

Clear Channel Creates a National Chain of Local Radio Stations

In 2002, Clear Channel Communications, based in San Antonio, Texas, operated over 1,200 U.S. radio stations compared with its largest competitors: Viacom with 186 and Citadel with 205. The company started out with only one station in San Antonio in 1995, something that used to be typical of the radio broadcasting industry. Historically, the industry was fragmented because a federal law prevented any company from owning more than 40 stations nationwide; as a result, a large proportion of the local radio stations were independently owned and operated.

Clear Channel took advantage of the repeal of this law in 1996 to start to buy up radio stations and, most important, find a business model that would allow it to obtain the gains from consolidating this fragmented industry. Its strategic managers recognized from the beginning that the major way to increase the profitability of city and small-town radio stations was to obtain economies of scale from operating and marketing on a national level. The issue was to find ways to raise the quality of its programming to increase its value to listeners, increase the number of listeners, and thus increase advertising revenues (because, advertising rates are based on the number of listeners). At the same time, it needed to find ways to reduce each station's high operating costs and lower its cost structure. How to do both simultaneously was the challenge?

On the value side of the equation, an important issue that had to be addressed was how to achieve the economies of scale from having a national reach while maintaining the local ties of a station to its community. Many listeners like to feel they are listening to a local station that understands who they are and what their needs are. Yet if all programming and service is handled on a local level, how can economies of scale from a national base be achieved? Most cost savings come from standardization of service across stations, from broadcasting uniform content. Similarly, local listeners often become used to the glitzy, slick productions put on by national cable television broadcasting companies such as MTV and the main TV networks. Because they are national, these companies can afford to pay large sums to stars and celebrities and invest heavily in developing quality products. Such large experiences are beyond much radio stations' budgets and simply increase the cost of goods sold too much.

Moreover, advertising rates had to be kept at a level that both large national companies and small local ones would find acceptable; they could not simply be raised to cover higher costs.

Clear Channel's managers began to experiment with IT and the internet and took advantage of emerging digital technology that allowed for the easy and rapid manipulation and transfer of large volumes of data. By the late 1990s, music and programming could easily be recorded, stored in digital format, and edited. Its managers hit on a strategy called "voice tracking". To obtain economies of scale, Clear Channel employed popular regional or national DJs to record its daily programs, and these same DJs customize their productions to suit the needs of local markets. For

example, one technology allows DJs to isolate and listen to the end of one track and the beginning of the next; then they can insert whatever talk, news, or information that is appropriate between tracks as and when they like. The local stations supply this local information, after they have customized their program, the DJs send it over the internet, where the local operators handle it. This practice has enormous advantages, on the cost side, the programming costs of a limited number of popular DJs are much lower than the cost of employing an army of local DJs. On the differentiation side, the quality of programming is much higher because Clear channel can invest more in its programming and because the appeal of some DJs is much higher than others, over time, higher quality programming increases the number of listeners, and this attracts more national advertisers, whose digital advertisements can be easily inserted in the programming by local operators.

In addition, Clear Channel is developing its own proprietary brand name, KISS, across its radio stations so that when people travel, they will be attracted to its local stations wherever they are. It also hopes this will stimulate word-of-mouth advertising. As its brand becomes national, this widened scope will attract larger advertisers and boost its sales revenues. To speed this process, it is also now in the process of linking its different businesses-for example, it is the largest billboard and concert operator in the United States- to its KISS label. Through these means, it hopes that increased customer demand will drive up advertising revenues, which will allow it to start or buy more radio stations and expand its reach and thereby lower its cost structure and so increase its future profitability.