

NEWS\$ *Profitability*

Television news continues to account for more than one-third of local station revenues. But expect television news profitability to slow down a bit in 1999.

BY BOB PAPPER AND MICHAEL GERHARD

Great television news breeds ratings, which breeds economic success," says Ramon Escobar, vice president and news director at WTVJ-TV in Miami. "That's my ruler every day."

For most stations, especially network affiliates, television news means money. Bob Noonan, news director at WBKO-TV in Bowling Green, KY, figures 40 to 45 percent of his station's revenue comes from news. That's just a little higher than the figures from the current RTNDA/Ball State University Survey, which shows that the average television station (that runs news) reports that news brings in 36 percent of station revenue.

"I would say a good 50 percent [of station revenue is from news]," says Bruce Lang, news director at KHSL-TV in Chico/Redding, CA. "A station this size will make probably \$2 million-plus; about \$1.0 or \$1.2 million of that is news. My general manager says, 'News is the engine that drives the train.' He's right, and I think it's perceived that way in the community, too."

Tamara Lehman, news director at KREM-TV in Spokane, WA, agrees. "News right now is the defining factor for most stations as far as recognition," she says. "As far as profit, it's pretty much the defining factor."

TELEVISION: ACQUISITIONS MANIA

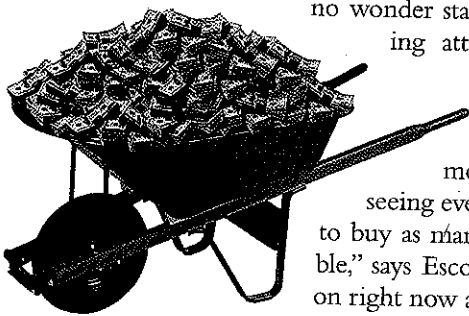
With such moneymaking potential, it's no wonder stations have been attracting attention from corporate America.

"Clearly, if television were not making money, you wouldn't be seeing everyone right now trying to buy as many TV stations as possible," says Escobar. "There is a frenzy on right now as to how many stations

we all can buy before we reach our limit because they are extremely profitable. They are cash cows."

Even the recently announced cutbacks at the network level and the jitters on Wall Street have not changed the big picture. With broadcast's appeal to a mass audience and relaxed rules on ownership, more and more radio and television stations are being gobbled up by ever-larger corporate giants.

"Newer technology doesn't take over viewer habits," says Pat Talamantes, director of corporate finance for Baltimore-based Sinclair Broadcast Group. Sinclair currently owns 50



radio stations and owns or manages 57 television stations. "It's still the only medium—particularly in television—where you can bring together a mass audience that advertisers can get all at one time. From 1975 to 1996, broadcast television's share of the advertising pie has risen from 30 to 35 percent."

While Sinclair tends to concentrate on Fox, WB and UPN stations, its new acquisitions include CBS, NBC and ABC affiliates, and the company continues to take more of an interest in news—if the conditions are right.

"Five years ago, Sinclair only had one television station with news," notes Talamantes. "Today, we have 16 stations with news. We are expanding that over time in markets that are large enough to support our entrance into that market, but we aren't prepared to do news where we don't think we can make a profit."

Among the four major network affiliates, Fox stations get considerably less revenue from news than ABC, CBS and NBC affiliates because most Fox stations run considerably less news. The profitability picture is a different story. Mirroring the fate of the network itself, ABC-affiliated newsrooms were considerably less likely to make a profit on news last year than other stations (54 percent for ABC affiliates versus 66 to 78 percent for the others) and were three times as likely to show a loss (15 percent for ABC affiliates versus 5 or 6 percent for all the others).

"The philosophy [at Hicks Muse] is the buy-and-build strategy," explains Deb Jacobson, vice president, corporate development, and treasurer for LIN Television in Providence, RI, which owns stations in eight markets. LIN is the major-market television operation of Hicks Muse; Sunrise Television is the smaller-market television operation. Hicks Muse, an investment company, owns several hundred radio stations run by Capstar Broadcasting and Chancellor Media.

"Our current management is led by Gary Chapman, and from 1989 [when Chapman joined LIN] until 1997, he more than doubled the hours of news on our television stations. We found that that was very good for the stations' profitability, for helping to control programming costs and for establishing differentiated identification in our local markets," says Jacobson. "There may be opportunities to introduce more and better news in markets where we make acquisitions."

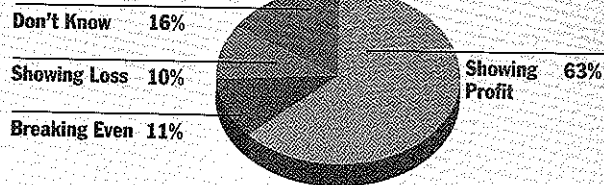
It's a program that has been successful for LIN. The operation grew at double-digit rates while it was a public company from the end of 1994 into the first quarter of 1998. "Our first-quarter cash flow is up 33 percent on a same station basis," says Jacobson. "I don't think there are any other television broadcasters who have that level of performance. Typically, we've outperformed the industry."

Like Sinclair, LIN is "actively looking" for additional stations to purchase.

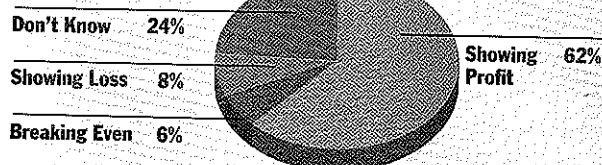
But that growth and consolidation can come with a price—at least as far as news is concerned. "There's no

TV News Profitability at a Glance

Television 1997

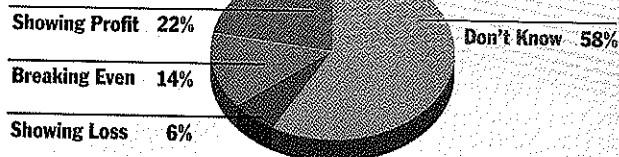


Television 1996

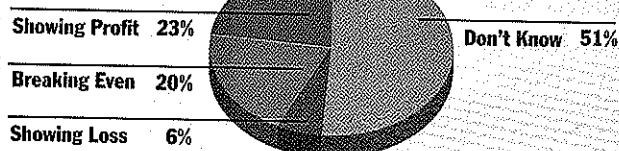


Radio News Profitability at a Glance

Radio 1997



Radio 1996



TV news stations showing a profit rose to 63 percent from 62 percent a year ago. Those showing a loss rose to 10 percent from 8 percent. In radio, stations showing a profit dropped to 22 percent from 23 percent, and those showing a loss stayed at 6 percent.

doubt," says Escobar, "there's a real pressure on the industry in general to do more news because news is profitable."

Doing more news is one thing; doing it well is another.

The Ratings Game

"You want to lose money? Do bad news," says Escobar. "In the long run, you're just going to undermine your station's image and credibility, and then that leads to bad ratings, and that leads to bad business, and we all get fired."

But there is increasing pressure to make money, and while news budgets have been climbing, they frequently haven't kept pace with the amount of news that stations continue to add. Two-thirds of all TV news budgets went up in 1997, but that's down 5 percent from the year before, and the percentage of

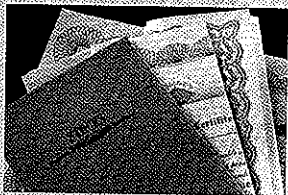
The View From Wall Street

So what do investment analysts think of the industry's performance? Recent talk of a possible recession has Wall Street nervous because advertising is so sensitive to the general economy. But late this summer, when we spoke with Michael Kupinski, vice president and senior media and entertainment analyst for A. G. Edwards & Sons, Inc., he was highly optimistic about the rest of this year and beyond.

“We're still quite positive about the fundamentals of [radio and television] for the balance of this year. Certainly for the television group, you have the addition of political advertising for the second half, which should bolster advertising for the balance of the year. Up front, television was a little soft, but we're not reading too much into that at this point. We're anticipating the economy will begin to slow, certainly in the second half of this year, but the industry won't really be affected until possibly 1999.

“In terms of the radio group, we're still looking for fairly strong revenue growth. Promotional advertising should help bolster radio, so for the balance of this year and into 1999, radio still looks quite positive.

“In terms of what's going on in the stocks, we're seeing a sig-



nificant amount of consolidation continuing in the industry, and the consolidation right now is focusing more heavily on television than on radio. We still remain quite positive about our television stocks.

“The importance of news depends on what stations we're talking about. For owners of WB affiliates and Fox affiliates, [news] may be less important, mainly because their demographic may not be geared toward a news-viewing public. In general, however, most of the network affiliates have a heavy emphasis on news.

“Certainly we're not anticipating at this point that the slowdown in the economy is a recession scenario. We're looking for more of a slowdown in the growth of the economy, and because of that, we're not anticipating layoffs.” ■

TV News Profitability

| | Showing Profit | Showing Loss | Breaking Even | Don't Know |
|-------------------------|----------------|--------------|---------------|------------|
| Market Size: | | | | |
| ADI 1-25 | 71% | 4% | 12% | 13% |
| ADI 26-50 | 63% | 21% | 4% | 12% |
| ADI 51-100 | 66% | 7% | 10% | 17% |
| ADI 101-150 | 64% | 10% | 11% | 15% |
| ADI 151+ | 56% | 11% | 13% | 20% |
| Full Time Staff: | | | | |
| 51+ | 69% | 8% | 6% | 17% |
| 31-50 | 70% | 9% | 14% | 7% |
| 21-30 | 70% | 7% | 17% | 6% |
| 11-20 | 61% | 11% | 17% | 11% |
| 1-10 | 26% | 21% | 25% | 28% |
| Region: | | | | |
| Northeast | 57% | 13% | 23% | 7% |
| Midwest | 70% | 9% | 2% | 19% |
| South | 60% | 13% | 13% | 14% |
| West | 59% | 7% | 13% | 21% |
| Affiliation: | | | | |
| ABC | 54% | 15% | 10% | 21% |
| CBS | 74% | 5% | 8% | 13% |
| Fox | 78% | 5% | 6% | 11% |
| NBC | 66% | 6% | 14% | 14% |

Among the biggest changes from a year ago: a huge jump in the profitability of Fox affiliate news operations and a significant fall in profitability among ABC affiliate news operations. The Fox change (up from 52 percent reporting a profit in 1996) could well reflect a maturing of many of Fox's newer news departments. The ABC affiliate drop (67 percent reported making a profit in 1996) may reflect the general network audience erosion of the past year.

news departments with budget cuts edged up from 7 percent in 1996 to 8 percent in 1997.

“We were able to increase our budget by about 16 percent this year,” says WBKO's Noonan, “but that's because there had been no changes in the past several years, I'm told. Next year, I'll probably see a 3 to 4 percent increase, but I doubt we'll increase staff.” WBKO-TV is the only station in its market running news and enjoys 50 to 70+ shares for its newscasts. The station produces three and a half hours of news per weekday with a staff of 21.

In California, KHSL-TV runs at a similarly hectic pace. “We work on a razor's edge,” says news director Lang, referring to the four hours of news his staff of 23 puts on each weekday.

While news at the station makes a lot of money, Lang has concerns. “In the seeds of that profitability also could be the seeds of demise. When you're profit-oriented rather than just journalistically oriented, everything gets skewed. They're making money in the short term, but in the long term, we're all wondering, ‘Is news going to survive because it's been seduced by money and ratings and hype?’”

That worries Lehman, too.

TV News Budget Changes

| | Increase | Same | Decrease | Don't Know |
|-------------------------|----------|------|----------|------------|
| All TV News | 67% | 20% | 8% | 5% |
| Market Size: | | | | |
| ADI 1-25 | 63% | 25% | 8% | 4% |
| ADI 26-50 | 82% | 15% | 2% | 1% |
| ADI 51-100 | 64% | 22% | 7% | 7% |
| ADI 101-150 | 70% | 20% | 9% | 1% |
| ADI 151+ | 65% | 16% | 12% | 7% |
| Full Time Staff: | | | | |
| 51+ | 67% | 22% | 8% | 3% |
| 31-50 | 76% | 14% | 7% | 3% |
| 21-30 | 78% | 11% | 6% | 5% |
| 11-20 | 65% | 22% | 7% | 6% |
| 1-10 | 32% | 44% | 16% | 8% |

While two-thirds of all television news departments reported budget increases in 1997, that represents a 5 percent drop from a year before. The percentage remaining the same rose to 20 percent from 17 percent, and the percentage that dropped edged up to 8 percent from 7 percent.

"I think the industry has shifted tremendously. I think a lot of newspeople now see themselves as marketers as well. We're paying much more attention to things like graphics, and news and promotion have a new partnership that's probably stronger than it ever was, based on the need for profit and ratings.

"Now, when we talk about news series, we're not just talking about what makes a good story, we're talking about making sure it appeals to 25 to 54, to our target audience," says Lehman. "I think in some ways, if we approached it from the right perspective as far as more researched-based—more in tune or in touch with our audience—that it can have a positive effect. But it is frightening to be looking at rating points and seeing some stations do unethical things for ratings." Unethical things like news contests, adds Lehman.

Escobar warns against such temptations. "If you start making decisions based on business, then you've jumped over your primary responsibility, and that is to deliver the news as best you can," he says.

"Great journalism will actually get people to watch," Escobar says. "WTVJ combines not only covering breaking news—this is a big breaking-news town—but investigative and compelling special reports. We did a story on kids and values, we did a story on racism and race relations. We devoted eight to nine minutes per newscast. That goes against conventional wisdom from a lot of standpoints, such as, 'You can't air pieces that are 10 minutes long in a 30-minute newscast at 11 o'clock at night.' [But] while we're doing that, we've got other stations in town doing [stories saying that] public restrooms are dirty. What kind of story is that? Another station did bathrooms of the future."

Overall, 1998 has been a good year for television news stations. As for next year, however, several people we spoke with suggested things will cool in 1999.

Percentage of TV Station Revenue Produced by News

| | Average | Median | Minimum | Maximum |
|-------------------------|---------|--------|---------|---------|
| All TV Stations | 36% | 38% | 7% | 65% |
| Market Size: | | | | |
| ADI 1-25 | 30% | 30% | 12% | 45% |
| ADI 26-50 | 38% | 40% | 11% | 50% |
| ADI 51-100 | 37% | 36% | 15% | 65% |
| ADI 101-150 | 36% | 33% | 20% | 60% |
| ADI 151+ | 38% | 45% | 11% | 49% |
| Full Time Staff: | | | | |
| 51+ | 41% | 40% | 20% | 65% |
| 31-50 | 35% | 36% | 7% | 62% |
| 21-30 | 39% | 40% | 25% | 60% |
| 11-20 | 36% | 38% | 15% | 49% |
| 1-10 | 25% | 26% | 11% | 35% |
| Affiliation: | | | | |
| ABC | 36% | 40% | 12% | 50% |
| CBS | 39% | 40% | 7% | 65% |
| Fox | 28% | 30% | 11% | 62% |
| NBC | 40% | 40% | 25% | 60% |

The percentage of revenue produced by news is virtually identical to the year before. It's also consistent by market size and size of newsroom. The lower percentage at Fox stations reflects the typically smaller amount of news run on those stations.

"Our big challenge is what we do in '99," says Lang, "because we won't have political races, we won't have the Olympics, like we had with CBS. That's the bottom line."

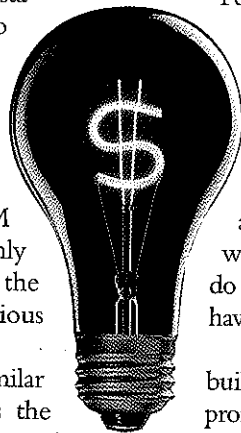
Escobar agrees next year will be tougher, but is optimistic about 2000.

"We know, from a budget standpoint, that '99 will be tight," Escobar says, "but we're looking for the year 2000. We've got the Olympics and elections coming, and I think it's going to be a good year."

RADIO: MAKING MORE WITH LESS

When it comes to the radio business, the role of news is as varied as ever, and, unlike TV, most radio news directors are clearly outside the business loop: The RTNDA/Ball State University Survey found that 58 percent of radio news directors don't know whether news made a profit for their stations last year. The survey also shows that the percentage of stations showing a profit on news rose among the bigger stations and declined among the smaller ones, that news profitability rose for AM stations but fell for FM-only stations, and that, overall, the picture looks a lot like previous years.

That picture includes similar changes in news budgets as the year before, but, as in television, the percentage of news budgets that grew in 1997 was down from 1996. Additionally, nearly as many stations curbed their news budgets as increased them last year, and most kept their budgets the same. Various news profession-



als we spoke with alluded to this seeming conservatism.

Ed Perry, WATD-FM's owner and GM, says the news earns its keep at his suburban Boston station.

"You have to look at news as a part of the overall picture of what you do," says Perry. "Does news make money?"

News makes money because without news in a suburban atmosphere, you're just one more jukebox station that's going to be completely eclipsed by the very-well-run and well-researched 50,000 watt guys in Boston. If you don't do the local news, then you don't have an identity in the suburbs."

And setting yourself apart by building local identity can be profitable in the long run.

"News almost never justifies itself on an absolute, did-we-sell-enough-newscasts-today-to-pay-the-staff? [basis]," says Perry. "The very first thing we did when we set the station up is we said, 'What can we do that people can't take from us?' [Bigger Boston sta-

tions] can't do [local news]. It's not cheap to do, but it's immensely expensive not to do it."

Perry's view is not universal, and that's the point about radio news.

"We run our stations so locally that there's really not a corporate policy" as far as news is concerned, according to a major group executive who asked not to be identified. "If it helps a station make money (or if it's the format), then news will exist. If not, well, it won't be there simply as a public service."

Pat Talamantes says four of Sinclair's 50 radio stations are news/talk, and obviously news is important there, but Talamantes says he doesn't view news as an important part of radio programming outside those stations.

Sometimes that's even true at news/talk stations. Locally owned KSUB-AM and KSSD-FM in Cedar City, UT, no longer have a news director. (The stations used the salary for the position to install a lot of computer equipment to handle things automatically.) Now, production director Dale Nelson does the morning news on the news/talk AM station.

"We all kind of fill in, I guess," says Nelson. The station uses the wire, the Internet, statewide papers and an e-mail news service to handle regional news. It doesn't cover local news.

Still, news helps the station. "There's not a lot of competition here in news," says Nelson. "All of our newscasts are sponsored, and it does make money for the radio station."

News director Randy Bell agrees—at least in part. "At our stations, [news] makes some money," says Bell, who works for a company that owns six stations in Jackson, MS. Two of the stations, WMSI-FM and WJDX-FM, run news. "I would not say it generates enough revenue to pay for the entire news operation," notes Bell. "It's not self-sufficient, but it does generate some revenue to offset some of the costs of salaries and equipment and news services."

Radio News Profitability

| | Showing Profit | Breaking Even | Showing Loss | Don't Know |
|---------------------|----------------|---------------|--------------|------------|
| Market Size: | | | | |
| Major | 40% | 5% | 5% | 50% |
| Large | 22% | 22% | 3% | 53% |
| Medium | 17% | 15% | 7% | 61% |
| Small | 20% | 15% | 10% | 55% |
| Type: | | | | |
| AM only | 31% | 16% | 3% | 50% |
| FM only | 4% | 13% | 11% | 72% |
| AM/FM combo | 34% | 16% | 2% | 48% |
| Region: | | | | |
| Northeast | 36% | 7% | 6% | 51% |
| Midwest | 25% | 16% | 7% | 52% |
| South | 15% | 10% | 3% | 72% |
| West | 19% | 19% | 10% | 52% |

Generally, the percentage of stations showing a profit rose among larger market stations and fell among smaller market stations. Overall, AM-only stations rose in news profitability, while FM-only stations dropped.

The Relationship Between Group Ownership and LMAs and Radio News

| | Percentage of cases of multiple-station ownership in a market | Median number of stations in a market | Percentage sharing news resources | Percentage with centralized newsroom |
|---------------------|---------------------------------------------------------------|---------------------------------------|-----------------------------------|--------------------------------------|
| All Radio | 50% | 4 | 79% | 57% |
| Market Size: | | | | |
| Major | 59% | 5 | 62% | 46% |
| Large | 60% | 3 | 60% | 40% |
| Medium | 49% | 4 | 93% | 75% |
| Small | 39% | 3 | 81% | 44% |

Half of the radio stations surveyed were involved in multiple-station ownership. While joint ownership commonly resulted in resource sharing, the use of a single, centralized newsroom varied.

Radio News Budget Changes

| | Increase | Same | Decrease | Don't Know |
|---------------------|----------|------|----------|------------|
| All Radio News | 10% | 54% | 7% | 29% |
| Market Size: | | | | |
| Major | 19% | 43% | 9% | 29% |
| Large | 13% | 52% | 4% | 31% |
| Medium | 10% | 54% | 10% | 26% |
| Small | 5% | 60% | 5% | 30% |
| Type: | | | | |
| AM only | 12% | 64% | 6% | 18% |
| FM only | 10% | 46% | 8% | 36% |
| AM/FM combo | 10% | 56% | 4% | 30% |

Overall, radio news budget changes are very similar to the year before, although the percentage of radio news budgets that went up decreased to 10 percent in 1997 from 12 percent in 1996.

Beyond Monetary Value

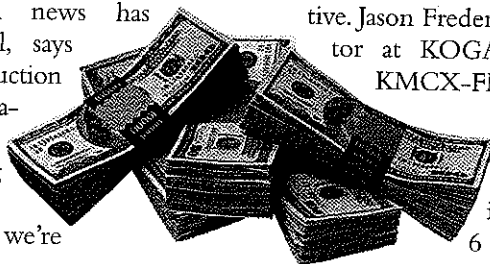
Of course, making money isn't the only reason a radio station provides news. According to Bell, the value of a news operation goes beyond direct dollars and cents. "Its value is in image, service to the community, intangible things that build a station's reputation among listeners."

In the 22 years Bell has been at the station, the Murrow award winner has watched the number of reporters at his station drop, from four to one. The amount of local news has dropped too. Still, says Bell, the staff reduction doesn't mean the station has given low priority to airing the news.

"Even though we're

down to myself—the only one here doing news—there's still a commitment on the part of the station, because they could have done away with it completely. What we do now is try to focus more on quality than, say, quantity of news. Instead of doing newscasts around the clock, we focus the efforts on the morning drive, when most listeners are available. Beyond that, it's on an as-needed basis."

Other news directors have also found targeted time slots to be effective. Jason Frederick, news director at KOGA-AM/FM and KMCX-FM, Ogallala, NE, thinks his station makes money from its newscasts at 6 a.m., noon and



5 p.m. Frederick says that while the station does well, he doesn't, but he says he's from the area and likes the work. Capstar is in the process of buying the stations, but the staff expects little change in the operation.

Beyond profits and service, Ed Perry cites another value behind providing radio news: the value of personal fulfillment. In a world of increasing consolidation, Perry still owns and manages WATD-FM after putting the station on the air 20 years ago. The reason? "We hold out because it's still fun," says Perry.

Perry says there are two kinds of independents: those that are independent because they want to be, and those that are independent because "nobody wants them." For the most part, he says, "There are a lot of small AMs nobody wants. There are still a lot of decent suburban FMs that everybody wants that aren't for sale. And ours, immodestly, is in that category. We hold out because we want to hold out and because we make money. This is what I do for a living." ■

Bob Papper is professor of telecommunications at Ball State University in Muncie, IN, and has worked extensively in radio and TV news. Michael Gerhard is associate professor of telecommunications at Ball State and has extensive industry and research experience. This report was supported by the Department of Telecommunications at Ball State University and the Radio-Television News Directors Association.

ABOUT THE SURVEY

The RTNDA/Ball State University Survey was conducted in the fourth quarter of 1997 among all 1,254 operating, non-satellite television stations and a random sample of 865 radio stations. Valid responses came from 722 television stations (57.6 percent) and 334 radio stations (38.6 percent).