Future of Music Coalition
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Radio Deregulation: Has It Served Citizens and Musicians?

EXECUTIVE SUMMARY

This report is an historical, structural, statistical, and public survey analysis of the effects of the 1996 Telecommunications Act on musicians and citizens.

Each week, radio reaches nearly 95 percent of the U.S. population over the age of 12 (see Chapter 5, p. 69). But more importantly, radio uses a frequency spectrum owned, ultimately, by the American public. Because the federal government manages this spectrum on citizens' behalf, the Federal Communications Commission (FCC) has a clear mandate to enact policies that balance the rights of citizens with the legitimate interests of broadcasters.

Radio has changed drastically since the 1996 Telecommunications Act eliminated a cap on nationwide station ownership and increased the number of stations one entity could own in a single market. This legislation sparked an unprecedented period of ownership consolidation in the industry with significant and adverse effects on musicians and citizens.

What Did the Telecommunications Act of 1996 Aim to Accomplish?

The FCC is mandated by Congress to pursue the "core public interest concerns of promoting diversity and competition." [1] According to a 1996 speech by Reed Hundt, the FCC Chair who led the Commission during the Act's passage, the public had much to gain from the legislation:

> "We are fostering **innovation** and **competition** in radio. …The Commission's goal in this proceeding is to further competition, just as we seek to promote competition in other communications industries we regulate. But in our broadcast ownership rules we also seek to promote **diversity in programming** and **diversity in the viewpoints** expressed on this powerful medium that so shapes our culture." [2]
> [emphasis added]

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[1] FCC Notice of Proposed Rulemaking, November 8th, 2001.

[2] "The Hard Road Ahead," Speech delivered by FCCChairman Reed Hundt, December 26, 1996. Appendix I of Patricia Aufderheide's, *Communications Policy and the Public Interest*, Guilford Press, 1999, p. 289.

This report supplies a comprehensive analysis of statistical radio industry data and a survey of public views on radio, raising serious concerns about the state of commercial radio. Deregulation has not met the aspirations and stated goals of Congress and the FCC.

Methodology for Statistical Analysis

Using data from BIA Financial Networks, we analyzed changes in the radio industry's structure from 1996 to 2002. We recorded the number of station acquisitions and the number of parent companies over time, and then focused on the holdings of the large parents. We estimated market shares nationwide using revenue estimates from BIA and Arbitron listenership estimates contained in the BIA database.

We also estimated market share by geographic market and programming format.[3] We used three classifications to categorize formats: two based on BIA data and one based on information from an established trade journal, *Radio and Records*. We employed two measures of choice in the radio programming available to consumers: “format variety,” which refers to changes in the number of formats available per market, and "format redundancy,” which refers to the phenomenon of one parent owning two or more stations with the same format, in the same market.

As one of the relevant labor forces in the radio industry, we studied the effects of deregulation on musicians. Using chart data from 1994, 1998, and 2002 published in *Radio and Records* and another industry publication, *Billboard Airplay Monitor*, we measured overlap in the songs played by different music formats. Also, using a classification method for record labels that we developed, we calculated the percentage of songs on the radio charts released by the recording industry’s six (now five) major label conglomerates.

Methodology for Public Opinion Survey

The Future of Music Coalition commissioned a public opinion survey to measure citizens’ satisfaction with commercial radio. From May 13, 2002 to May 20, 2002, Behavior Research Center, a private research firm, conducted in-depth telephone interviews with a random sample of 500 respondents throughout the U.S., aged 14 years or older. The survey asked respondents fifteen questions about radio designed to measure listening habits and opinions on available programming and their views on issues such as radio station ownership and “pay-for-play” practices.

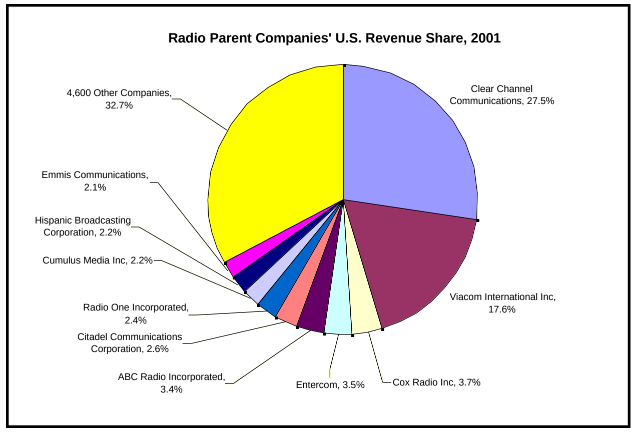
Based on data from the total sample, one can say with 95 percent confidence that the range of error attributable to sampling and other random effects is 4.5 percentage points.

3 Formats – such as Top 40, Country, News, or Talk – describe the type of music, discussion, or information offered by radio stations.

Major Findings

EVIDENCE OF CONSOLIDATION

1. **Ten parent companies dominate the radio spectrum, radio listenership and radio revenues.** Deregulation has allowed a few large radio companies to swallow many of the small ones. Together these ten parent companies control two-thirds of both listeners and revenue nationwide. Two parent companies in particular, Clear Channel and Viacom, control 42 percent of listeners and 45 percent of industry revenues (see Chapter 3, pp. 24-25).



2. **Consolidation is particularly extreme in the case of Clear Channel**. Since passage of the 1996 Telecommunications Act, Clear Channel has grown from 40 stations to 1,240 stations -- 30 times more than congressional regulation previously allowed. No potential competitor owns even one-quarter the number of Clear Channel stations. With over 100 million listeners, Clear Channel reaches over one-third of the U.S. population (see Chapter 3, p. 24).

3. **Oligopolies control almost every geographic market.** Virtually every geographic market is dominated by four firms controlling 70 percent of market share or greater. In smaller markets, consolidation is more extreme. The largest four firms in most small markets control 90 percent of market share or more. These companies are sometimes regional or national station groups and not locally owned (see Chapter 3, pp. 31-35).

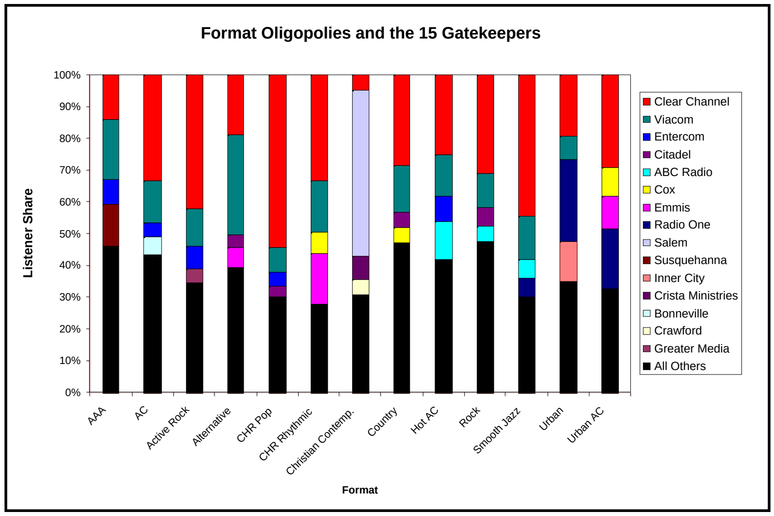
4. **Virtually every music format is controlled by an oligopoly**. In 28 of the 30 major music formats, nationwide, four companies or fewer control over 50 percent of listeners (see Chapter 3, pp. 36-39).

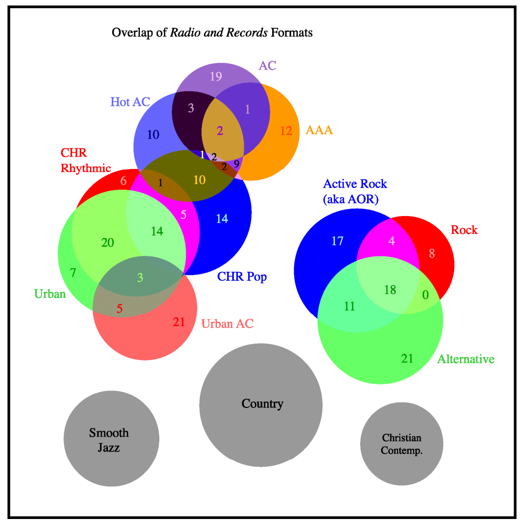
EFFECTS OF CONSOLIDATION

5. **A small number of companies control the news Americans hear on the radio**. Four parent companies control two-thirds of the nation's News format listeners. Two such firms, Viacom and Disney's ABC Radio, also control major television networks (see Chapter 3, p. 38).

6. **Format consolidation leads to fewer gatekeepers**. A small number of companies control what music is played on specific formats. Coupled with a broad trend toward shorter playlists, this creates few opportunities for musicians to get on the radio. Further, overwhelming consolidation of these formats deprives citizens the opportunity to hear a wide range of music (See Chapter 4, pp. 61-63).

7. **Increased format variety does not ensure increased programming diversity**. From 1996 to 2000, format variety – the average number of formats available in each geographic market – increased in both large and small markets (see Chapter 3, p. 44-45). Yet format variety is not equivalent to true diversity in programming. Formats with different names have similar playlists. Analyzing data from charts in *Radio and Records* and *Billboard Airplay Monitor*, revealed considerable format homogeneity – playlist overlap between supposedly distinct formats: as much as 76 percent (see Chapter 4, p. 56). Furthermore, radio companies regularly operate two or more stations with the same format in the same geographic market. Such format redundancy undermines a common economic assumption that station owners with multiple stations in a market would program differently, in order to avoid competing against themselves. We found 561 instances of format redundancy nationwide, amounting to massive missed opportunities for format variety, which might in turn enhance programming diversity (see Chapter 3, p. 50).





8. **A "twin bottleneck" limits musicians' access to radio**. Radio's oligopolies interact with a five-company recording industry oligopoly, hurting musicians and citizens. Eighty to 100 percent of radio charts are dominated by songs released by the five (previously six) major label conglomerates. This "twin bottleneck" makes access to the airwaves even more difficult for musicians – and reduces choice for citizens (see Chapter 4, pp. 63-67).

CITIZENS' VIEWS ON RADIO AND CONSOLIDATION

9. **Radio reaches a large portion of adults on a weekly basis, but time spent listening is at a 27-year low**. In September 2002, Duncan's American Radio reported that the "average persons rating" – the percentage of the U.S. population listening to the radio in any average quarter hour – has experienced a near-17 percent drop in listening over the last 13 years.

10. **Citizens favor preservation of independent and locally owned stations**. Eighty percent of survey respondents support action to prevent further consolidation. Thirty-eight percent would go

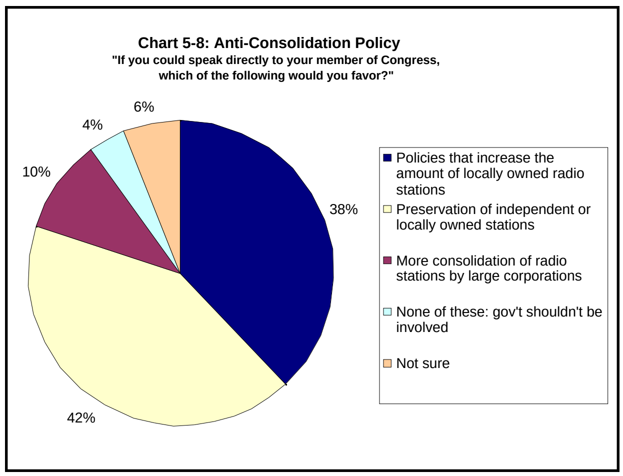
a step further, supporting congressional action that encourages more local ownership of radio stations (see Chapter 5, p. 81-82).

11. **Radio listeners want less advertising**. Industry wide, the amount of advertising per hour has grown significantly over the last several years. A 2000 study found that advertising "clutter" had increased six percent nationwide in 1999, though by 2000 the amount of ads had leveled off. [4] When asked about the quantity of ads, 60 percent of survey respondents said that radio has too much advertising (see Chapter 5, p. 85).

12. **Radio listeners want to hear a wider range of music that includes local musicians**. Twenty-five percent of survey respondents said they hear too little of the music they like; 38 percent said that local artists are underexposed on the radio (See Chapter 5, p. 85).

13. **Radio listeners want longer playlists with more variety**. Seventy-eight percent of those surveyed would rather hear programming from a longer playlist – one with more songs – than from a shorter one. Fifty-two percent of those surveyed said that less repetition, more new music, or more local acts would most make radio more appealing (See Chapter 5, pp. 76-77).

14. **Citizens support action to stop "indie" promotion**. Sixty-eight percent of those surveyed support congressional involvement to curb the use of payola-like systems that use third parties to let record companies pay radio stations for airplay (see Chapter 5, pp. 80-81).



15. **Citizens support efforts to grow low power FM radio**. Seventy-five percent of survey respondents said they would welcome low power radio stations into their communities (see Chapter 5, p. 82-84).

Conclusions

The radical deregulation of the radio industry allowed by the Telecommunications Act of 1996 has not benefited the public or musicians. Instead, it has led to less competition, fewer viewpoints, and less diversity in programming. Deregulation has damaged radio as a public resource.

This research makes an overwhelming case that market consolidation intended by the act does not serve the diverse needs of Americans citizens. Substantial ethnic, regional and economic

[4] "Study Finds Fewer Ads on Radio," *Billboard Magazine*, May 5, 2001 and Kathryn Kranhold, "Advertising on Radio Increases 6%; San Francisco area sees 20% Rise", *Asian Wall Street Journal*, April 13, 2000.

[5] Comments at the Conference of the National Association of Broadcasters, September 13th, 2002.

populations are not provided the service to which they are entitled. The public is not satisfied and possible economic efficiencies of industry consolidation are not being passed on to the public in the form of improved local service.

In September 2002, the FCC announced a period of open review of the current ownership rules, suggesting it may consider further deregulation of the radio industry. FCC Chairman Michael Powell described this as “the most comprehensive undertaking in the area of media ownership in the commission's history.” We welcome this review period and offer these findings to the debate as cautionary data. “Open review” should not imply open season for increased corporate media control. Facilitating continued consolidation will speed the unfolding tragedy of our rapidly closing public airwaves. The FMC sincerely believes that deregulation should not receive a further endorsement from Congress or the FCC.

About the Future of Music Coalition

The Future of Music Coalition is a Washington, DC-based not-for-profit collaboration between members of the music, technology, public policy and intellectual property law communities. The FMC seeks to educate media organizations, policymakers and the public about music/technology issues while bringing together diverse voices to develop creative solutions to challenges in this space. The FMC also aims to identify and promote innovative business models that will help musicians and citizens benefit from new technologies.

About the Primary Authors

Kristin Thomson is a community organizer, social policy researcher, entrepreneur and musician. After graduating with a BA in Sociology from Colorado College in 1989, Kristin moved to Washington, DC where she worked for two years as a national action organizer for the National Organization for Women. She left NOW in 1992 to make a full-time commitment to Simple Machines, an independent record label she co-ran with Jenny Toomey. In 2001, Kristin graduated with a Masters in Urban Affairs and Public Policy from the University of Delaware. Currently, she manages research projects for the FMC and works for the DC-based public relations firm Bracy Tucker Brown.

Peter DiCola is a graduate student pursuing a law degree and a PhD in economics at the University of Michigan in Ann Arbor. His research interests include labor economics, public finance, industrial organization, and intellectual property law. Peter’s interest in the radio and music industries began at college, where he spent a year booking independent rock, jazz and electronic music at the Terrace Club in Princeton, NJ. He also worked as a DJ at WPRB-Princeton for three years. Before entering graduate school, Peter was a consultant with Mercer Management Consulting in Chicago. His projects there involved organizational design and statistical survey research. Peter joined the FMC in 2000 to study the effects of technological change on the musicians’ labor market. He currently serves as Director of Economic Analysis for the FMC in addition to his graduate studies.