

# Manager's Business Report™

Radio Business Report, Inc. 14 Years

August 1997



## News in Review

FCC Commissioner Reed Hundt may be a lame duck, but he's sticking to his promise to "see if this lame duck can fly."

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## Feature

Radio builds a new brand.  
The Clean Machine.



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He created the LMA. Now he's building the biggest radio group ever. Steve Hicks talks with MBR about the past, his



present job building Capstar, and what he sees in radio's future.

Special Interview  
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## Programming & Positioning

WGST trades in its monster image to reach for the stars.

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# REMOTE JACKPOT

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**Radio Takes Aim at New Revenue Record**

May numbers are in, and radio continues to stay comfortably ahead of 1996's record-setting pace. Year-to-date, local business is up consistently from coast to coast. The fastest growing region has been the Southwest at 10%; other regions are moving along briskly with 8-9% increases. Combined local is up 9%.

National business continues to fuel radio's growth. It was up 14% in May and is up 17% year-to-date. Combined with local revenues, the total YTD is up 10%.

More than 1,800 stations are now part of a superduopoly combine. This accounts for almost 38% of stations in Arbitron-rated markets. Much of the increase is taking place in smaller markets. A growing number of national groups are expanding downward as opportunities to pick up large market stations disappear. Clear Channel's purchase of Paxson's Florida radio empire was the biggest deal, and included both large and small market stations.

The takeover had a healthy effect on Paxson's stock, which shot up last month. Also rising on rumors of a takeover was SFX. In general, all radio stocks are enjoying robust health, outperforming the market as a whole.

— Dave Seyler

**Radio Up 10% YTD**

Fueled by national sales growth, radio is still tracking ahead of last year. May radio revenues were up 10%, after a 9% increase in April, putting revenues up 10% year-to-date. According to the just-released numbers from the RAB, national continues to soar, up 14% in May (following a 15% increase in April), while local is up 8% for both months.

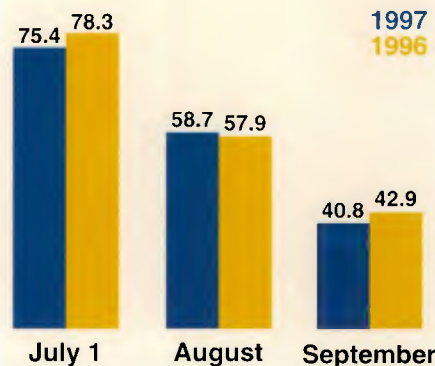
Year-to-date, national is up 17%. Of the five regions, two are better than 20% ahead of last year, and only the Southeast, at 8%, is left out of the double-digit gain club. Miller, Kaplan's George Nadel-Rivin said consolidation was "really hitting home" in markets such as Dallas, Houston and San Antonio. "Consolidation is having a more immediate effect on national sales," he said.

May 1997	Local	National	Jan - May 1997	Local	National
<b>All Markets</b>	<b>8%</b>	<b>14%</b>	<b>All Markets</b>	<b>9%</b>	<b>17%</b>
East	8%	11%	East	9%	21%
Southeast	10%	6%	Southeast	9%	8%
Midwest	8%	17%	Midwest	8%	18%
Southwest	7%	15%	Southwest	10%	24%
West	9%	21%	West	9%	16%
<b>Local &amp; Nat'l Revenue</b>			<b>Local &amp; Nat'l Revenue</b>		
<b>May 1997</b>			<b>Jan - May 1997</b>		
<b>All Markets</b>		<b>10%</b>	<b>All Markets</b>		<b>10%</b>

**Forward Pacing Report**

**Business Maintaining a Strong Pace**

1996 was a record year for the radio industry, and 1997 is running right along with it. While July is a bit behind last year, August is pulling ahead and is already more than half way to a sellout.



**Superduopoly Dimensions**

**Industry Consolidation (as of July 14, 1997)**

**Superduopoly: 37.0%**

Market	# of Stns	Percent
1 to 50	636	44.3
51 to 100	460	42.0
101 to 150	246	31.9
151 to 200	266	33.5
201 to 261	240	31.1
<b>All markets</b>	<b>1,848</b>	<b>37.9</b>

**Total Industry: 63.6%**

Market	# of Stns	Percent
1 to 50	1,007	70.1
51 to 100	735	67.1
101 to 150	438	56.7
151 to 200	498	62.6
201 to 261	454	58.8
<b>All markets</b>	<b>3,132</b>	<b>64.3</b>

Note: The "# of stns" shows the total count for stations in either a superduopoly or, in the case of total industry consolidation, in an LMA, duopoly or superduopoly. The "percent" column shows the extent of consolidation for each market segment.

**Year-to-Date Stock Performance**

SFX Broadcasting got a big price boost in late June from takeover rumors and Paxson shot up on its \$693M sale of its entire radio group to Clear Channel, which will leave Paxson strictly a TV company. Otherwise, good revenue and cash flow growth were the main factors that continued to push most radio stocks higher. Radio groups are delivering on financial promises tied to deregulation, and Wall Street is impressed.

Company	6/30/97 Close	YTD Gain/Loss	Pct. Gain/Loss
Ackerley	10.875	-0.875	-7.45%
Alliance Bcg.*	3.000	-1.375	-31.43%
Am. Radio Sys.	39.875	12.625	46.33%
Ceridian	42.250	1.750	4.32%
Chancellor	40.000	16.250	68.42%
Childrens Bcg.	4.625	0.000	0.00%
Clear Channel	61.500	25.375	70.24%
Cox Radio	25.625	8.125	46.43%
DG Systems	4.500	-3.875	-46.27%
Disney	80.000	10.250	14.70%
Emmis Bcg.	43.625	10.875	33.21%
Evergreen	44.625	19.625	78.50%
Faircom	0.281	0.111	65.29%
Fisher	130.000	32.000	32.65%
Gannett	98.750	23.875	31.89%
Gaylord	23.062	0.187	0.82%
Granite	10.250	-0.375	-3.53%
Heftel Bcg.	55.250	23.750	75.40%
Heritage Media	18.875	7.625	67.78%
Jacor	38.250	10.875	39.73%
Jeff-Pilot	69.875	13.250	23.40%
Jones Inter cable	12.750	2.375	22.89%
Katz Media Group	6.562	-4.688	-41.67%
Metro Networks	24.250	-1.000	-3.96%
New York Times	49.500	11.500	30.26%
Pacific R&E	3.125	0.750	31.58%
Paxson Commun.	13.125	5.375	69.35%
Pulitzer	53.000	6.625	14.29%
Saga Commun.	18.500	2.900	18.59%
SFX Bcg.	42.187	12.437	41.81%
Sinclair	30.875	4.875	18.75%
TM Century	0.468	-0.220	-31.93%
Triathlon	7.750	-0.375	-4.62%
Tribune	48.062	8.625	21.87%
Viacom Cl. A	29.437	-5.063	-14.68%
Viacom Cl. B	30.000	-4.875	-13.98%
Westinghouse	23.125	3.250	16.35%
Westwood One	32.250	15.625	93.98%

\*Trading since 5/7/97

**Major Stock Market Indices**

Index	6/30/97	YTD	Pct.
Dow Industrials	7672.79	1224.520	18.99%
Nasdaq composite	1442.07	151.040	11.70%
S&P 500	885.20	144.460	19.50%

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**MBR Stats**

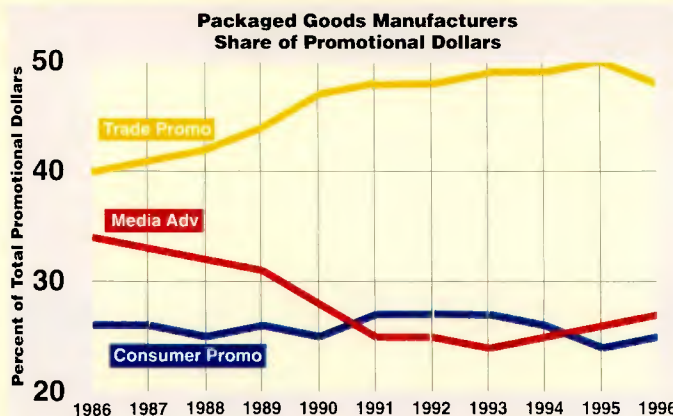
**Packing in Packaged Goods Business**

Consumer promotions have accounted for about a fourth of the promotional budgets for packaged goods manufacturers, never exceeding 27% but never falling below 24%. The budgetary give and take has been between trade promotions and media advertising.

Trade promotions have always been the heavy-weight of the three (they peaked at 50% in 1995), but ten years ago media advertising was a scant 6% behind (40% to 34%). This was the beginning of a tailspin which would see the media slice of

pie drop to 24% in 1993, and for several years, into last place among the three promotional categories.

Media advertising has turned the corner, adding a percentage point in each of the last three years and regaining 2nd place. There is, however, a long way to go to recapture the share of budget enjoyed back in the late '80s.



Source: Cox Direct 19th Annual Survey of Promotional Practices

**Web Stats**

**Radio's Gabmeisters Lead Webcaster Count**

324 radio stations (288 commercial) are now putting audio on the Internet. The commercial entrants are spread throughout the format spectrum with Rock and Country tied for the lead with 27 stations each. Add News/Talk, Sports, Talk and News together and the total comes to 65 stations. Clearly, the most significant

on line inroads have been made by radio's gabmeisters.

RealAudio remains the technology of choice for webcasters by a wide margin. However, for the first time, its percentage of the business has dipped under 90%. USA StreamWorks is in a distant second place.

**Webcasters by Format (as of July 1, 1997)**

Format	Stns	Pct.	Format	Stns	Pct.
Non-commercial	36	11.1%	Oldies	10	3.1%
Rock	27	8.3%	News	8	2.5%
Country	27	8.3%	Urban	8	2.5%
Religion	26	8.0%	Hot AC	8	2.5%
News/Talk	25	7.7%	Classical	6	1.9%
Sports	20	6.2%	Standards	5	1.5%
CHR	18	5.6%	New AC-Jazz	4	1.2%
Alternative	18	5.6%	Soft AC	3	0.9%
Talk	16	4.9%	AC-Spanish	2	0.6%
AC	15	4.6%	CHR-Spanish	2	0.6%
Classic Rock	14	4.3%	70's Oldies	1	0.3%
Adult Altern.	12	3.7%	Talk-Spanish	1	0.3%
Ethnic	11	3.4%	Easy List.	1	0.3%

**Audio on the Internet**

Medium	No.	Pct.
Radio Stations	324	55.3%
International	185	31.6%
Networks	24	4.1%
Internet Only	53	9.0%
TOTAL	586	100.0%

**Streaming Players**

Medium	No.	Pct.
RealAudio	524	89.4%
StreamWorks	39	6.7%
Microsoft NetShow	10	1.7%
AudioActive	9	1.5%
Netscape Media	1	0.2%
Interflix	1	0.2%
GTS Audio	1	0.2%
Radio Destiny	1	0.2%
TOTAL	514	100.0%

Source: BRS Radio Consultants

**New Business Development Track**

**Events Lead Non-Spot Revs in June**

June was the second highest producing month for non-spot revenue (May so far is the first), as stations stepped up their event marketing. For many, June and July are months when events, rather than transactional sales, dominate station revenue streams. Also fueling the month was business from the Office category. No surprise that most of the dollars went to recruitment efforts, as the unemployment rate continues at or near 5%, one of the lowest rates in years. Overall, station non-traditional revenue (NTR) is up. One station that did \$800,000 last year is on track to pull in nearly twice that this year.

**Percent of Vendor/New Business by Category**

	Jan	Feb	Mar	April	May	June	YTD 97	YTD 96
Automotive	16.61	14.66	10.10	11.19	9.96	7.57	11.09	13.78
Food/Grocery	30.47	40.54	33.04	27.94	41.38	35.75	35.44	26.63
Leisure/Electronic	24.96	19.48	17.34	19.82	26.66	27.00	23.19	24.51
HBA	7.89	10.69	2.90	6.41	8.29	7.31	7.11	8.82
Home Imp.	2.53	3.39	5.13	19.16	3.92	9.05	6.82	15.33
Office	8.19	5.37	21.72	14.34	7.86	12.72	11.92	5.54
Clothing	9.34	5.87	9.77	1.14	1.93	.60	4.43	5.39

Source: Revenue Development Systems; based on revenues from 46 stations in 23 markets.

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# Fire Ants Kick Butt at Mercurys

"Kick fire ant butt" is the memorable tag line that's been winning just about every advertising award this year. A month after claiming top prize at the Andy Awards, the radio spots for Ortho Ant Stop Fire Ant Killer snarled the \$100,000 grand prize at the Radio-Mercury Awards June 11 at New York's Waldorf-Astoria.

The fire ant killing campaign, called "Instant Death," was produced by Savant Productions of Los Angeles. The copywriter was April Winchell of BBDO West and the creative director was Mick Kuisel.

A new honor, the Lifetime Achievement Award, went to Paul Harvey. The living legend still broadcasts daily on ABC Radio Networks. ♦

From left to right: WCBS-FM's Cousin Brucie; April Winchell; Mick Kuisel



## Booze Probe Bites the Dust

Lame-duck FCC chairman Reed Hundt continues to quack loudly as he waits for President Clinton to nominate his replacement. A Senate confirmation vote is required, so Hundt may not be emptying his desk for months.

Despite a guaranteed rejection, Hundt brought up his proposal for a probe of broadcast hard liquor ads at the July FCC meeting. Only Commissioner Susan Ness backed Hundt in voting for the probe, which had been sought by President Clinton and a host of citizen groups.

Commissioners Jim Quello and Rachelle Chong stood firm on their position that the proper agency to look into the matter is the Federal Trade Commission, which has already launched two investigations of whether broadcast ads for alcoholic beverages target underage consumers. As expected, Hundt's proposal failed on a 2-2 tie vote.

Few stations and no major networks or groups accept radio or TV ads for hard liquor, so NAB president Eddie Fritts said Hundt's proposal "represented a solution to a problem that does not exist."

## MBR's Legislative Scorecard

	Status	Radio Rating	Praise, Complain to:
<b>Liquor ads</b> Proposed inquiry into broadcast liquor ads fails in 2-2 tie vote in July. Outgoing Commissioners Jim Quello and Rachelle Chong said FCC inquiry wasn't needed since Federal Trade Commission (FTC) has two such probes underway. Meanwhile, President Clinton, Attorney General Janet Reno and citizen groups pushed for FCC action. Senators with jurisdiction over the issue [Conrad Burns (R-MT) and John Ashcroft (R-MO)] agree with Quello and Chong that it's the FTC's area, not the FCC's. Issue dead at least until new FCC Commissioners come on board.	Stalled		Rep. Joe Kennedy (D-MA), NAB
<b>Radio/Newspaper Cross Ownership</b> FCC asks for TV LMA information to determine how many there are, where and, who's involved. Part of Commission's plans to debate three TV ownership proceedings and the radio-newspaper cross ownership waiver plan. (TV-newspaper ownership waiver not yet begun.) White House opposes relaxation of TV ownership rules, especially duopoly and attribution. Sen. John McCain (R-AZ) introduces bill to repeal all cross ownership restrictions (S-641). Similar measure expected in House.	Pending		FCC
<b>Satellite DAB</b> NAB asks FCC again to limit gap fillers and to license them individually. Rest of the rules done. American Mobile Satellite, CD Radio win DARS licenses in FCC auction. Expect service to begin 2-3 years.	Done		FCC
<b>Minority Ownership, EEO</b> In private meeting, civil rights activist Jesse Jackson asks FCC Chairman Reed Hundt for a moratorium on media concentration. He wants the FCC to restore the now-defunct minority tax certificate program, as does National Association of Black Owned Broadcasters and the Minority Media & Telecommunications Council. No word from either FCC or Congress, which voted to eliminate the certificate program in 1995. Meanwhile, new EEO guidelines still pending, including proposal to expand the number of small stations that could be exempt from EEO paperwork requirements.	Pending		FCC

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## Double-Digit Growth on Track for '97

Radio revenue growth is so strong for the year to date, that the radio industry could post double digit growth when all of 1997 is tallied.

At Standard & Poor's, broadcasting and cable analyst William Donald is predicting 10% growth for radio revenues, taking 1997 to \$13.64B. (See chart, below)

Expect a "solid 8%," says Gary Fries, president, RAB, who's hoping for more. "I'm cautiously optimistic that we will maintain levels at 9-10%."

Among the analysts surveyed by MBR, the most cautious was John Suhler, president, Veronis, Suhler & Associates. He's expecting radio to finish the year up 6.4% from 1996. That ain't double-digits, but it ain't bad!

### Cable, Radio & TV Ad Expenditures (in billions of dollars)

	1990	1995	E1996	E1997	E1998	E1999	E2000	Average Annual Growth Rate (%)	
								1990 to 1995	1995 to 2000
Broadcast TV	22.62	27.91	31.27	32.94	35.70	37.85	41.80	4.3	8.4
Cable TV	2.88	5.11	6.44	7.85	9.30	10.80	13.00	12.2	20.5
Radio	8.75	11.47	12.41	13.64	14.80	15.95	17.40	5.6	8.7
<b>Total</b>	<b>34.25</b>	<b>44.49</b>	<b>50.12</b>	<b>54.43</b>	<b>59.80</b>	<b>64.60</b>	<b>72.20</b>	<b>5.4</b>	<b>10.2</b>

E-Estimated by S&P

Source: Television Bureau of Advertising; Radio Advertising Bureau

### National Leading the Charge

A big factor in this year's growth has been a strong rebound in national spot buys. Through May, national was up 17%, as tallied monthly by RAB.

"Radio will finish [the year] up 10% in

national, and that's a conservative estimate," said Tom Olson, pres./CEO, Katz Media Group.

At Interep, chairman Ralph Guild has even greater expectations. He's looking for national spot to finish the year up 15-17%.

### 1997 Trading Near \$8 Billion

Radio station trading through the first six months of 1997 totaled \$7.8 billion, including two deals over the \$1 billion mark. If that pace continues, 1997 trading could top last year's record \$14 billion in station trading.

### Stock Prices Through the Roof

If you invested in the stock market before this year begin, it's virtually certain that you'd made a healthy profit through the first half of 1997. If you invested in radio stocks, you probably did even better than most investors.

At the year's half-way point, Westwood One was the top performer among radio and radio-related stocks. The radio network giant was up 94%. Next-best was Evergreen Media, up 78.5%, followed by Hefel Broadcasting, 75.4%, and Clear Channel Communications, 70.2%. By comparison, the Dow Jones Industrial Average was up 19% and the Standard & Poor's 500 was up 19.5%.

### Survey Shows Non-Spot Nearly 16% of Station Revs

Station non-spot revenue on average comprises 15.8% of total station revenues, but that varies according to station with some as high as 25%, according to a recent survey conducted by consultant Laura Van Son for Revenue Development Systems (RDS). Other findings:

- Compared to transactional sales, new business department rates average 31.4% higher.
- Events represent on average about 43% of a station's new business department's revenues.
- Stations said May, June and September (back to school) are the biggest months for new business and non-spot.
- There is no "hottest new category" for new business development. Stations identified several growing categories including liquor, pharmaceuticals, hi-tech, recruitment, and food/grocery.

### Birch Testing in Des Moines

Veteran audience researcher Thom Birch is premiering his new challenger to Arbitron, BirchResearch, with a nine-week methodology pilot study in Des Moines. Birch says 750 people in the test will receive a radio-only diary "just like Arbitron's," and 750 others will

receive a qualitative diary. The test run began last month, so Birch will have results in time to sign up clients when many Arbitron contracts come up for renewal in 1998.

"There's no question we'll have a fair number of markets by the end of 1998," said Birch.

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# The Clean Machine

by Katy Bachman



At the EFFIE® Awards from left to right are: Paul Porter, President of East Pointe Advertising; Dave McKay, On-air Personality of CBS Affiliate WQYK-FM, Saint Petersburg, Florida and Jennifer Fernandez, Vice President of East Pointe Advertising.

CBS' Charles Osgood and ABC's Tom Joyner are just two of the hundreds of popular radio personalities who use Clean Shower and plug it on their radio shows, creating one of the most persuasive "word of mouth" networks ever to bring a new product to market.

The results of this all-radio marketing campaign speak for themselves. Since it was intro-

duced in June 1995, Clean Shower, which claims "you'll never clean your shower again," made it to the shelves of 1,000 stores in one year. Today, it is sold in more than 15,000 stores in 48 states and two countries.

What began as a city-by-city campaign with a \$1M budget has now moved to national radio and a \$3M budget. Clean Shower recently signed a one year contract

with Westwood One/CBS Radio Networks' Charles Osgood, "The Osgood Files," Jacor's (formerly EFM Media) Rush Limbaugh in April, as well as contracts with ABC Radio's Doug Banks and Tom Joyner.

The Clean Shower success story began like most entrepreneurial endeavors with limited resources. Automation, Inc. VP/COO Paul Porter had to solve three problems in figuring out how to market the product and get it on retail shelves. "First, I had to create word of mouth. Second, I had to change consumer behavior. Third, I had to demonstrate the product."

As President of Clean Shower's in-house advertising firm, East Pointe Advertising, Porter rejected setting up demonstrations in grocery stores, which would be good to demonstrate the product but limited to small audiences.

Porter turned to radio. But he didn't just want to buy ads on radio shows. Porter wanted DJs who had actually used the product and could testify to its effectiveness. Real testimonials, not purchased ones. "We didn't ask for endorsements. They had to use the product. If they loved it, we negotiated the schedule. We refused to buy ahead of time. We didn't discuss business until that time," said Porter.

In targeting Women 35-64 and Adults 25+, Clean Shower focused on AM Talk and Country stations, with the exception of

several Oldies stations in select markets. "We were looking for active morning drive listeners who would complain to the store to carry our product; we had to have proactive listeners," said Porter.

The test market for Clean Shower was Boston with American Radio Systems' WRKO in late Fall 1995. From there, Porter personally visited with hundreds of radio personalities across the country, explaining Clean Shower's campaign. Only five stations turned Porter down. Most stations were game. "We had them listen to other DJs and what they said about our product. We provided a 20-page manual with different sections that lead them through a four-week campaign," said Porter.

Clean Shower works with the station in developing a special schedule so that the stores can "get a feel of how fast Clean Shower sells once we are on the air," explains Porter. Typically, Clean Shower buys four weeks spread out over a ten-week period to avoid stock outs.

Porter credits the local radio personalities with motivating listeners to go to the stores and demand they stock Clean Shower, such as John Lanigan of Nationwide Oldies WMJI-FM Cleveland, Dick Purtan of CBS Oldies WOMC-FM Detroit, and Dave McKay of CBS Country WQYK-FM Tampa. Said Porter: "They didn't just endorse it, they created 'word of mouth.' We just asked them to tell the truth." ♦

John Lanigan



Dick Purtan



Tom Joyner



Charles Osgood





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RADIO NETWORKS

# Steve Hicks

## Taking Capstar Where No Broadcaster Has Gone Before



Steve Hicks, CEO, Capstar Broadcasting Partners

Depending on your point of view, Steve Hicks gets much of the credit or blame for launching the consolidation wave which is now sweeping the radio industry. Hicks and then-partner Bob Sillerman got FCC approval of the first LMA, allowing them to put programming from their successful AM in Jackson, MS on an ailing competitor's FM signal, while still retaining their own market-leading FM.

That was seven years ago—and what changes the radio industry has gone through since then! Now, backed by brother Tom Hicks' investment company, Hicks, Muse, Tate & Furst, Steve Hicks is heading a new company, Capstar Broadcasting Partners, which owns or has under contract 240 stations.

*Steve Hicks discussed his philosophy about running the largest radio group ever created in the July 7 issue of Radio Business Report, our sister publication. In this issue of MBR, Hicks focuses on the birth of the LMA and his own radio history—plus, he prognosticates on the future of this fast-changing industry.*

### Steve Hicks got into radio at a young age.

I kind of hung out at my dad's radio station [in Beaumont, TX] at age 12, 13 and 14. My family sent me to the Elkins Institute of Radio when I was 15 to get my First Class FCC license. I came back with that and started doing part-time engineering and announcing when I was 15, 16. I wasn't a very good announcer, however.

### So your dad fired you as an announcer?

Well, I had to kind of fire myself, you know.

### How many stations did your father, John Hicks, have?

He was in six Texas markets, back in the late 60s—early 70s. Kind of small markets.

### Did all four brothers work at the radio stations?

At various times, yes. They all had some career in radio.

### Is this [Capstar] the first time you and Tom have owned stations together?

No, we actually started out together. We did our first station in 1979. We bought an FM down in Beaumont, KYKR and kind of simultaneously bought the AM radio station from my dad, which is still KLBI. We did that as partners. We've really had some investment together in radio ever since. That was the start of what became Hicks Communications in Dallas, Tulsa and Austin back in the early 80s. We sold out and then we did WSIX in Nashville together in '87 and that kind of led into [the first] Capstar. He was a smaller investor in Capstar and SFX.

We also did the family stations together—Hicks Broadcasting which became GulfStar in 1992. We really did a lot of work during that period of consolidating in Texas back in the early 90s.

### Bill was also involved in those?

He was. He had his own company, which was Sonance at the time. We merged most of those stations into GulfStar.

### Meanwhile Jay owned a station in Virginia.

Yeah, which he sold, I understand.

### So, three of you are now involved in Capstar?

Bill is a shareholder. He doesn't work in Capstar. He has two stations in Bryan-College Station which he runs. He is a shareholder in GulfStar, which will become part of Capstar.

### What about the SFX years?

I was running what was then Capstar Communications, which was in Nashville, Jackson, MI, and Greenville, SC. Bob Sillerman was our primary investor in that company and he approached Geoff Armstrong who was my partner at the time in 1993 with the idea of putting Capstar together with what was then Command Communications. [Sillerman] was the primary investor in that as well, but it was not doing very well. They were significantly upsidedown in his investments there. But they had stations in Dallas, Houston, and San Diego. What we did was basically merge the two companies together and took the new entity, SFX, public in late 1993. It was a real combination of middle and larger markets.

I was able to see that we had these large markets, but the biggest single cash-flowing market at the time in 1993 was the smallest market. Jackson, MS contributed more cash flow than any of the others at the time.

### How did the birth of the LMA come about?

I was in Dallas visiting with my brother in 1989 and they [Hicks, Muse] had just purchased the Dr. Pepper Co. nationally and had just closed on the acquisition of 7-Up Co. from Philip Morris. There was separate ownership but they had a lot of faith in the Dr. Pepper management. They were very good operators. So what they were able to do was to take the 7-Up product, which had not been profitable in a number of years, and use the Dr. Pepper management, with an operating agreement, to operate the marketing and bottling operations for 7-Up. By doing that they eliminated, I think, \$20M of duplicate overhead. They were able to

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CORPORATE  
CHECK: 019725 04/21/97 PROPHET SYSTEMS, INC. CHK TOTAL: 732,000.00

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# Capstar:

## One Company, Five Radio Groups

How are radio companies going to handle owning 200, 300, maybe even 500 stations? At Capstar Broadcasting Partners, Steve Hicks has decided to go with a collection of regional radio companies, each with its own group head, operating under the collective umbrella of Capstar.

With 240 stations owned or under contract, Capstar is already the largest radio group ever, in terms of the number of stations. It also ranks among the top 10 for total billings, despite having Birmingham, AL as its largest market—ranked 55th by Arbitron—unless you count suburban White Plains, NY, which, strictly speaking, is part of the New York City market (#1).

Rather than try to coordinate 240 stations from headquarters in Austin, TX, Capstar has distributed traditional group head responsibilities to five regional executives, each of whom is responsible for dozens of stations in his/her section of the country. The chart (below) shows how Capstar has organized its regional radio groups.

## Capstar Broadcasting Partners

### Corporate Executives

Jim Wesley	Chairman
Steve Hicks	President & CEO
Paul Stone	Exec. VP & CFO
William Banowsky Jr.	Exec. VP & General Counsel
Frank Osborn	Managing Director
David Benjamin	Managing Director
Joe Mathias	Managing Director
Jim Strawn	Managing Director

## Atlantic Star Communications

### Northeast Region

Jim Shea	President & CEO
Markets:	New England, New York, Delaware, Maryland, Pennsylvania, West Virginia & Kentucky
Stations:	49

## Southern Star Communications

### Southeast Region

Frank Osborn	Interim President
Markets:	Alabama, Florida, Georgia, Mississippi, North Carolina, South Carolina, Tennessee & Virginia
Stations:	78

## Central Star Communications

### Midwest Region

Mary Quass	President & CEO
Markets:	Iowa, Illinois, Michigan & Wisconsin
Stations:	23

## GulfStar Communications

### Southwest Region

John Cullen	President & COO
Markets:	Arkansas, Kansas, Louisiana, Oklahoma & Texas
Stations:	55

## Pacific Star Communications

### Western Region

Dex Allen	President & CEO
Markets:	Alaska, Arizona, California, Hawaii, New Mexico & Nevada
Stations:	35

increase 7-Up share by leveraging off the strong management that Dr. Pepper had.

I had the idea that there were some similarities to radio. At the time—1989—things were in fairly dire economic straits after the significant change in what multiples were, what radio stations were trading for—banks were calling loans. So, in almost every market in the country there were a couple of operators who were doing well and at least half of them that were losing money.

What I equated it to was what Satellite Music Network [now part of ABC Radio Networks] had been doing, providing programming services to multiple stations in the market. They would send a Rock format and a Country format and they were taking inventory on two or three of the stations in a market without having ownership. I approached our FCC lawyer and we used that legal base to come up with the idea of doing an LMA. It was basically delivering programming just like Satellite Music Network that we were doing from across the street instead of from a satellite studio in Dallas. And we took more inventory. It took about six months and a lot of work, unofficially, with the FCC getting the concept together. Just by chance, the first opportunity we had to employ it was in Jackson, MS, and we did that in June of 1990.

People kind of take it for granted now. People forget that there were challenges with the FCC and petitions to deny and everything else filed at the time we did that. But the concept rapidly grew, and in a matter of months [LMAs] were proliferating around the country. Within a year from the time we did the first one there were several hundred in place across the country. I think in some way we spurred the FCC to act on the ownership changes that they did in 1991 [authorizing duopolies, effective in September 1992].

**So, depending on people's view of what we have now, you're either to blame or to credit.**

I certainly lay awake at night thinking about that sometimes. When you have an idea that was created to improve a product and help at the time a station that was really struggling—and then take it out five or six years and an extremely talented GM in a good market loses their job because of consolidation. That wasn't the idea at the time.

**In a consolidation, you lost your job as well.**

Well, that's true. Exactly.

**How long did it take you to figure out what you wanted to do after the SFX and Multi-Market**



Spinnin' the platters to make your heart patter! A teen-age Steve Hicks behind the mic at KBPO-FM Beaumont, TX.

## merger was done, with no room for you in the company?

Well, you have to kind of go back before that to January-February of last year when my recommendation to Bob [Sillerman] and our board of directors was that we concentrate on middle-size markets. I really thought that was where SFX's strength was—operations like we had in Nashville and Jackson.

At the time, Bob had interests in three different public companies and it was rather confusing. I went to him and told him I was not particularly comfortable with that situation and, to his credit, he hired Goldman, Sachs to look at it. They advised him that there was a perceptual problem because he had his hands in three different enterprises. Their recommendation was that he put it together and eliminate any conflict of interest and have one single entity. He decided that was what he wanted to do—and to move the headquarters to New York [SFX was then in Austin], which was not what I wanted to do. I wasn't asked to leave.

## You had quite a nice golden parachute.

I think I was well compensated, but I think I added a lot to what SFX was able to accomplish. I think it was a winning proposition for both sides.

## There are some people out there that think after leaving SFX, you just went over to Tom and said, "Hey, how about giving me \$100M out of your investment portfolios there, so I can start a new company."

The idea that I had when they passed the Telecommunications Act in February of 1996 was that there were going to be a lot of consolidation opportunities. I felt very strongly at the time that those opportunities were primarily in the middle and smaller markets. That was the vision I had then and I shared that with anyone who would listen to me, including my brother. It was really just continuing on the course we had set with GulfStar in trying to consolidate and get clusters in

middle-size markets—markets size 50 to 250.

As soon as I had made my agreement with SFX I did go to Hicks, Muse and two other fund-type companies that were capable of writing checks of that size. I asked for their support and was able, because of my relationship with Hicks, Muse to get something done very quickly.

## Looking 10 years out, how different do you think the landscape, technology and revenues for radio are going to be?

I think radio will be able to tell a very compelling story and we'll grow our seven percent [of ad spending] to somewhere between 10 and 12 percent in 10 years. Utilizing the total digital technology that will be available all the way through our systems will be an incredible boost to the product we're able to put out. Especially in the smaller markets, you'll see the quality of programming improve dramatically as these delivery systems are put in place.

## Are we going to be technology driven or product driven?

I don't think either one. I think it's going to be people driven. Radio is now and always will be a people business. We get all excited about duopolies and LMAs and superduopolies, but without the qualified people to run a radio station you have nothing. Some people are losing sight of that and that to me is still the most significant asset our company has. Every one of the 1,500 employees that we have are the best out there.

## Do you think there will still be many individual station owner/operators or are they going to go away with this generation?

I hope not. Coming from that background myself, being a single station manager, owner/operator, it would be a real shame. I think that's where the really good people in this industry have come from. The financial types that have come in—10 years from



Winning the NAB's 1992 Marconi Award: Steve Hicks and Gerry House, morning personality, WSIX-FM Nashville.

now there will be something else that will be intriguing them—but the qualified radio people 10 years from now will still be running radio companies.

I don't think the opportunities will be the same, in terms of buying your own AM/FM combo in a market the way it used to be. Our vision is that we want to try to give as much stock ownership and options as possible down to the level of the people who are creating the value—giving them, economically, the same opportunity they would have had if they had taken that [owner/operator] path in my generation.

That's how it worked in SFX—we were able to give stock options to the market managers that were creating the value, and it's a very significant incentive to them to build the value of those radio properties. That's the plan we've already put into place at Capstar.

## Do you have a timeline of when you expect to get your IPO done, do the closings on all these

## deals and then go back to building again?

Some of it is up to market conditions. We would anticipate getting an IPO [initial public offering] done this year unless there are severe market conditions which won't allow it. It's not necessary. We don't have to do an IPO to complete the acquisitions we have pending. The equity we've raised through Hicks, Muse allows us to close everything we have under contract.

## Do you foresee a day of branching into anything other than radio with Capstar?

Our first phase is to build a significant radio group. There are opportunities in these markets as you develop a significant radio presence to go into things like outdoor and, if the rules allow it, into television or even newspaper—to be able to extend our influence that we've created by clustering these radio stations together. That is certainly not in the current phase that we're working on now. ♦

## Programming & Positioning

# Planet Radio Develops New Down-to-Earth Strategy

By Carl Marcucci

Sounding like something out of a sci-fi flick, Atlanta's "News Monster" WGST-AM/FM has mutated into "Planet Radio."

Since losing its rights to air Braves games in 1994, WGST has been beaten by Cox's WSB-AM in every book. Lackluster ratings, coupled with listener name recognition problems, convinced the Jacor-owned station to institute big changes not only in programming, but attitude.

"Planet Radio," launched in Atlanta on June 2, is an attempt to repackage the station's image and better differentiate it from WSB. At the same time, the station has pulled back on its news and added programming aimed at "Life Support for Busy People."

"We saw so many similarities with WSB—both labeled themselves as Atlanta's station for News, Talk and Weather; both had news blocks at the same times; and many of WGST's personalities had moved over the years to WSB," said WGST Program Director Nancy Zintak.

Making it even harder to compete head-to-head is that WSB-TV is #1 in the market. "They would always roll spots for their AM after the late news," said Zintak. Cox also owns Atlanta's morning and afternoon papers.

Indeed, research from Jacor's Critical Mass Media confirmed that listeners recalled WSB over WGST in similar ratios to the ratings. Critical's conclusion: Differentiate and change for better recognition.

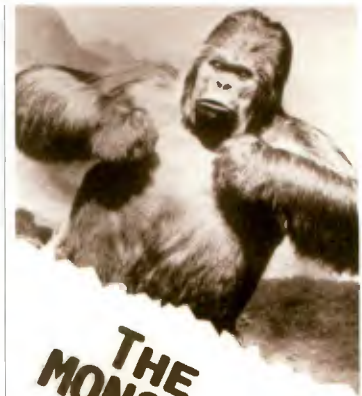
Recognizing that competitor WSB's strength is in the 35-64 demo, WGST's programming switch is smartly aimed at a younger demo, and focuses more on Women than before. "We want to move to the top five in the 25-54 demo," said Bob Houghton, GM of WGST. In Winter '97, WGST (AM+FM) was tied for 8th and WSB ranked 2nd among Adults 25-54.

WGST sought out Joey Reiman of BrightHouse, an advertising/consulting firm, to help package and position the stations. Reiman felt listeners would identify with WGST better if the station was identifying with them better. He chose an approach designed to make the station a companion and a helper. "Planet Radio," meant to roll off the tongue like "Plan-It," offers business, traffic and lifestyle information to help listeners plan their day and their lives. Said Reiman: "If you live in Atlanta and care about your career, your relationship with your spouse or children and the planet you live on, and you don't tune into Planet Radio, you're on another planet."

Station liners underscore the new shift in attitude and programming: "Life support for busy people" and "Survival skills for the 90's." "People are seeking quick, contemporary news, and topical talk that is compelling and entertaining rather than argumentative, and advice that is inviting rather than accusing," said Houghton.

To launch Planet Radio, WGST relied on print ads and media attention. The first on-air announcement of the change came May 30, with "Planet Radio" to hit the airwaves June 2. Around Labor Day, WGST plans to roll out an ad campaign and spend some money in preparation for the Fall survey.

Perhaps some of the best marketing came from WGST's competitor. "We view this as a victory. They were competing with us in the news, weather and traffic game, [but] they got their butts whipped and they had to do



**THE MONSTER IS DEAD.**

Long live WSB-AM, Atlanta's only surviving source for news, weather and traffic. As for the recently deceased news monster, rest in peace.

**AM WSB 750**

something. They gave up four hours of news product and hired two unknown people. I wish them well, but wouldn't want to be in their shoes," said Greg Mocerri, Operations Manager, WSB. WSB took out two full-page ads in the Cox-owned Atlanta Journal-Constitution: "The Monster is Dead—WSB is now the only source for News, Traffic and Weather." Said Houghton: "It's the best advertising we've had for the station."

Will this new programming and positioning work for "Planet Radio?" Only the Arbitrons will tell. With all the latest hype and pistols drawn in Atlanta, the battleground between WGST and WSB will remain, as it has for years, a fierce one. ♦



WGST warriors Nancy Zintak, PD, Bob Houghton, GM, Jan Hohenstein, Promotions Director.

### WGST's "Plan-it" Programming

**Serving up an audio buffet of in-house talent is the mainstay, but airing Rush Limbaugh and Paul Harvey are great security blankets for ratings. Below, the daily lineup:**

5:00-6:00AM	"Good Morning With Al Gardner" - A contemporary catch-up of what's happened while the planet slept.
6:00-10:00AM	"The Daily Planet With Punnett" - Hosting the morning drive are Ian Punnett (WGN Chicago aft. drive) and Trevor Johns as the funny girl.
10:00-11:30AM	"Dr. Buff" - Atlanta's own <i>Dr. Frasier Crane</i> , Dr. Perry Buffington.
11:35AM	Paul Harvey
11:50AM	"Consumer Corner With Chris Morris" - Consumer news and tips
Noon-3:00 PM	Rush Limbaugh
3:00-5:00 PM	"The Dave Stone Show" - Former Globetrotters announcer takes call-in's reacting to the usual politics, sports, entertainment.
5:00-8:00PM	"The Kim Peterson Show" - Recaps of top stories, comedy, sports commentary and drive-home necessities.



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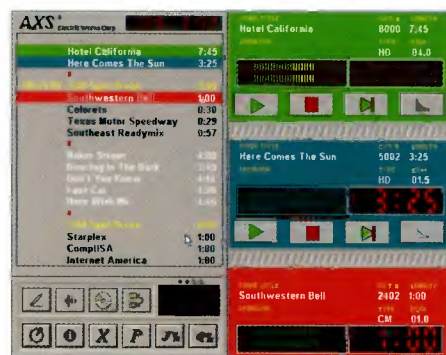


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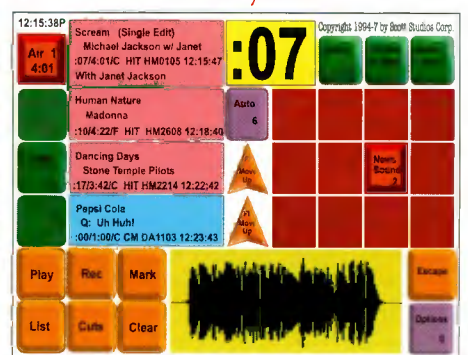


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