THE BIG SQUEEZE

Managers Respond In Radio's New Economy

Deregulation, consolidation, an explosion of debt and ad revenue freefall continue to shape radio, but discussions of a battered and embattled industry only tell part of the story. Yes, what was a $22 billion business in 2006 fell a whopping 26% to $16 billion by 2009. And the debt associated with stations consolidated at big multiples forces a reduced workforce to do more with far less. But guess what? They're doing it. Across all market sizes and in every corner of the country, radio managers operate with fewer people in all departments and smaller to non-existent budgets. They still make it all work through new technology, hard work and more than a little asset alchemy.

The Way We Were

To be sure, that old "Pleasantville" image of mom-and-pop radio already seems quaint. Ask **Clint Marsh**, a 28-year radio veteran who's spent most of his career in smaller markets. Marsh manages Federated Media's three-station cluster in Warsaw, IN, which includes Country WAWC (Willie 103.5). In last year's tight economy, the stations let go four or five fulltime sales and programming staff and began voice-tracking evenings and overnights; weekends are a mix of live and voice-tracked shifts. In all, the roster is down about 15%, but the cluster still has 26 employees – more than some stations in much larger markets.

Clint Marsh

"We were never given a mandate to reduce costs by a particular percentage," Marsh says. "It's been more like, 'Do what you need to do to run your business.' But cutting staff was the hardest thing I had to do. We were able to help some find positions; for others, I gave the best references I could. The layoffs didn't hurt morale as much as I thought. The key was being honest and upfront with everyone. We immediately explained what was going on, and those who were still there afterwards were told we wanted to keep them. The salespeople already knew what was happening because they were the ones being told 'no' more often than 'yes.'"

Large markets are just as affected, if not more so. Emmis Indianapolis Market Manager **Charlie Morgan**, who's worked his entire career in the metro, recalls, " When I left the station I was at [Cumulus' WFMS] in 2006, there were 85 fulltime employees; today there are fewer than 45. Here, there's been a 20-25% reduction from the high point in 2006-2007."

Hat Tricks

For nearly everyone, individualized station duties have increasingly given way to cluster multi-tasking. WKIS/Miami GSM **Carole Bowen** says, "Vastly fewer people are responsible for the overall running and product of a station. And with that comes increased pressure and job responsibilities. The money is just not nearly the same: This year, our market is improving, up 13%. But last year it was a complete train wreck, down 20%. Our organization has never had a lot of fat; I've always felt we've operated smartly. However, the economic realities have necessitated that we figure out ways to do things with lower associated costs."

Most in radio understand the economic pressures. Marsh explains, "People here have really stepped up, coming to *me* with a commitment and a plan when people were let go. All but a part-timer has other duties besides their airshift and production. My morning guy on Classic Hits WRSW-FM also sells. My afternoon guy is also our Asst. PD, does our music, imaging, logs, production and remotes. Our WAWC PD/morning guy is also OM for the rest of the cluster. Our midday guy is assistant production director and also does a sports talk show. Our afternoon guy on Willie is also promotions director for all three stations and does a lot of production. A few years ago, when things were really good, there was some promotion budget, but we've lost that. We haven't lost promotions themselves, we've just had to be more creative in how we do them."

> IT'S EASY TO VILLAIN-IZE CORPORATE, BUT THEY ARE THE ONES TRYING TO KEEP THE COMPANIES AFLOAT.
> – CAROLE BOWEN

Former Regent SVP/Operations **John King** says it's like a throwback to his early days. "I started as a DJ in a small radio station. I read the news, was the production guy, did an airshift – sometimes two a day – and when we signed the station off, I'd take all the AP wire copy out back and burn it. I'd spend 12 hours a day in a radio station until they'd finally say, "Go home. You're getting on our nerves."

Identity Left

More seriously, King maintains that the risk to radio is not so much the workload as it is the blurring of differentiation across brands. "Some guy who's worked his whole life in Country has to be able to put on his Classic Rock hat in the middle of the day and deal with some morning person with a different set of values from your core format," he says. "That becomes difficult. When I first came to Nashville, I was the VP/Programming for the company that owned WSIX. I could listen to the station and, even if I wasn't the guy who did the music logs, I knew if somebody was playing records out of place. But if you're doing three formats, and a lot of PDs do, you can't even listen to it enough to be truly focused on your brand. And while stations have certainly been hurt by the economics of the business, the economics of time has really creamed a lot of cool brands. All of a sudden, why did that Classic Rocker remind me of the hillbilly station down the hall? Didn't I just hear that sweeper on the Oldies station? Is that the same voice doing Mix?"

John King

The client-side compromises also are more evident, King says. "Before consolidation, you might have had an AM and FM, and that client base didn't overlap a lot. Now, stations are tuned, for the most part, to a couple of specific demos. So when you go out and pitch to Home Depot, "I've got five stations with these ratings that in the aggregate reach this percentage of that demo," they start wanting value-added. Now you've got some promotion teed up that makes sense for one or two of the stations and bullshit for two others. But you're taking it because you've got to have the dough."

My Wish

In recent years, managers have been forced to make cuts in every department. Research and marketing frequently came first. Then it was support staff: fewer sales assistants, and delegating more work to contractors and part-time help. Personalities took on a second shift. A sales manager was let go, next a PD, then more air talent, as well as, perhaps, the production/creative services person dedicated to the station branding and imaging. As revenues begin to improve and debt burden is reduced, where will these executives spend first?

Bowen sees several opportunities, noting, "There's one person we had to let go in our marketing department that was a tough loss. Our commission structure has been fairly dramatically reduced, and that's also been hard; I'd love to see that a little healthier. In programming, we've had people who are extraordinarily talented, but they're wearing a lot of hats and are spread mighty thin. Our PD has had to add a number of responsibilities, all of which he's very capable of doing, but there's only 24 hours in a day. We have three stations, and my sales

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team at one time had a designated assistant who was a specialist on WKIS. She attended every sales meeting and was so integrally involved. She knew it inside and out, better than anyone and was incredibly valuable."

Marsh says, simply, "Staff. The first person I'd hire back is a news director. We didn't completely cut local news, but it'd be nice to have someone dedicated to news for our three stations. And more salespeople as the economy gets better."

Morgan offers, "If I had money to spend today, it would be on research and marketing before I would add more people back in. The Emmis culture always was to save as many people as possible and cut other things. But the first person I'd add would be a sales manager."

Adds King, "If radio's stated goal is to just get north of five percent of the gross revenue coming from digital media, they're going to have to have some specialized sellers."

Blame Game

Pointing to company headquarters and Wall Street for painting managers into these corners is a little too convenient. Bowen explains, "It's easy to villain-ize corporate because they're not in the trenches. But they also are the ones trying to keep companies afloat, first and foremost, as unpopular as the repercussions of that are. Has product suffered some? Yes. But have new tools and technology enabled us to do things we never thought were possible with the level of personnel that we now have? And more are coming. They have enabled us to weather these cuts far better than we would've been able to do 10 years ago."


Charlie Morgan

The fact is, during the heyday of deregulation, it was either get in or get out. Morgan comments, "Do I think there's been a lot of bungling in consolidation? Some of it's been done very poorly, and some of it, I might even argue, has been done with poor intent or misinformed direction. But are we stronger in many ways than we were when we were mom-and-pops with no best practices and without the value of having sister stations in other markets where we could trade, learn and have better talent attracted to our company? I've got to think that we are. It's just that a lot of pain has occurred to get us to that point."

Continues Morgan, "[Chairman] Jeff Smulyan made a point to me how a public company and its value were penalized by Wall Street for *not* having leverage that now suddenly seems irresponsible. You had a choice: Either accept that the value of your company was going to be artificially depressed because you weren't meeting an outsider's expectation of what multiple at which you should be leveraging your assets, or to leverage them such that when the musical chairs game stops (just as it did with home mortgages) you look back and say, 'Well, that was so irresponsible. How could we ever have done that?' Because now you can't pay the debt at the rates and values at which they were done. You can't tell me that somewhere in that process almost all parties involved knew this somehow was likely going to happen, yet we allowed ourselves to live in denial because the system was rewarding us for it."

Ladder Go-Round

Does having fewer staff mean a shift away from a purely hierarchical organization structure to one that is more team-oriented? Depends whom you ask. Bowen says, "My PD Ken Boesen and I work very closely together, certainly closer than I've ever worked with a PD. Sales and programming look at situations and try to conquer them together, whatever they are. It's a good thing. We're all each other has."

Speaking for Emmis, Morgan notes, "This organization still has a great deal of individual market autonomy, and therefore there's a lot of team-based decision-making and collaboration at a local cluster level. Some other companies are much more hierarchical and basically implement at a local level a more unified corporate vision."

King participated in a a group-think atmosphere in the former Regent (now Townsquare Media). "One of the attractions of working for [former CEO] Bill Stakelin is that he viewed each of these clusters as their own entrepreneurial local business. We were desperately trying not to do top-down stuff. We weren't always successful, but we would build consensus on most issues that we had control over before we would say, 'Here's our new rule.' As a corporation, we were there to aid in their success, not to hinder them."

Marsh sees it both ways. "There are still companies that are very hierarchical, with silos. And others that are more team-oriented in how they use their assets. Our culture is more team-based, but someone's got to have the ultimate responsibility in our building, and that's me."

A Little Positive Mental Attitude

"There are a few incredibly courageous operators finding themselves in a much better place today," Morgan says of those who've thrived in a depressed economy. "The non-operators are moving on to some other industry, and we've all lived through this painful correction. There is great hope that we can, from all that rubble, build back what is a pretty solid business if we don't have to pay 35% interest on our loan. If we can pay 6%, then suddenly the business is still a very good one. And those who have been able to maintain relationships with their employees, listeners and advertisers are set up for a pretty cool run. Many other organizations talk about best practices, when what should be talked about is best *thinking* because it's our thinking that drives our actions."


Carole Bowen

King concurs. "I still think radio's an incredibly viable medium. It can sell somebody's goods and services, and amasses an audience significant and targeted enough – and from a price perspective – as to be a fabulous marketing tool for whatever business there is. And it has some flexibilities and features that are unique for talking directly to consumers."

Bowen is equally bullish about local radio's return to strength. "Any business that survives in the long term, and radio has proven to be very resilient over many decades, has to be able to operate in different climates … to reinvent its business model to some degree. I'm very optimistic because I believe the basic product of radio is still very viable. It's something people want and will continue to utilize. Every piece of research I see indicates that people are using radio as they always have, to a very high degree of reach in the marketplace. I'm often asked, 'Well, what about this or that competing audio product?' None of them has been responsible for reducing the time people are spending with local radio. The bottom line is that radio still is a great product that consumers want."

Marsh affirms that Federated's attitude is forward-thinking. "Our company is committed to radio, and I'm as excited and optimistic about this industry today as I was 28 years ago, given that there's going to be a lot of change. I'm excited about that; I'm not afraid of it.

"I still could not imagine anything else I'd rather be doing," he says. "I am so blessed to have made a living at this. I came from a very small town in southern Indiana, and my parents and brother did piecework in a shoe factory. Not to knock them, of course, but when I think I could be doing that … and we complain about *this?* Come on!

"Things have changed, but by and large we've held up all right. We've made some missteps, but personally I think consolidation was a positive thing. To me what screwed up everything was when everybody decided to go public and had to start answering to shareholders. We've had challenges for years, and will through my last day in this business before I retire. But if you understand and roll with it, and embrace change, it's an exciting time to be in this business if you're not the one hiding under your desk. Some guys are. Step up and figure out how this is going to work." CAC

A ZERO SUM GAME

Radio stations make money … or do they? It's not unusual to see 20-30%, or even more, fall to the bottom line, but that's just the operating profit after expenses. Then comes the killer – the debt payment to the bank or investors, at least for a large percentage of stations. Former Regent executive John King explains, "After debt service (and all the other stuff below the line), there's nothing left. That's why everybody's defaulting their asses off. They don't have the money." Looking at the slumping stock values of most radio companies from a few years ago, it's clear that Wall Street agrees.

No wonder the NAB is now seeking to reach a reasonable deal on a performance royalty with MusicFirst soon, just in case Congress might have a more label/artist-friendly scale in mind. But for a station like WKIS/Miami, which BIA reported generating $7.9 million in 2009, the 1% figure NAB is contemplating would mean a $79,000 bill each year. GSM Carole Bowen observes, "If we were on the hook for another $50,000-$100,000, all things being the same as they are now, there's no doubt that more people would lose jobs."

In a cluster situation, it's common for shared costs to be apportioned in accordance with the proportion of revenue that a particular station generates, rather than by what each one actually spends. As a result, financial statements don't necessarily represent that station's true profitability … if there is any.

TYPICAL STATION OPERATING EXPENSES

Salaries (excl. commissions)	30%
Sales commissions	15%
Administrative overhead*	15%
Ratings service	8%
Performing rights fees	7%
Marketing, promotion	0%
Research	0%
Operating Profit	25%
Less debt payment	-25%
Net Profit	0%

*Includes rent, utilities, equipment/maintenance, vehicles, insurance, music/production/traffic software, programming/engineering consultants, legal, subscriptions and fees, web hosting and related operating expenses. All figures are average estimates from interviews with GMs across various market sizes and companies.

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