FALSE PREMISES, FALSE PROMISES

A Quantitative History of Ownership Consolidation in the Radio Industry

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Executive Summary

This report is a quantitative history of ownership consolidation in the radio industry over the past decade, studying the impact of the Telecommunications Act of 1996 and accompanying FCC regulations.

A Brief History of Radio Regulation

Since the 1930s, the federal government has limited the number of radio stations that one entity could own or control. In the 1980s and early 1990s, the Federal Communications Commission (FCC) began gradually to relax these limits. Finally, in the Telecommunications Act of 1996 (Telecom Act), Congress eliminated the national cap on station ownership, allowing unlimited national consolidation. With the same law, Congress also raised the local caps on station ownership. In addition, as this study describes in detail, the FCC regulations implementing the Telecom Act allowed more consolidation to occur than alternative regulations would have allowed.

Methodology and Data Sources

To keep the quantitative analysis as simple and transparent as possible, we have not included technical statistical analysis. Instead, we have filled this report with standard, antitrust-style measures of concentration; our own new methodologies for measuring localism and diversity; and many time-series analyses that simply track who owned what when. The study covers thirty years of historical data wherever possible; in other places, the study focuses on the last ten to twelve years—the main period of interest for examining the impact of the Telecom Act.

The FCC's own efforts at collecting data on the radio industry are inadequate, as we emphasize throughout the study. Just as the FCC does, we have relied on industry-collected data to measure changes in radio consolidation and programming. These proprietary sources include: Media Access Pro (Radio Version) from industry consultants BIA Financial Networks, Duncan's American Radio, and Radio and Records magazine.

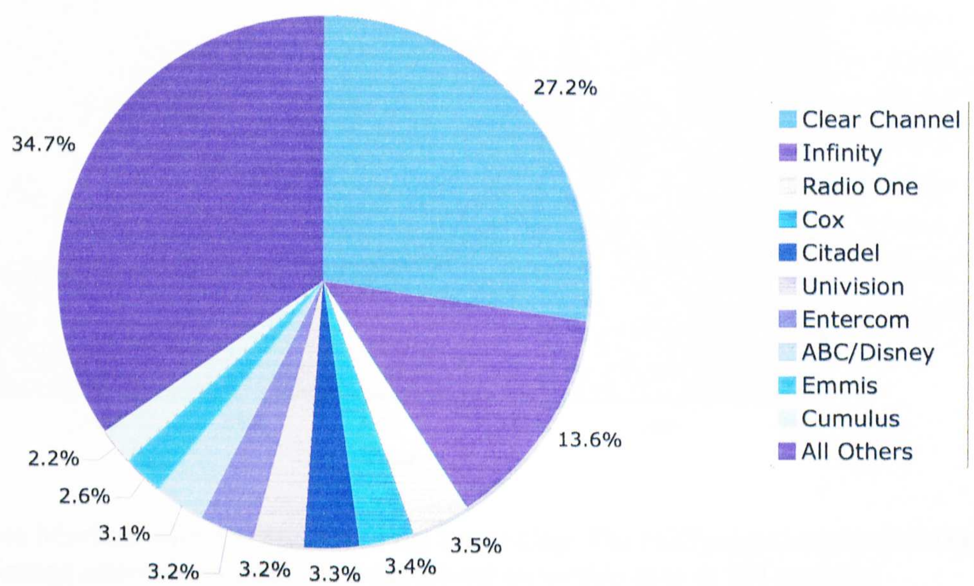
Major Findings of the Study

Highlights from the study are organized here in similar fashion to its three chapters. The first chapter focuses on national radio consolidation, the second on local radio consolidation, and the third on radio programming.

Emergence of Nationwide Radio Companies

1. **Fewer radio companies:** The number of companies that own radio stations peaked in 1995 and has declined dramatically over the past decade. This has occurred largely because of industry consolidation but partly because many of the hundreds of new licenses issued since 1995 have gone to a handful of companies and organizations.
2. **Larger radio companies:** Radio-station holdings of the ten largest companies in the industry increased by almost fifteen times from 1985 to 2005. Over that same period, holdings of the fifty largest companies increased almost sevenfold.
3. **Increasing revenue concentration:** National concentration of advertising revenue increased from 12 percent market share for the top four companies in 1993 to 50 percent market share for the top four companies in 2004.

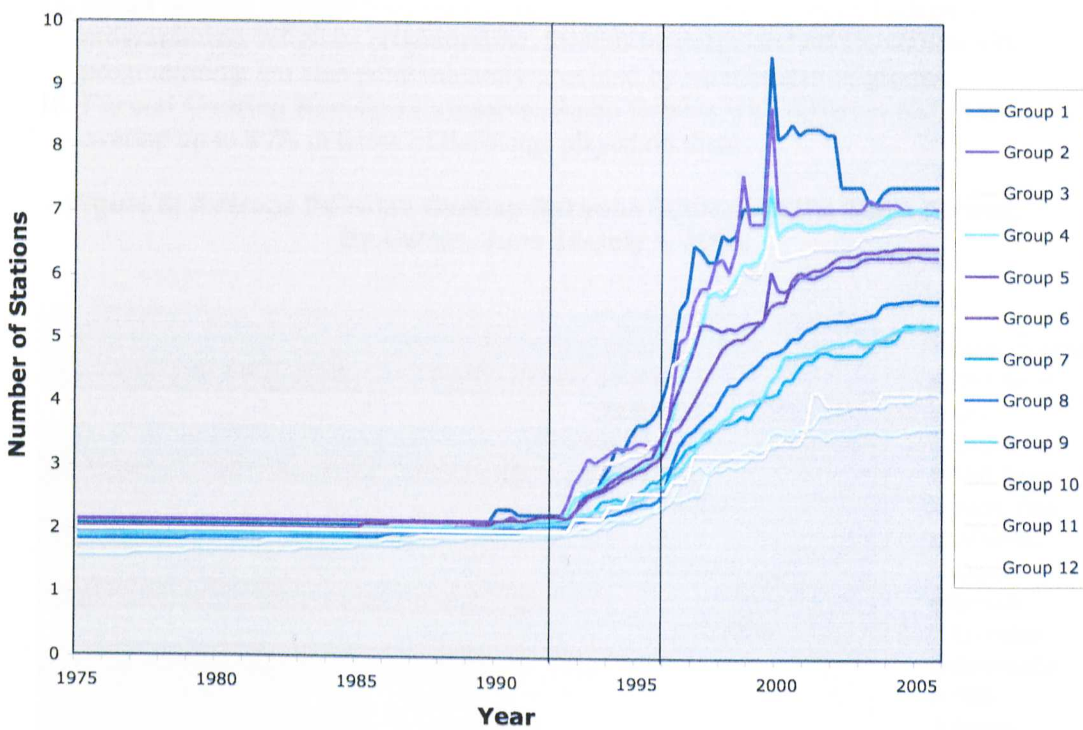
Figure 1: National Share of Radio Listeners, Commercial Sector, 2005.



4. **Increasing ratings concentration:** National concentration of listenership continued in 2005—the top four firms have 48 percent of the listeners, and the top ten firms have almost two-thirds of listeners [see Figure 1].
5. **Declining listenership:** Across 155 markets, radio listenership has declined over the past fourteen years for which data are available, a 22 percent drop since its peak in 1989.

6. **The Largest Local Owners Got Larger:** The number of stations owned by the largest radio entity in the market has increased in every local market since 1992 and has increased considerably since 1996 [see Figure 2].

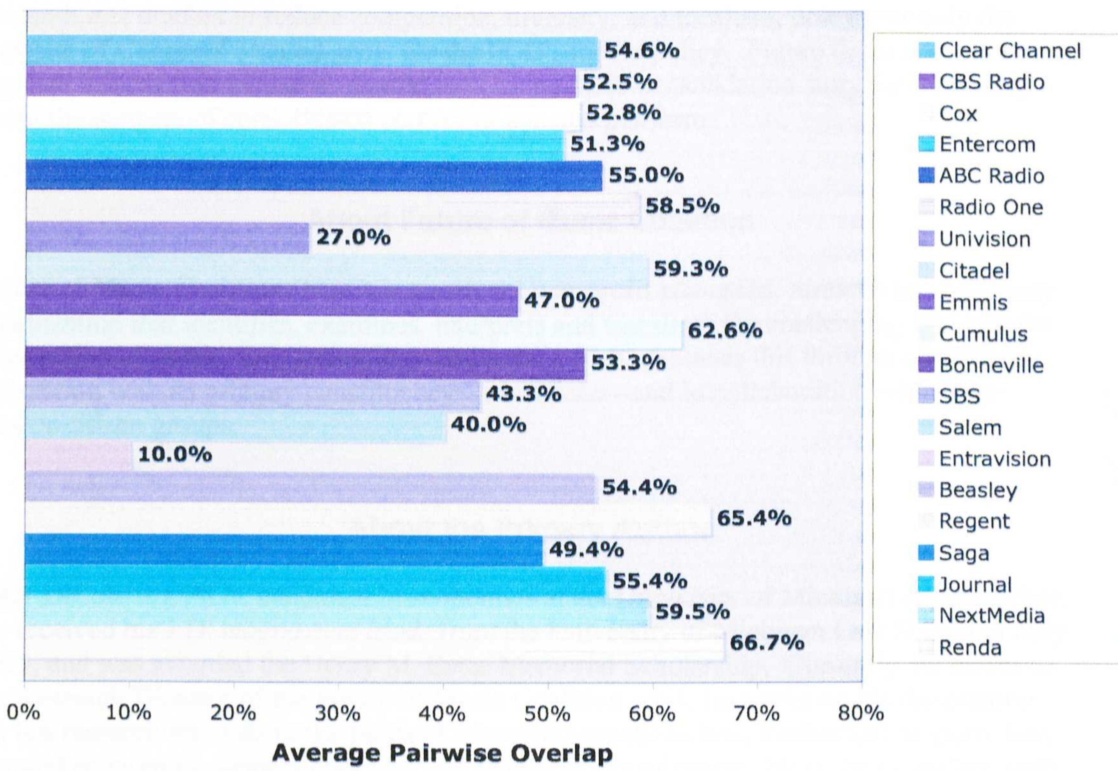
Figure 2: Number of Stations Owned in a Market by the Largest Owner in a Market, 1975-2005, Average by Market Group.



7. **More Markets with Owners Over the Local Cap:** The FCC's signal-contour market definition allowed companies to exceed local ownership caps in 104 markets.
8. **Increasing Local Concentration:** Concentration of ownership in the vast majority of local markets has increased dramatically.
9. **How Lower Caps Can Be Justified:** The FCC's local caps—in fact, even lower caps than the current caps—can be justified by analyzing how the caps prevent excessive concentration of market share.
10. **Declining Local Ownership:** The Local Ownership Index, created by Future of Music Coalition, shows that the localness of radio ownership has declined from an average of 97.1 to an average of 69.9, a 28 percent drop.
11. **Restoration of Local Ownership is Possible:** To restore the Local Ownership Index to even 90 percent of its pre-1996 level, the FCC would have to license dozens of new full power and low-power radio licenses to new local entrants and re-allocate spectrum to new local entrants during the digital audio broadcast transition.

12. **Homogenized Programming:** Just fifteen formats make up 76% of commercial programming.
13. **Large Station Groups Program Narrowly:** Owners who exceed or exactly meet the local ownership cap tend to program heavily in just eight formats.
14. **Only Small Station Groups Offer Niche Formats:** Niche musical formats like Classical, Jazz, Americana, Bluegrass, New Rock, and Folk, where they exist, are provided almost exclusively by smaller station groups.
15. **Small Station Groups Sustain Public-Interest Programming:** Children's programming, religious programming, foreign-language and ethnic-community programming, are also predominantly provided by smaller station groups.
16. **Format Overlap Remains Extensive:** Radio formats with different names can overlap up to 80% in terms of the songs played on them.

Figure 3: Average Pairwise Overlap Between Stations in the Same Format, By Owner, June 25-July 1, 2006.



17. **Individual Stations Use Highly Similar Playlists:** Playlists for commonly owned stations in the same format can overlap up to 97%. For large companies, even the average pairwise overlap usually exceeds 50% [see Figure 3].

18. **Network Ownership Is Also Concentrated:** The three largest radio companies in terms of station ownership are also the three largest companies in terms of programming-network ownership.

Conclusion

Radio consolidation has no demonstrated benefits for the public. Nor does it have any demonstrated benefits for the working people of the music and media industries, including DJs, programmers—and musicians. The Telecom Act unleashed an unprecedented wave of radio mergers that left a highly consolidated national radio market and extremely consolidated local radio markets. Radio programming from the largest station groups remains focused on just a few formats—many of which overlap with each other, enhancing the homogenization of the airwaves.

From the recent new-payola scandal to the even more recent acknowledgements that giant media conglomerates have begun to fail as business models, we can see that government and business are catching up to the reality that radio consolidation did not work. Instead, the Telecom Act worked to reduce competition, diversity, and localism, doing precisely the opposite of Congress's stated goals for the FCC's media policy. Future debates about how to regulate information industries should look to the radio consolidation story for a warning about the dangers of consolidated control of a media platform.

About Future of Music Coalition

Future of Music Coalition (FMC) is a national non-profit education, research and advocacy organization that identifies, examines, interprets and translates the challenging issues at the intersection of music, law, technology and policy. FMC achieves this through continuous interaction with its primary constituency—musicians—and in collaboration with other creator/citizen groups.

About the Primary Author

Peter DiCola is a Ph.D. candidate in economics at the University of Michigan in Ann Arbor. He received his J.D. *magna cum laude* from the University of Michigan Law School in May 2005, and was awarded the Henry M. Bates Memorial Scholarship. Currently, he serves as the Research Director of the Future of Music Coalition while he works on his dissertation. He has research interests in the fields of telecommunications law, intellectual property law, law and economics, labor economics, and industrial organization. He is the co-author, with Kristin Thomson, of *Radio Deregulation: Has It Served Citizens and Musicians?* (2002), which was cited by the U.S. Court of Appeals for the Third Circuit in *Prometheus Radio Project v. FCC.* He has also written a chapter, "Employment and Wage Effects of Radio Consolidation," for the scholarly collection *Media Diversity and Localism* (Lawrence Erlbaum and Associates, 2006).