Management

- Higher station prices mean greater pressures to turn profits
- Conglomerates will dominate radio ownership
- Conglomerates are more demanding about station performance
- Local programming may become obsolete

The Six Million Dollar Manager, Part II

by Kevin B. Sweeney

In Part I of our periodic serialization of **Kevin B. Sweeney**'s "The Six Million Dollar Manager," the author, a key figure in **RAB**'s development and a noted consultant, examined the investment potential of radio. This week, a more detailed look at radio station profitability and a scenario for radio in 1984. As mentioned previously, this two-year-old booklet contains a few outdated numbers, but its overall vision remains as insightful as when first published.

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The unadorned fact is that a radio station can be a profit machine.

It requires very little of what other major communications media require so much of.

There is no fleet of trucks to transport its messages, nor warehouses to store its raw materials, nor vastly expensive machinery to process its messages; all of which factors make it next to impossible to operate newspapers profitably except in a monopoly situation.

Radio is people-intensive but the unions are not and probably will not ever be very troublesome.

Radio can command a P/E ratio of 15 in many cases while some big NYSE companies will strain maintaining a P/E of eight to nine.

Or how much is a station worth that has cash flow of $1.5 million?

So, **KIOI** and **KHOW** and many of the other stations that will go for prices of well over $10 million in the next few years are possibly more fiscally sensible than buying General Motors or any of the other so-called blue chip stocks.

The Denver sale does two things in my view:

(1) It will swiftly accelerate the prices on other major properties, AM and FM.

(2) It boldly underscores the changing role of the 1980s radio station manager.

> "(There will be) far heavier pressure on radio management in the 1980s to meet substantially higher profit goals."

Presumably, **Metromedia** will not be forced to go to the banks to finance the purchase. But whether they do or not is academic. With perfect security money earns 18-20 percent. And the prime is around 20 percent, stubbornly resisting all the predictions that would have it down to 13-14 percent by this time in 1981.

$2 Million Interest

So, a station that costs even a paltry $10 million has to make $2.0-2.2 million pre-tax profit to pay the interest on its purchase price. Or to be the profit equivalent to the yield on a government-guaranteed deposit.

But that kind of math has never confined the soaring imaginations of station buyers. They can argue with some authority that "no one ever sold a radio station for less than they bought it for."

While that is not altogether true, the downside risk in buying radio stations seems minimal. There are cases like Fairchild's purchase of **KLIF/Dallas**, in which the total loss, including operating losses, were many millions of dollars.

Or go back to when **Todd Storz** unloaded **KOWH/Omaha** on an eager **Bill Buckley** for a price that would have bought vastly superior facilities in a much larger market.

Both Fairchild and Buckley bought balance sheets – almost incredible bottom

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lines. What they apparently didn't realize was the physical limitations of the properties they bought. And both buyers paid handsomely for the education they received.

I don't think any management could have kept those stations at a profitability level that would service the debt.

You can argue that those were rookie owners and rookies make errors. And that there will probably be fewer rookie owners in major markets in the next decade, I agree.

And for good measure, I'll volunteer that for every KLIF-Fairchild disaster there has been a Metromedia purchase of a station like **KRLD/Dallas**, which is certainly a fiscal triumph.

But I am going to be stubborn about my central points.

(1) Radio station prices are going to go much higher in the next few years.

(2) In order to pay for the purchases, cash flow must be considerable, far larger in most cases than the pre-purchase cash flow.

(3) Even if the property is not on the market, the licensee has to say to himself: "This station has to be worth $6 million. So I have a right to expect a bottom line that a $6 million station would have."

(4) All of the above is going to put far heavier pressure on radio station management in the 1980s to meet substantially higher profit goals. An increasingly high percentage of managers of major-market radio properties may not be able to meet those goals.

(5) A new breed of radio station managers is emerging or will emerge or, rather, several new breeds, that for the purpose of this essay I am calling "The Six Million Dollar Manager." Because that is the approximate selling price of the station they are managing.

Before we launch into how the Six Million Dollar Manager will perform his magic in an industry whose total profitability has slipped and where there are too few stations grossing $1 million, much less netting $1 million, let's examine the climate of that industry. The climate elements include:

(a) *Intensifying competition. The groups are taking over the world.*

Look up and down the dial, AM or FM, in any large city. Where is the individually-owned station?

Of the top 100 stations in the nation, 89 percent are owned by major groups in 1981. I'd estimate that will be 96 percent by 1985.

Some of these groups are weaker than others. They will be gobbled up by still larger groups during this decade.

The result will be the battle of the titans, companies whose financial resources are big enough to sustain the high development and operating costs sometimes necessary to create a winner.

(b) *Spoke in the wheel. That's what many radio station groups are now — one of many spokes in a conglomerate's wheel.*

The other spokes might be anything – bottling companies, television film distribution, CATV, oil, newspapers, insurance.

This is not the same as an insurance company owning a radio station. Or a newspaper owning two or three stations. Both have been known since the dawn of the industry.

ROI Is King

This is the multi-billion-dollar conglomerate in which 14 radio stations are a subdivision of the Broadcast and Entertainment division, which is itself a division of the Consumer Group.

In this climate ROI – Return on Investment – is king. The stations are acquired because they have earning potential and because they enhance the value of stock, as owning almost everything in communications and broadcasting will.

When it comes time to account to the stockholders, the radio stations might not receive more than two or three lines in the annual report – and they had better be something like this: "Sales and profits continued to increase for our radio stations, etc., etc."

I own a few shares in one of these conglomerates that has some radio stations. The radio stations were having troubles

> "I can only name two important Beautiful Music stations that do their own music. Slowly, Pop in its endless permutations will succumb."

back a few years and the dispassionate, even hostile tone in which the annual report said, in effect, "They will shape up or we'll peddle them" appalled me. I hoped the **FCC** was not listening.

But that's a mirror held up to the future of managers.

(c) *The 6% share.*

You may have noticed that not many stations have a double-digit share of the 12+ **ARB**.

In the top 50 markets, I count no more than 46 stations with a share of 10.0 percent or higher out of more than 1100 stations.

And virtually all of them are in the 10-15 percent range. I count only seven stations out of the over 1100 in these 50 markets with a share greater than 15 percent and only four of these have a share larger than 20 percent.

It is already an era in which major advances in audience seem to be measured in a rise over three larger than 20 percent.

And in which the runaway leader in a market may hold a 7.8 to 6.5 lead over the second station. In some of the largest markets, I hear the managers say: "If we can only get above a 3.5, I think we can make a bunch of money."

This is the way it will be for the rest of this decade. Only more so – per-station, hundreds of thousands of dollars in programming and audience promotion costs invested in adding a half of share point. (Or, as has

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happened to one big group, several million dollars invested in its several markets and the shares are uniformly smaller than when the 18-month campaign began!)

Programming By Satellite

(d) *Programming by Federal Express. Or satellite. Or if you and the programming syndicator are big gamblers (or cheap) even by U.S. Mail.*

But not out of the station's "programming department."

There is little chance that there will be a reversal of the strongest radio programming trend of the 1970s:

The programming arrives, all neatly prepackaged, from the syndicator and sits in the announce booth until the reel is snapped into place and the curtain rises on today's version of the Beautiful Music or AOR or whatever plan the syndicator sold the station.

Or the music list and its rotation and the promotions, all based on "comprehensive local research," are phoned in from a distant city to the syndicator's on-site representative, who doubles as the "operations director."

The likelihood is that in this decade the programming will arrive by satellite – and to significantly more stations than in 1981.

Counting those stations that would deny, even as their fingernails are removed with pliers, that they are programmed from afar (but whose music is selected and whose personalities are nominated by a group program director), I'd guess about 25-30 percent of major-market stations have this kind of programming now.

(For example, I can only name two important Beautiful Music stations that do their own music. Slowly, Pop in its endless permutations will succumb.)

Partially this will happen because radio is a big business.

And big business does not take chances. You go to **IBM** for your typewriters, the biggest law firm for your legal advice, and you know the rest.

Programming consultancy and syndicated programming for large-market, group-owned stations is a growth industry, I feel.

So, there you have one man's scenario for 1984 and thereafter for the managers of the 1000 most important stations, the ones that will be doing over half of radio's business in 1990.

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Part III of our serialization will appear next month. "The Six Million Dollar Manager" and Kevin B. Sweeney's other works are available from the **Kevin B. Sweeney Companies**, PO Box 1673, Thousand Oaks, CA 91360.