

# ***The Cost of Doing Business in Public Radio Overview***

Madison Hodges, U:SA Executive Director

The University:Station *Alliance* research project "The Cost of Doing Business," funded by a grant from the Corporation for Public Broadcasting, presents information and tools for college-licensed stations. The purpose was to allow managers to quantify the value of a station to its governing institution and identify alternative governance models. It is hoped this study will provide tools and options that stations may use to begin productive conversations with their stakeholders.

We urge you to read the three final research reports and the two tools that are available on the U:SA Cost of Doing Business web site [www.us-alliance.org/costofdoingbusiness](http://www.us-alliance.org/costofdoingbusiness). Please contact the U:SA with any questions, comments, or suggestions on continuing the work started in this project. Many ideas were raised in these studies and the U:SA Board of Directors wants to help stations make use of those you find useful.

The project began in March 2006 with research gathered from college and community licensed stations and proceeded in April with a focus group hosted by WFAE, Charlotte. Station managers, business administrators, and college administrators from six stations shared their insights into the benefits and/or costs of having a university or college as the licensee. The research led to an on-line survey for the 14 stations selected to participate in the study sample. A meeting with these stations' managers and the project consultants was held in July 2006 in Ypsilanti MI. The following report summarizes the information presented at the meeting. More detail is in the final research reports.

## **Our Consultants:**

### Governance

Arlen Diamond, Ph.D., is Director of Broadcast Services and General Manager at Missouri State University in Springfield. A long-time manager of public radio and television stations, he is a founding member of the U:SA and also consults in the areas of focus groups and research.

### Quantifiable Worth

Paul Krause of Paul Krause and Associates of Northfield, MN was one of the first public radio professionals to use economic analysis within the context of improving station-licensee relations while at WCAL. He later conducted similar quantifiable worth model studies for WOSU, Minnesota public radio stations and Texas Public Radio. Paul holds degrees in Economics and has studied for the Ph. D. at the University of Minnesota. He consults in fundraising and business management and has taught economics at several colleges.

### Cost-Benefit Analysis

Gale Blalock holds a Ph.D. in Economics and is a Professor of Economics at the University of Evansville. He currently chairs the Department of Accounting and

Business Administration and formerly was chair of the Accounting, Economics and Finance Department. His scholarly activities include studies of economic impact and economic outlook. Blalock is President of the Missouri Valley Economic Association and has taught Economics since 1971. Rob Montgomery holds a D.B.A. degree and has experience in statistical analysis, marketing and management research. He is currently a Professor at the University of Evansville and has taught since 1989. He and Dr. Blalock have collaborated on other research projects.

## **Governance:**

Dr. Arlen Diamond, Director of Broadcast Services and General Manager at Missouri State University, led a discussion of governance issues at the Ypsilanti meeting. Participants reviewed station mission statements and how they relate to university mission statements, discussed reasons why licensees continue to hold stations as assets, and examined perceptions of university versus community assets.

In addition to the traditional model of station-licensee relationships, other models were discussed, such as the station becoming a “profit-center” for the college to provide revenue in exchange for more freedom for stations operations. One station reported paying an annual charge based on an established percentage of the station’s monetary value. The return keeps the licensee from considering selling the station license.

It was suggested that stations must be flexible to meet the challenges and that “multi-tiered” governance is another model. Use of community boards can lend credibility to a manager and the volunteers can emphasize the importance of the station in the community. Participants noted that all college departments are being held to an increasingly high standard of financial justification, and that managers must be able to manage the political aspect of the college environment. Stations should seek out a broad range of supporters. Increased use of boards can be used to generate individual support and lobby the licensee, as well as providing a method of moving assets and seeding a future governing board.

This can lead to a separate 501 (c) 3 organization. In that case, licensees may need assurance that this will not conflict with the college’s foundation. This organization may also be useful in expediting the use of funds without going through institutional bureaucracy. University foundations are a model for a separate 501(c) 3 organization. Managers also must develop skills to manage boards.

Another model is use of a Local Management Agreement (LMA) between the college and non-profit corporation in order to gain more autonomy. It was noted that these arrangements can allow the college to continue to provide some support which might otherwise be costly for a new and smaller organization, while allowing the station to raise more money. It is not an “all or nothing” arrangement, as indicated by one example where the station was able to negotiate with the licensee to continue to fund certain expensive benefits while accepting an LMA arrangement.

Independence from a college licensee has been successful at some stations. The college may be interested in acquiring money for the license and/or reducing the expense of operating the station. A contingency plan for stations to counter any offer to purchase the station is useful.

Suggestions to engage the licensee in governance discussions included involving college leadership in public broadcasting national meetings, using high profile station board members to talk with the college administration, individual presentations to administrators by system experts, use of case studies and testimonials, developing internal college allies, peer-to-peer networks among college presidents, and support from outside experts who can be available to visit campuses.

### **Quantifiable Worth Statements:**

A QWS is a tool quantifying stations' value to their licensees. This is a defensive measure in the face of pending budget cuts or possible sale by licensees but is also a pro-active method of reminding the licensee of the station's importance to the institution. Paul Krause of Paul Krause and Associates developed the QWS based on research for other public radio stations.

He told the participants that the QWS tool can help station-licensee relations by showing the variable “worth” of stations among listeners and licensees. He noted that top university administrators have changed from traditional to a more corporate mindset over the years. This may have eroded some trust between stations and licensees. Stations can use the QWS to help educate administrators about the benefits of supporting a public radio station. He noted that some stations may have distanced themselves from the licensee fearing that close identification would erode giving from the audience. Krause suggested nurturing the relationship even if the station is planning to move to a new governance structure.

The QWS model reflects two components: Public Service Value and Public Relations. The measurement for Public Service uses audience metrics from established data to show the value the public has for the station. The Public Relations value model uses underwriting, event promotion, etc. to benefit the licensee. Krause said that the stations provide the university valuable access to the licensee's key constituents and reviewed a method to determine the market value of the stations' efforts. Sources of value include underwriting announcements, ID's, PSA's, event promotion, web site links, and programming. A step-by-step QWS tool for stations to use is on the web site.

### **Cost-Benefit Analysis:**

Dr. Rob Montgomery and Dr. Gale Blalock of the University of Evansville presented preliminary research based on station management interviews and a focus group. The results of the survey administered to the participating stations were presented in order to fine-tune the language in the survey tool for broader distribution.

The financial analysis covered a break down of expenses funded by the licensees with the largest items being salaries and physical space. The study assigned dollar values to the operating costs of a traditional college setting as compared with a community licensee. Costs were broken down by salaries, utilities, benefits, legal, accounting/auditing, space, etc. to enable stations to more finely estimate the actual benefits from the licensee. Also, payments to the licensee and lost income were included. Preliminary research with the participating stations indicated that the managers believed that radio stations help fulfill the mission of their universities, and that public radio enhances the licensee's image. The stations represented different licensee types (public, private, community colleges, HBCU, large, small, etc.) The financial analysis indicated the mean level of support for the participants was over \$550,000. In the survey of the 12 participating college stations, 23% of the stations' expenses were reported to be covered by the licensee.

The vast majority of respondents reported that their affiliation with the college was a plus for the station. Participation in the survey was expanded in January 2007 to any manager of a college licensed station and the sample size rose to 36. The results were similar to the smaller sample size.

The Cost-Benefit tool on the web site may be used in assessing the costs and benefits to stations licensed to educational institutions.

Through comparative data, this vehicle will allow managers to make more informed decisions about the benefits and costs to show which governance model may be most cost-effective for a given station and assist in financial planning considerations for stations moving into a new structure with less direct support from a college.

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Art Timko, General Manager of WEMU in Ypsilanti, and Loretta Rucker, Director of the African-American Station Consortium, were also able to attend and contributed to the discussion.

Other stations which have provided assistance with the project include WAMU, WUWF, WKMS, KSMU, WMUB, and community stations KCBX, WCQS and WNIN. The U:SA

appreciates the volunteer efforts of these stations' managers and business administrators. The support and assistance of the Corporation for Public Broadcasting management and staff made this project possible and we deeply appreciate their counsel and support. As always, the U:SA depends on the grassroots efforts of our stations to make the organization and the research successful.

The U:SA encourages feedback and your thoughts to continue the discussion of issues contained in these reports.

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