressmen may be overstating their case. However, if they are 100% correct in identifying a major societal ill, they sure have picked an ineffectual way of dealing with it.

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RADIO NEWS®

FCC - continued from page 1

The Commissioners are finding themselves on the same hotseat as the broadcast execs due to the widespread belief that they will allow further relaxation of the ownership rules. That is because of the free market leanings of Powell, and the expectation that he will be joined in any voting by fellow Republicans **Kathleen Abernathy** and **Kevin Martin**.

Democratic Commissioners **Michael Copps** and **Jonathan Adelstein** are seen as favoring retention of most existing ownership restrictions, or at least subjecting them to much greater scrutiny before allowing them to be relaxed.

A wild card is the court system. The US Circuit has consistently challenged the FCC to better justify its rules, or get rid of them.

Another wild card has been the Senate. **John McCain** (R-AZ) already has used his stewardship of the Senate Committee on Commerce, Science and Transportation to grill all five Commissioners (*RBR Daily Morning Epaper*, 1/15). As we get ready to go to press, he is just two days away from giving the same treatment to Clear Channel (N:CCU) honcho **Lowry Mays** and NAB honcho **Eddie Fritts**.

Attacking from yet another angle is Senator **Russell Feingold** (D-WI), who has just reintroduced his "Competition in Radio and Concert Industries Act," originally introduced last summer. The bill is widely seen as a direct assault on Clear Channel in general. In particular, Feingold does not like Clear Channel's position atop the twin peaks of the radio and the concert businesses.

Feingold is, of course, a close associate of McCain's (does McCain-Feingold ring a bell?). He has been invited to McCain's celebrity roast of Mays and Fritts to shoot a little consolidator skeet himself along with the regular lineup at the Commerce Committee.

The top Democrat on the committee, **Fritz Hollings** (D-SC) is not going to provide an oasis for Mays or Fritts, either. He is a long-standing foe of consolidation. We remember Hollings claiming to be a "born-again regulator" way back in the early 90s, before radio consolidation as we now know it was even a consideration.

As if this isn't enough, Senators Mike DeWine (D-WI) and **Herb Kohl** (R-OH), who have leadership positions on the Antitrust subcommittee of the Senate Judiciary Committee, have informed Powell that he, and his perceived deregulatory bent, are under their microscopes as well.

Further public forums on the topic are scheduled for Los Angeles and Richmond. Stay tuned—it should be a wild ride. (Keep up to date with RBR's Daily Epaper. Sign up today on page 15.)

RBR's March 2003 Business Solutions Magazine in-depth look

As we quickly approach the close of the 1st quarter of 2003 what is perceived as reality may not be just true. Key issues affecting your business to be investigated.

1. AdBiz, Agency Gurus...will look into their crystal ball and give you the real outlook for 2nd quarter 2003.
2. News/Talk radio.... Liberal Talkers are they in radio's future?
3. Engineered for Profit ... New products at the Spring NAB - pre-show preview
4. Convention Planning...what could be in the capital expenditures ledger sheet this year
5. GM Mediaworks President Rick Servitis ONE on ONE with RBR
6. RBR SPECIAL REPORT- African American broadcasters - new challenges - new opportunities (NABOB distribution)

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RBR New Analysis



Hilary Rosen

Rosen's resignation will leave a legacy of scorched earth

By Carl Marcucci

As Recording Industry Association of America (RIAA) Chairman/CEO **Hilary Rosen** announced she's leaving at the end of the year (1/23 *RBR Daily Epaper*), it leaves us to wonder what's left of the relationship between the labels and radio broadcasters. Over her CEO tenure since '98, we've seen her reign as belligerent, one-sided, short-sighted and harmful. Sure, online piracy and unauthorized music file-sharing has likely cut into record sales. She's gone after them and won - - Rosen fought the infamous court battle against music file-swapping service Napster. The service ceased operations 7/01.

But Rosen's credits, or "debits" if you're a broadcaster or webcaster, also include successfully lobbying for the Digital Millennium Copyright Act (DMCA) of 1998 to include webcasters and radio stations that stream their signals; which led to the CARP Panel and its determination of royalty rates that successfully halted much of the webcast industry in its tracks.

Rosen has asked the FCC and Congress for a probe of radio airplay issues (*RBR.com* 5/24), questioning the practice of radio groups owning concert promotions companies and of "legal payola," where independent promoters get money from the labels and deliver it to radio stations in the form of promo support in exchange for airplay.

Her latest headlines were made in the recent pact with (1/16 *RBR Daily Epaper*) the Business Software Alliance (representing Microsoft, Apple Computer and Adobe Systems) and the Computer Systems Policy Project (Microsoft, IBM, Intel, Hewlett-Packard and Dell) that has the RIAA lobbying against government requirements to build "locking controls" into future generations of entertainment devices in exchange for the tech companies lobbying that the labels should be allowed to use "hacker-style" tactics to hinder and disrupt Internet downloads of pirated songs and movies.

Rosen's also gone on record saying ISPs should be held accountable for the actions of their users and charged a fee for giving their customer's access to "illegal" file-sharing services such as Kazaa or Morpheus (1/21 *RBR Daily Epaper*). She says because ISPs are held accountable for removing illegal materials when detected, they should pay to offer customers access to the site.

And last, but certainly not least, the RIAA forced Verizon in court (1/22 *RBR Daily Epaper*) to turn over the name of a customer suspected of downloading more than 600 songs in one day. The decision could set an important precedent as the recording industry asks schools, businesses and Internet providers to help them track down the online song swappers that they believe are cutting into their sales.

We certainly can't fault her for aggressively doing her job - - and we mean aggressive! However, she may have lobbied so strongly for her constituents' interests that she created enemies on multiple industry playing fields. Yes, record sales are declining, but cutting off access to new music by making streaming prohibitively expensive only ultimately hurts both the record, broadcast and webcast industries. Under her reign, the RIAA's Gestapo-style tactics are offending consumers, broadcasters and now ISP providers. Yet, the price of CDs continues to skyrocket. We hope the new RIAA CEO in 2004 will bring with him or her less tunnel-vision.

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We ask General Managers from around the country to share with us, and you, their views of the industry. This time we quizzed:

Eben Fowler, Bott Broadcasting's KCCV-AM/FM Kansas City; Director of Broadcast Operations, Bott Radio Network

Dan Swensson, Susquehanna's WYGY-FM, WRRM-FM, WMOJ-FM Cincinnati

Bob Dakin, Regent Broadcasting's WFRY-FM, WCIZ-FM, WNER-AM and WTNY-AM Watertown, NY

Chris Berry, ABC Radio's WMAL-AM Washington, DC

Your predictions: What do you see happening in the radio broadcast industry for 2003?



Eben Fowler

Fowler: HD Radio (HDC) faces an uphill climb this year, at least until there are listeners with radios that can receive it. Even then, whether it will be adopted with enthusiasm is still up for grabs. Satellite radio still has a long way to go, particularly in the case of Sirius, to get to a break-even point. Finally, it's anyone's guess as to where the economy is ultimately headed, but I believe those of us in the radio industry have a compelling story to tell to advertisers. It's precisely during times of contraction in the

economy that businesses need to differentiate themselves and let potential customers know they are there. We can help them do that!

Swensson: I do think Q1 is looking at fairly choppy kind of waters, especially with what's out in front of us in the Middle East. Early indicators are very favorable—there are strong fundamentals in our economy and we will, as an industry, benefit from them. But I think we're going to have to be patient and positive and work through the first six months of '03, before we get back to the kind of expectations and returns that we've enjoyed for so many years in the radio business.

The solution—I think all politics is local and all radio is local. I think you're going to expose your throat if you get dependent on sources that are outside your local marketplace. I think that's the key to your financial health, I think it's the key to your programming health. Look, the variables are huge every day that we come here, but you resist some of the volatility and reduce some of the volatility if you're working in your backyard. So, we stay hyper-focused in our backyard.

Dakin: We're off to a great start for 2003! I'm cautiously optimistic but still looking for growth in the 7-8% range. There is still a lot of business being placed "last minute" but the business is there. Entering into war with Iraq could impact revenue, as was the case in 1991. 1991 was a tough year but tough times don't last...tough people do.



Chris Berry

Berry: I think that 2003 will continue to be a growth year for radio and media in general, especially coming off of the past couple of years. Will we see significant growth? Well a lot of it has to do with the events that will happen in the next couple of months. If we have military action in Iraq, for example, that will definitely have an impact on the advertising market. It will also have an impact on program-

ming because you will see spikes for stations that are information-oriented (News, News/Talk). I think it's important for GMs from all

formats to keep very close tabs on what is happening in the Middle East so they have a network partner available if they need to relinquish some of their local programming time to war coverage and also let their advertisers know that this is a real possibility and make a plan for how they will react if and when advertisers start to cancel.

What do you see happening at your stations in 2003?

Fowler: With the prospect of war in Iraq and a troubled economy, we are living in a climate of uncertainty. Faith in God is more important than ever, as evidenced by surveys following 9/11 showing that more people are turning to Christian radio. Each of the 18 stations that comprise Bott Radio Network has a format that consists of quality Bible teaching and news and information. Our listeners are very loyal because of the high quality of teaching and information programs we carry and the response we regularly receive from our audience shows how much they appreciate the programs we broadcast. We are energized about the opportunity to serve a growing listener base by providing programs that help our audience apply their faith in their daily lives.



Dan Swensson

Swensson: Susquehanna has made a material investment into Cincinnati because of the rate of return we've been able to establish over the last 10 years. This additional holding is going to allow us to level out some of the competitive terrain, improve our competitive hand and play aggressively against our strategic targets. In terms of answering the collective 40 share that Clear Channel may have in Men, we can answer currently with 6A-7P, based on the last ratings period, a virtual 30 share with Women, 25-54 with three radio stations. That's a footprint that makes a lot of sense to a tremendous advertiser base in the marketplace. So we intend to digest the new acquisition, play close attention to fundamentals to grow the franchise that needs to be rebuilt (which is in the Country space) and give Clear Channel and Infinity a fair fight.



Bob Dakin

Dakin: Q1 pacing continues to be strong for 2003. I believe our success is attributed to a great and continued history of local programming and community involvement. On the sales side we focus on being brilliant at the basics. Supply and demand pricing, prospecting, written presentations, creative copy and effective scheduling and having our sales-staff develop marketing solutions and ideas for their clients so the sellers themselves are considered sustaining resources by their customers which makes all the difference.

Regardless of market size, success is all based on repeat business. Equally important is an emphasis on new local-direct business development that's the one area we have the most control over. Especially if we do enter into war, the local-direct business will help insulate your billing against national or agency cancellations.

Berry: Washington is the most important city in the world. And I think that as developments unfold overseas, it will become all the more important. So to be a News/Talk radio station devoted to covering the events that are going on (not only in Washington but around the world) and then having experts talk about those events in a long form environment and allowing our listeners to call in, all of those elements really position us to do very favorably in the coming months.

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Battling For Larger Shares of Automotive Ad Budgets, part 2

Selling cars without pictures

Is radio targeted or fragmented? You may recall the perceptual study of heavy print advertisers that Arbitron and Edison Media Research conducted on behalf of the RAB in the late 90's. At that time, the overwhelmingly negative perception we chose as an industry to address was the issue of whether "Radio gets Results" for advertisers. I have always felt that the greatest paradox of the respondent's other perceptions was that one of radio's great strengths is our targetability, while 'fragmentation' was listed as one of more serious flaws. Well, which are we? This is definitely one area where consolidation and improved technology can create greater ease in the radio buying process, and allow our strength as a target medium to stand on its own.

We need to remind marketers and agency planners that Radio's highly targeted formats create Audience Loyalty which translates into high Time Spent Listening (TSL). A lot of attention has been given to declining Radio TSL. However, let's counter that with a look at the increase in competition for media time, and where the greatest impact has actually been felt—at the network TV level. So let's not buy into that argument so easily. Consumers are loyal to *stations*, not just one program segment, so they can be reached repeatedly in multiple dayparts and locations. Qualitative resources like Simmons national data, or Scarborough and Media Audit for local market data allow you to match your listeners' profiles to the auto makers target customer profile, guiding them to specific formats or stations in any given market.

Radio is a reach and frequency medium

No magic and no heavy lifting here – if *reach* is the number of different people who will hear the ad and *frequency* the number of times it is heard, which is more important? While that depends on the goal of the campaign, Radio is not limited to acting as a frequency medium. While buyers frequently complain about 'cluster station selling' affecting audience targeting, at the planning stage you can build a case for the rapidity with which reach can be built into a radio buy as the station list gets deeper. In a September 2002 RBR article titled "PPM—The Pros and Cons," Andrew Green, Managing Partner of Insights at OMDUSA stated that "TV is more efficient in building reach – in the early stages of a reach, you get to 50% very fast but – you have to keep piling on the spots to build from 50% to 60% ... you'll have numbers and software to help you to do that and invariably radio will be more efficient as an add-on medium [to build reach]." (Andrew has held a seat on the Radio Ad Effectiveness Lab's Research Committee since its inception in October of 2001.)



Mary Bennett

Opportunities: Selling with Sound

Automotive Creative has always presented a huge stumbling block for radio. If we stay with the manufacturer here, the budgets are significant enough that radio's low cost of entry isn't a benefit they're concerned about. Another harsh reality is that, similar to a number of other products, a huge amount of R&D dollars are invested in the physical aspects of the product long before it ever makes it to the consumer's radar screen. Like it or not, when the ad budgets are being planned, they not

only feel they *must*, but they want to show a picture of the baby! Radio's concerted effort with the manufacturer should not be a full-tilt media switch-pitch, but rather a gut check on appropriately allocating more dollars to our medium, and the use of Imagery Transfer.

Radio currently has a chance to sell the power of sound without suggesting a huge divergence from the automakers' current creative approach. Every major US manufacturer and a number of the imports are currently using contemporary music, classic rock, country or R&B to 'brand' their products—to build an emotional resonance with consumers. While most of these campaigns launched on TV, radio is an obvious choice to carry the message further. Just a few months ago, General Motors began using Led Zeppelin to reposition Cadillac to a younger audience. At Ford's Passenger Car division, Aretha Franklin is belting out the hits, while the Truck Division continues its use of Country artists with Toby Keith recently following in the footsteps of Alan Jackson's long-term relationship with Ford. And just recently, DaimlerChrysler announced it has hatched a deal with Celine Dion. These all spell opportunities for radio at the manufacturer's level.

I would be remiss here to not mention dealer ad budgets, where radio's creative cost of entry for creative becomes an asset. While this may not be critical at the manufacturers' level where huge creative budgets exist, a significant percentage of radio automotive revenue is generated at the dealer level, where cost is always a factor. So here is an avenue that we may be guilty of pressing too infrequently by falling back on station produced creative. Professional, quality radio creative can be produced at a fraction of the cost of quality television commercials, and frequently with the dealer never having to leave his home market to get the spots produced. Whether the goal is to promote financing incentives on 2003 models, or to build reasons over time other than price alone for consumers to visit a specific dealership, radio is a highly creative medium.

Mary Bennett is Executive Vice President/National Marketing of the Radio Advertising Bureau

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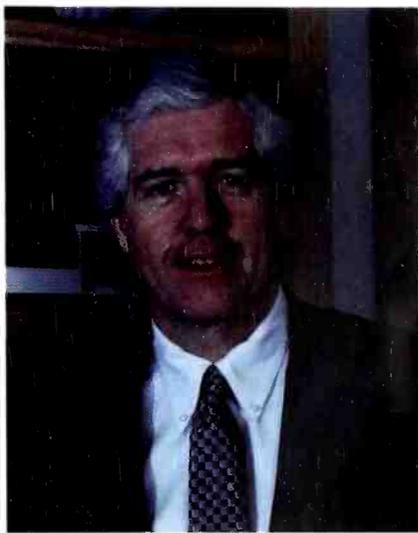
March 2003 (RADAR 76)



HD Radio debuting nationwide; will the ball keep rolling?

As promised, sole IBOC proponent iBiquity Digital unveiled through its manufacturer licensees prototype receivers, additional transmission equipment and a broad spectrum of radio broadcasters and groups that have committed stations to go digital with its HD Radio system. 120 stations have taken advantage of iBiquity's Early Adopter Program, which waived licensing fees for stations that ordered HD Radio transmission equipment on or before the end of 2002.

The station announcement was made 1/10 at CES 2003 in Las Vegas. The tally includes 35 broadcast groups in 40 large, midsize and small markets, spanning 26 states and 20 formats.



Peter Smyth

Group owners are psyched

While most of the groups that have signed are adding digital to a few of their stations to start, the goal seems to be for all of the stations. However, budgets aren't typically going to allow for all at once. Greater Media CEO **Peter Smyth** tells *RBR* he's very excited about going digital and is putting the project on a front burner, so to speak. The company's VP/Engineering **Milford Smith** was instrumental in

moving IBOC and its later incarnation forward. He sat on the NRSC committee that helped devise the standards.

Says Smyth about going digital: "[iBiquity CEO] **Bob Struble** and his crew are outstanding. And to bring radio into the 21st Century...I just couldn't be more excited about the whole thing. Greater Media, we're a privately held company and we are very aggressive in the technology space and I believe that we should move aggressively as possible to bring to the consumer the best sounding audio that we possibly can—that's our responsibility as broadcasters. We're going to spend in excess of \$1M just to tool these stations. And I hope by the close of '03 to have them all up on HD Radio."

Bonneville signed a contract with four stations—WDRV-FM and WTMX-FM Chicago, and KDFC-FM and KKDV-FM San Francisco. Bonneville CEO **Bruce Reese** tells *RBR* he fully anticipates that the rest of his stations will make the conversion as well. He's hoping the transition will be smoother than for DTV. "I've watched with interest the digital television conversion and have seen how time-consuming and expensive and controversial it has been. If the radio industry can make a conversion to a digital transmission mode here at the relatively low cost and relatively low political cost that the IBOC scheme has promised us (and now looks like it's going to deliver), we're going to be miles and miles ahead."

Susquehanna plans to immediately convert KFOG-FM and KSAN-FM San Francisco and WYGY-FM Cincinnati, using equipment from

Harris Broadcast. What about the other Susquehanna stations? Says **Charlie Morgan**, Susquehanna SVP and NRSC Chairman: "Our intent is to fully support IBOC, but at this point in time, we are doing it with three stations. This is all the money we had budgeted last year."

The automakers

Morgan is convinced that for IBOC/HD Radio to work, the receiver cart has to pull the digital horse: "I firmly believe that the system will develop over the next several years here. The key is receiver implementation. And I look to the receiver manufacturers to hold up their end of the technology. Ford has agreements with them, which I understand is moving along well. Once receiver manufacturers make it and put it into Circuit City and the car manufacturers put it in their vehicles, it will begin to move. But we need that. We need implementation by the receiver manufacturers. Kenwood has told me that they expect to have receivers in stores by April."

The true shot in the arm will come from OEM deals in cars. While iBiquity doesn't have the firepower yet that XM Radio had with GM as an investor, Ford is an investor and the usual auto OEM manufacturers are ready when the automakers place the orders. What's the current timetable for OEM automaker receivers? Says Struble: "Visteon and Delphi have both announced that they're basically ready. They've got radios that are ready to go in cars. Visteon believes they will be on model years beginning next year. So we're really talking an '04-type of event. I think this year is probably an aftermarket and high-end home year, and then you will begin to see the OEM auto manufacturers. But there's a lot of action there, you'll see some announcements shortly between Delphi and Visteon with the automakers."

Smyth says it was no coincidence Greater Media has been working with iBiquity, testing in Detroit on WMGC-FM: "We're working with BE in Detroit because we felt it was important for the automakers to hear digital radio. I wanted to be involved with that and I wanted to work with Bob and his group in making sure that we were vested in that market, because this is an out-of-home medium, and we need the car."

The equipment

Because the 120 initial stations signed onto iBiquity's Early Adopter program, the likelihood is high that the majority will be up and running with HD Radio in Q1. Broadcast Electronics reports significant orders for iBiquity Digital's HD Radio equipment began arriving at in December. As of year-end, the RF and broadcast studio manufacturer had received orders from six of the major broadcast groups plus several independent stations. Entercom, Clear Channel, Greater Media, Spanish Broadcasting System, Crawford Broadcasting, and Multi-Cultural Radio Broadcasting placed orders for BE transmission and/or exciter and generator products for the system.

Greater Media ordered BE HD Radio equipment for its stations in New Jersey, Detroit, Boston and Philadelphia. Says Smyth, who also serves on the NAB Board of Directors: "We will do a lot with Broadcast Electronics, because we always did in the past. We really like those people. We just think, if you go through most of our facilities, they are pretty much state-of-the-art. And we do try to stay on the cutting edge of things like that."

Clear Channel ordered equipment for its stations in Detroit, San Francisco and LA. Crawford Broadcasting also ordered a HD Radio transmitter and exciter for WPWX-FM Chicago. Entercom ordered for its Seattle and Boston stations.

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Stepping

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Others have also realized the benefits of going HD with BE, as orders for new equipment and system designs have poured in since late last year. Entercom, Clear Channel, Greater Media, Crawford Broadcasting, Beasley Broadcast Group, Inc., and many more have already chosen BE to help them get ready for the future, the HD Radio future.

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Broadcasters are going to spend somewhere in the neighborhood of \$25K-\$100K per station to offer HD Radio. We know better sound quality is a given—especially for AM. The big question for many broadcasters is ROI. Will iBiquity/HD Radio's added services, given the ability to stream a data channel with the digital signal—actually

begin to pay for the implementation and/or licensing costs? The receivers will have on-demand buttons for instant weather and possibly traffic reports in tandem with GM's OnStar system, a display space for advertising messages and artist and song titles. Some receiver manufacturers will offer a recall button that instantly stores info for later access. An Internet URL or a telephone number displayed in tandem with a radio ad can be more appealing—finally a visual element!—to current or prospective advertisers. A premium can and should be charged for the extra service, as well.

Says Struble: "We absolutely believe they will make money. There's going to be a new source of revenue from the implementation of HD Radio Wireless Data Services. The most easy to conceive of, and the one I think is going to happen first, is just advertiser-supported data information. So you get your traffic update when you push a button, and that traffic is brought to you by XYZ—much like it is now. Think of it as additional inventory to be sold."

There's already a good example of a similar model going on right now in LA with dMarc Technologies and Clear Channel's FMs there. The stations are reportedly making a reasonable amount of money selling using the analog RBDS system. iBiquity just announced a development team with the company. Says Struble: "If you can make money selling ads for RBDS, imagine the potential when you go to HD Radio with that much more capacity, bandwidth and the ability to do cooler stuff. So I think it's not going to be overnight—it's going to take time to get some receivers out there—but there will be ROI."

Can a station lease out a subcarrier as well as provide its own data such as artist name and weather? "Yes, it's a question at the end of the day of bandwidth. You have the option to also scale back your audio quality a little bit from 96 kbps (we're talking about FM mostly, but AM has options too)," Struble explains. "If you go with 96 kbps of CD-quality audio, you've got roughly 50 kbps of data. So you can cut that up, or you can cut 96 back to 80 or 64 and have more for other things. I think all of those things are going to be tried."

ROI is key to adoption, indeed. Things like WiFi are going to be a major competitor to HD Radio services as well. The reality is Clear Channel or Infinity or other public companies will want to show a return to their investors based on the outlay of money for converting the stations. And for smaller stations with independent owners, if they go to a bank to get a loan for the upgrade, they will likely need a business plan to justify that money.

Will the rest pay for licensing fees?

iBiquity announced it anticipates 300 stations covering 2/3 of the US population by year end 2003. Is the company at all worried that the tide of stations getting licensed will ebb, now that the Early Adopter Program is over? Any chance of extending it/forming another incentive program? "We think there is still solid momentum," Struble tells *RBR*. "We do not currently have any incentive programs in place, but certainly will be evaluating the need as we go forward."

Some broadcasters have told *RBR* over the last few months the iBiquity licensing fees will be too high, when added to the cost to upgrade to digital. Are they right? "It's simply a multiple of the FCC fee, explains Struble. "You've got an option—you can either pay us one time and then you'll never see us again—and that's 15 X the FCC fee. Or, if you're really strapped for cash, or you want to watch the technology roll out before you fully commit, you can pay us annually for 10 years and that's 2.8 X the FCC license fee. I believe on average, certainly in the smaller markets, if you want to take that annual option, you're talking about a couple thousand bucks a year. NPR did a survey of all of their stations and affiliates. The average conversion cost was \$100K. Of that, our license fee was \$3K."

However, some smaller broadcasters do have other issues besides cost. Motorola RF chip consultant (for its "Symphony" chip—*RBR* e-paper 10/1/02—among others) and KRXS-FM Globe/Phoenix, AZ GM **Rich Potyka** was an Early Adopter and backed out. "I was in the plan. But I didn't put it on because when they said you could not use separate antennas, it made no sense for me to even think about it. A combiner on our system was more costly than putting up separate antennas. I run a two-bay at very high altitude, and I was just going to run a low-level separate transmitter with a matching antenna sitting on the same tower site. They said they will not permit that because it doesn't give you equal coverage. Well that's nonsense. Just adjust the power as needed."

The other reason was Potyka decided not to go HBOC was the requirements for delay on the analog signal. "The whole operational system is very cumbersome for small market stations like ours. We do a lot of live remotes, typically every two weeks. It would be a nightmare. They're talking and eight seconds later it's coming out of a big speaker sitting around at the remote. It doesn't work!"

One solution, of course, would be to put in an IFB channel. However, "all of a sudden, you're spending a ton of money to get a very secondary performance," he complains.

Some are saying HD Radio will not be adopted fast enough for the return that iBiquity wants, and that they're going to have to change the licensing fees to make it attractive for all but one or two of the stations in a given area. "The big nut for iBiquity is the consumer receiver and the chipset license fees—which are market-driven," Potyka explains. "What they ought to be doing is practically giving this stuff away. They're working on the wrong side of the equation. They need to look at deploying it as fast as possible—not making it licensed free—but almost subsidizing it. Get the transmitters out there so that receiver makers will make receivers. Because having gone through this with AM stereo, it was the same problem. If you didn't have a transmitter, why build a receiver? We sold about 35M AM stereo chipsets in a period of 15 years. And 35M x .25, which was the license fee, was way more than you could ever generate by charging stations to put transmitters on."

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3. The traffic jams of advertising / marketing. Ask in a conversation with the client already knowing the answer: "How can we compete against the big guys like Sony?" Then mention statistics: "Your customer is hit with over 2,500 forms of commercials every day." Let them talk and also interject, "the traffic jam is getting worse everyday." Talk about their experiences. Almost everyone has experienced a traffic jam.
4. Client product branding with competition and repetition. Ask questions on the key attributes of their product, services, or brand. One or two word recognition with repetition. Stay focused and listen to key words that describes the client. Use them in your conversations, reminding the client that in this mild recession people are buying for necessity.
5. Creating your audio environment with words. If the client sells furniture, then words of color are important. It is hard to visualize a name brand leather or fabric but the ear attracts to color: "This is a unique charcoal gray love seat." Let the client tell you their colors and then hook them using those in the advertisement. Remember: you have to advise of the traffic jam and being stuck in traffic listening to radio. Make the point of color to get the listeners' attention. Words set a client apart from the competition.



There are more added points you can bring to the marketing table, but your first goal is getting in the door. The client understands dollars, how to use a calculator, and needs your assistance in delivering the color to navigate through a traffic jam. There is no need to sell against your competition because your goal is to sell for the client.

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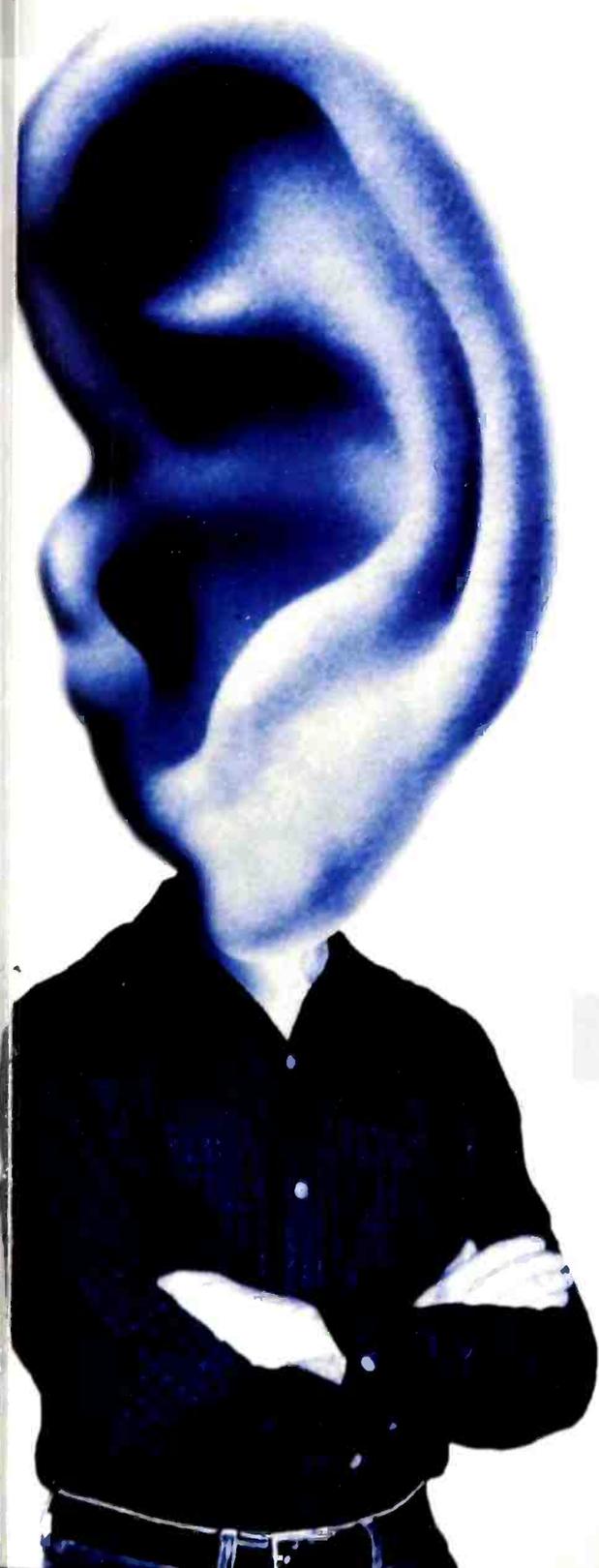
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Part II: Groups buying direct: a new paradigm in the marketplace?

Due to consolidation, the buying power of major groups has indeed changed. In light of that and the news that Clear Channel announced it's going direct for more and more buys (*RBR* e-paper 11/11), the triad between radio groups, manufacturers and reps/resellers is evolving. But is the marketplace at the point where a complete paradigm shift is taking shape? Here, in Part II, we look at the topic through the resellers' eyes.

The value of the middleman

There is great value in dealers and middlemen. A CE can assemble an equipment list, sometimes running to hundreds of items, hand it off at a dealer or dealers and let them run down the pricing and availability of each item and then price and discount the entire package. That is a real service, a real time saver and an easy way to comparison shop with a big list of very different items.

Now, if manufacturers want to benefit from direct deals with groups, they'd better be up front with their resellers. Tell them about a potential deal on the table and see if they'll "buy" it. Doing deals under the table with groups can certainly backfire. On the flip side, some manufacturers just aren't buying into selling direct.

Continental Electronics has sold direct for years and until just a couple of years ago started using reps—RF Specialties Group, Lightner Electronics, TDM Broadcast Services and Radio Applications Unlimited. "I've gone through great strides to hand-select Continental's sales reps to better serve the end customer with

complete and knowledgeable service," explains Continental Electronics Broadcast Marketing Manager **Bret Brewer**. "Now if customers want to bypass them, financially it's not going to help them at all. I'm not going to sell equipment cheaper than my reps. There is just one of me and I can't spend the required quality time with customers to help each of the stations and do it right. There are 11,000 stations in the US that my reps work with. If I cut them out on a direct sale to a group of 1,200 stations are they going to be out there promoting our products to the other 10,000 stations? Not likely. To cut them out is short-sighted and not good for long term relations with both the customers and the sales channels."

"Any ethical manufacturer will support the list price of its products, by selling to end users only at that list price. To do otherwise is to go into competition with the dealer network of that manufacturer, which is ultimately self-defeating," concurs Bradley Broadcast Sales GM **Art Reed**. "It not only angers the dealers, but it also runs down the perception of value of that manufacturer's products in the marketplace. There is no justification for one large customer, who is really just a collection of smaller customers under one corporate entity, to get a better price and there is no economy of scale for the manufacturer to sell the same amount of merchandise it otherwise would have sold, for a lower price."

"We have a killer network of dealers and reps who do all the dispensary work for us, and we support them implicitly," says Autogram's Director of Marketing **John Stanley**. "We will NOT sell direct. If they want Autogram, then they go through one of our dealers...period! We are not going to jeopardize our long-standing relationships with our fine dealer network in an attempt to make perhaps a few more dollars."

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Why is there a middleman anyway? "One word answer—necessity," **Tim Schwieger**, President, BSW-Broadcast Supply Worldwide, told *RBR* in our November story. "The value we bring to the customer and manufacturer alike is real. We do everything from handling defective products, supplying demo units, keeping inventory, resolving credit and billing issues and so much more. Our observation is that the larger and more significant a manufacturer is, the less able they are to manage direct retail sales."

"I think the middleman still performs a valued function," confesses Cumulus EVP **John Dickey**. "The manufacturers use middlemen because it's cheaper for them—they don't want to pay for a sales force. What we're trying to explain to manufacturers, is we're just looking to try to realize the discounts we should based on the volume of purchases that we're doing. If Harris, as an example, is going to sell to a third party reseller, selling a widget for \$10, then they ought to be willing to sell the widget to us for no more than \$10."

A new paradigm?

So is there a new paradigm coming into play? Is so, might it result in fewer product choices and inferior service? Is the market evolving to slowly leave only big, monopolistic sellers to sell to big, monopolistic buyers?

Greater Media has gone direct on many of its purchases of larger items for years and routinely uses resellers for our laundry lists of lesser items. VP/Engineering **Milford Smith** thinks a tighter reseller marketplace could mean better service: "If their volume decreases through more direct sales, I would anticipate the competition to be even tougher. I would hope that this would further inspire resellers

to really 'super serve' the customer. That, in many cases, can provide real value."

"This really isn't anything new. For years we have purchased transmitters and antennas directly from the manufacturer," adds Clear Channel SVP/Engineering Services **Jeff Littlejohn**. "The difference is that Clear Channel is now expanding this relationship beyond the largest items and into the box goods arena. Now that we are consolidated, we have data that can help a manufacturer produce a product for a few less shekels and we can get a better price as a result. That's the simple story."

Dickey thinks any change will be driven by the manufacturers, not the consolidated radio groups: "What I think it's going to come down to is the survival of the middlemen will be dependent on how the manufacturers want to do business going forward. The manufacturers are going to sit down and say, 'Look, we're in an environment now where there are half a dozen heads of engineering and heads of companies that we need to do business with now. We don't need to have an extensive sales network.' I think this is going to be an issue that the manufacturers and resellers are going to be struggling with this year. It's on the front burner now. And I think it's going to continue to boil for a while until it's resolved."

As long as the reps/resellers continue to bring value to the equation and manufacturers stand firm on supporting their resellers, the current paradigm should remain in play. However, a domino effect is just a few orders away. If a flurry of direct dealing gets started from multiple manufacturers who have reseller contracts in place, it will only feed upon itself. As other groups demand the same pricing, we could see chaos. So really, as Dickey says, it's largely up to the manufacturers.



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Rumors of War

As tensions grow between the United States and Iraq's **Saddam Hussein**, prospects for a war with Iraq seem to be growing on a daily basis. Despite having had the recent experience of covering the invasion of Afghanistan and, just a few years back, the first war with Iraq to end its occupation of Kuwait, preparing to cover another war is far from routine for US radio networks.

"In essence we've been preparing ever since the Gulf War, which is the foundation of our preparedness," said **Ed Tobias**, Assistant Managing Editor for Broadcast News at the Associated Press. "But obviously right after 9/11 we kicked up from third gear into first and started thinking about what we would do—not only in terms of another war, but in terms of an additional terrorist event. It's a combination of preparing equipment-wise and preparing personnel-wise."

All of the US networks have people already in the region, covering events from Baghdad, Qatar, Israel, or wherever the headlines lead. But they've been preparing vigorously in recent months to send reporters in with US troops when, and if, military action takes place.

"Literally, reporters in New York, Washington, Dallas, Miami and LA, where we have domestic bureaus on the radio side, keep their bags packed at the office in case they need to respond quickly," said **Chris Berry**, who in addition to being GM of WMAL-AM Washington was still Acting Vice President of ABC News Radio when interviewed by *RBR* (**Steve Jones** was recently named to the post).

Reporters from US news organizations—radio, TV, print and others—have been sent to so-called "boot camps" organized by the Pentagon to learn how to work with combat troops, live in a war zone and be able to file reports to their news organizations.

"You are dependent in some ways because the Pentagon is the organization that is going to permit your reporters to be imbedded with the troops. As a result, we have sent several of our reporters to Pentagon training camps over the last couple of months," said **Harvey Nagler**, Vice President, CBS News/Radio. "We've sent them to what's called the NBC training camps—the nuclear, biological and chemical warfare training sessions that the Pentagon has sponsored."

Even before the Pentagon began its training sessions, the AP had contracted with Centurion, a private security firm, to prepare its reporters for battlefield conditions. "So that people are savvy when it comes to hostile environments—knowing what a land mine looks like and how they might deal with it. It teaches them first aid to help themselves and help others. It teaches them overnight camping skills, weapon recognition, what to do if they are kidnapped—if somebody throws a bag over their head and takes them off somewhere. Basically street smarts for dealing with a hostile environment," explained Tobias. The kidnapping threat is taken very seriously at the AP, after former Beirut Bureau Chief **Terry Anderson** (once a familiar voice reporting for AP Radio) was held captive for six years by Islamic militants in Lebanon.

"The Pentagon has said they would offer more access to units in the field," noted ABC's Berry. "We really didn't see that in 1991 in the Persian Gulf. We have seen it off and on in Bosnia, Somalia and place like that." He's hoping that the Pentagon-sponsored "media boot camps" mean that access will be better this time around. Regardless of how easy or difficult it is to gather up-to-the-minute information, all of the networks are preparing to go all-out once a war begins.

"We will, as a radio network, be doing continuous coverage when the war breaks out. We'll be doing six reports an hour for weeks and weeks, if not months," Nagler said of coverage plans. The story is much the same for all of the radio nets—regular newscasts plus scheduled additional reports every hour—plus wall-to-wall coverage that will be available to affiliates on secondary channels when big news is happening. In addition, most of the nets will make correspondents available in the field to go live with affiliate stations. That's possible because all have invested in more and smaller satellite tele-

phones, which can turn even the most remote section of Iraq or a ship on the Persian Gulf into a radio remote studio.

"In some ways it's a technical nightmare to get all of the lines installed—to make sure all of your satellite phones are working—to outfit your reporters with all of the latest equipment, so that no matter where they go, you can hear from them instantaneously," Nagler noted.

(Editor's note: CNN Radio is also preparing for extensive coverage of any war with Iraq, but **Robert Garcia**, GM of Radio News, was traveling overseas and unavailable to comment as *RBR*'s story went to press.)



AP Radio correspondent **Ross Simpson** prepares for battlefield reporting at a Pentagon "media boot camp"



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Flying the red flag at the FCC

The Telecommunications Act of 1996 radically changed the rules concerning radio station ownership. In two steps, local caps went from two, to four (in 1992), and then in 1996 owners were allowed up to eight stations, with a maximum of five in one band, in areas served by 45 or more stations. At the other end, owners in more remote areas, served by 14 signals or less, were still allowed to own five stations with a maximum of three in one band. The signal contour method of determining a market in use to enforce the 1992 rules was carried forward for use in the 1996 rules.

The assembly of legal station clusters under the 1996 rules has resulted in numerous Arbitron markets in which there are only two large radio station owners. Although there are many checks and balances which rein in the business power of owners in a two-owner market (TV, newspapers, advertiser ROI, to name only a few), the FCC has taken it upon itself to subject some deals to extra scrutiny under its red-flag policy.

Many if not most of the flag-throwings have been just plain silly. Let's look at two cases which occurred in the past few months.

Jonesboro, Arkansas

KDEZ-FM, KDXY-FM and KJBX-FM. Basically, all three stations were owned by the Pressley family. At some point in time, the FCC approved the formation of this three-station cluster.

Some other folks had a small interest in KJBX, and were getting out. Pressley was essentially selling the station to itself, and still got nailed with the FCC's dreaded red flag. This, by the way, was just after the FCC allowed Clear Channel to upgrade its cluster in this sparsely-radioed town.

This is a classic example of a market where the FCC should expect no more than two competitors. In the Fall 2002 Arbitron, a grand total of seven stations received above-the-line ratings, meaning only seven stations were considered de facto competitive in-town stations by Arbitron. Two owners triggered the 70% rule? No fake?

What was particularly silly, of course, was the fact that the three station combination which was red flagged was already in operation, with FCC approval. The Pressley's owned almost all the stake in all three stations. There was absolutely no change to the competitive landscape of the market.

Anyway, the FCC finally came to its senses and allowed the deal

wherein Pressley bought the station essentially from itself.

But it gets better.

Shortly thereafter, Pressley decided to sell the three stations to Saga Communications (A:SGA) (*RBR Daily Morning Epaper*, 8/13/02). Saga had no interest in any stations in the area. Pressley was selling a three-FM superduopoly—a perfectly legal grouping under the law as passed by Congress, which had already been approved by the FCC not once, but twice.

The FCC red-flagged the deal (*RBR Daily Morning Epaper*, 8/19/02).

Bismarck, North Dakota/Mankato Minnesota

In this deal, Clear Channel is proposing to swap three stations in and around the fairly new Mankato-New Ulm-St. Peter MN Arbitron market to James Ingstad in exchange for an AM station in Bismarck ND and \$250K cash (*RBR Daily Morning Epaper*, 1/15/03).

What makes the deal truly remarkable is that in each case, the stations being swapped away will reduce each dealer's local cluster. Ingstad will remain the #1 radio company in Bismarck after the deal closes, but will be somewhat less of a force, obviously, since it is reducing its cluster by one competitive station. Clear Channel will obviously improve its standing in that market, but at the moment it has only an AM-FM combo. This deal will take it to two AMs and an FM. It could've owned more than that back in 1992!

Meanwhile, although the stations Clear Channel is packaging to Ingstad are not among the shining jewels in the Mankato market, they are part of the market. Clear Channel owns several other stations in the area, but is reducing its local concentration here to build up its undersized cluster in Bismarck.

Bottom line: The deal actually diminishes two big clusters, and does not create any really big new clusters. It increases competition in both markets.

The FCC red-flagged the deal (*RBR Daily Morning Epaper*, 1/20/03).

RBR observation: We could dredge up numerous other examples of silly red-flaggings. We'll just conclude by saying this:

The FCC is not required by law to red flag deals. It would be nice for all concerned if it took just a little bit of time before tossing the hanky to see if it makes any sense at all. Not all of the instances are as sublimely ridiculous as the two noted on these pages—but almost all have been unnecessary, expensive delays for little or no reason.

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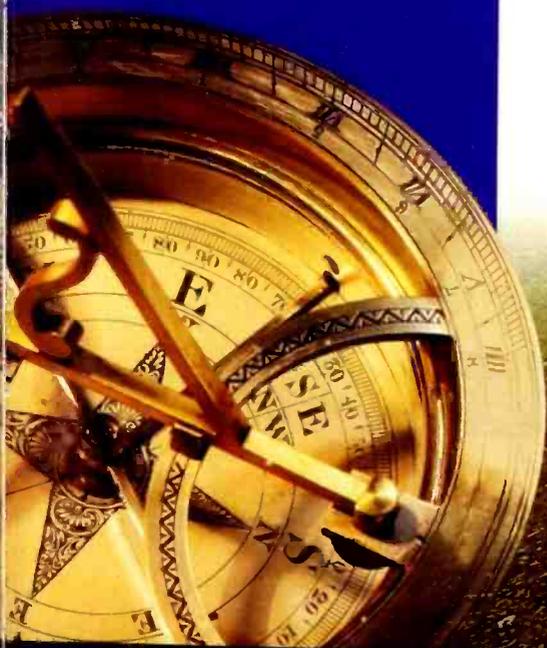
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| <p>The Forward Association has conveyed the assets of WEVD (AM) New York, NY to ABC, Inc. for \$78,000,000 (Plus a \$5,000,000 Option Payment)</p> | <p>Empire Broadcasting Corp. has conveyed the assets of KARA (FM) San Jose, CA to Hispanic Broadcasting Corporation for \$58,000,000</p> | <p>Bahakel Communications has conveyed the assets of WKSI (FM) and WPET (AM) Greensboro, NC to Entercom Communications Corporation for \$20,500,000</p> | <p>First Broadcasting Corporation has conveyed the assets of KXGM (FM) Dallas, TX to Entravision Communications Corporation for \$18,750,000</p> | <p>Mapleton Communications LLC has acquired the assets of KBTU (FM), KPIG (FM), KCDU (FM), KMBY (AM) and KHIP (FM) Monterey, CA from New Wave Broadcasting for \$10,250,000</p> |
| <p>Entravision Communications Corp. has conveyed the assets of KSZZ (AM) Riverside-San Bernardino, CA to Salem Communications Corporation for \$5,000,000</p> | <p>Mapleton Communications LLC has acquired the assets of KABX (FM), KIBG (FM), and KYOS (FM) Merced, CA from Merced Radio Partners, L.P. and Yosemite Radio Partners, L.P. for \$4,300,000</p> | <p>First Broadcasting Company, L.P. has agreed to acquire the assets of KNCO (FM) Grass Valley-Sacramento, CA from Nevada County Broadcasters, Inc. for \$3,000,000</p> | <p>Cumulus Media has conveyed the assets of WFDF (AM) Flint, MI to ABC, Inc. for \$3,000,000</p> | <p>Clarke Broadcasting Corporation has conveyed the assets of KLOQ (FM), KMJQ (FM), KRAN (AM) and KAXW (AM) Merced, CA from Mapleton Communications LLC for \$2,800,000</p> |
| <p>Gold Country Communications, Inc. has conveyed the assets of KNGT (FM) Jackson, CA from First Broadcasting Corporation, L.P. for \$2,500,000</p> | <p>Cox Radio, Inc. has conveyed the assets of WBWL (AM) Jackson, FL to ABC, Inc. for \$2,500,000</p> | <p>Entercom Communications Corp. has conveyed the assets of KQAM (AM) Wichita, KS to ABC, Inc. for \$2,000,000</p> | <p>Mapleton Communications LLC has acquired the assets of KTEE (FM) Seaside-Monterey, CA from Central Coast Communications LLC for \$1,850,000</p> | <p>SJL Northeast, L.P. has agreed to convey the assets of WOWK-TV Charleston-Huntington to West Virginia Media Hold LLC (WVMH) for \$40,500,000</p> |
| <p>Venture Technologies Group has conveyed the assets of KPHZ-TV, Channel 11, and two LPTV's serving the Phoenix DMA to National Broadcasting Company, Inc.</p> | <p>Summit Wireless, LLC has conveyed PCS licenses in Colorado, Montana, Hawaii, and Washington representing 810,000 Pops to Cascade Wireless, LLC</p> | <p>Mid-Maine Communications and Mid-Maine Wireless has conveyed certain PCS licenses in Maine representing 712,000 Pops to Devon Mobile Communications</p> | <p>Summit Wireless, LLC has conveyed PCS licenses in Montana, West Virginia, and Washington representing approximately 700,000 Pops to AT&T Wireless PCS, LLC</p> | <p>Whidbey Telephone Company has conveyed PCS licenses in Washington representing approximately 338,000 Pops to Cascade Wireless LLC</p> |
| <p>Century Tel has conveyed its Bremerton, WA PCS license representing 232,000 Pops to VoiceStream PCS</p> | <p>Whidbey Telephone Company has conveyed PCS licenses in Bellingham, WA representing approximately 165,500 Pops to AT&T Wireless</p> | <p>Summit Wireless, LLC has conveyed PCS licenses in Oregon representing approximately 165,000 Pops to Edge Acquisitions, LLC</p> | <p>AlpinePCS has sold certain tower assets in California to AT&T Wireless</p> | <p>GoldenState Tower has sold \$25,000,000 Initial Investment in Equity & Debt from VSS&A Communications Partners III, L.P. a \$1,000,000,000 private equity fund and affiliate Veronis Suhler Steven MEDIA MERCHANT BA</p> |

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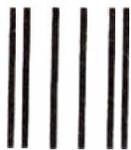
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eat of war

changing commitments from clients?



Adbiz
Maria Cueva
Advertisers speak
out about Arbitron
and the Hispanic
issue
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Natalie Swed Stone

We surveyed a few buyers on whether their clients are changing campaigns or buying plans in anticipation of war breaking out in Iraq.

Natalie Swed Stone, Managing Partner/Director of National Radio Services, OMD USA: "Clients are skittish. If there are clients who are thinking about doing something, they may be may be skittish, they may wait to see what happens and postpone their plans until mid-year or later in the year. I think because there is so much talk of the war, and now we're getting close to it and nobody knows if it will be long or short, if you're about to launch something and you think we're close to a war, you're going to wait. Why risk your business and spend money at a time when the country isn't ready for your message? So if your business is hinging upon this effort that you're doing and the effort can be conceivably moved or postponed, if you get in touch with people in the room, they'll probably say it's safer to postpone."

She adds, "I think the first question, when we started discussing this was, 'What happens to clients that are already on the air?' Well, they pull. And I think that what we're hearing is if they're already on the air and their plans have been booked, they'll make the best of it—they'll move some of it, they'll see what happens in terms of programming. If there's news, they don't want to be there. But it's different now. If you're going to launch a product or do a promotion, something you were planning on doing, where you haven't been on all year, now the issue is why not wait?"

How might this affect business for radio? "I think there will be those clients who will wait. Now I'm hoping that if they're not on now, they will take that money and it will be recouped by the end

continued on page 2

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