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Licensees at Risk

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Licensees at Risk

What National Policies and Local Actions Can Help Stations Replace CPB Revenues?

by David Giovannoni

These are very scary times for all of us, but let us do our level best to save the values which have always underpinned public radio while we work to save public radio itself. Otherwise, whatever we save will be an empty shell.

—James B. Russell

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Public radio will be alive and thriving long after federal funding subsidies. Unfortunately some of its stations will not — at least, not as currently operated. Here we examine the characteristics that put stations at risk. We learn what can be done to keep them on the air, and what we might do to preserve and enhance their quality and non-commercial nature.

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Stations face many types of risk. Some risks elude analysis because they are simply too unpredictable. For instance a university, state, or municipal benefactor may reduce its support in tandem with the federal government, or it might make up the difference. A licensee may find it prohibitively expensive to continue public radio service, or it may redouble its commitment. The diversity of local situations deters any national effort to assess or coordinate managing these risks.

Yet one key component of risk can be assessed across licensees, is susceptible to national policy, and can be confronted locally outside of the political arena. This is ***the ability of a licensee to generate listener and underwriting support.*** Some licensees are not as well positioned as others to replace federal funds with this ***audience-sensitive income***. What traits unite these licensees? What local actions and national policies might help them prepare for and make this crucial transition?

This analysis of audience and revenue data suggests that stations at greatest risk are not necessarily those that serve few listeners (although many are); stations at greatest risk are not necessarily those that get a lot of CPB funding (although many are); and stations at greatest risk are not necessarily those that cost a lot to operate (although many are). Risk is a function of how these factors combine.

Risk characteristics transcend the sizes of both budget and market. Knowing the dynamics of risk will help public radio adjust — through local actions and national policies — in ways that will have the greatest positive impact on its service to the American public.

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Three Indicators of Risk

Some licensees are better positioned than others to replace federal funds with audience-sensitive income. This analysis examines three indicators of risk, each reporting a different facet of each licensee's susceptibility to reduced federal support.

The goal of the analysis is not to catalog particular licensees at greatest risk. Instead, the goal is to identify the characteristics that distinguish stations at higher risk from those at lower risk.

The ultimate goal is to help public broadcasters establish national policies and undertake local actions that will directly address the risk factors.

Risk Factor 1: Dependence on CPB

How much does a licensee currently depend on CPB revenues? One direct measure is the **amount** of money received from CPB. A better measure is the amount of CPB support as a **percentage** of each licensee's annual revenues.

Example: Two stations each receive \$50 thousand from CPB. Station A's total budget is \$250 thousand; CPB contributes 20 percent of its total budget. Station B's budget is \$500 thousand; CPB contributes only 10 percent of its revenues. By this definition Station A is twice as reliant on CPB. All else equal, it should be twice as difficult to replace 20 percent of a budget than to replace 10 percent.

This analysis uses financial data from CPB's annual financial surveys, audience data from Arbitron Nationwide studies, and coverage (potential audience) data from CPB's AreaPop system.

Fiscal years 1992 and 1993 are combined to reduce annual fluctuations. Licensees must have two years of complete financial data to be included. Audience data limit the analysis to licensees in the contiguous 48 states.

The 272 licensees included in this analysis operate 553 stations and repeaters and serve well over 95 percent of public radio's national audience.

The median licensee receives 15 percent of its budget from CPB; half depend more heavily, half less. Licensees range from a low of 4 percent to a high of 28 percent. Nearly one-in-ten rely on CPB for 20 percent or more of their budgets; they are the licensees at greatest risk.

Risk Factor 2: The Ability to Replace CPB Revenues with Development Revenues

Development activities — particularly listener support and business underwriting — are the most likely candidates to replace CPB revenues.

Risk Factor 2 is the ratio of CPB support to development income. The higher this ratio, the steeper the climb to replacing federal funding through development activities.

<i>Example:</i>	<i>Total Budget</i>	<i>CPB Revenues</i>	<i>Development Revenues</i>
<i>Station A</i>	<i>\$250,000</i>	<i>\$50,000</i>	<i>\$200,000</i>
<i>Station B</i>	<i>\$500,000</i>	<i>\$50,000</i>	<i>\$50,000</i>

Both stations must replace up to \$50,000. Station B currently earns \$50,000 through development activities; it must double its development revenues to make up the loss. Station A, however, needs only to raise an additional 25 cents on top of every development dollar now earned to make up its loss.

The median licensee would have to increase development income by about 50 cents per current dollar to replace CPB funds. But there is wide variation.

Five licensees undertake no development activities resulting in memberships or business underwriting. Another eight would have to raise more than five dollars for every dollar now attained by development to replace CPB funds. Indeed, all licensees in the highest-risk quintile must at least double their development income to replace CPB funds. They are at highest risk on this measure.

At the other extreme one licensee could raise another seven cents on its development dollar and be done with CPB. More typically, stations

on this safer end will require a 12 to 35 cent development boost to replace CPB funds.

Note that a higher investment is required to generate a development dollar than a CPB dollar. Any money saved from representation or reporting to CPB will be minuscule in comparison to additional premiums, member support, underwriting pitches to businesses, and other development activities.

Risk Factor 3: Efficiency of Audience Service

A third risk indicator asks how efficiently each licensee carries out its service. How much does it cost to serve one listener for one hour? The greater the expense per listener-hour, the more difficult it will be to rely on audience-sensitive income sources.

Example:

	Annual Budget	Annual Lsnr-Hours	Pennies per Lsnr-Hour
Station A	\$250,000	5,000,000	5
Station B	\$500,000	5,000,000	10

Both stations serve the same number of listeners on average (5 million listener-hours per year is 760AQH persons through the broadcast day). Because Station B's annual budget is twice as large as Station A's, it spends twice as much to serve one person for one hour. This relative inefficiency puts it at greater risk.

The median public radio operation spends about 6 cents to serve one listener for one hour. Five licensees exceed a dollar but they are atypical; most stations in the highest-risk quintile spend in the 13 to 40 cent range.

A mixed bag of seven licensees spends less than two cents per listener hour. Operations in the most efficient quintile spend less than 3.5 cents.

Composite Risk Factor

Although these three risk factors may seem highly related, analysis shows they are not. Each reports a different aspect of risk. A composite risk factor takes all three situations into account.

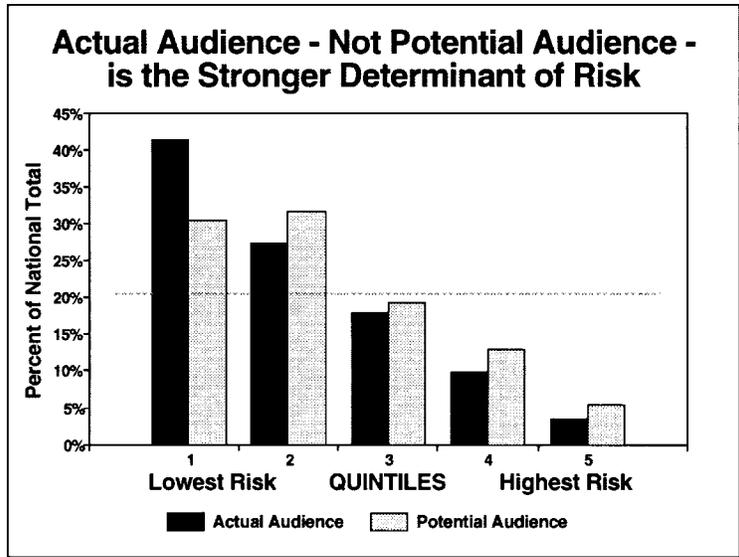
Example: Station A is more reliant than Station B on CPB funds. However, Station B will find it more difficult to replace federal funds with underwriting revenues, and its current cost of serving one listener for one hour is twice as high. Because it is at higher risk than Station A on two of the three risk factors, it is at higher risk overall. Note that it is the larger of the two stations and that it must replace the same amount of CPB support as Station A.

Licensees are ranked into five groups (quintiles) based on their level of composite risk. Each group encompasses 20 percent of public radio's licensees. That's where the similarities end.

Range of Three Discrete Risk Factors Among Public Radio's Licensees			
Risk Quintiles	Dependence on CPB Percent of Licensee's Annual Revenues	Ability to Replace CPB Revenues with Development Revenues Ratio of \$CPB to \$Development	Efficiency of Audience Service Pennies per Listener-Hour
Lowest Risk	1	4.3% - 13.1%	.7¢ - 3.4¢
	2	13.1% - 14.6%	3.5¢ - 5.3¢
	3	14.6% - 15.9%	5.3¢ - 7.5¢
	4	15.9% - 17.1%	7.6¢ - 12.5¢
Highest Risk	5	17.8% - 27.5%	12.9¢ - 569.3¢
Median Licensee	15.2%	.48	6.2¢

*Excludes the five licensees that do not undertake development activities.

Risk is more strongly correlated with actual audience (dark bars) than with potential audience (shaded bars). The 20 percent of licensees in the lowest risk quintile account for 31 percent of public radio's coverage, yet they serve 41 percent of its national audience. The 20 percent of licensees in the highest risk quintile account for 5 percent of public radio's coverage and serve only 3.5 percent of its national audience.



Risk is very much a matter of coverage. *The smaller the number of people who can hear a station, the greater its risk.*

However, a station's ability to turn potential listeners into actual listeners goes well beyond coverage. Even when controlling for coverage, stations at lower risk are significantly better at serving listeners than stations at higher risk.

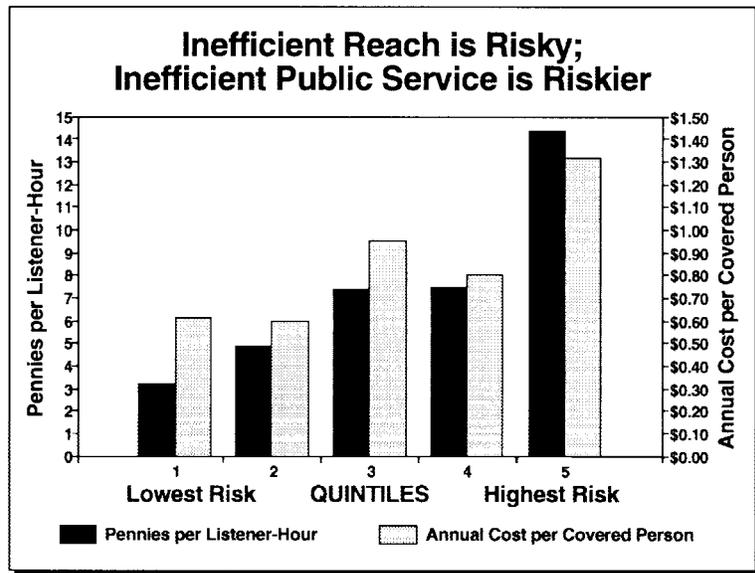
Actual audience — not potential audience — is therefore the stronger determinant of risk.

We see the same result when framing the cost of operating a service in terms of how many people it covers and how many are actually listening. So again, *although smaller potential audiences do increase risk, a lower competence at serving listeners increases risk even faster.*

A licensee's level of competence at serving listeners can transcend both the size of its market(s) and budget of its station(s). So while risk is associated with market size and budget, it is not caused exclusively by either factor.

Licensees in the lowest-risk quintile spend, as a group, about 60 cents per year to get a signal to a potential listener (shaded bars). The highest-risk licensee group spends about \$1.30, or about twice as much per person.

But licensees in the lowest-risk group are much more efficient at serving actual listeners (dark bars). They spend 3 cents per listener-hour compared to the highest-risk group's 14 cents.



Licensees at highest risk can't count solely on additional development activities to sustain their operations. They currently are able to generate between one and two cents per listener-hour — just like stations in other risk groups.

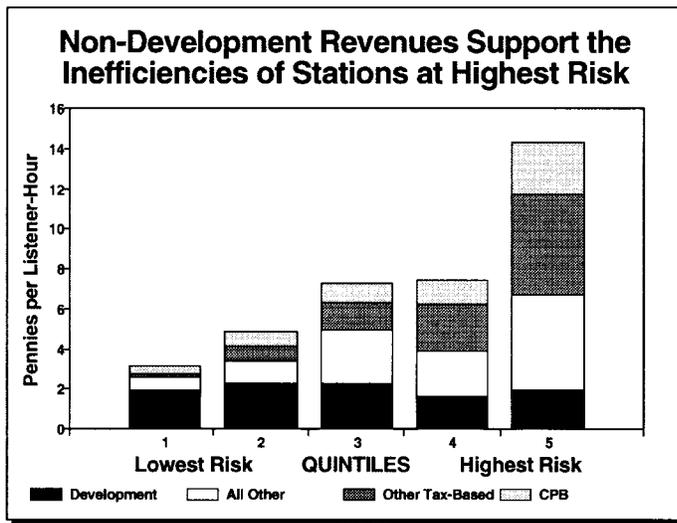
Any effort to increase the efficiency with which stations turn listeners into members, and businesses into underwriters, will benefit all licensees — regardless of their current level of risk.

The key to lowering risk is to reduce the cost of serving one listener for one hour. To

do so a licensee would need to increase its listener service, reduce its operating expenses, or both.

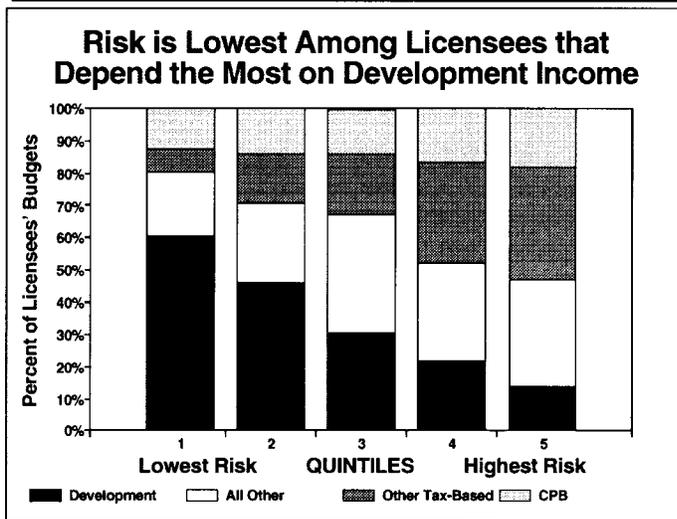
The magnitude of this challenge is daunting. Stations at highest risk would have to **double their audience and halve their expenses** to come into line with those at lowest risk. However, specific actions can further this goal and they are discussed in the following sections.

The bottom line is clear: *the type of risk treated in this study is lowest among licensees that have forged the tightest links between their survival and the service they provide to the public.*



Licensees across all risk groups generate between one and two cents per listener-hour in underwriting and listener income. Therefore, a licensee's ability to generate audience-sensitive income is not associated with risk when its level of audience service is taken into account.

What does expose a licensee to risk is a high cost of service. Those at highest risk spend 14 cents to serve one listener for one hour; those at lowest risk spend 3 cents (top graph).



CPB certainly contributes more per listener-hour for stations at highest risk. However, the risk lies not in CPB's withdrawal, but in the withdrawal of local support (bottom graph).

The highest-risk licensees rely heavily on non-federal institutional supporters (colleges and universities, state and local governments, and so forth). They are not at risk as long as these supporters continue their funding. But they will face extreme risk if forced toward greater dependence on audience-based revenue sources.

Addressing Development Issues

The previous column detailed how public radio might become better at converting listeners into supporters and businesses into underwriters. And as this analysis shows, developing a shared ability to generate audience-sensitive income is crucial to all public stations—whatever their standing on other issues of risk.

Inefficiencies And Public Policy

This analysis finds that inefficiencies are strongly related to risk. It presents them as descriptors—not as judgements.

Finding inefficiencies at a station certainly doesn't call for the immediate cessation of its operation or of its tax-based subsidy. Indeed, government at all levels subsidizes inherently inefficient services for the good of certain communities.

Community Service Grants, for instance, are structured to maximize the reach of public radio. In their endeavor to achieve CPB's federal mandate to deliver a public radio signal to every American, CSGs support inherently inefficient operations in the smallest markets and remotest places.

The intent of this policy is not unlike past rural electrification efforts or ongoing highway maintenance subsidies, wherein a public good is delivered to areas least able to support it themselves.

Although current CPB policies recognize coverage inefficiencies, they are essentially blind to *audience-service* efficiencies. The cost of serving one listener for one hour is strongly affected by the effectiveness of a station's programming; yet CPB considers programming only to the extent that it is non-duplicative, not to the extent that it is providing an effective public service. The addition of an audience-sensitive component to licensee grants is currently under system discussion at the time of writing.

Cooperation seems to hold one key. In the same way that commercial reps sell time on local stations to regional and national advertisers, so might a public radio “rep” or cooperative make viable a suite of stations — none of which, on its own, could offer the critical audience mass to interest a potential underwriter.

Indeed, the ability of a national client to underwrite specific types or “cohorts” of stations may extend the viability of the cohort in public radio.

It may even make certain programming viable. For instance, an underwriter might support locally-produced jazz by placing spots in select local programming — just as the Lila Wallace Fund targets its support on NPR.

Addressing Coverage Inefficiencies

Licensees at highest risk are relatively inefficient at reaching potential listeners with their signals. There are many reasons for this, not all of which are under the licensees' direct control.

Inefficiency occurs when the cost of accomplishing something—like getting the signal to a person, or serving one listener for one hour—is high in relation to other stations. Inefficiency is simply the cost divided by the outcome, and as such it can be reduced either by lowering the cost or increasing the outcome.

Unfortunately, certain costs are inherent to running a radio station: staffing, operations, maintenance, programming, and so forth. In addition, certain geographic and technical restrictions apply to reaching listeners. A signal covers only a specific area. There's not much a station can do when its maximum permitted signal covers only a small area, or when the number of people living in that area is small.

While cost-cutting and signal-enhancing steps might be taken on the margins, it simply may no longer be feasible for small market and limited reach stations to continue operating as stand-alone entities without federal subsidies.

If the operators of public radio stations wish to decrease their vulnerability to federal cutbacks, they can start by increasing the potential audience under their signals. One whimsical solution is to move all transmitters into major markets. A more realistic approach is to increase—or at least maintain—the number of transmitters and programming options in the largest markets.

A bolder tactic would have public radio licensees forming alliances that spread management, programming, development, and other operational costs over a number of transmitters, thereby effectively increasing the population under their collective signals while reducing costs.

Sheer economic efficiencies have encouraged a growing movement toward multi-transmitter operations in the last ten years. Significant reduction in federal support is likely to accelerate this trend.

CPB might further accelerate the trend by adopting policies that encourage mergers, spur the formation of management groups responsible for the operation of multiple stations for multiple licensees, or even make possible outright purchase of certain public stations by others.

Addressing Audience Service Inefficiencies

Even controlling for coverage, stations at lower risk are much better at turning people who *can* listen into people who *do* listen.

Programming is the key. Over the last 20 years public radio has acquired a suite of skills to help it deliver significant programming to significant audiences. The licensees least efficient at serving listeners tend not to have applied these skills, and stand to significantly lower their risk from the adoption and application of these techniques.

Experience shows that this doesn't "just happen." It often requires licensees and managers to rethink their definitions of public service.

On one hand, the shifting funding structure will naturally bring great pressure on these licensees to adopt more effective programming techniques. On the other, national policies can reward such thinking and positive action.

Nationally-available programming may play a larger role in making audience service more efficient. The "produce-once, distribute to many" economics are inescapable.

Indeed, reduced federal funding may make local programming unaffordable at many stations. In some cases this will be a terrible loss. In others it will make a positive difference.

For instance, there is little that's "local" about the *selection* of classical music (although its *presentation* should sound as local as possible). A service that maintained the library, chose the cuts, and paid the talent could be far less expensive than the aggregate cost of repeating these activities across dozens of licensees. The cost per station per program hour could be reduced significantly. And if this programming is better than the local production it displaces, audience service may very well increase.

In the same way that high cost, high quality, high public service news programming is only affordable through the aggregate resources of networks, so might "needle-drop" music programming become affordable to many through similar aggregation of resources. Public radio's challenge will be to employ the best talent — not just the most available talent — in these highly-leveraged positions.

Indeed, public broadcasters must undertake all of these cost-cutting, efficiency-enhancing, survival-ensuring tactics in the service of public radio's mission. Serving significant audiences with significant programming—programming that is *worth* listening to and *worth* supporting—is the reason we will fight so hard to overcome these risks and preserve the enterprise.

David Giovannoni heads Audience Research Analysis, an independent firm specializing in radio audience research. The author is indebted to Tom Thomas and the Station Resource Group for their generous sharing of ideas and data for this analysis.

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