Radio Industry Review 2002: Trends in Ownership, Format, and Finance

George Williams*
Scott Roberts

September 2002

* Media Bureau, FCC. The views expressed in this paper are those of the authors alone and do not necessarily reflect the views of the Federal Communications Commission, any Commissioners, or other staff.

EXECUTIVE SUMMARY

On February 8, 1996, President Clinton signed into law the Telecommunications Act of

1996. Section 202 of the 1996 Act eliminated limits the FCC had previously placed on the number of radio stations a single entity could own nationally. It also significantly relaxed limits the FCC had placed on ownership of radio stations in a local market. On March 7, 1996, the FCC implemented these provisions of the 1996 Telecom Act by revising Section 73.3555 of our Rules (47 C.F.R. §73.3555) to eliminate the national multiple radio ownership rule and relax the local ownership rule.

In March 1998, January 2001, and September 2001, we released the previous Reviews of the Radio Industry examining changes in various aspects of the commercial broadcast radio industry as a result of the implementation of these provisions of the Telecom Act. These reports indicated a trend toward consolidation of radio station ownership resulting in fewer owners at both the national and local levels. This report provides an update of the impact of the Telecom Act through March 2002.

Overall, there has been an increase in the number of commercial radio stations of 5.4 percent between March 1996 and March 2002. The number of radio owners declined by 34 percent during this six-year period. This decline is primarily due to mergers between existing owners. Over the same period, there has also been an increase in the size of the largest radio group owners. In 1996, the two largest radio group owners consisted of fewer than 65 radio stations each. By March 2002, the leading radio group, Clear Channel Communications owns approximately 1,200 radio stations. The second largest group owner, Cumulus Broadcasting Inc, has approximately 250 stations.

At the local level, there continues to be a downward trend in the number of radio station owners in Arbitron Metro markets. Further, the increase in the revenue share of the top owners in each Metro market has generally leveled off. The largest firm in each radio Metro market has, on average, 47 percent of the market's total radio advertising revenue. The largest two firms in each radio market have, on average, 74 percent of the market's radio advertising revenue. Overall, the variety of radio formats available to consumers has held steady. However, in recent years the average number of formats appears to have declined slightly for some of the large markets while increasing slightly for most of the smaller ones.

Most of the financial-market trends reported in previous Radio Reviews continue to hold through the first quarter of 2002. Our analysis of publicly-traded companies whose primary business is radio broadcasting continues to reflect strong earnings. Publicly-traded radio companies, however, still carry heavy debt loads, which contributes to the high volatility observed in their earnings. Also, the high debt loads of these publicly-traded radio companies contribute to the volatility of their stock market valuations. Through much of the period before 2000, the valuations of these radio companies have outperformed the broad market of publicly-traded companies, as reflected in Standard and Poor's 500 (S&P 500) index returns. After 2000, however, the returns of radio companies have fallen sharply below the S&P index returns.

In a new section of this report, we examine recent trends in the size of radio's listening audience and in radio advertising rates. In particular, we find that radio listening has decreased slightly since 1998, and radio ad rates have increased almost 90 percent since 1996.

1. Overview

In an *Order* adopted March 7, 1996, the Commission implemented the provisions of the Telecom Act of 1996 directing it to revise its rules concerning national multiple as well as local radio ownership. These provisions first required that the Commission eliminate its national ownership rule that limited the number of AM and FM stations one entity could own or control on a nationwide basis to no more than 20 AM or 20 FM stations. The provision that permitted an entity to own an additional 3 AM and 3 FM stations if they were small business-controlled or minority-controlled was also eliminated. Next, these provisions required that the Commission relax its local ownership rules such that:

a. In a radio market with 45 or more commercial radio stations, an entity would be allowed to own, operate, or control up to 8 with not more than 5 in the same service;
b. In a radio market with between 30 and 44 commercial radio stations, an entity would be allowed to own, operate, or control up to 7 with not more than 4 in the same service;
c. In a radio market with between 15 and 29 commercial radio stations, an entity would be allowed to own, operate, or control up to 6 with not more than 4 in the same service;
d. In a radio market with 14 or fewer commercial radio stations, an entity would be allowed to own, operate, or control up to 5 with not more than 3 in the same service, subject to the limitation that no entity be allowed to own, operate, or control more than 50% of the stations in these markets.

In March 1998, January 2001, and September 2001, we released the previous Reviews of the Radio Industry examining changes in various aspects of the commercial broadcast radio industry as a result of implementing these provisions of the Telecom Act. The reports indicated a trend in the consolidation of radio station ownership resulting in fewer owners at both the national and local levels.

This report is an update of the impact of the Telecom Act on the commercial broadcast radio industry through March 2002. The first part, reported in Section 2, examines changes in the radio industry from a national viewpoint, *i.e.*, broad changes to the radio industry focusing on the number of owners and the number of stations held by the largest group owners. Next, Section 3 examines changes in the radio industry at the local level, specifically examining various indicia of diversity and concentration in each of the areas that Arbitron identifies as a local radio market. Section 4 compares the financial performance of several publicly-traded radio companies to firms in the S&P 500. Finally, Section 5 examines trends in radio's listening audience and in radio advertising rates.

2. Changes in the Radio Industry - A National View

The trends in the radio industry continue through March 2002. Before discussing the specific changes, however, it is necessary to spell out certain assumptions used in the analysis. This report uses the BIA MasterAccess Database of radio stations. BIA regularly updates its database and continues to improve the data it reports. To improve comparability amongst the various time periods, certain changes were made in the March 1996, November 1997 and November 1998, March 2000, and March 2001 databases. In order to make the March 2002 data comparable with the previous years' data, the following changes were made.

First, BIA presents the ownership data to reflect "pending" or "proposed" transactions. This means that when company "A" announces that it will purchase company "B", the owner of company B's radio stations are identified as "A." If the proposed transaction does not eventually occur, either in whole or in part, BIA then readjusts the ownership data. In describing the radio mergers, it makes more sense to document the effect of only those mergers that have been completed. Therefore, ownership data from BIA were corrected so that it reflects only mergers that have been completed.[1] Second, BIA identifies the owners of stations subject to a local marketing agreement (LMA) separately. Since the Commission's rules generally attribute an ownership interest to the brokering station, the BIA data were adjusted so that the ownership of stations subject to an LMA are attributed to the owner with the larger national revenues.

Third, in previous databases there had been a format category "News/Sports" which, in the March 2000 database, was split into two separate categories: "News" and "Sports". To maintain compatibility, each "News" or "Sports" entry was replaced by "News/Sports". Fourth, we note that the number of markets has increased again, from 283 in

[1] In the 1997, 1998, 2000, 2001, and 2002 data, BIA identifies which transactions are pending, thus making it possible to reassign the stations to the "previous" owner. However, BIA did not do this in the 1996 data.

March 2001 to 285 in March 2002, yet the percentage of stations assigned to markets is relatively stable at 59 percent. Sixth, BIA estimates revenue data annually for approximately 45 percent of the radio stations. Most of the radio stations with missing revenue estimates are not assigned to Metro markets and are, therefore, not included in the analysis. The radio stations with missing revenue estimates that are assigned to Metro markets are usually the low-rated stations in the market, and they earn a small share of the market's advertising revenues. In order to include these stations in the analysis, zero values were assigned to the missing data.

Finally, since our last report, BIA has increased the number of radio stations identified as noncommercial. The reduction in the total number of commercial radio stations, therefore, reflects this reassignment of some commercial radio stations to noncommercial. In order to better compare with the previous year, we have attempted to incorporate this change to the data for March 2001. The tables in the Appendix, therefore, will reflect this change in status of commercial stations for March 2001 and March 2002, but not for the previous years. In addition, BIA has also reassigned a number of non-market radio stations as market stations. We have made no attempt to incorporate these changes prior to March 2002.

With the above caveats in mind, the analysis of the radio industry follows. The number of commercial radio stations has increased about 5.4 percent since March 1996. As of March 2002, there were 10,807 commercial radio stations in the United States.[2] Of these, about 56 percent (6,128) are FM stations and 43 percent (4,679) are AM stations. As we stated in last year's report, the number of radio owners has declined by 6.7 percent from March 1996 to November 1997 (from 5,133 to 4,788 owners), by an additional 5.8 percent from November 1997 to November 1998 (from 4,788 to 4,512), by another 11.2 percent from November 1998 to March 2000 (from 4,512 to 4,006), and by 4.2 percent from March 2000 to March 2001 (from 4,006 to 3,836). As of March 2002, there were 3,408 owners of commercial radio stations across the nation, for a cumulative decline in the number of owners of 34 percent since March 1996.

[2] This current number of commercial stations is (10,807) lower than the number of radio stations reported for March 2001 in last year's report (10,983). This does not, however, reflect a reduction in the number of radio stations. Since our last report, BIA has adjusted its database with respect to which radio stations are identified as commercial and noncommercial. This reduction in total number of commercial radio stations, therefore, reflects this reassignment of some commercial radio stations to noncommercial. To gauge yearly change, we have adjusted the March 2001 numbers in Appendix A to reflect this change. Appendix A summarizes the changes in actual numbers of stations and owners since the Telecom Act.

The decline in the number of owners reflects a general continuation of the consolidation of the commercial radio industry that has occurred since the passage of the Telecom Act in 1996. In each of the last 6 years, about 20 percent of radio stations have changed hands. As a result of this trading activity, there are now 50 radio station owners with 20 or more stations, compared to 25 in March 1996.[3] Further, there continue to be changes in the composition of the top 50 radio group owners, generally reflecting mergers between companies that were previously among the top 50 radio owners.[4] Also, the two largest radio group owners in 1996 consisted of fewer than 65 radio stations each. As of March 2002, the two largest radio group owners consisted of 1156 and 251 radio stations, while the third, fourth and fifth largest held 206, 184, and 100, respectively. Thus, the decline in the number of owners of radio stations nationally reflects mergers or acquisitions between existing owners that has resulted in larger radio group owners and more group-owned stations.

3. Changes in the Radio Industry - A Local View

This report now focuses on changes in the radio industry reflected in data at the Arbitron Metro level. Arbitron, a nationally recognized radio audience research firm, has delineated 285 different local geographic areas, or Metros, to reflect the audiences reached by local radio stations. Arbitron Metros generally correspond to Metropolitan Statistical Areas as defined by the U.S. Government.[5] About 60 percent of all commercial radio stations are licensed to communities in the 285 markets. The 285 radio markets consist of more than 900 counties, representing more than one-fourth of all counties in the U.S, plus Puerto Rico.[6] More than three-

---

[3] *See* Appendix B.

[4] *See* Appendix C.

[5] The Office of Management and Budget designates and defines MSAs in 55 Fed. Reg., 12154-12160 (1990). Generally, a Metropolitan Statistical Area consists of one or more counties that contain a city of 50,000 or more inhabitants, or contain a Census Bureau-defined urbanized area with a total population of at least 100,000.

[6] These counties (including portions of counties) and independent cities in the Arbitron Metros make up almost 30 percent of all counties and independent cities in the U.S., plus Puerto Rico.

fourths of the U.S. population of at least 12 years of age resides in the 285 radio markets.[7] This delineation of a local radio market, as defined by Arbitron, is widely used by buyers and sellers of radio advertising and generally reflects market data as determined by surveys of listeners.

All figures displayed in the associated charts represent "smooth" lines rather than the actual data. Smoothing is a statistical technique used to illustrate or reveal trends in the data. A line representing the actual data would be filled with jagged ups and downs, much like the representation of an earthquake on a seismograph. Such a representation would make it extremely difficult to discern a trend in the data. On the other hand, a smooth line uses averaging to blunt the jagged ups and downs of the actual data and to reveal any underlying trends. A point on a smooth line represents a weighted average of the actual data in an interval around that point.[8] The difference in the lines represents general changes in the radio industry. Because the points on the lines are averages, the reader should not attempt to use these figures to make specific market to market comparisons.

3.1 Changes in the Revenue Share Earned by the Metro's Top Owners

Chart I depicts the current state of concentration in the industry, showing the one-firm (CR1), two-firm (CR2) and four-firm (CR4) concentration ratios.[9] The concentration ratios used

---

[7] Arbitron's 285 markets represent about 78 percent of the U.S. population and Puerto Rico for those at least 12 years of age. Arbitron does not measure radio listening statistics for those under age 12.

[8] For market 100, for example, the smoothed line will show a weighted average of the actual data in markets 90 to 110. The data from market 100 get the most weight, data from markets 99 and 101 get the next most weight, and so forth. The particular smoothing method employed is called "loess" and is described in William S. Cleveland, The Elements of Graphing Data (Hobart Press, 1994). The specific implementation is from the "loess" command in the statistical package "S-PLUS 2000", with the smoothing parameter set to 0.5.

[9] For March 2001 and March 2002, the Metro market revenue is equated to the sum of the station revenue for stations assigned ("home") to their Metro market. In previous years, Metro market revenue was used. In some cases the differences between these measures of market revenue were the result of out-of-Metro market stations that earned a share of the Metro market revenue. There were other cases where in-Metro market stations earned a share of their revenue outside of their Metro market. These differences are generally small.

in this report are the percentage of market revenue held by the firm(s) in the market (one, two, or four) with the largest revenue. This measure of market concentration is frequently used because of its ease of calculation and interpretation.[10] The smoothed lines reveal the extent of concentration in the markets. There is a clear tendency for the smaller markets to be more concentrated, which is not surprising since the smaller markets have fewer stations. Nonetheless, even the larger markets appear to be somewhat concentrated. In the 50 largest markets, on average, the top firm holds 35 percent of market revenue, the second firm holds 26 percent, and firms three and four split the next 25 percent. For the 100 smallest markets, on average, the first firm holds 54 percent, the second firm holds 27 percent, and the next two firms split 15 percent. Overall, in 180 of the 285 Arbitron radio markets (over 60 percent of the markets), one entity controls more than 40 percent of the market's total radio advertising revenue, and in 93 of these markets (23 percent) the top two entities control more than 80 percent of market revenue. Historical perspective for the four-firm concentration ratio is provided in Chart II. This trend of fewer owners generally earning a larger percentage of market revenue is further emphasized by looking at the revenue share of the top four owners in the Metro market. The data suggest that this trend has substantially tapered off over time. The large increase in concentration that occurred from March 1996 to November 1998 can be largely attributed to the relaxation of the local radio ownership rules required by the 1996 Telecom Act, as can the smaller increase that occurred from November 1998 to March 2001. The subsequent change from March 2001 to March 2002 is less pronounced.

3.2 Changes in Ownership Diversity

Traditionally, the Commission has been concerned with encouraging diversity in the ownership of broadcast stations so as to foster a diversity of viewpoints in the programming

---

[10] Market concentration is a function of the number of firms in a market and their respective market shares. Concentration ratios are one of the various measures economists use to estimate market concentration. Market shares may be calculated as the firm(s)'s percent share of revenue, as is done here, or may be calculated as the firm(s)'s percent share of audience or capacity. These measures are also used by the Department of Justice and the Federal Trade Commission as an aid to the interpretation of market data and as an indicator of the likely potential competitive effect of a merger. See, *e.g.*, U.S. Department of Justice and the Federal Trade Commission, Horizontal Merger Guidelines, Revised, April 8, 1997; Carlton and Perloff, Modern Industrial Organization, Carlton and

presented over the airwaves. One measure of diversity that is of interest to the Commission is the number of independent owners of radio stations in a local Metro market. Chart III depicts changes in the number of owners by Metro market area. This chart reveals that the decline in the number of radio owners nationally reflects a general trend across Metro markets, and not simply consolidations in a few large or small Metro markets. In March 2002, the average number of owners across all Metro markets was 9.9, with a range of 6.7 in the smallest Metro markets (ranks 101-285) to a high of 25.4 in the "top 10" Metro markets. In March 1996, the average number of owners in a Metro market was about 13.5. Thus, from March 1996 to March 2002, there was a cumulative decline of about 3 in the average number of owners per market. This chart also illustrates that the number of owners declines as the market gets smaller.

3.3 Changes in Format Diversity

Another dimension of diversity of concern to the Commission is program diversity. Program diversity is reflected, at least in part, by the number of distinct radio formats available in each Metro market. Chart IV shows the number of distinct radio formats for each Metro market and suggests that there generally continues to be no trend toward change in the diversity of radio programming available to consumers.[11] The average number of radio formats available in a Metro market has been about 10 since March 1996, with a range of about nine formats in the smallest Metro markets to 16 different formats in the "top 10" Metro markets. However, while the overall level of formats has held steady, the chart suggests that the number of formats has declined slightly in some of the larger markets while increasing in most of the smaller ones.[12]

Perloff, 2nd edition, pp. 344-349; and Giles Burgess, The Economics of Regulation and Antitrust, pp. 310-312.

[11] The data on the number of different types of formats per market are based on information in the BIA Radio Database. BIA obtains specific format information from the radio stations it surveys, sorting their responses into broad format categories. The categories are Adult Contemporary, Album Oriented Rock/Classic Rock, Classical, Contemporary Hit Radio/Top 40, Country, Easy Listening/Beautiful Music, Ethnic, Jazz/New Age, Middle of the Road, Miscellaneous, News/Sports, Nostalgia/Big Band, Oldies, Religion, Rock, Spanish, Talk, Urban, Dark (not on air), No Reported Format.

[12] A number of theories and empirical studies on the diversification of formats in the radio industry suggest diversification of formats accompanies industry concentration. For example, see Steven T. Berry and Joel Waldfogel, Mergers, Station Entry, and Programming Variety in Radio Broadcasting, NBER Working Paper 7080, April 1999, forthcoming in the *Quarterly Journal of Economics*. These assessments are not necessarily in conflict

Finally, the chart illustrates that the number of formats declines as the market gets smaller.

3.4 New Developments in Radio Service

Sirius Satellite Radio Inc. and XM Satellite Radio Holdings have built a subscription radio service that provides national programming, delivering up to 100 channels of digital audio news and entertainment directly from satellites to vehicles, homes, and portable radios in the United States. Each company holds one of the two licenses issued by the FCC to build, launch, and operate a national satellite radio system. Both companies launched their services in 2001. As of June 2002, these two systems serve over 140,000 subscribers.[13]

---

with our results. There is probably a great deal of shifting of sub-formats that our relatively aggregated measure of format does not capture.

[13] XM Satellite Radio, Second Quarter Report ending June 30, 2002, shows XM with 136,718 subscribers. Sirius Radio, Second Quarter Report ending June 30, 2002, shows Sirius with 3,347 subscribers.