WEEKEND EDITION

It's showtime for media deals

Radio lessons fuel debate over control of TV, newspapers

By David B. Wilkerson & Russ Britt, CBS.MarketWatch.com

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LOS ANGELES (CBS.MW) -- On a frigid winter night last year, the citizens of Minot, N.D., learned firsthand about media consolidation.

A train carrying anhydrous ammonia derailed early on Jan. 18, 2002, leaking more than a quarter-million gallons of the toxic substance. Town officials wanted radio stations to warn the 37,000 residents to stay indoors to avoid fumes.

Six of the town's seven commercial radio stations had been gobbled up by Clear Channel Communications (CCU: news, chart, profile) in the years leading up to the incident. Five were playing automatic taped feeds, and dispatchers couldn't get through to the sixth, KCJB AM 910, the primary channel for emergency broadcasts.

Hundreds of people experienced irritated lungs and eyes. A dozen were hospitalized.

With the Federal Communications Commission set to ease limits on media ownership Monday morning, proponents say it's the right approach for a free-market society and a move that's necessary to keep smaller stations alive. Opponents say incidents like the Minot spill --

while that's an extreme example -- highlight the dangers of media consolidation.

"We would have had a better chance of getting the information out quicker" with a more diverse group of radio stations, Minot Mayor Curt Zimbelman said. "I can't say for sure it would have been any better, but it sure seemed like it hampered us."

Andrew Levin, Clear Channel's senior vice president for government affairs, said Minot officials had not properly activated an emergency system that would have automatically cut into programming.

Since limits on radio-station ownership were relaxed under the 1996 Telecommunications Act, Clear Channel and other large broadcasters have bought hundreds of stations. Clear Channel now leads the sector with 1,184 radio stations nationwide.

Consolidation opponents say corporate ownership reduces the number of editorial voices available to a community and can lead to censorship.

The most notable recent example came from Cumulus Media (CMLS: news, chart, profile), which banned songs by the Dixie Chicks from its more than 40 country music stations after a member of the popular band criticized President Bush at a London concert. Cumulus officials say they banned the group at the behest of listeners and relented shortly afterward. Detractors say a single station owner shouldn't have that kind of power.

Deregulation supporters say such incidents are the exception, not the rule. Clear Channel's Levin said the company's massive consolidation has improved local programming by keeping alive a number of stations that would have otherwise folded.

He says Clear Channel's dominant position leaves plenty of room for competition because his company accounts for only 20 percent of the sales and 9 percent of the stations in the U.S. radio industry.

"That simply does not a monopoly make," he said.

Big changes for TV, newspapers

In Monday's vote, the FCC will likely allow broadcasters to own TV stations that reach 45 percent of U.S. households, up from 35 percent, own three stations in the largest markets (up from two) and own a TV station and newspaper in the same town.

While the ruling is not expected to unleash a flurry of acquisitions, some media companies are expected to make small purchases and swaps to increase their presence in key markets.

Merrill Lynch analyst Lauren Rich Fine, who produced an extensive report on the possible effects of consolidation, says previous deregulation has had little effect on how media companies operate.

"You can find markets where things have gone too far, but that's the exception, not the rule," Fine said.

Deregulation opponents want the FCC to delay the move toward further consolidation and study the lessons learned from radio.

"We just need to take a deep, deep breath and start from scratch," said Michael Bracy, government relations director for the Future of Music Coalition.

Boosting the footprint

With broadcasters allowed to own stations in more markets, deregulation critics say local news viewers will end up with fewer points of view.

"If all of the large stations in the largest markets are owned by the television networks, as opposed to by other independent broadcasters, then we're presumably going to get, probably, a homogeneity of opinion," said Fritz Messere, a professor of communications at State University of New York Oswego.

Ken Ferree, chief of the FCC media bureau, says that issue is not a reason for the commission to change its plans.

"That would get us into First Amendment problems right away, if we tried to regulate viewpoints under the guise of regulating industry structure," Ferree said. "I don't think we'd fool a lawyer for a second with that one, and it would not survive in court."

Listen: Excerpt from a CBS MarketWatch.com interview with Ferree

The networks argue that their owned-and-operated stations have served communities well, offering more hours of news than were broadcast under previous owners.

At the six original stations Fox (NWS: news, chart, profile) bought in 1986, it has boosted the hours of local news per week from 23.5 hours to 195.5 hours, network executive Tom Herwitz told a February public hearing in Richmond, Va.

Local control at issue

Vincent Young is chairman of Young Broadcasting, a group of 11 stations in markets such as San Francisco, Green Bay, Wisc., and Lansing, Mich. He said the number of local news hours aired by a network-owned station says nothing about its relative value to the community.

Young points to his Green Bay ABC affiliate, which competes against a station owned and operated by CBS.

"We beat them in every newscast, sign-on to sign-off, Monday through Sunday. We just kill them," Young said.

The concern is not just about news, Young said, but about all of the programming a network-owned station might air.

"The stations have to run what the networks send them, and there's no localism about it," Young said. "Much to the networks' chagrin, we run what local viewers want to see, which isn't, all the time, what the networks want to send down the pipe."

Affiliates recently chose not to air episodes of NBC's "Fear Factor" and Fox's "Temptation Island" in Missouri and North Carolina, respectively, because of content.

NBC station president Jay Ireland said independently owned affiliates pre-empt programming about as often as network-owned stations do. He said most NBC affiliates pre-empt about half the total number of network programming hours they are allowed to replace under their contracts with the network.

Ireland says caps on ownership can hurt efforts to diversify the media. He said NBC's 2002 acquisition of Spanish-language network Telemundo gave it a better chance to compete against the dominant player in the Spanish-language market, Univision Communications (UVN: news, chart, profile).

"Yet under current rules NBC will soon be constrained by the national cap and will be unable to continue expanding the Telemundo station group," Ireland said. The cap makes no distinction between NBC and Telemundo programming.

NBC now owns stations that reach about 34 percent of U.S. households, just under the current cap of 35 percent. An increase to 45 percent will give it room to grow its ownership of both NBC and Telemundo affiliates.

Eight voices

Under current FCC rules, a company can own more than one TV station in a market only if there are seven other station owners there. The goal is to ensure that each community has eight separate editorial voices.

But the District of Columbia Court of Appeals, ruling in a suit brought by Sinclair Broadcast Group (SBGI: news, chart, profile), said the commission's "eight-voices test" was too arbitrary. The court said the rule had to either be clarified or thrown out.

The new regulations restate that rule and reduce the number of required voices to six. In some markets, that will make it possible for a company to own three stations.

Ferree says the record shows that dual ownership has not been a detriment to the larger markets where it already exists, such as Los Angeles, New York, San Francisco and other major cities.

"In many cases, they end up being very good things from a competition perspective, because typically it's a larger, more popular station buying a smaller, less popular station," he said. "And we've seen the ratings for the bought station go up in most cases, substantially."

This is an issue where networks and large independent station groups see eye to eye. Station owners say they need the flexibility to offset rising programming costs and fight the increasing fragmentation of their audiences and consolidation in the cable industry.

They even suggest that free, over-the-air TV could be jeopardized if they don't get sufficient relaxation of the rules.

The National Association of Broadcasters wants the FCC to relax the rules even more, making it easier for one company to own multiple stations in a market. It also wants a change in the rule that stops a company from owning more than one of the four top-rated stations in a market, but that's not part of the FCC proposal.

Michael Copps, one of two Democratic FCC commissioners, is unmoved by NAB's requests.

"I don't see the economic imperative for that. All the testimony I hear is that most of these (large market) broadcast stations are doing pretty well, that the margins are anywhere from 30 to 40 to 50 percent," he said. "What you have to show me to justify (relaxation of duopoly rules) is how that serves the public interest."

Listen: Copps in an interview with CBS MarketWatch.com

In print and on the air

On the FCC's expected move to allow "cross-ownership" of a newspaper and a station in the same town, some newspaper publishers say owning a TV station will assure their survival amid ever-increasing competition from the Internet, television, radio, cable and satellite services. They also say they can improve the quality of news on stations they acquire.

They cite a February study by the Project for Excellence In Journalism, which said stations "in which the parent company also owns a newspaper in the same market-tended to produce higher quality newscasts."

Merrill Lynch's Fine said newspaper sales, or swaps, could be the most active arena after the FCC ruling. Media General (MEG: news, chart, profile) says it has several deals in the works (see interview with Media General's CEO), and Fine believes the New York Times Co. (NYT: news, chart, profile) is poised to make deals of its own.

Some deals already have taken place in anticipation the commission would relax the rule. Gannett (GCI: news, chart, profile) bought the Arizona Republic in Phoenix from Central Newspapers in 2000 even though it already owned KPNX, a local NBC-affiliated television station. Gannett didn't even seek a waiver; it just went ahead with the Central deal.

"We believe the marketplace has changed," said Tara Connell, spokeswoman for McLean, Va.-based Gannett.

Copps contends that newspapers already operate at an advantage in many cases and don't need further assistance. Most cities that had two or more newspapers in town are now down to one. If newspapers are allowed to buy TV stations, "if not a monopoly, that's a duopoly, or an oligopoly or whatever you want to call it," Copps said. "It's highly concentrated."

Messere says the one-newspaper town is the result of changing habits on the part of American consumers -- commuting patterns, more TV viewing and other behavior.

"We're already saying, if we don't give newspapers an opportunity to take marketplace efficiencies ... then in the long term, what's happening is that they lose their readership, they're going to lose revenue, and they're going to go out of business anyway," Messere said. "Only three out of every 10 Americans read newspapers."

Radio's lessons

Still, the lessons of radio loom. The trouble is that they're hard to read.

Harold Haugstad, Minot's fire chief, said the system has been revised so that the fire station can cut into programming on one channel if there is a dire emergency at odd hours.

"We feel like we've addressed it," Haugstad said.

Copps contends that music on radio stations has become "homogenized" and local news coverage has suffered.

"We already know that since the caps were loosened in 1996, we have 34 percent fewer radio station owners than we had in 1996," Copps said.

Ferree says the radio example proves that deregulation was needed.

Before the 1996 act, he said, "there were stations that were losing money, lots of money. The '96 Act came along, and yes, there's been some significant consolidation after the fact, but when you start talking about these purported harms -- I know my brother-in-law doesn't like what's on the radio, but my wife does."

David B. Wilkerson is a reporter for CBS.MarketWatch.com in San Francisco.
Russ Britt is the Los Angeles Bureau Chief for CBS.MarketWatch.com.

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