

*median income is higher, higher number of people in the professions....In other words, they ask for higher rates because they're reaching White customers who the advertiser feels for a variety of reasons is a more valuable customer. And if there are any Blacks thrown in there that's a bonus. But that's not the issue. Now when the Black station on the other hand comes with its numbers and it tries to get equal rates, there's the perception by certain advertisers that the customer is not necessarily in numbers or in quality equal to the White customer and, therefore, there's a difference in the rates that the stations can achieve. Now, all media is subject to negotiation. And I just don't feel the Black stations have in most cases the same leverage in order to maintain the rate that they ask.<sup>174</sup>*

Although new developments in the marketplace favor minority-targeted advertising, some conditions have remained the same. Factors such as product image and misperceptions about the consumer potential of minorities constitute barriers that prevent minority media from closing the gap between audience share and advertising revenues. Stereotypes and the desire to target White consumers also play a role in lower advertising revenues for minority oriented stations. Mr. Lewis said:

*Lewis: You don't advertise to them[minorities]. Let me put it more succinctly. The truth about it is, I've been told that the—let's just take the Caribbean—Blacks are going to come anyway. We don't turn anyone away. But in the Wintertime, the people we want to reach are the upscale, European, Canadian, American, White travelers. They come in the Wintertime. Now, Blacks come too. But you almost have no advertising welcoming Blacks during that period. That is a stated reason for not advertising to Blacks. That's our core audience. Blacks will come anyway. But underneath it, we don't want to create an imbalance.*

*Ofori: Are there any other product categories or services that exemplify what you have said ?*

*Lewis: No one will ever say that to you publicly.<sup>175</sup>*

### **C. Black and Hispanic Consumer Spending Patterns - Now and the Future**

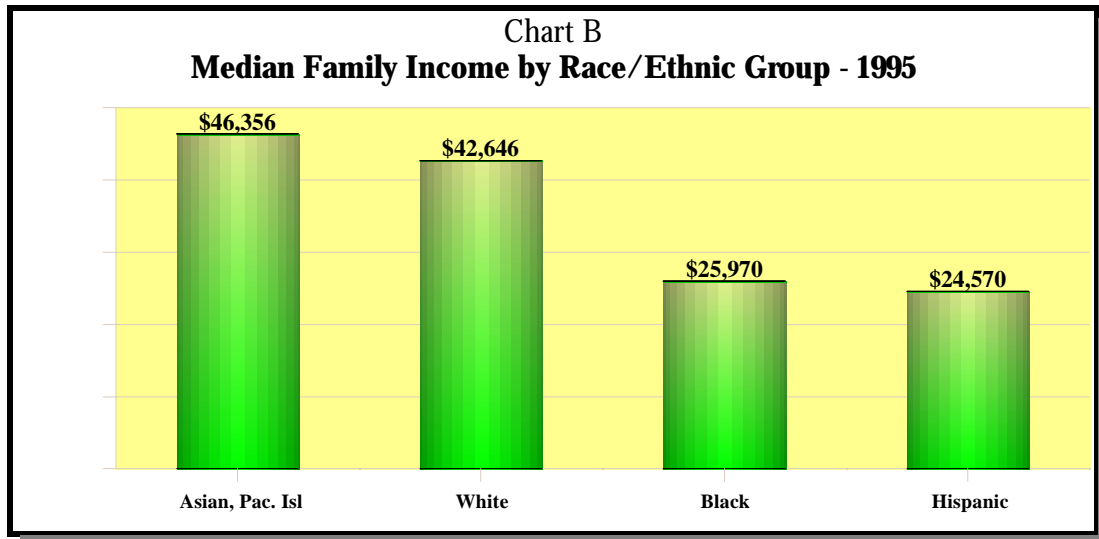
Data on the racial/ethnic distribution of family income tend to reinforce the generally held perception that Hispanics and Blacks have less disposable income. Chart B contains data on median family income according to race and ethnic group. The chart shows that, based upon national averages, Blacks and Hispanics are less economically affluent than Whites and Asians/Pacific Islanders. Disparities in family income reinforce the perception that Blacks and Hispanics have less disposable income for goods and products promoted by the electronic media. Such data is often used to justify

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<sup>174</sup> *Id.*, pages 15-16.

<sup>175</sup> *Id.*, at 15-16.

business decisions not to buy advertisements on stations that have high levels of Black and Hispanic listeners.<sup>176</sup>



Data: U.S. Bureau of Census, Current Population Reports, P60-197, *Money Income in the United States*, 1996, Table 724.

However, the economic status of minorities is improving. In 1996, median family income for Blacks increased 14 percent.<sup>177</sup> Other trends mitigate the significance of family income disparities in analyses of consumer data: 1) minority expenditures in certain consumer categories exceed that of the average consumer; 2) the total magnitude of Black and Hispanic earnings places each community among the top 20 economies of the world; and 3) Blacks and Hispanics will become increasingly important to the economy as their proportion of the domestic population grows during the first half of the next century.

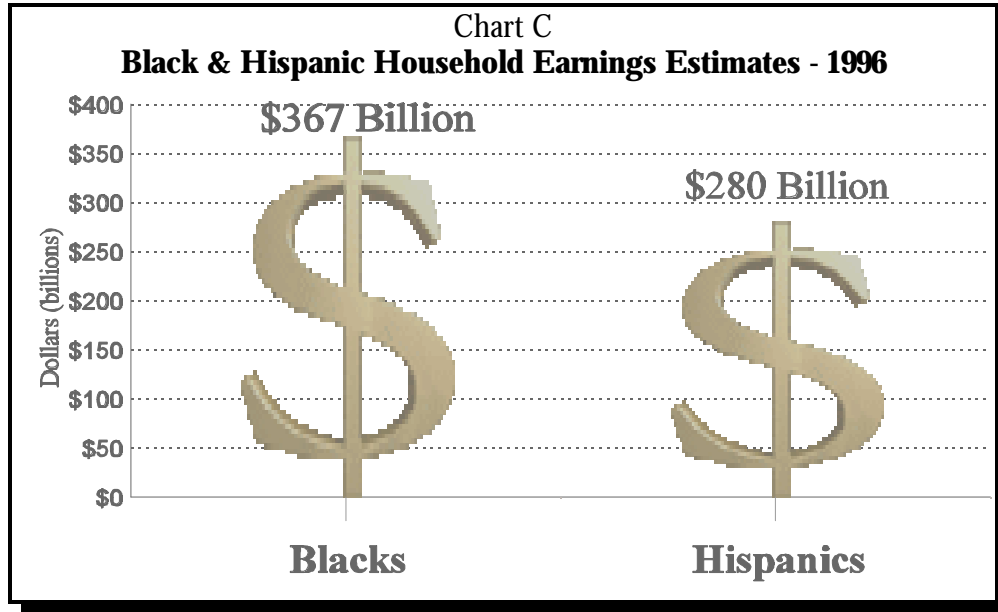
Estimated household earnings for Blacks and Hispanics in 1996 were \$367 billion and \$280 billion respectively (Chart C). As noted, the U.S. Black market and the U.S. Hispanic market each have spending power that would rank them, standing alone, among the top 20 economies of the world.<sup>178</sup>

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<sup>176</sup> See, page [70](#).

<sup>177</sup> ECONOMIC & STATISTICS ADMINISTRATION, U.S. CENSUS BUREAU, NEWS RELEASE - CB98-127, JULY 30, 1998.

<sup>178</sup> Target Market News Inc., *The Buying Power of Black America* (1997), page 14.



Data: Target Market News Inc., [www.targetmarketnews.com/](http://www.targetmarketnews.com/) web site accessed 9/12/98. The Arbitron Company, *Hispanic Radio Today* (1997) at 2.

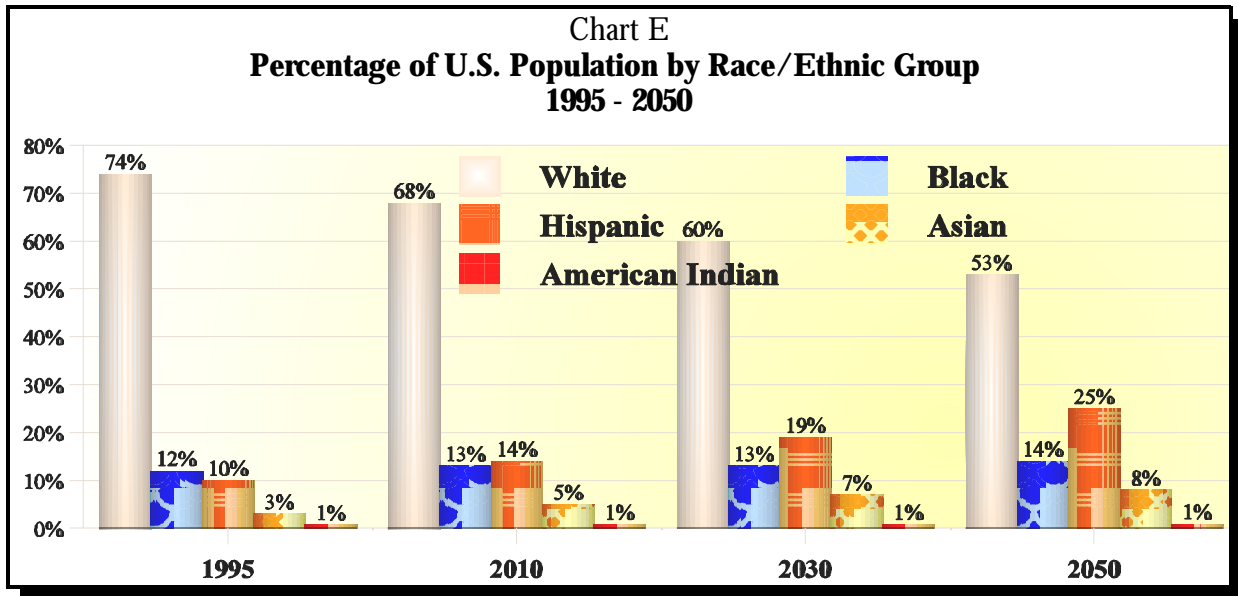
With regard to specific products and services, U.S. Census data show that Blacks outspend the average consumer in several categories: telephone service, utilities, apparel, major appliances, and certain categories of groceries. For *new* cars and trucks, Blacks spend slightly less than the average consumer (Chart D).

**Chart D**  
**Average Annual Black Household Expenditures -1995**

	Blacks	All Consumers
Meat, Poultry, Eggs, Fish	\$866	\$752
Telephone	\$781	\$708
General Utilities	\$2,206	\$2,193
Apparel	\$1,765	\$1,704
Major Appliances	\$170	\$155
New Cars & Trucks	\$927	\$1,194

Data: U.S. Census Bureau, *Statistical Abstract of the United States*, 1997 edition, Table 712.

By the middle of the next century there will be significant shifts in the racial/ethnic composition of the U.S. population. By the year 2010, for example, the size of the Hispanic population is projected to exceed that of Blacks and become, for the first time, the country’s second largest racial/ethnic group. By the middle of the next century, Blacks will number 61 million—double their 1995 size. The proportion of Non-Hispanic Whites, on the other hand, will decline from 74% in 1995 to 53% in the year 2050. Beginning in 2030, Non-Hispanic Whites will not add to the nation’s population growth because they are expected to decline in absolute numbers (Chart E).



Data: Economics & Statistics Administration, U.S. Bureau of Census, Population Projections of the United States, (1996), Table J.

The Hispanic and Black populations are also significant in the country’s largest cities. Hispanics and Blacks combined constituted 18- 57 percent of the population in 14 of the top 19 Arbitron markets. Chart F depicts the the size of the Hispanic and Black population and the Effective Buying Income (EBI)<sup>179</sup> of the total population in each of these markets.

<sup>179</sup> Effective Buying Income (“EBI”) is after-tax disposable income. EBI data cited in BIA MasterAccess are obtained from the *Demographics USA County Edition* published by Market Statistics Bill Communications.

**Chart F**

**EBI for Total Population and % Minority Population**

	<b>EBI 1996 (\$millions)</b>	<b>% Black Pop.</b>	<b>% Hispanic Pop.</b>	<b>% Blk. &amp; Hisp. Pop</b>
New York	\$317,544	22.2%	18.0%	40.2%
Los Angeles	\$178,501	9.4%	39.5%	48.9%
Chicago, IL	\$154,638	19.4%	12.6%	32.0%
San Francisco	\$125,735	9.2%	17.0%	26.2%
Philadelphia	\$90,941	19.9%	4.1%	24.0%
Dallas - Ft. Worth	\$81,964	14.2%	15.3%	29.5%
Washington, D.C.	\$90,768	27.2%	6.8%	34.0%
Houston-Galvesto	\$73,514	18.3%	23.2%	41.5%
Miami-Ft. Lauder	\$55,510	20.2%	36.8%	57.0%
Atlanta, GA	\$61,321	25.7%	2.3%	28.0%
San Diego	\$40,914	7.2%	23.6%	30.8%
Phoenix, AZ	\$40,156	3.6%	17.2%	20.8%
St. Louis	\$43,015	17.2%	1.2%	18.4%
Baltimore, MD	\$41,391	26.0%	1.5%	27.5%

Data:

BIA MasterAccess, August 1997 edition.

Poised to capitalize upon these developments are some of the leading advertisers and large group-owned broadcasters. While misperceptions about Hispanic and Black consumers may persist in some quarters, many Fortune 500 companies are devoting greater portions of their advertising budgets to these markets. During 1997, targeted advertising was estimated to be \$1.4 billion dollars for Hispanics and over a billion dollars for Blacks.<sup>180</sup> For Hispanics this represents a 17 percent increase over 1996. Ethnic targeted advertising is increasing, yet it still represents less than 2% of the \$173.2 billion<sup>181</sup> in total media expenditures projected for 1998—substantially less than the representation of Hispanics and Blacks in the population.<sup>182</sup>

Contemporaneous with increased advertiser interest in the Hispanic and Black communities, large majority broadcasters are venturing into Spanish and urban formats. At the time of this writing, Clear Channel, a majority-owned, publicly traded corporation, owns 21 stations that air urban programming. In the Spanish format, the largest chain is Heftel Broadcasting—a majority-owned, publicly traded broadcaster that owns 39 Spanish-formatted stations. Heftel reported an 18% increase

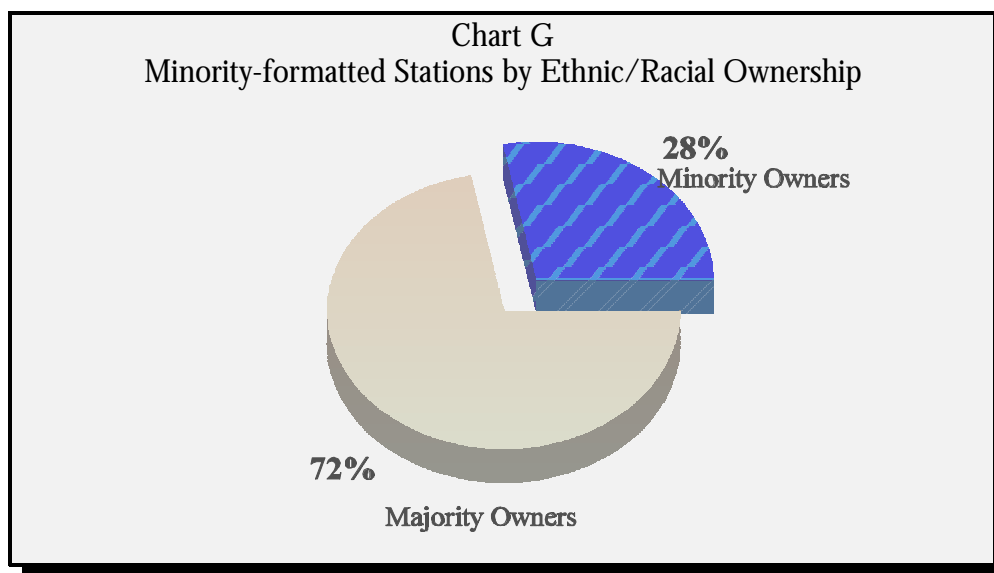
<sup>180</sup> Zate, *Opening the Big Wallets*, Hispanic Business (December 1997) at 60; Target Market News, *Dollars Spent Advertising to Black Consumers*.

<sup>181</sup> U.S. Census Bureau, *Statistical Abstract of the United States*, 1997 edition, Table 916.

<sup>182</sup> In 1995, people of Hispanic origin (of all races) constituted 10.2 % of the American population. Blacks of non-Hispanic origin constituted 12% of the population. Economics & Statistics Administration, U.S. Bureau of Census, *Population Projections of the United States* (1996), Table J.

in revenues based upon “sales and marketing efforts to take advantage of advertisers’ increasing awareness of the importance of the U.S. Hispanic market.”<sup>183</sup>

Minority broadcasters, on the other hand, own a small percentage of the minority-formatted stations. Less than one-third of the stations that target minority audiences are owned by minority broadcasters (Chart G). Minority-formatted, majority-owned companies reporting financial revenue performance data to BIA in 1997 owned 297 stations, compared to 116 such stations owned by minorities (see Table 2, page 79).



Data: BIA MasterAccess, August 1997

In summary, larger targeted marketing budgets signify increased advertiser awareness of the Hispanic and urban markets. At the same time, majority broadcasters appear to be better positioned than minority broadcasters to capitalize upon targeted marketing expenditures. Although perceptions about the value of the Hispanic and Black consumer may have improved, majority broadcasters appear to be enjoying the lion’s share of the financial benefits from this growing market.

### C. Quantitative Analysis

The previous section identified several factors that influence ad agencies and advertisers to engage in practices that adversely affect the revenue generating ability of stations that air programming targeted to minority listeners. They were:

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<sup>183</sup> Heftel Broadcasting Company, 1997 Annual Report at 1.

- ▶ racial/ethnic minority consumers are stereotyped as unlikely buyers of certain luxury products or services;
- ▶ stations that program to minority listeners are excluded based on average listener income, regardless of data about consumption patterns;
- ▶ the desire to disassociate a company's image from minority consumers;
- ▶ language barriers, in the case of Hispanic consumers;
- ▶ unfounded fears that minority consumers pilfer;
- ▶ media buyers' unfamiliarity with the consumer habits of minorities;
- ▶ efforts by broadcasters and their national sales representatives to discourage advertisements on minority-formatted stations; and
- ▶ belief that minorities can be reached through the general media.<sup>184</sup>

This section examines quantitative data to determine whether nationwide radio industry data are consistent with the anecdotal findings. Several independent variables were examined in terms of their impact on advertising performance. Section C-1 examines the relationship between audience demographics and program format. Advertising performance disparities related to program format, minority ownership and ownership size are examined in Section C-2. The effects of ownership size are again examined in Section C-3. Section C-4 discusses advertising practices in the context of local market consolidation and access to capital. Throughout these sections, two dependent variables are employed to measure advertising performance: average station revenues and the power ratio.<sup>185</sup>

As fully explained in the methodology (Section I-C), the following sections rely upon two different data sets. In order to analyze program format and audience demographics, qualitative data on radio audiences were paired with station performance data.<sup>186</sup> Hence, Section C-1 relies upon a merged data set consisting of 1,533 radio stations, including 98 minority-owned stations and a total of 212 minority-formatted stations. Most of the stations in this data set are in the top 100 markets.<sup>187</sup>

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<sup>184</sup> Additional factors, such as the failure to obtain data about minority consumer behavior (*e.g.* tracking systems) and lack of ethnic diversity in the workplace, were also cited as reasons for not advertising to minorities.

<sup>185</sup> Average station revenues are based upon station gross revenues. The power ratio is a measure of a station's ability to convert its share of the listening audience into share of market revenue. The higher the ratio the more efficient the station's performance in this regard (*See* Glossary, Appendix K).

<sup>186</sup> Audience demographic data was obtained from the Spring 1997 edition of The Media Audit prepared by International Demographics, Inc.. Station revenue and market data was obtained from the August 1997 edition of BIA MasterAccess, prepared by BIA Research Inc.

<sup>187</sup> The distribution of the merged data set averaged 22 stations per market for 64 markets in the top 100 markets. An average of 14.3 stations was obtained per market for 8 markets in markets above 100. Appendix D contains a frequency distribution table for the number of stations per market included in the data set.

The analyses in Sections II- C-2 and II-C-3 did not require pairing data from separate databases. A data set consisting of 3,745 stations was used for these sections.<sup>188</sup>

These analyses suggest that minority-formatted programming is one of several factors that affect station advertising performance. Other variables that may affect advertising performance include audience income, audience ethnic/racial composition, minority ownership, market rank, and ownership size. As simple data comparisons, however, these analyses do not constitute conclusions about the causal relationship between the independent and dependent variables. They are merely presented as preliminary findings concerning the extent to which nationwide data are consistent with the anecdotal findings. The analyses are also intended to highlight areas for subsequent research.

### **1. The Relationship between Audience Demographics and Program Format**

In order to gain a better understanding about the relationship between audience demographics and program format, CRF compared the audience characteristics of minority and general market formats. The analysis was undertaken because of the important role that program format plays in target marketing (see Overview of Media Buying, Appendix A) and the desire to compare the success of formats based upon their associated audiences.

Five categories of programming format were used for the analysis: black, Spanish, ethnic, urban and general market. The first four are targeted to minority listeners.<sup>189</sup> The fifth format, general market,<sup>190</sup> is aimed at a broader range of listeners.

As an initial step, the analysis sought to establish whether there are any discernable differences between the audience demographics of general market and minority-formatted stations. These formats were examined in terms of average household income and percentage of minority listeners.<sup>191</sup> Minorities, for the purpose of the analysis, included the primary categories of racial and ethnic minorities recognized by the U.S. Census (Asian/Pacific Islanders, African-American, Hispanic, Native-American and Pacific Islanders). Chart H shows that stations that air programming with minority-

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<sup>188</sup> Stations were drawn from the August 1997 edition of the BIA MasterAccess database based upon the following program query: “select stations with a power ratio greater than zero,” indicating that revenue and listener data were reported.

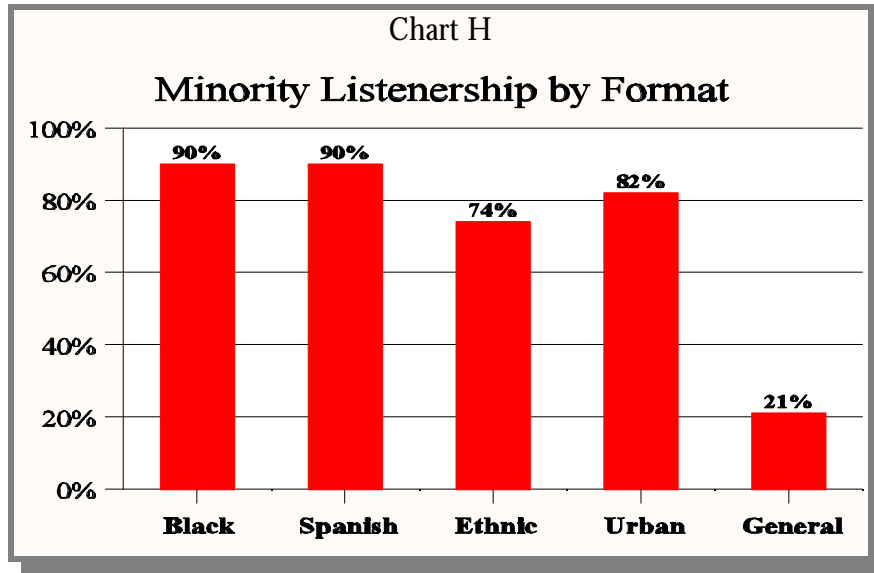
<sup>189</sup> The five programming formats used for this study are based upon format categories employed by BIA Research Inc. (see also Appendix K). Some formats include several subcategories of programming. Urban, for example, includes rhythm and blues, urban adult contemporary, urban gospel, and urban rap.

<sup>190</sup> For the purpose of this analysis, general market format stations are all stations with formats other than the urban, ethnic, Spanish, or black.

<sup>191</sup> Demographic data was obtained from The Media Audit (Spring 1997), prepared by International Demographics, Inc.

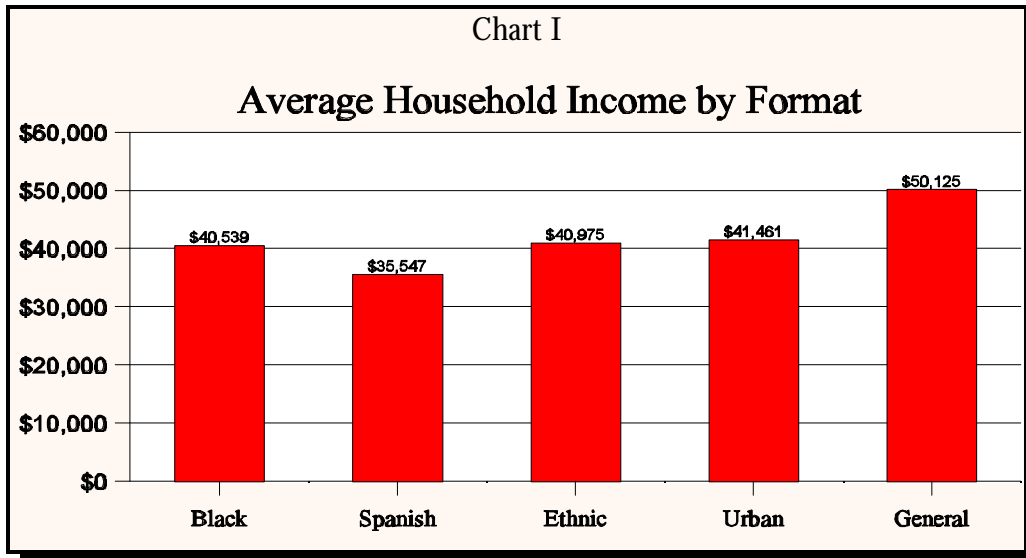


oriented formats have the highest levels of minority listeners: black (90% minority listeners), Spanish (90% minority listeners), ethnic (74% minority listeners), and urban (82% minority listeners). By contrast, stations that air general market programming had 21% minority listenership.



Data: August 1997 edition of BIA MasterAccess

Formats with high levels of minority listeners (black, Spanish, ethnic and urban) also had average household incomes that were lower than the general market format. Income levels ranged from \$35,547 for Spanish to \$41,461 for urban. The average audience household income for stations that air general market programming was \$50,125 (see Chart I).



1997 edition of BIA MasterAccess

Data:  
August

Charts H and I support the generally held understanding that there is a discernable difference between the audience demographics of minority-formatted and general market stations. First, the data indicate that racial/ethnic minorities comprise a substantial portion of the listening audience of minority-formatted stations. Second, the household income of minority-formatted station listeners averages about \$10,000 to \$15,000 less than the income of general market station listeners.

To the extent that advertisers take audience demographics into consideration, the audience characteristics that differentiate minority formats from general market formats are likely to have a substantial bearing on media buy decisions. For example, a product that is targeted to consumers with high disposable incomes is more likely to be advertised on a station with general market programming.<sup>192</sup> To the extent that market research determines that the race or ethnic background of a consumer influences product demand, advertising decisions may be swayed by the racial or ethnic identity of a format's listeners.

Advertisers were reported to place a lower value on minority consumers due to stereotypical perceptions of disposable income, the likelihood of pilferage, image control, etc. (see Section II-B-2). The next section presents data concerning the advertising performance of program formats that appear to support the claims of the anecdotal informants. However, these findings could also be explained by justifiable business decisions to target audiences with higher incomes (*i.e.* market research justifies targeting consumers who have higher incomes and listen to general market stations).

Future research should control for audience income and other variables in order to determine the *extent* to which "buys" are placed on general market stations, despite the fact that consumers who are predisposed to purchase the product could have been approached via minority-formatted stations. The findings discussed in the next section should not be considered conclusive. They are presented only as preliminary results that support the anecdotal findings. As such, they may be confirmed or disproved in subsequent research.

## **2. Disparities in Advertising Performance in Terms of Program Format and Minority Ownership**

This section examines the relationship between program format, minority ownership and advertising performance. This analysis is based upon a universe of 3,745 radio stations reporting revenue and listener information in the August 1997 edition of the BIA MasterAccess. The data set includes 155 stations owned by minorities and a total of 413 stations that air programming that is minority-formatted.<sup>193</sup> The results of the analysis are summarized in Table 2, (page 79).

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<sup>192</sup> Note the discussion in Section II-B-3 concerning the unreliability of using household income as a gauge for making advertising decisions.

<sup>193</sup> The 1997 BIA database reports average station revenues and national revenues for 1996. The national revenues of owners include the revenues of stations whose sale was pending during 1997.

The data suggest that stations have disparate abilities to earn advertising dollars based upon program format, minority ownership and ownership size. General market stations perform better overall than do minority-formatted stations. Majority-owned stations generally outperform their minority competitors, even when comparing broadcasters of similar sizes.

These differences are best illustrated by examining station power ratios. The power ratio measures a station's ability to convert its share of listeners into share of advertising dollars in the market. Stations with power ratios less than 1.00 are "underselling" their audience—receiving a revenue share of the market that is less than its audience share of the market. Conversely, those with power ratios over 1.00 are "overselling" their audience—receiving a revenue share of the market that is greater than its audience share of the market.<sup>194</sup>

The power ratio accounts for differences in station signal quality and reach to the extent that it focuses on audience share, which may be affected by those technical characteristics. If a station's signal does not reach an entire market, it will be reflected in its audience share. However, further research should examine the impact of a station's technical characteristics on power ratios and advertising performance.

#### **a. Power Ratios by Program Format**

The revenues generated by a station provide only a partial picture of a station's advertising performance. For example, a station may earn \$20 million in annual revenues. However, if \$20 million represents 7 percent of the market's total revenues and the station's share of listeners in the market is 10 percent, the station is not earning revenues comparable with the number of people who listen to the station. When these percentages are equivalent (*i.e.* percentage of market revenues equals percentage of market listeners), a station has a power ratio of 1.00.

If the power ratio is less than 1.00, a station is generating less revenue than what its audience share alone might indicate. This is exemplified in Table 1 (see page 6) where two minority-formatted stations that rank second and third in market ratings have power ratios of 0.59 and 0.79, respectively. The revenues of these stations are far less than what their audience shares would suggest they may be capable of earning.

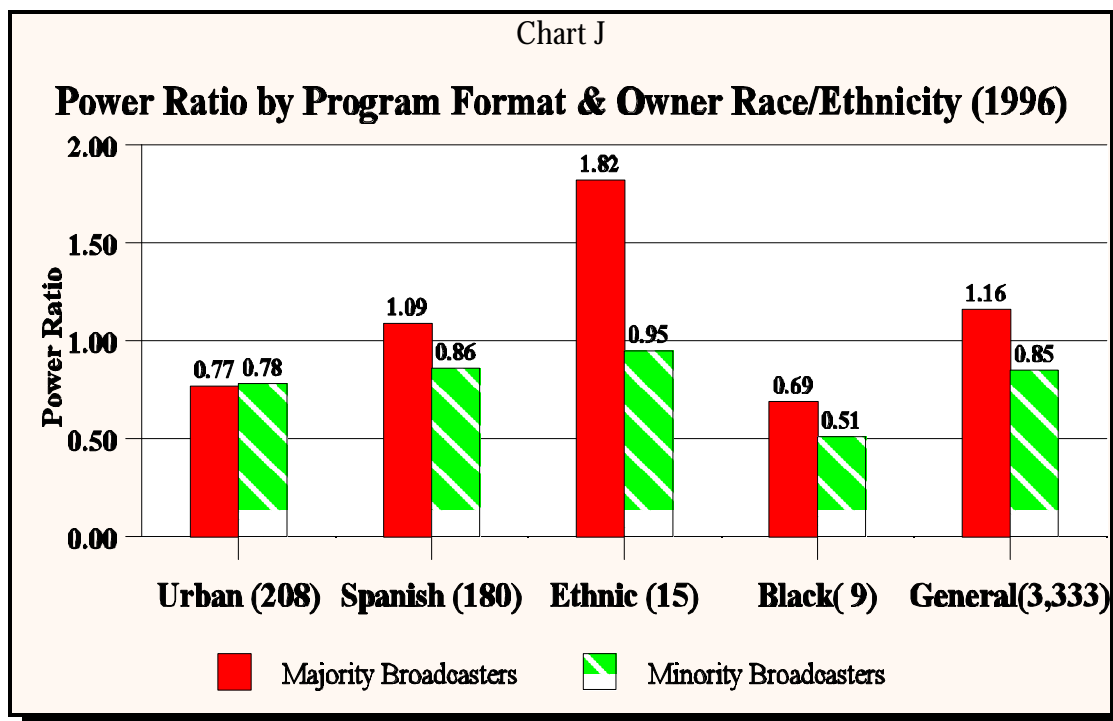
On a nationwide basis minority-formatted stations averaged power ratios of 0.91 ("underselling" their audience) and general market stations averaged 1.16 ("overselling" their audience) (Table 2). Chart J provides more detail about the power ratio performance of minority and majority owned stations by

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<sup>194</sup> See, BIA Research, "Interpreting BIA's Numbers in MEDIA Access Pro," undated memo from BIA (Appendix K). According to BIA, the power ratio is calculated in a two-step process, ("The estimated revenue share for the station is determined by dividing the station revenues by the market revenues times 100. Then this calculated revenue share figure is divided by the local commercial share. A power ratio greater than 1 indicates the station is overselling its audience share; while a ratio less than 1 indicates a station underselling its audience share.").

format. Power ratios are provided for four minority formats, as well as the general market format, according to majority and minority ownership.

The average power ratio for minority-owned stations in all five of the format categories was less than one (“underselling” their audience)—0.78 for urban, 0.86 for Spanish, 0.95 for ethnic,<sup>195</sup> 0.51 for black, and 0.85 for general market. Majority broadcasters had average power ratios that were greater than one (“overselling” their audience) for three formats: Spanish (1.09),<sup>196</sup> ethnic (1.82)<sup>197</sup> and general market (1.16). The average power ratio was less than one (“underselling” their audience) for majority broadcasters in two formats: urban (0.77) and black (0.69). The number of stations in each program category is enclosed in parenthesis in the chart.



<sup>195</sup> The power ratio for minority broadcasters with ethnic programming is based upon data for only two stations. The revenues of these two stations were higher than their majority counterparts that broadcast ethnic programming in part because one station is located in the New York metro market where stations earn relatively high average revenues (see chart K).

<sup>196</sup> The power ratio of Spanish formatted stations may be affected by undercounting of the Hispanic audience by audience research services. If audience size is underestimated by rating services, then revenue per listener (the power ratio) will be higher. Telephone interview with Tom Castro, El Dorado Communications, December 14, 1998.

<sup>197</sup> The power ratio for majority broadcasters with ethnic programming is based upon data for only thirteen stations.

Data: BIA MasterAccess, August 1997 edition.

The findings of CRF were consistent with those of other individuals that have done research in this area. In his 1997 report on radio revenue and ratings, James H. Duncan, Jr. examined all of the major programming formats.<sup>198</sup> For 1996, he reported power ratios of 0.89 for Spanish -formatted stations and 0.77 for urban/black<sup>199</sup> formatted stations. General market formats had a power ratio of 1.06.<sup>200</sup> (See, Appendix M for a copy of the Duncan report).

BIA Research conducted an analysis at the request of Spanish Broadcasting Systems of the performance of Hispanic and urban radio stations in the Top 50 radio markets.<sup>201</sup> Most Spanish and urban stations analyzed failed to generate a revenue share that equals or exceeds their local commercial share. BIA reported that during 1997, "The mean power ratio for these stations was 0.70..., implying a 30% average undersell for Hispanic and urban stations."<sup>202</sup> BIA commented, "In general, this data

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<sup>198</sup> Duncan analyzed a sample of 1,474 stations. He explained, "The stations selected for inclusion in this report are from almost all of the Arbitron standard markets — over 150 markets in all...this report includes data for over 14% of all commercial stations in the United States. Almost 47% of all reported stations in the Arbitron standard markets are included." Duncan's Power Ratio Analysis, Introduction, page 1. Regarding his sample selection he described his methodology, "To be selected, a station had to meet two criteria. First of all, it had to be successful in its format. I estimate that around 90% of the stations are the ratings leader in its [sic] format. The remaining stations were also very successful stations, even though they were not the format leader in their market. Secondly, I only used stations whose revenue figures are, in my judgment, reliable and accurate." *Id.* Duncan also adjusted local commercial share data to account for non-commercial stations, out of market stations, and stations which do not have enough audience to qualify for a listing in the Arbitron book. *Id.*, page 3.

<sup>199</sup> Urban/black includes black, urban, and black adult contemporary. See note 37, *supra*.

<sup>200</sup> The general market formats Duncan examined were: News & News/Talk, Adult Contemporary, Sports, Full Service, Country, Album Oriented Rock, Classic Rock, Oldies (50s/60s), Oldies/Classic Hits, Talk & Talk/News, Contemporary Hit Records (CHR)/ Top 40, Soft Adult Contemporary, Jazz, Classical and Standards/Nostalgia. Note [198](#), *supra*.

<sup>201</sup> BIA Research, Inc., Letter to William Kennard, Chairman, Federal Communications Commission, from Thomas J. Buono, President/CEO, July 7, 1998 enclosing BIA Analysis of Hispanic and urban Formatted Stations in the Top 50 Markets, BIA Research, Inc. (See Appendix L). BIA searched its 1998 Media Access Pro software and database for all Spanish and urban format stations in the Top 50 markets, and analyzed performance based on market size, local commercial listening, revenue shares and power ratios.

<sup>202</sup> *Id.*, at 2.

indicates that it has been very difficult for Hispanic and urban stations to obtain a significant share of revenues, even with acceptable ratings.”<sup>203</sup>

Examples from the nation’s top markets substantiate these findings. BIA noted:

*KLVE (FM), Heftel Broadcasting’s leading Spanish station, is the most listened to station in Los Angeles by a wide margin. Yet, its estimated power ratio was just 62% [0.62] for 1997 and it ranked 8<sup>th</sup> in terms of estimated revenues for the year. In New York, Emmis Broadcasting’s WQHT (FM) offers an Urban/Rap format and its been the first or second highest rated station over the last couple of years. However, its estimated power ratio was just 70% [0.70] during 1997 and it ranked just 10<sup>th</sup> in terms of estimated revenues. Another example is WSKQ (FM), Spanish Broadcasting Systems’ leading Spanish station in New York. This station has been one of the top rated stations in New York over the past year, but its estimated power ratio in 1997 was just 72% [0.72] and its estimated revenues ranked 13<sup>th</sup>.*<sup>204</sup>

Duncan documented this pattern over time. Between 1991 and 1996, the power ratio averaged 0.96 for Spanish formats and 0.73 for urban/black formats, with a combined average of 0.85. For general market formats, the average power ratio between 1991 and 1996 was 1.07.<sup>205</sup> The historical data indicate that it has been more difficult for urban and Spanish formats to convert audience listener share into market dollars than general format stations, consistent with the anecdotal evidence in this study. This time series analyses, however, did not control for other factors (e.g. ownership size and audience income) that could affect format advertising performance. Further research should be undertaken in this area.

## **b. Station Revenues by Program Format**

CRF also compared the revenue performance of minority and general market formats according to ethnic/racial ownership. Overall, general market stations averaged revenues that were 12% higher than minority-formatted stations: \$2.20 million compared to \$1.96 million. Majority broadcasters outperformed minority broadcasters in both program formats. Majority broadcasters averaged revenues that were 79% higher than minority broadcasters in the general market format. Their revenues were 20% higher than minority broadcasters in the minority-format category (see Table 2).

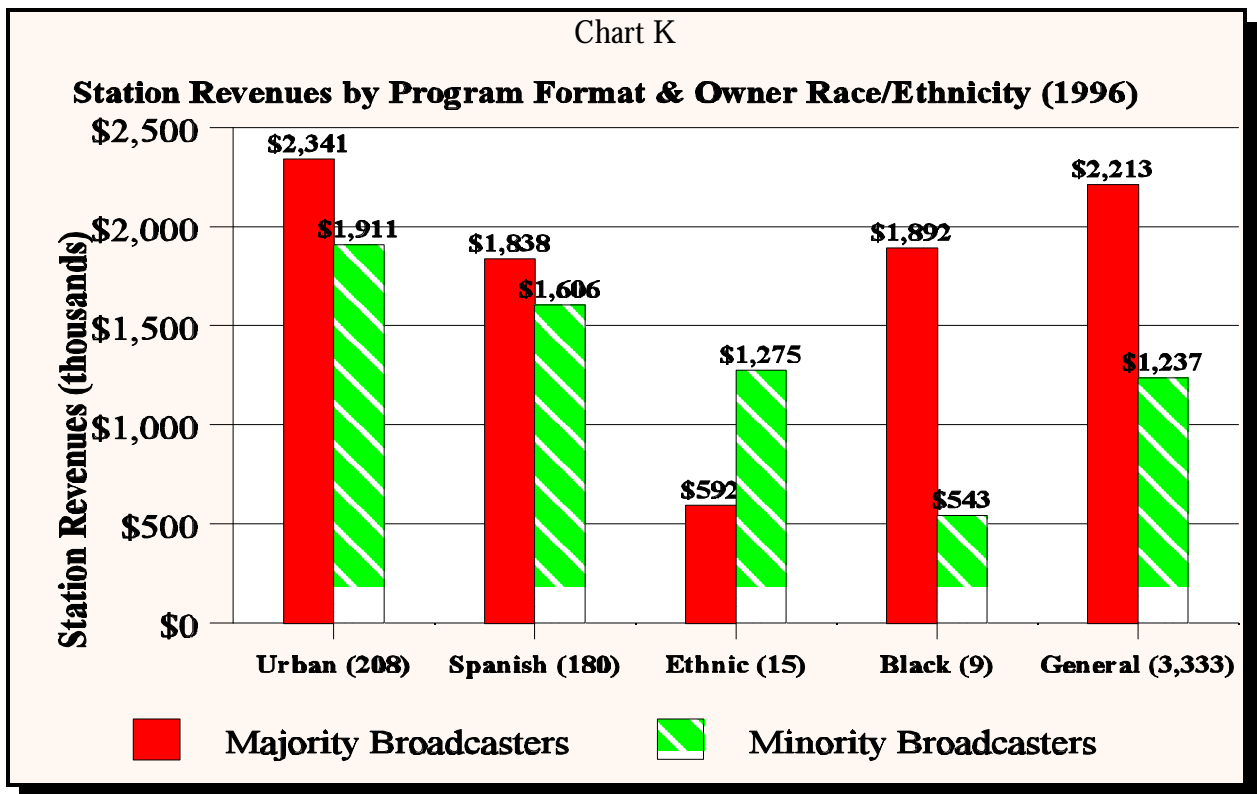
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<sup>203</sup> *Id.*

<sup>204</sup> *Id.*

<sup>205</sup> See, Duncan’s Power Ratio Analysis at 5-6. General market formats include those listed in footnote [200](#), except for Oldies/Classic Hits which was not reported in Duncan’s historical table. Duncan noted that power ratio information was not available before 1994 for Sports formatted stations, or before 1995 for Oldies (70’s) stations, so the averages were used for the available years in those formats. *Id.*, at 5-6.

Chart K<sup>206</sup> provides more detail about the revenue performance of minority and majority owned stations by format. With the exception of ethnic radio, the average revenues of minority owned stations were less than the revenues of majority owned stations in each of the format categories: \$1.9 million for minority-owned urban stations, compared to \$2.3 million for majority-owned urban stations; \$1.6 million for minority-owned Spanish stations, compared to \$1.8 million for majority-owned Spanish stations; \$0.5 million for minority-owned black formatted stations, compared to \$1.9 million majority-owned black formatted stations; and \$1.2 million for minority-owned general market stations compared to \$2.2 million for majority-owned general market stations. The two minority-owned ethnic radio<sup>207</sup> stations in the data set exceeded their majority counterparts in terms of revenues. Average station revenues were \$1.2 million for minority broadcasters compared to \$0.6 for majority broadcasters in the ethnic format category.



<sup>206</sup> Numbers in parenthesis in Chart K represent the number of stations in the data set with the program format indicated.

<sup>207</sup> Average revenues for minority broadcasters with ethnic programming is based upon data for only two stations. These two stations had power ratios that were less than their majority counterparts. One of the stations, WNJR-AM is located in New York City where stations earn high average revenues. The other minority-owned ethnic station is located in Corpus Chisti, Texas. The market locations and presence of only two minority broadcasters in the ethnic format may account for the high average revenues (see Chart J).

Data: BIA MasterAccess, August, 1997 edition.

In the next section advertising performance is examined from the standpoint of program format, minority ownership and ownership size.

### **c. Advertising Performance by Minority Ownership and Ownership Size**

Table 2 shows an analysis of the advertising performance of 3,745 stations yielded by a search of BIA's 1997 database. Column one indicates the category of broadcaster analyzed. The categories for general format and minority-format broadcasters are: 1) all majority owners, 2) small majority owners, and 3) minority owners.<sup>208</sup> Column two indicates the average (mean) 1996 national revenues for all stations owned by broadcasters in each category. Column three shows the average number of stations owned nationally by broadcasters in each category, (*e.g.* minority-owned, minority-formatted broadcasters owned an average of 4.4 stations nationally). Column four indicates the average 1996 revenues of stations owned by broadcasters in each category. Column five shows the average power ratios for each category of broadcaster.

Column 5 indicates that all general format stations outperform all minority-format stations in terms of power ratios—1.16 versus 0.91. A comparison of minority and majority broadcasters within the two categories of program formats (general market or minority format) indicates that stations owned by majority broadcasters, regardless of ownership size, appear to have a greater ability to convert their listener share into revenues.

Majority broadcasters that owned minority-formatted stations averaged power ratios of 0.95, compared to 0.82 for minority broadcasters. Controlling for ownership size,<sup>209</sup> the pattern of disparities favoring majority broadcasters appears to persist.

Minority broadcasters were compared with majority broadcasters of comparable size in both program format categories. For general market stations, minority broadcasters were compared with majority broadcasters that owned 26 or fewer stations. This range of ownership is based upon the maximum number of stations owned by a minority broadcaster in this format category.<sup>210</sup> As column

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<sup>208</sup> The numbers in parenthesis in column one indicate the number of stations in that category, (*e.g.* 116 minority-owned, minority-format stations).

<sup>209</sup> Also note discussion in Section II-C-3 regarding the relationship between ownership size and advertising performance.

<sup>210</sup> According to the August 1997 edition of the BIA MasterAccess database Willis Broadcasting, which is listed by NTIA's Minority Broadcasting Report as minority-owned, owned 26 stations nationwide. Many of Willis' stations are classified as "Religion" or "Gospel." Some of Willis' programming may be minority-oriented, despite its formal classification. As noted earlier, stations sometimes avoid "urban" or other minority-format classifications to escape "no Urban



three of Table 2 indicates, both small majority owners and minority owners broadcasting to the general market, owned an average of 7.4 stations nationally. Regarding power ratios, small majority broadcasters (i.e. those with 26 or fewer stations) had an average power ratio of 1.16; minority broadcasters had an average power ratio of 0.85.<sup>211</sup>

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dictates.” Ben Carter telephone interview, August 5, 1998. Further research should investigate the relationship between power ratios and other performance measures, and the racial/ethnic composition of the audience.

<sup>211</sup> The lower power ratios of minority owners in general format may be accounted for, in part, by the fact that many of those stations may still be minority-targeted, though they don’t use the minority-format classification. In Barthwell Evan’s study of African-American broadcasters, Carter Broadcasting described its stations in Kansas City, Missouri as “general market with Black news.” “Radio Broadcasting,” 8 Yale Law & Policy Review 380, 405. Barthwell Evans observed that “some African-American broadcasters may not want to characterize their stations as Black or Urban-formatted because they feel station formats make it more difficult to attract advertising revenue than general market or ‘disco’ stations, which nonetheless may be targeted toward African-American audiences. This avoidance of a Black-format label is understandable since analyses indicate that urban, news or general market stations are much more likely to earn proportionately greater advertising revenues when compared to audience shares.” *Id.* at 405-406.

**Table 2**

**Comparison of Minority and Majority Broadcasters by Format**

(All figures are averages. Currency in thousands)

(number of stations)	'96 Nat Rev	# Nat. Stat.	'96 Stat. Rev.	Power Ratio
<b>General Formats</b>	<b>\$129,059</b>	<b>42.5</b>	<b>\$2,202</b>	<b>1.16</b>
Majority Owned - All (3293)	\$130,497	43	\$2,214	1.16
Majority Owned - Small (2,288)	\$13,040	7.4	\$1,410	1.16
Minority Owned - All (39)	\$7,630	7.4	\$1,237	0.85
<b>Minority Targeted Formats</b>	<b>\$86,125</b>	<b>26.3</b>	<b>\$1,958</b>	<b>0.91</b>
Majority Owned - All (297)	\$116,574	34.8	\$2,052	0.95
Majority Owned - Small (193)	\$7,387	4.9	\$1,038	0.99
Minority Owned - All (116)	\$8,164	4.4	\$1,717	0.82

Data: BIA MasterAccess, August, 1997 edition.

Minority-owned, minority-format broadcasters were compared with majority broadcasters that air minority-format programming and that owned 17 or fewer stations, reflecting the maximum number of stations owned by a minority broadcaster in this format category.<sup>212</sup> Column three indicates that small majority owners broadcasting in minority formats, owned an average of 4.9 stations nationally, compared to an average of 4.4 stations nationally for minority owners broadcasting in minority formats. In terms of power ratios, column five shows that small majority broadcasters outperformed minority

<sup>212</sup> Minority-owned broadcaster, Z Spanish Radio, had the largest number of minority-formatted stations. See, NTIA Broadcast Ownership Report, 1997; BIA MasterAccess database, 1997.

broadcasters in the minority-format category.<sup>213</sup> The average power ratio for small majority broadcasters was 0.99, compared to 0.82 for minority broadcasters.

In terms of station revenues (Table 2, column 4), general market stations averaged revenues that were 12% greater than minority-formatted stations. Majority broadcasters, overall, outperformed minority broadcasters within both format categories. Station revenues for majority broadcasters that air general market programming were on average 79% greater than minority competitors within the same format. Majority broadcasters that air minority-formatted programming averaged revenues that were 20% higher than minority broadcaster in the same format category.

A revenue comparison of broadcasters of comparable size<sup>214</sup> indicates that general market majority-owned broadcasters averaged revenues that were 14% greater than minority-owned stations within the same format category. Minority owned stations that air minority-formatted programming averaged revenues that were 65% greater than small majority competitors in the same format category.

However, as noted above, minority owned stations are, on the whole, underperforming in terms of power ratios, compared to majority broadcasters in either format group. In other words, given the size of their audience share, one might expect that minority-owned, minority-formatted stations would outperform their small majority-owned counterparts in terms of revenues by even greater margins.

Additionally, the revenue comparisons presented in Table 2 may be affected by the fact that minority broadcasters are more concentrated in markets where stations earn greater revenues. Stations in the large urban markets (e.g. New York and Los Angeles) average higher revenues than stations in the smaller metro markets. For example, average station revenues in market #1 (New York) are \$15.57 million compared to \$3 million in market #30 and \$1.24 million in market #60.

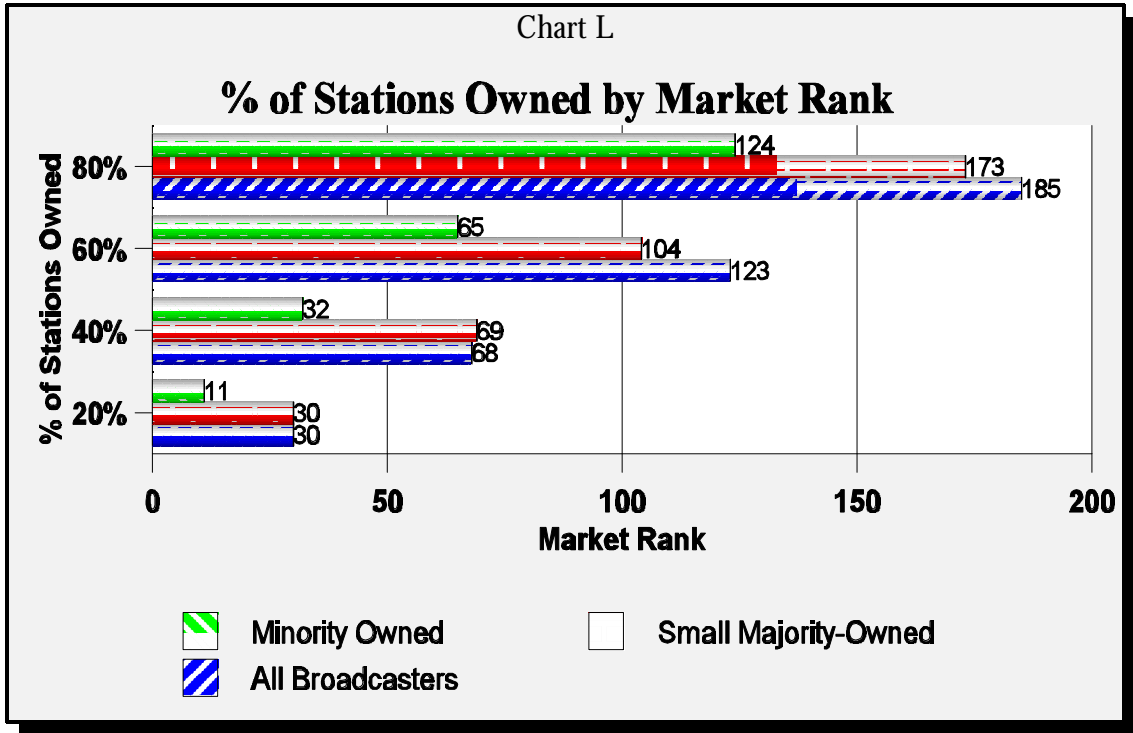
Significantly, there is a greater concentration of minority-owned broadcasters than small majority-owned broadcasters in the large metro markets. Chart L<sup>215</sup> indicates that 20% of the stations owned by minorities are located in markets 1 - 11, compared to markets 1- 30 for small majority broadcasters. Sixty percent of minority owned stations are located in markets 1- 65 compared to markets 1-104 for small majority broadcasters. The differences in market rank distribution between these two categories of owners affect station revenues. For this reason, future research should control for market rank when making revenue comparisons.

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<sup>213</sup> It is recommended that subsequent research compare stations with the same format controlling for audience income and market rank.

<sup>214</sup> The basis of the revenue comparison of broadcasters of comparable size was the same as that for the power ratio comparison.

<sup>215</sup> Comparisons in Chart L are between all 3,745 stations in the data set (“All Broadcasters”), majority-owned/minority-formatted stations with 17 or fewer stations (“Small Majority-Owned”), and minority-owned/minority-formatted stations (“Minority Owned”).



Data: BIA MasterAccess, August 1997 edition.

When the data presented in Table 2 is separated into markets 100 and below and markets above 100, the revenue comparisons indicate that minority broadcasters average 51% above their small majority competitors in the top 100 markets, but earn on average slightly less than small majority competitors in markets 101 through 265 (See Tables 3 and 4).

## Table 3 Markets: 1- 100

### Comparison of Minority and Majority Broadcasters by Format

(All figures are averages. Currency in thousands)

(number of stations)	'97 Nat. Rev.	# Stat.	'96 Stat. Rev.	Power Ratio
<b>General Formats</b>	<b>\$207,285</b>	<b>57.9</b>	<b>\$3,567</b>	<b>1.11</b>
Majority Owned - All (1666)	\$211,219	58.9	\$3,610	1.11
Majority Owned - Small (890)	\$25,794	8.0	\$2,500	1.08
Minority Owned - All (33)	\$8,664	7.6	\$1,416	0.86
<b>Minority Targeted Formats</b>	<b>\$107,385</b>	<b>29.0</b>	<b>\$2,555</b>	<b>0.89</b>
Majority Owned - All (207)	\$147,066	39.3	\$2,707	0.94
Majority Owned - Small (115)	\$11,067	5.6	\$1,447	1.01
Minority Owned - All (85)	\$107,450	5.0	\$2,185	0.77

Data: BIA MasterAccess, August 1997 edition

Although the revenue comparisons differ for the top 100 markets and markets above 100, the power ratios of small majority broadcasters in both market segments are superior to that of minority broadcasters—1.01 versus 0.77 in the top 100 markets and 0.97 versus 0.94 in markets above 100 (see Table 4).

## Table 4 Markets: 101 - 265

### Comparison of Minority and Majority Broadcasters by Format

(All figures are averages. Currency in thousands)

(number of stations)	'97 Nat. Rev.	# Stat.	'96 Stat. Rev.	Power Ratio
<b>General Formats</b>	<b>\$47,671</b>	<b>26.6</b>	<b>\$783</b>	<b>1.21</b>
<b>Majority Owned - All (1627)</b>	<b>\$47,840</b>	<b>26.6</b>	<b>\$785</b>	<b>1.22</b>
<b>Majority Owned - Small (1398)</b>	<b>\$4,920</b>	<b>6.9</b>	<b>\$717</b>	<b>1.22</b>
<b>Minority Owned - All (33)</b>	<b>\$8,664</b>	<b>7.6</b>	<b>\$1,416</b>	<b>0.86</b>
<b>Minority Targeted Formats</b>	<b>\$34,821</b>	<b>18.9</b>	<b>\$517</b>	<b>0.95</b>
<b>Majority Owned - All (90)</b>	<b>\$46,445</b>	<b>24.0</b>	<b>\$545</b>	<b>0.96</b>
<b>Majority Owned - Small (78)</b>	<b>\$1,961</b>	<b>3.9</b>	<b>\$436</b>	<b>0.97</b>
<b>Minority Owned - All (78)</b>	<b>\$1,073</b>	<b>3.0</b>	<b>\$435</b>	<b>0.94</b>

Data: BIA MasterAccess, August 1997 edition

Revenue performance may also be influenced by consolidation by a few minority owners. NTIA found in its 1998 minority ownership report, that the number of stations owned by minorities increased 0.1% in 1997-1998 from 2.8% of all U.S. commercial broadcast stations to 2.9%, reflecting a net gain of 15 stations.<sup>216</sup> However, the number of minority broadcasters decreased by 17. Gains in stations owned were due to incumbent minorities acquiring additional properties, particularly growth by a small number of Hispanic broadcasters.<sup>217</sup>

As a whole, the radio industry has undergone tremendous change. The FCC's staff report, "Review of the Radio Industry, 1997," which examined data from March 1996 to November 1997,

<sup>216</sup> NTIA, "Minority Commercial Broadcast Ownership in the United States," August 1998, page. 1.

<sup>217</sup> *Id.*, at 5.

found that the number of owners of commercial radio stations declined by 11.7%, primarily due to mergers between existing owners.<sup>218</sup> As section II-C-3 indicates, consolidation affects average station revenue, although its impact on power ratios is less direct.

#### **d. Cost Per Point as a Measure of Advertising Performance**

In order to better understand the disparities in power ratio performance, CRF compared the cost per rating point for general market and urban stations. As fully explained in the appendix, the cost per point is the cost of advertising to one percent of the listening audience (*see* Overview of Media Planning, Appendix A). A general market cost per point is based upon the cost of reaching one percent of the entire metro audience. Black listeners are a subset of the metro audience. In terms of general market cost per point, advertisers pay a lower rate to reach the smaller Black population (compare Black CPP and Metro CPP of Table 8). However, an accurate analysis requires a comparison of the cost to reach an equal number of people in both markets. To facilitate this, CRF converted the cost per point to the cost per thousand (i.e. the cost to reach one thousand people) for several markets in which large numbers of Blacks reside.

The following table provides the size of the population for one percent of the Black population and the total metro market population. For each market the table also provides the cost per rating point (CPP) and the cost per thousand (CPM) for Blacks and the total metro market (CRF was not able to obtain data for the Spanish market).<sup>219</sup>

CRF's analysis of seven major markets indicates that the cost of an advertisement based upon the urban cost per point is greater than the general market cost per point. In other words, advertisers pay more to advertise to Blacks, if the Black cost per point is the basis of the calculation. For the New York market, the metro and Black costs per point convert to \$7 to reach one thousand Blacks and \$4.51 to reach one thousand listeners in the total metro market. The Los Angeles metro and Black costs per point convert to \$22.48 to reach one thousand Blacks and \$8.50 to reach one thousand people in the total metro market. The results of this analysis do not support the power ratio comparisons presented in Table 2.

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<sup>218</sup> *Id.*, at 4, citing Federal Communications Commission, Staff Report, "Review of the Radio Industry, 1997," 13 FCC Rpt. 11276 (1998).

<sup>219</sup> Metro market cost per point data for Table 8 was obtained from the Media Market Guide (3<sup>rd</sup> Quarter 1997) published by Media Market Resources Inc. 1997 Black cost per point data was provided by the Research Department of The Interep Store. Population data for the metro markets was obtained from The Media Audit (January-December 1997) published by International Demographics. Cost per thousand (CPM) was calculated by dividing the cost per point by one per cent of the population size and multiplying the result by 1,000.

**Table 5**  
**Comparison of Costs to Reach One Thousand Listeners:**  
**Black vs. General market Listeners**

Adults Age 25 - 54 (frequency = 1)						
	1% Black Population	Black CPP	Black CPM	1% Metro Population	Metro CPP	Metro CPM
New York	13,993	100.2	7.16	78,880	356	4.51
Chicago	6,856	62.2	9.07	38,500	221	5.74
Wash. DC	5,582	68.0	12.18	21,660	208	9.60
Los Angeles	4,519	101.6	22.48	55,030	468	8.50
Atlanta	4,480	74.0	16.52	17,740	166	9.36
Detroit	4,226	54.6	12.92	20,130	147	7.30
Philadelphia	3,994	42.4	10.62	21,610	196	9.07

Data: The Media Audit, The Media Market Guide, The Interep Store

CRF discussed these inconsistencies with the Director of Urban Marketing for Interep, Sherman Kizart. Spot advertisements based upon the Black cost per point, in his estimation, account for only five to ten percent of the revenues of urban-formatted stations. In many cases urban-formatted stations are faced with dictates not to buy urban.<sup>220</sup>

CRF also discussed these matters with Judy Ellis, Senior Vice President of Emmis Radio and General Manager of three Emmis Radio stations in the New York metro market. Advertisements based upon the Black cost per point, according to Ms. Ellis, are very favorable for her urban formatted station WRKS. However, such buys are only typical of advertisers that are interested in targeting their products to the Black consumer (e.g. fast food companies). Other advertisers (*i.e.* firms that consider the general market their primary focus and the minority consumer a secondary priority), pay less to advertise on stations that target the minority listeners—even in cases where Blacks are avid consumers of the products.<sup>221</sup>

As an example, Ms. Ellis compared costs per point offered to two Emmis Radio station stations—one urban and the other jazz/new age. The offers were based upon the general market cost per point and originated from the buying service of a well-known bedding and mattress retailer.

<sup>220</sup> Interview with Sherman Kizart, The Interep Radio Store, October 1, 1998.

<sup>221</sup> Telephone interview with Judith Ellis, Emmis Broadcasting, October 5, 1998.



Jazz/new age radio station WQCD was offered \$365 per point, while WRKS, which had a larger audience share, was offered \$330.

Qualitative data also showed that urban and Spanish station listeners led the market in terms of bedding and mattress consumption. Specifically, WRKS listeners were 29% more concentrated in the qualifying criteria—“planning to buy bedding or mattress within a year”—than the average adult in the market. Other urban and Spanish formatted stations ranked 51% (WBLS), 32% (WQHT), and 24% (WSKQ) in terms of plans to buy a mattress or bedding. Jazz station WQCD which received an offer of \$360 ranked 7%.<sup>222</sup>

In summary, advertisements based upon the Black cost per point are more valuable than the general market cost per point. It appears, however, that the inferior advertising performance of minority-formatted stations can be explained by the fact that such rates are seldom obtained, as well as the failure on the part of some advertisers to pay the same general market cost per point to both general market and minority-formatted stations.

Discounted general market costs per point appear to account for some of the performance disparities between general market and minority-formatted stations. CRF attempted to obtain documentation that such practices are systematic. However, the ad agencies and national rep firms contacted were unwilling to permit access to records that indicate the cost per point that advertisers pay on a per market basis. Research undertaken as a follow-up to this study should endeavor to obtain such useful information by means of the subpoena powers of the federal government, if necessary.

The factor of ownership size also appears to have a bearing on advertising performance. Table 7 indicates that majority-owned stations tend to be part of larger group operations. 1997 estimated national revenues for the majority owners averaged \$233.8 million for general market stations and \$196.5 million for minority-formatted stations. These figures dwarf the estimated average national revenues of minority broadcasters—\$9.9 million for general market stations and \$13.6 million for minority-formatted stations.

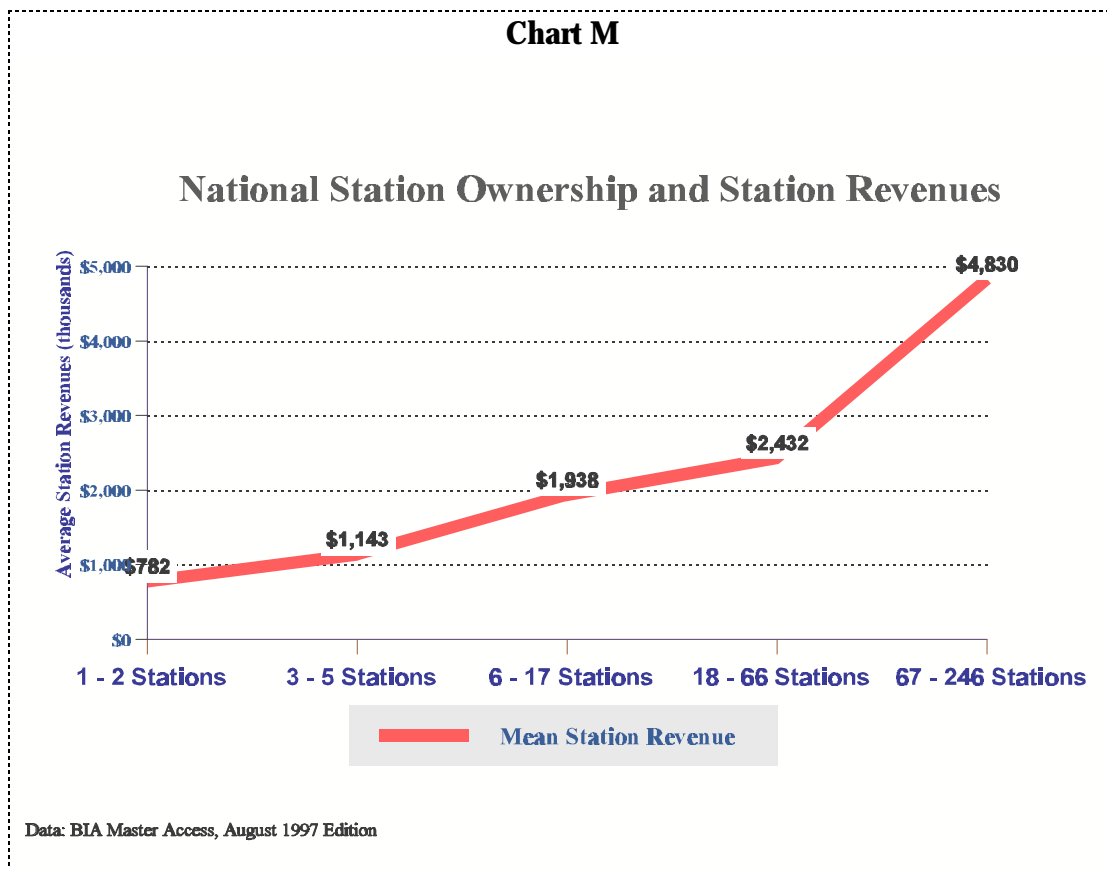
The next section examines economic disparities between majority and minority broadcasters that may be linked to the number of stations owned nationwide and locally.

### **3. The Impact of Ownership Size on Advertising Performance.**

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<sup>222</sup> Scarborough Qualitap Report, New York, March 1997- February 1988, on file with CFR.

For this analysis CRF examined a universe of 3,745 radio stations.<sup>223</sup> Charts M and N suggest a positive correlation between station performance and the number of stations owned. An increase in station ownership in both the national and local markets appears to translate into increased performance for the individual stations owned by the parent company. Station performance was measured by two variables: average station revenues and power ratio.<sup>224</sup>



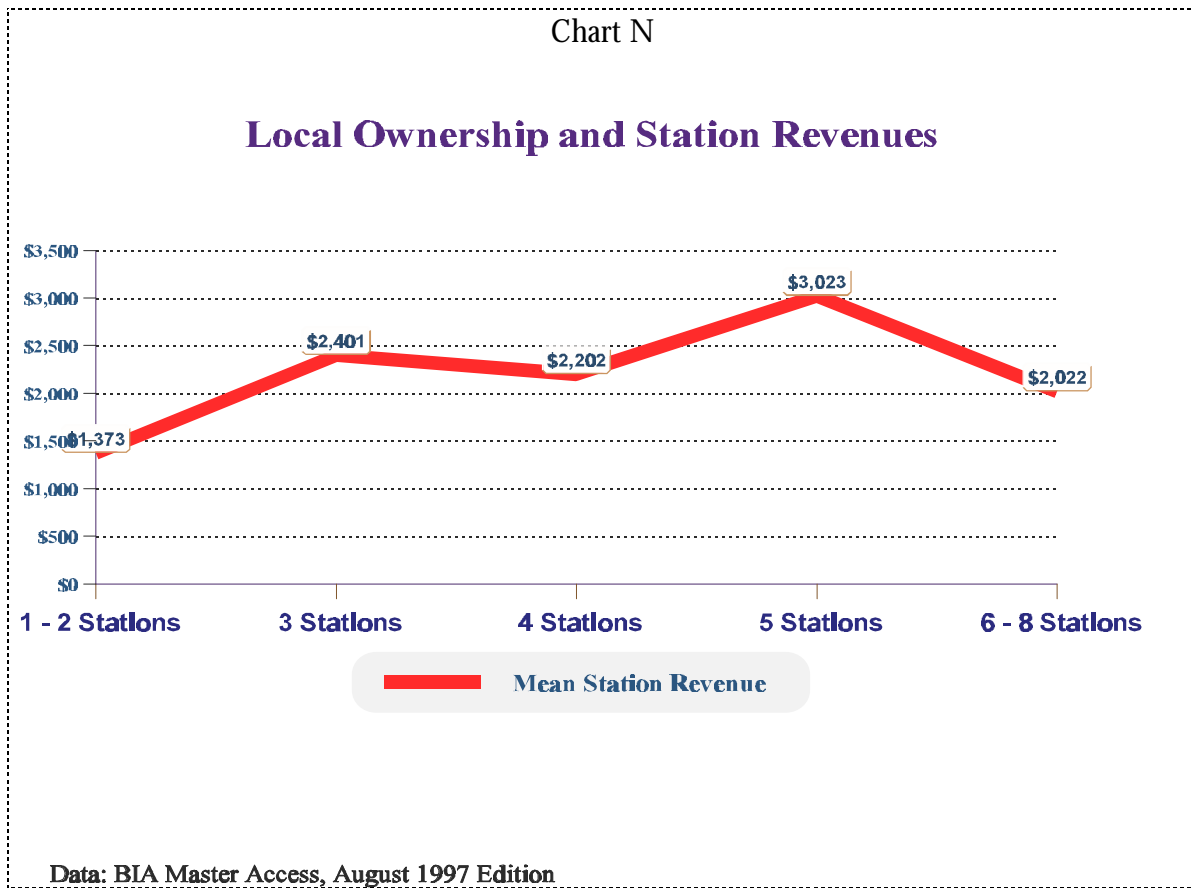
Station revenue significantly improved with large national ownership. 1996 average station revenue increased from less than one million dollars to \$4.8 million dollars as company national

<sup>223</sup> All stations reporting revenue and listener information to the August 1997 edition of the BIA MasterAccess were analyzed. See Section I-D for the methodology of selection. The stations were divided into five groupings based upon the number of stations owned by the parent company in the local and national markets. For the national market the groupings were 1-2, 3-5, 6-17, 18-66, and 67-246 stations. The groupings for the local markets were 1-2, 3, 4-5, and 6-8 stations.

<sup>224</sup> *Station revenue* is gross station revenue for 1996 expressed in thousands. *Power ratio* is a measure of a station's ability to convert share of total market listeners into share of total market revenues (calculated by dividing the market revenue share by the local commercial share, See Glossary, Appendix K).

ownership increased from 1 to 2 stations to 67 to 246 stations.<sup>225</sup> There was no appreciable change in power ratio (1.13% to 1.14%).

An examination of local ownership also indicates a positive correlation between station revenues and ownership in the local market. In 1996 as company local station ownership increased, average station revenues increased from \$1.4 million in the case of 1 to 2 locally owned stations to \$3 million in the case of 5 local stations, then declined to \$2 million in the case of 6 to 8 local stations (Chart F). There was a slight decrease in average power ratio (1.18% to 1.13%).



The fact that owners with large number of stations are able to generate higher station revenues despite no corresponding change in the power ratio suggests a linkage between large company size and increased ability to obtain purchases and/or higher prices from advertisers. Further investigation is warranted to determine whether large firms condition the purchase of commercial time on one station upon additional purchases on other stations owned nationally or locally. Another area of inquiry is to determine whether large firms leverage their control of market share to raise advertising prices.

<sup>225</sup> For a similar analysis see BIA Research Inc., 1997 Radio State of the Industry Report.

This analysis implies that small firms are at a competitive disadvantage. Stations with large parent companies have greater revenue streams with which to hire the best on-air talent, to invest in program production and to spend on sales promotion. These competitive advantages ultimately work to the disadvantage of small and minority-owned firms.<sup>226</sup>

#### **4. Market Consolidation, Advertising Practices and Access to Capital**

In their responses to the survey questionnaire, minority broadcasters reported that local market consolidators enjoy strategic advantages that substantially impact on the advertising revenues of minority firms.<sup>227</sup> Survey participants were asked whether they were facing competition from a local market consolidator. Ninety- three percent of the respondents reported facing competition from an average of three local market consolidators. Sixty percent of the respondents indicated that they were facing direct competition from majority-owned consolidators that air minority-formatted programming.

The sizes of the three local market consolidators were reported to be five local stations for the first consolidation group, four for the second, and four for the third. These duopolies (or superduopolies), on average, are more than twice the size of duopolies owned by minority broadcasters.

In terms of competitive advantages associated with local market consolidation, minority broadcasters responded as follows (#1 denoted the highest level of importance):

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<sup>226</sup> The vast majority of minority-owned broadcasters are not market consolidators, defined in this study as companies who owned four or more stations in a local market. The few exceptions are Radio One, Inc., which owns four stations in both Washington, D.C. and Baltimore and accounted for 10% and 17% of the market revenues, respectively, in those two markets. The other exception is Spanish Broadcasting System, which owned six stations in Miami and accounted for 11% of that market's revenues. The market revenue shares of these companies were significantly less than the leading consolidators in these three markets— Infinity with 34% of the Baltimore market revenues, Clear Channel with 26% of the market revenues in Miami, and Chancellor with 30% of the market revenues in Washington, D.C. (Source: *Who Owns What?* Inside Radio, Inc., October 19, 1998.) Only nine percent of the respondents to the survey undertaken for this study reported the presence in their market of a minority broadcaster that qualified as a local market consolidator (see next footnote for definition).

<sup>227</sup> For the purpose of the survey questionnaire, a market consolidator was defined as a broadcaster that owns four or more stations in the local market and that controls 30% or more of the local market sales revenues.

<b>Question: Please describe any competitive advantages that local market consolidators have over your station in terms of their ability to solicit spot sales.</b>	<b>Average Response on a scale of 1 to 10 (1 denotes the highest level of importance)</b>
Able to offer advertisers a wider range of demographics than your station.	2
Able to afford undercutting the price of your spot sales.	4
None	8

The practice of price undercutting involves offering ad agencies a price that is deliberately intended to undercut a competitors price. This practice may be employed by a consolidator that seeks to compete directly with the format of a minority broadcaster. By airing minority-formatted programming and undercutting the price of spot sales, a consolidator has a strategic advantage.

Consolidators generally offer a wide range of formats (e.g. news, country, urban, easy listening) on their local radio stations in order to reach a diverse set of demographics. This enables consolidator sales representatives to offer media buyers the ability to reach any consumer they wish to target with a media buy. Media buyers may find it convenient to negotiate a price with one sales person in order to reach all of their targeted audiences.

The survey participants were also asked to describe the impact, if any, that local market consolidators are having upon their station.

<b>Question: What impact have local market consolidators had upon your station?</b>	<b>Average Response on a scale of 1 to 10 (1 denotes the highest level of importance)</b>
Taken sales away such that station revenues have significantly declined.	5
Taken away audience share such that listenership has significantly declined.	5
No impact	6

and,

<b>Question: Do such practices interfere with the ability to raise capital to acquire minority-formatted stations? (check only one)</b>	<b>Distribution of Responses</b>
Very much so.	44%
Moderately.	33%
Minimally.	18%
Not at all.	5%

The responses to the last two questions suggest that although minority broadcasters face direct competition from local market consolidators, they are experiencing only a moderate adverse impact in terms of listeners and revenues. Based upon the perception of the survey respondents, local market competition has less adverse impact than the effect of advertising practices involving “discounts” and “dictates.”

The survey respondents were also asked to estimate the impact of “minority discounts” and “no Urban/Hispanic dictates” upon access to capital and station valuation.

<b>Question: Do such practices detract from the market value of a minority-formatted station when it is being sold? (check only one)</b>	<b>Distribution of Responses</b>
By a substantial amount.	44%
Moderately.	29%
Minimally.	25%
Not at all.	2%

Forty-four percent of the minority entrepreneurs responding to the survey believed that advertising practices detract by a substantial amount from their ability to raise capital to acquire new stations that will be used to air programming to the minority population. This is due, in part, to the anticipated adverse impact that advertising practices have upon the ability of such stations to attract advertising revenues. An equal number of survey respondents expressed their view that when a

minority-owned station is sold, advertising practices regarding “no Urban/Spanish dictates” and “minority discounts,” detract from the station’s sales price by a substantial amount. This results, in part, from the adverse effects of advertising practices upon the revenues of stations that air programming targeted to the minority population.

#### **D. Recommendations for Further Research**

It is recommended that further statistical analysis be undertaken that is beyond the scope of this study. This study suggests that minority ownership, ownership size, and the racial/ethnic composition of the listening audience can be linked to the advertising performance of program formats. The relative impact of other variables has not been determined. Further analysis should attempt to isolate and quantify the effect of additional factors. Such factors should include:

- ▶ audience age, income and education;
- ▶ the market rank of the station;
- ▶ national revenues; and
- ▶ Station sales budgets, particularly the amount of expenditures for qualitative data used to overcome “no Urban dictates” and “minority discounts.”

This study examined data averages for one year. However, the marketplace involves dynamic relationships that should be studied over time. Hence a time series analysis of the variables mentioned above should be undertaken.

Another important area warranting further investigation is whether there are substantial variances in the **general market cost per point**, paid to minority-formatted and general market stations. Such an analysis is necessary in order to determine whether advertisers, in general market ad campaigns, pay discounted rates to minority-formatted and/or minority-owned stations. The data necessary to perform such an analysis is generally proprietary, and CRF was not able to obtain it. A federal agency with jurisdiction over advertisers and ad agencies may have to use its subpoena powers to obtain such information.

On the basis of questions raised by this study concerning the impact of advertising practices on minority-owned and minority-formatted stations, CRF also recommends the following research initiative:

- ▶ A broader study, funded with sufficient resources, should be undertaken to analyze the impact of various factors on broadcasters’ performance. Such an analysis will help the FCC identify whether there are impediments to entry and growth in the broadcast industry that warrant Commission action, and the reasons for those obstacles.
- ▶ The analysis should examine factors such as: the impact of ownership size on revenue and power ratios; advertising pricing variances (including cost per point variances) by format; the

racial/ethnic classification of the owner, and owner size; differences in quantity of advertising time made available by stations; consumer responsiveness to advertising on minority-targeted media compared to general market media; the extent to which a broad variety of formats are subjected to systematic “discounts,” or “dictates” based on the audience served; the relationship between “dictates” or “discounts” and the range of formats on a broadcaster’s stations; the extent to which “discounts” are based on audience income levels for various formats; the quantity of discounts experienced by minority-formatted stations and other formats, and their pervasiveness; the extent to which discounts may be related to station classifications of power and reach (*i.e.* AM or FM, Class A or Class C); the extent and pervasiveness of “no Urban/Spanish dictates,” and the use of dictates for other formats.

- ▶ Additionally, the analysis should consider the impact of the race/gender of station, ad agency, advertiser and representative firm personnel; the practices of broadcast owners in competing against minority-formatted or minority-owned stations based upon misrepresentations and improper disparagements; the ownership of radio and television stations by women; whether stations targeting programming at women are subjected to similar practices in the advertising industry, and the influence of such factors.
  
- ▶ The analysis should also probe the use of media ratings services in advertising decisions, particularly unaccredited services. It should examine the effect of audience undercounting by media ratings services on the advertising performance of minority-owned and minority-formatted broadcasters. It should investigate the impact of advertising practices on viewers and listeners, *i.e.* whether they affect the availability of format, diversity of viewpoints on the airwaves, and broadcasters’ service to the American public. Finally, the analysis should investigate whether minority or women owners encounter barriers based on race or gender, and whether any such findings justify remedial measures or incentives to remove barriers to market entry, growth and competition for small, minority and women-owned radio stations.