A Twenty-First Century Library of Selected Thought and Analysis About Public Media

Volume 2

The Hennock Institute

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Reuters Institute for the Study of Journalism

University of Oxford

REPORT

Is there Still a Place for Public Service Television?

Effects of the Changing Economics of Broadcasting

Edited by Robert G. Picard and Paolo Siciliani

September 2013

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1. Economics and the Challenges of Broadcast Policy-Making

Robert G. Picard

Whenever we turn on our television sets we are reminded how much it has changed in our lifetimes. Some of us remember the days when television was a single channel; others when there were only public service and advertising supported channels; and some of us only recall when basic broadcasting and paid satellite services became available. Whatever the length of our memories, we are all aware that the number of channels is growing, that the switch to digital broadcasting has added more services, that many of us are spending significant amounts of money for pay services, and that we can now watch streaming television and television programmes on many types of devices.

Television is thus no longer the narrow conceptualisation we had for it in the past. It now represents a far broader and more complex set of technologies and distribution platforms, with many different types of providers and financing models. It is no longer just a broadcast stream, but includes catch-up and recording services, and a range of paid and free video-on-demand services that allow us to watch individual programmes of our choosing. It is increasingly linked to telecommunications and internet services that are expanding the potential uses of that programming and our interactions with broadcasters and other programme distributors, advertisers, and other viewers.

These changes are running far ahead of broadcast policy, taxing the abilities of regulators and policy-makers to keep up with its rapid pace. The fundamental principles and trajectory of existing broadcast policies are based on the economics of technological and market conditions present a century ago and this compounds the challenges facing policy-makers today because contemporary conditions are so different.

The structure and financing of the UK television market have undergone significant changes since the BBC began regular television broadcasting in 1936. It is now comprised of three coexisting subsectors: licence-fee-funded broadcasting, advertising-supported television, and pay television. The development of the latter sectors provided significantly more choice for consumers and increased competition for audience attention, but each primarily relied upon different sources of revenue than previous sectors (Barwise and Picard, 2012).

Policy changes towards television over the past 60 years have been driven by improved use of spectrum, desires to provide more choice for viewers, and views that monopolistic provision of television by a state-created broadcaster produced inefficiency and hampered national economic development (Coase, 1950, 1966). Despite the strong growth of advertising-supported and pay television, economic criticisms of public service broadcasting have been increasingly heard, arguing that the economic rationales for its establishment no longer apply. It has been argued that licence-fee funding for public service broadcasting keeps the public from being able to use market mechanisms to influence content (Peacock, 1986) and distorts the television market (Peacock, 2004). A variety of arguments for its future have been put forth: that licence fees for the BBC should be reduced (Broadcasting Policy Group, 2004), that the BBC should provide only the programming that the market will not (Peacock, 2004), that it be turned into a voluntary subscription service (Broadcasting Policy Group, 2004; Peacock, 2004; Armstrong, 2005), and that significant parts of its operations should be privatised (Broadcasting Policy Group, 2004). Another alternative has been put forward that argues that financing for public service content should be available through a contestable fund from which all broadcasters could seek funding for content the market will not support (Broadcasting Policy Group, 2004; Oliver, 2009; Ofcom, 2007).

These positions have been countered by arguments that public service broadcasting and the BBC play crucial roles in citizenship, culture, and education and that there are ample economic and social rationales for public intervention in broadcasting and maintaining a strong BBC (Graham and Davies, 1997; Graham et al., 1999; Helm et al., 2005; Seabright and von Hagen, 2007; and Foster and Meek, 2008).

The development of pay television and the switchover to digital broadcasting have clearly ameliorated two fundamental economic rationales for public service broadcasting: spectrum constraints and inability to exclude those who don't pay from receiving broadcasts (Barwise and Picard, 2012). These crucial developments mean that policy-makers will no longer be confronted by key aspects of television market failure as they consider options for television policy. In the coming years the government will issue a green paper on its ideas for UK broadcasting, conduct a BBC charter review, and a new Communications Act is expected to be put in place. The structure of the television market, the growing roles of digital distribution, and the role, governance, size, and funding of public broadcasting and the BBC will be a key part of these debates, with the latter being particularly addressed in the charter review.

This report explores what is driving the changes in broadcasting, how they are altering the traditional dynamics of broadcasting systems and provision, how digital switchover and pay television services are fundamentally modifying the economics of traditional broadcasting, and the implications of these changes for broadcasting policy. These changes are not unique to the United Kingdom, but are being felt in television markets around the world.

After considering these fundamental issues, the report turns to questions particularly germane to the British context. This is particularly important because UK policy-makers will soon begin considering how policy might and should change. The report thus asks whether broadcasting is different from other industries, what the ideal market for consumers and citizens would look like, the contributions and limitations of the market to broadcasting, and how the various funding mechanisms might help the broadcast system move closer to the ideal.

The report is intended to provide knowledge and background that will help policy-makers and the public make better decisions about where UK policy should direct broadcasting in the coming decades. Debate over the policy options is vital and will be contentious; the extent to which it is well informed will influence the quality of the subsequent choices.

The report is the outcome of a symposium on the economics of broadcasting organised in January 2013 by the Reuters Institute for the Study of Journalism at the University of Oxford, together with the BBC Trust. It brought economists, policy-makers, and broadcast executives together to present and consider different views on the fundamental issues. The event was funded by the BBC Trust, but the ultimate selection of the speakers and topics was made by the Reuters Institute.

Subsequent to the symposium, the speakers produced chapters for this publication based on the presentations and discussions at the event. They represent a range of views on the future of television policy based on the changing nature of television and traditional rationales and means of broadcast regulation. The views represent those of the authors and are not necessarily those of the Reuters Institute or the BBC Trust.

Television Change and the Place of Public Service Broadcasting

The report is divided into two sections. The first reviews the television environment and how economic conditions have changed through the development of multichannel and digital broadcasting. The second section addresses the question of whether there is a future for public service broadcasting. The authors address the economic bases of television regulations and arguments surrounding them and whether continued public intervention in television broadcasting is warranted.

In the first section, Helen Weeds argues that the contemporary conditions of broadcasting produce excludability and extensive consumer choice through advertising-supported television and pay TV – thus improving the market and removing some of the fundamental rationales for broadcast regulation. Weeds further argues that public broadcasting creates positive externalities not provided by the market that are important for society and that contemporary public intervention is consequently justifiable but not at the levels that harm commercial firms, investment in broadcasting, or reduce the total welfare of the broadcast systems. Consequently, Weeds argues that the scale and scope of public service broadcasting need reappraisal.

Joshua Gans shows that television is not a simple economic good and how technical forces are altering the environment of television in ways that affect consumption and financing opportunities. He argues that the social nature of television has been expanded by the digital age and that this may create new opportunities that are commercially attractive.

Dieter Helm questions those who argue that the contemporary technical changes in markets profoundly separate broadcasting from its past and that significant change in policy is needed because of digitalisation. He argues that most market failures associated with television remain and that the new environment creates an additional market failure related to search and information provision.

The second section is begun by Jonathan Levy who argues that television requires special intervention which other products and services do not because of society's non-economic goals for television. He contends that the abilities of policy-makers to influence content supply and consumption are diminishing in the UK and the US and that traditional regulatory approaches are unlikely to adequately redress content provision deficits. Pursuing non-economic goals for broadcasting can require other intervention to address the needs of citizen/consumers and the incentives to produce public interest content, he maintains.

Andrew Graham raises the issue of the roles of broadcasting policy and argues that it is gaining renewed attention because minimalist policies have shown themselves ineffective in banking, finance, and media. Broadcasting is not an ordinary product and deserves increased oversight, he argues, because it is a merit good, because consumption does not take place as an ordinary market transaction, and because it serves crucial social and democratic functions.

Mariana Mazzucato asserts that arguing that public service broadcasting crowds out investments in private broadcasting ignores its many contributions as a facilitator of the market that reduces risks to investment and private firms and contributes to the development of the industry, its technologies, and its funding. The role of public broadcasting, she argues, cannot be merely one of addressing market failures but needs to be seen as building and enabling the television market. It should be conceived as part of a public–private partnership for building an optimal broadcasting system.

Diane Coyle and Paolo Siciliani show that the technical limitations which created market failures that served as the rationale for public service broadcasting have been removed by contemporary technological developments, but they argue that digital technologies are making other market failures in broadcasting more acute and continue to underscore the public good nature of broadcasting and that consumers and citizens continue to need some universally accessible content as a social good.

They warn that distribution through digital platforms is aggravating the trade-off between investing in programme variety serving many audiences and investing in quality popular content for large-scale audiences. Coyle and Siciliani also argue that the dynamics of the digital market, with significant economies of scale and network effects, pose a challenge for maintaining competition and opportunities for new entrants in the value chain.

Finally, Gavyn Davies reflects on the past and future of the BBC, arguing that it was developed to serve important social functions and that society will continue to benefit from universal access to quality programming. The BBC will need funding at an adequate scale to continue providing that service in the future because it remains relevant despite changes in the technological landscape, he asserts.

The authors in the second part of the volume recognise the changing nature of television economics, but make clear cases for continued intervention in broadcasting through public service broadcasting. Their support for public service broadcasting, however, is essentially unqualified and tends to cast the policy choices emerging in the contemporary debate as a choice between maintaining public service broadcasting or eliminating it.

Although this is perhaps the nature of polarised political debate that often results in compromise in actual policy, no serious suggestions have been made to abolish the BBC, even by its harshest critics, although significant changes have been suggested for other public service television enterprises such as ITV. With regards to the BBC, essential questions revolve around the extent to which the current scale and scope of the BBC remains necessary, given the contemporary economics of broadcasting. At some point in the coming years, one can expect the debate to more sharply focus on those issues.

Discussions instigated by the authors in this volume will be important in considering the future of television broadcasting in the United Kingdom and their ideas will contribute to the debate that will take place in the coming years. Whatever one's position on the emerging policy choices, comprehending the underlying issues and the varying points of view will be crucial for engaging in the debate and setting the next course for UK television policy.

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SECTION I

RECONSIDERING THE TELEVISION ENVIRONMENT

2. Digitisation, Programme Quality, and Public Service Broadcasting

Helen Weeds

On 24 October 2012 the analogue terrestrial television signal was switched off in the UTV[1] region, completing the process of digital switchover in the UK begun in 2007. All households with television now have access to multichannel TV, whether this is several dozen channels on digital terrestrial television (DTT) or several hundred on satellite and cable distribution platforms. Telecoms operators have launched IPTV platforms to offer television services to their subscribers. Many households also have access to a selection of non-linear services such as video-on-demand (VOD) and over the-top (OTT) services, aided by improving broadband connections. Meanwhile the internet offers an enormous selection of content from which consumers may satisfy informational and entertainment needs traditionally met by television. The transition to fully digital television marks an appropriate point to re-examine the economics of television broadcasting and the case for public service broadcasting.

The UK's system of public service broadcasting (PSB) may be seen as a response to two concerns that arise in television broadcasting:

- *Consumer concern*: will the market provide what people want to watch?
- *Citizen concern*: will the market provide, and will people watch, what we want them to watch?

The consumer concern recognises that there may be market failures in broadcasting such that it fails to deliver the outputs that consumers themselves want to watch. The citizen concern recognises that broadcasting can serve broader social purposes, making television viewing a matter for more than just the individual consumer. These social purposes include education, which benefits other individuals and the economy, and the dissemination of information such as accurate news coverage, an important element of a well-functioning democracy.

These priorities are captured by the BBC's Reithian mission to 'inform, educate and entertain'. The Communications Act 2003 sets out, less succinctly, a variety of purposes for PSB in the UK. These include the provision of diverse programming catering to all interests and communities, investment in high-quality programming, and the promotion of educational and other social benefits, including an informed and tolerant population. These aims are combined with an element of industrial policy in the form of a bias towards nationally and regionally produced content.

The UK's system of public service broadcasting is facing a number of challenges in the post-analogue world. The TV licence fee, which supports the BBC's public service activities, is currently frozen in nominal terms until BBC charter renewal in 2016; over the longer term multichannel households may prove resistant to substantial increases in its value or object in greater numbers to the principle of a compulsory licence fee. Pressures on the advertising revenues which support the other public service broadcasters (publicly owned Channel 4 and private operators ITV and Five) threaten the future sustainability of this model of provision. These developments may require the existing system to be overhauled, and scaled back to some extent,

[1] Formerly Ulster Television.

if not immediately then at some point in the not-too-distant future. The following question will then need to be addressed: how much, if any, public intervention in broadcasting is really appropriate and, if the UK's system of PSB is to remain effective, how should it be delivered in the future?

The next section examines the public good nature of television broadcasting and the provision of television services. The third section considers consumer market failures in the analogue and digital worlds. Turning to citizen aspects of television broadcasting, the fourth section assesses the effectiveness and impact of public service broadcasting following the transition to digital, and this is followed by a conclusion.

The Economics of Television Broadcasting

Television broadcasting has often been described as a public good. In this section I explore this claim and its implications for market provision.

IS TELEVISION A PUBLIC GOOD? In economic terms a public good is defined by the following two properties.

- *Non-excludable*: it is infeasible (or prohibitively expensive) to exclude those who do not pay; this creates a free-rider problem as consumers need not pay in order to consume the good.
- *Non-rival* in consumption: consumption by one consumer does not reduce the amount available for other consumers; i.e. the marginal cost of supplying an additional consumer is zero.

The first property makes market provision of public goods problematic. Most goods, including television broadcasts, are costly to provide. Non-excludability makes it difficult to levy consumer charges. In the absence of other revenue sources suppliers struggle to recoup the cost of provision and the good is underprovided by the market; in extreme cases it may not be provided at all. The second condition implies that the socially optimal level of provision is high: with zero marginal cost allocative efficiency achieved by providing the good to every consumer who values it (in economic terms, to every consumer with positive willingness to pay).

The analogue terrestrial television system developed in the UK from the 1930s onwards displayed both of these properties, making the service a public good. However cable and satellite systems developed since the 1980s[2] built-in encryption technologies and other measures to exclude non-payers; with the completion of digital switchover there is now no television distribution technology in the UK for which exclusion is infeasible.[3] These developments mean that the first property of a public good no longer holds and hence television broadcasting is no longer a pure public good. Nonetheless, based on the second condition alone (or sometimes on a different concept of a public good from the economic definition given above) several commentators continue to describe television as a public good, pointing to the social optimality of providing the service to all consumers that desire it.

[2] In the 1980s cable franchises were awarded and began to be built out in the UK. In 1989 the UK saw the launch of its first satellite broadcasting services, British Satellite Broadcasting (BSB) and Sky Television, which merged to form British Sky Broadcasting (BSkyB) in 1990.

[3] Digital terrestrial has both a free-to-air service, Freeview, and a pay TV service, Top Up TV.

COMMERCIAL PROVISION OF ANALOGUE BROADCASTING In the analogue world in which consumers cannot be charged directly for viewing, market provision of television broadcasting can be supported by advertising revenues, overcoming the under-provision problem described above.[4] Although they pay no monetary fees, consumers *pay* for broadcasts by watching the advertisements that interrupt the programming and buying the advertised products. Commercial television is a two-sided market: broadcasters show programming to attract viewers and sell access to those viewers to advertisers. The sale of advertising airtime is not a public good – advertisers can be excluded and the provision of airtime to advertisers is rivalrous – thus can take place as a market activity. Commercial free-to-air television funded from advertising revenues can sustain considerable amounts of television broadcasting. However, there is no guarantee that advertising-funded broadcasting achieves optimal outcomes for viewers. This issue is explored further in third section.

LICENCE FEE FUNDING In the absence of other funding sources, many public goods are provided out of general taxation. This, of course, is not costless: there are few forms of taxation that do not cause economic distortions, discouraging the desirable activity (such as working or saving) that is taxed. While a few countries use general tax revenues, a more common approach is to finance public broadcasters wholly or partly out of TV licence fees levied on households that own television sets (as in the UK).[5] This may be variously regarded as a hypothecated tax or as a compulsory subscription. As a form of taxation it is regressive, with the same amount being paid by all households regardless of income (unless they choose not to have a television set at all).

Supporters of the licence fee often point to its desirability in terms of pricing at marginal cost, which in this case is zero: once the licence fee has been paid, viewing is free at the point of consumption. (The same could be said of pay TV subscription, though not pay-per-view: once the subscription fee has been paid viewing is free at the point of consumption.) But consumption as a whole is not free: the licence fee must first be paid – in this regard the licence fee is more akin to a subscription fee – and this gives rise to some distortions. A few households do not value watching television highly enough to pay the licence fee and are excluded even though they could be served at zero marginal cost. However, close to universal television uptake suggests that in practice this inefficiency is relatively small.[6]

A potentially more significant inefficiency arises when the licence fee coexists with pay TV. In order to subscribe to the pay TV operator's package the consumer must also pay the licence fee, even if she has little or no desire to watch the public channels. This distorts consumer choices regarding pay TV.[7] Suppose that a consumer would purchase the pay TV package on a stand-alone basis. If her *incremental* willingness to pay for the package on top of the licence fee is too small then she will be excluded from consuming this good: this is a form of allocative inefficiency. Even if incremental willingness

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[4] The BBC started out as the British Broadcasting Company, a commercial entity founded in 1922 by a group of radio equipment manufacturers to transmit radio broadcasts in order to promote the sale of radio sets. Thus the first (radio) broadcasts in the UK were supported by the profits on equipment sales, another way of mitigating the free-rider problem associated with broadcasting.

[5] Note that the TV licence fee system assumes that the problem of non-payment can somehow be overcome. In the absence of technological exclusion via encryption this has been achieved through an enforcement system based on criminalisation.

[6] According to the Broadcasting Audience Research Board (BARB) 26.5 million out of 27.4 million domestic households in the UK (96.7%) own a television set as of Jan. 2013.

[7] Representations of consumer preferences illustrating these distortions can be found in Armstrong and Weeds (2007a), s. 3.1.

to pay is sufficiently high that the consumer subscribes to the package, some surplus is transferred to the public broadcaster (whose service the consumer may not value), a diversion that reduces the funds available to provide the pay TV service. The inefficiencies arise from the compulsory nature of the licence fee: rather than having a free choice to take (and pay for) either one or both of the two services, the consumer's choice is transformed into a single choice between having the public channels alone or taking the pay TV package in addition to the public channels. Those consumers who would prefer to take the pay TV package alone cannot do so and are made worse off by the constraint. While it is unclear how many potential subscribers are deterred from taking pay TV because of the licence fee or to what extent pay TV revenues are reduced, these effects of the licence fee may not be trivial.

PAY TV As noted above, the adoption of encryption technologies and other exclusion methods means that the first property of a public good no longer holds in television broadcasting: non-payers can be excluded at reasonable cost. With this ability commercial broadcasters can now charge viewers directly rather than relying on advertising revenues alone to finance their services. The question then arises as to whether a pay TV model can efficiently provide television broadcasting.

Television programming has a high 'first copy' cost but once produced can be made available to additional consumers at no further cost. Distribution platforms have high fixed costs (e.g. terrestrial transmission masts or satellite transponders to make the broadcasts, and aerials or dishes to receive them) but once installed a consumer can receive any number of programmes at no further cost.[8] A similar cost structure – high fixed and negligible marginal cost – is found in other creative industries: the same point could be made for movies and recorded music, for example. This cost structure creates a challenge, though not an insurmountable one, for market pricing: from the private as well as the social perspective it is desirable to supply all consumers with positive willingness to pay, extracting varying amounts of surplus from each one to contribute towards the fixed cost of providing the good.

Market provision typically achieves this through price discrimination: similar products are supplied to individual consumers at different prices to boost consumption while permitting the provider to generate the revenues necessary to recover fixed costs. In the pay TV sector price discrimination is typically implemented through bundling: channels (or, increasingly, non-linear services such as video-on-demand) are combined into a package sold for a single subscription fee. Although consumers may be offered some choice between different packages or the option to add higher tier 'premium' channels to the basic package, the combining of individual channels (or downloads) into packages is commonplace. The economics of bundling tells us that this approach – which is a form of second-degree price discrimination – can achieve close to the efficient allocation while overcoming the problem of provision entailed by marginal cost pricing.[9]

There are further benefits to consumer pricing beyond the ability to recover costs. Price signals inform suppliers as to which products are most highly prized by consumers. The informational role of consumer prices is particularly important in an industry such as television broadcasting where

[8] This may be less true of IPTV distribution and over-the-top video services: incremental internet traffic is not costless, especially at times of day when capacity constraints are binding, and many consumers face caps on their monthly broadband usage.
[9] Coase (1946) suggested multi-part tariffs, another form of second-degree price discrimination, as a solution to the marginal cost controversy.

consumers have diverse tastes and these change over time. Alternative mechanisms that might be employed when market prices are absent, such as consumer surveys, often fail to reveal the true preferences of a large body of consumers. Furthermore, organisations that are free from market discipline may find it easier to ignore consumer demands, satisfying their own preferences over those of consumers. Competitive markets also provide incentives for innovation and cost efficiency.

It might be pointed out that other industries with a similar cost structure, such as movies and recorded music,[10] exist with market provision and no significant public intervention. These, too, use price discrimination to mitigate allocative inefficiency: 'windowing' in movie release is a form of inter-temporal price discrimination whereby consumers with a high willingness to pay who are impatient to see the movie at first release pay more for it than those who are willing to delay consumption and purchase in subsequent release windows.[11] Even if these methods fall short of achieving precisely the socially optimal outcome, there has never been a proposal to replace or supplement market provision in these industries with a form of public provision akin to public service broadcasting. The case for public service broadcasting must rest on something more than the high fixed/low marginal cost structure which broadcasting shares with other creative industries.

Consumer Market Failures in Television Broadcasting

As discussed above, even in the analogue world, market provision of television broadcasting is not undermined by its public good properties: advertisers are willing to pay for access to viewers and these revenues can support considerable amounts of television broadcasting. However, free-to-air commercial broadcasting does not guarantee that the *characteristics* of the programming that is provided best serve the preferences of viewers. Three main characteristics are important to consumers of television programming:

- *Diversity*: there are many genres of television programming; individual consumers have different preferences over these, and each consumer likes variety in programming.
- *Quality*: within each genre consumers prefer programming with superior production qualities, e.g. better acting in a drama, more special effects in an action movie, speedier and more accurate news coverage.
- *(Lack of) advertising*: consumers generally regard advertising as a nuisance, preferring to watch the chosen programme without interruption (though note that if viewers avoid watching advertisements, e.g. by using recording devices, the business model underlying commercial free-to-air broadcasting cannot be sustained).

MARKET FAILURES OF ANALOGUE TELEVISION BROADCASTING In addition to non-excludability, analogue terrestrial broadcasting in the UK had another

[10] Challenges to the recorded music industry in the early 21st century arose mainly from the ease of private copying of digitally recorded music, resulting in unauthorised reproduction and non-payment becoming widespread. In this sense recorded music might now be said to display more of the characteristics of a public good than television broadcasting. Access control technologies ('digital rights management') are being developed by providers to restrict unauthorised copying and distribution of digital content.

[11] Although note that delay involves some inefficiency.

important characteristic: with limited spectrum available for broadcasting only a small number of television channels could be broadcast (a maximum of five by the time the analogue system was switched off). This restricted the choice available to consumers at a particular point in time to just a handful of programmes.

In a literature dating back to the 1950s (see e.g. Steiner, 1952; Beebe, 1977; Spence and Owen, 1977), economics has been used to assess market outcomes of free-to-air, advertising-funded broadcasting with a limited number of channels. Having discussed the conclusions of this literature at length elsewhere (see Armstrong and Weeds, 2007a), I shall confine myself here to a brief summary. Free-to-air analogue broadcasting is prone to focus on mass market tastes, supplying lowest common denominator programming whilst failing to meet the needs of groups that are smaller in number yet whose preferences may be strongly felt. Put another way, there is too little diversity of programming. This is because advertising-funded broadcasters care primarily about attracting 'eyeballs', i.e. the size of the audience, perhaps with a preference for certain demographic groups, rather than the value of the content to consumers. Inability to extract consumers' willingness to pay for higher quality also means that investment in programme quality tends to be too low from the social point of view. Meanwhile programmes are accompanied by too much advertising from the perspective of viewers.

The system of public service television broadcasting developed in the UK since the 1930s[12] may be rationalised as a response to the market failures of analogue terrestrial broadcasting. The system is subject to regulation under UK statute and two European Directives. The Communications Act 2003 requires public service programmes, taken together, to cover a wide range of subject-matters and appeal to many audiences and interest groups (i.e. to provide diversity) and to maintain high quality standards in their contents and production.[13] The amount and scheduling of television airtime devoted to advertising is subject to constraints under the Audiovisual Media Services (AVMS) Directive, adopted in 2007 to amend the Television Without Frontiers (TVWF) Directive adopted in 1989.[14] Taken together, these regulations mandate greater diversity and high-quality programming, and limit excessive advertising, in line with the viewer preferences noted above.

TELEVISION BROADCASTING IN THE DIGITAL WORLD Technological changes (often referred to collectively as 'digitisation') have transformed television broadcasting in two important ways. First, since all distribution platforms now have the capability to exclude non-payers, commercial providers have the option of charging viewers directly. Secondly, digital signals make better use of the available spectrum (or other transmission medium), vastly increasing the number of channels that can be broadcast.[15]

These developments profoundly alter the economics of television broadcasting. A recent literature on the economics of television broadcasting

[12] The UK's system of public service television broadcasting began with the launch of the BBC's television service in the 1930s, followed by the introduction of commercial television (ITV) in 1955, launches of two further analogue channels Channel 4 (S4C in Wales) in 1982 and Five in 1997, and the introduction of additional digital-only BBC channels in the 1990s.

[13] Communications Act 2003, part 3, chapter 4, para. 264(4).

[14] Under the AVMS Directive, advertising is limited to 12 minutes per hour (as before), but the daily limit of three hours of advertising previously imposed under the TVWF Directive was abolished. For most programmes broadcasters are allowed to choose the most appropriate moment to insert advertising, but cinematographic works, children's programmes, and news programmes may be interrupted by advertising only once per 35-minute period.

[15] However, differences remain in the relative capacities of different distribution platforms, with satellite and cable far outstripping DTT.

assesses market outcomes in the light of these changes.[16] These models capture consumer preferences for greater diversity and higher quality programming, and their dislike of advertising, and use this framework to analyse choices of competing broadcasters given consumer preferences and their business model (free-to-air or pay TV).

The main findings of this literature are as follows. Pay TV achieves programming outcomes that are at or close to the viewer optimum: by charging viewers directly the incentives of broadcasters are better aligned with those of consumers than when they rely on advertising funding alone. Comparing pay TV with free-to-air, viewers' willingness to pay for the programming they desire gives an incentive to serve small groups with strong preferences, increasing diversity of programming. Similarly the ability to extract viewers' willingness to pay increases the quality of programming to a level that is roughly appropriate given audience size. Broadcasters balance revenues from advertising against its annoyance to viewers, reducing the amount of advertising shown. Although programming outcomes are closer to the viewer optimum, viewers are not necessarily better off however as they pay to watch. Armstrong and Weeds (2007a) find that, if there is little scope for improving programme quality, viewers would be better off under free-to-air, but with variable programme quality they are better off under pay TV.

Digitisation relaxes capacity constraints, allowing a much greater number of channels to be broadcast. This taken on its own mitigates the problem of insufficient diversity: even with free-to-air, as the number of channels increases broadcasters find it more profitable to serve niche interests than further to subdivide the mass market. However a trade-off arises between diversity and quality: audience fragmentation across a larger number of channels reduces programme quality. This is because production costs are independent of the number of viewers: raising quality incurs a larger fixed production cost while its benefit increases with the number of viewers, thus a larger audience provides a greater incentive to invest in programme quality. Quality and diversity of programming need to be assessed together: if channel entry is excessive, diversity will be high but quality too low (and the opposite for insufficient entry). Outcomes are sensitive to the modelling approach: using variants of the Salop (1979) model of differentiated goods with free entry, Armstrong and Weeds (2007b) finds that endogenous quality worsens that model's tendency towards excess entry, while Weeds (2012) finds excess entry to be mitigated.

Analogue broadcasting, with its constrained capacity and reliance on advertising funding, provided a rationale for public intervention to increase the quality and diversity of programming and to limit advertising, but this does not carry forward to digital broadcasting. Multichannel pay TV achieves broadly optimal programme outcomes. Even if market and socially optimal outcomes do not always coincide, the extent and even the direction of any market failure are difficult to determine, making intervention problematic: there is little guarantee that a regulator or non-market entity would do any better. In the digital world consumer market failures no longer provide a strong basis for major public intervention in television broadcasting.

[16] See Anderson and Coate (2005); Choi (2006); Armstrong and Weeds (2007a); Armstrong and Weeds (2007b); Seabright and Weeds (2007); Peitz and Valletti (2008); Crampes et al. (2009); and Weeds (2012).

Citizen Aspects and the Impact of a Public Broadcaster

In the digital world the case for public service broadcasting must rest on citizen aspects of television broadcasting. Television is a powerful medium for conveying messages to a mass audience – as advertisers recognise. Some programming serves an educational purpose; people might pick up skills that are helpful to others by watching, say, life-saving techniques in a medical drama; accurate news coverage and discussion of current affairs play an important role in a well-functioning democracy; and some commentators claim popular television promotes social cohesion and understanding through so-called 'water cooler' effects.[17] Although the extent and importance of such benefits may be hotly debated, they provide a rationale for some intervention in television broadcasting even in the digital age.

SOCIAL BENEFITS AS POSITIVE EXTERNALITIES In economic terms, social benefits from broadcasting can be characterised as positive externalities generated when consumers view and act upon the relevant programming. (Note that there may also be negative externalities associated with television viewing, such as the claimed link between violence on television and violent behaviour.) Microeconomic theory tells us that in the presence of positive externalities goods tend to be underprovided by the market, because the transaction between buyer and seller takes no account of benefits to other parties. If externalities cannot be internalised then there is a case for public intervention to increase the supply of socially beneficial programmes (and to limit harmful ones).

This rationale for intervention would call for a targeted approach in which public funds are used to produce programming which confers social benefits and to distribute this material as widely as possible. This might look rather different from the UK's existing system of public service broadcasting, however: a large part of licence fee-funded programming (e.g. popular entertainment) would seem to generate few positive externalities, and individuals who choose not to have television and so do not pay the licence fee share in the social benefits from consumption by others while not contributing towards them.

EFFECTIVENESS OF PUBLIC SERVICE BROADCASTING There is a challenge facing a public service broadcasting system motivated by positive social externalities. It is not enough simply for socially beneficial programming to be produced and broadcast: it must also be watched. If few viewers watch the programmes their messages go unheard and little social benefit is created.

Digitisation creates an attention problem for public service broadcasting. Now that all television households have multichannel TV and many use the internet and over-the-top services to access video and related content, consumers have a vast range of television and other services to choose from to satisfy their entertainment and information needs. In the face of so much choice it is difficult to ensure that socially beneficial programming is actually watched. In the early days of BBC television this problem did not arise: the BBC had a monopoly over broadcasting and the viewer's only alternative was to switch off and do something else. In today's world of competing television and media providers the effectiveness of public service

[17] On the final point, movies and popular music also provide a talking-point for social gatherings at work and, unlike television, offer opportunities to share experiences at cinema showings and live concerts, yet these are not deemed worthy of major public intervention.

broadcasting cannot be guaranteed in this way. As Richard Eyre, then Chief Executive of ITV, succinctly put it:[18]

> *Free school milk doesn't work when the kids go and buy Coca-Cola because it's available and they prefer it and they can afford it. So public service broadcasting will soon be dead.*

If public service broadcasting is to remain effective in achieving social aims it must meet two challenges. First, socially beneficial programming must be made appealing to consumers so that they choose it over the many alternatives. This may require an approach akin to 'product placement' in advertising, conveying the message within popular programming. In 2004 Culture Secretary Tessa Jowell was criticised for taking an expansive view of what constitutes public service broadcasting when she stated:[19]

> *I would say that those episodes of EastEnders that tackle difficult issues of child abuse, drug taking, teenage pregnancy, and so forth, are actually – when they do it responsibly – providing an important public service.*

Yet a product placement approach to PSB might well require *more* social messages to be conveyed through light entertainment. However, achieving this without overburdening popular programmes with pious messages or dumbing down the message to make it more palatable may prove difficult. Moreover the need for consumer appeal does not imply that a public service broadcaster should chase ratings for their own sake.[20] This sentiment was expressed by Patricia Hodgson, then Chief Executive of the Independent Television Commission,[21] when she contrasted the BBC's screening of the unexceptional *Celebrity Sleepover* and the more PSB-focused *Blue Planet*, stating:[22]

> *Beating ITV with Blue Planet is a triumph! Beating it with Celebrity Sleepover is a tragedy!*

The second challenge is that with increasing numbers of consumers migrating to new media to obtain entertainment and information, public service broadcasters must follow these trends otherwise they will simply be left behind. This argument would seem to justify the BBC's diversification into digital broadcasting and the internet: if it did not do so an increasing proportion of the population would move out of reach. But entering new areas is costly both to the public service broadcaster, which must incur the cost of launching the services, and to commercial providers who operate, or wish to operate, in those fields. Diversification creates new points of contact where public and commercial providers collide, often in nascent markets where new services are being developed and providers are entering the market. The distortion of market provision is a less apparent but significant cost of public service broadcasting in the digital world.

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[18] Richard Eyre, 'Public Interest Broadcasting – A New Approach', MacTaggart Lecture at the Edinburgh International Television Festival, 27 Aug. 1999, available at http://www.geitf.co.uk/sites/default/files/geitf/GEITF_MacTaggart_1999_Richard_Eyre.pdf.

[19] As reported by Colin Robertson, 'Jowell: Reality Shows could be PSB', Southwark.TV, 2 Mar. 2004.

[20] A licence fee-funded broadcaster such as the BBC has a further reason to be concerned about reach: public acceptability of the licence fee is likely to depend on continuing to reach large audiences. This, rather than the dissemination of socially beneficial messages, would seem at times to have driven the BBC's competition for audiences.

[21] The Independent Television Commission (ITC) licensed and regulated commercial television services in the UK between 1991 and 2003, after which it was merged with four other regulatory bodies to form Ofcom.

[22] Patricia Hodgson, 'Freedom to Flourish: The Future of Communications', Fleming Lecture at the Royal Television Society, 5 Mar. 2002.

MARKET IMPACT OF PUBLIC SERVICE BROADCASTING Since 1997 the BBC has launched several new digital television and radio services, developed its catch-up TV service (BBC iPlayer) and created extensive online services including the high-profile BBC News website. These services are funded from the TV licence fee and provided free of charge to users. As a result providers of commercial alternatives face lower consumer willingness to pay and smaller audiences, reducing their revenues and threatening their viability. It is likely that that there is significant 'crowding out' of private provision as a result of BBC's digital services.

This effect has been recognised by Ofcom, among others. In its market impact assessment[23] of the BBC's digital television and radio services, Ofcom wrote:[24]

> *There are potentially significant costs associated with the BBC's activities. There is a real risk that the BBC's involvement in some market segments may leave insufficient revenues for commercial operators wishing to supply those segments now or in future. Also, uncertainty about the future strategy of the BBC's new services may exacerbate the risks associated with new market entry or content innovation, by extending the range of services over which commercial operators may face competition from the BBC in future. Combined with the BBC's large budgets and relatively loose remits this may, in time, diminish overall levels of competition, investment and innovation.*

Yet Ofcom appears to believe that the BBC's activities stimulate the provision of high-quality programming by commercial competitors, stating in the same document:

> *The BBC currently plays a role guiding competition to deliver higher quality, more diverse programming than it might deliver on its own. (para 2.11)*

Economic analysis suggests that this view of the relationship between quality provision by a public broadcaster and its commercial rivals is flawed. When a public broadcaster raises the quality of its output this reduces, not increases, the quality of competing commercial services (in economic terms quality levels are strategic substitutes not strategic complements; see Armstrong and Weeds (2007b), s. 3). The underlying mechanism is as explained above: programme quality is increasing in audience size, thus by taking consumers away from commercial providers higher quality public service output reduces their incentives for quality investment.

Under the BBC charter, a decision to approve a new BBC service should take account of both its public value and market impact. In Ofcom's view negative substitution effects are likely to be more significant than positive market creation effects (which might arise if the BBC service complements commercial services and drives increased investment).[25] This suggests that public benefits from PSB need to be balanced against both direct cost of provision and indirect costs to other (actual and potential) market participants and to consumers. Comparing this trade-off for the analogue and digital worlds, it is likely that the benefits are largely unchanged while the

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[23] Under the current BBC Royal Charter and Agreement, which came into effect on 1 Jan. 2007, a Public Value Test (PVT) must be carried out before any significant change to the BBC's UK public services. This requires a Public Value Assessment (PVA) to be carried out by the BBC Trust to assess the value of the service to licence fee payers and a Market Impact Assessment (MIA) to be carried out by Ofcom to assess its effect on other services in the market.
[24] Ofcom, *Assessment of the Market Impact of the BBC's New Digital TV and Radio Services: An Analysis by Ofcom, Conducted as an Input into the Independent Reviews of the BBC's New Digital TV and Radio Services*, 13 Oct. 2004, para. 2.5, available at http://stakeholders.ofcom.org.uk/binaries/broadcast/reviews-investigations/psb-review/bbcnews.pdf.
[25] Ofcom, *Methodology for Market Impact Assessments of BBC Services: Statement*, 22 May 2007, paras. 1.6–1.7, available at http://stakeholders.ofcom.org.uk/binaries/research/tv-research/bbc-mias/bbc-mia-meth.pdf.

costs, both direct and indirect, have risen considerably in the transition to digital broadcasting. In this case the appropriate response would be to scale back public intervention in broadcasting to a level where its costs and benefits are in balance. Yet modest curtailments of the activities of public service broadcasters owe more to the current climate of austerity than to any reassessment of the role of PSB in the digital world.

Concluding Comments

This chapter has discussed the role of public service broadcasting following the transition to digital television and the emergence of non-linear and online services. It finds that traditional consumer market failures of analogue, free-to-air broadcasting do not carry over to the digital world: the market will provide the programmes that people broadly want to watch. The rationale for public intervention in broadcasting must now rest on citizen concerns. While there is a case for continued intervention to increase the provision of programming that conveys positive social externalities, its effectiveness is limited if consumers increasingly turn to other broadcasters and alternative products to satisfy their needs for information and entertainment. Attempts to overcome this attention problem by entering the digital arena bring public service broadcasters into greater conflict with commercial providers, increasing the scope for harmful market impacts. The time has come for a fundamental reappraisal of the role and extent of public service broadcasting.

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3. Television Wants to be Shared

Joshua Gans

My recent book *Information Wants to be Shared* (2012) puts forward the hypothesis that allowing consumers to share information easily can be an important feature of business models for content provision. The reasons are twofold. First, information, as an economic good, has a non-rival characteristic, meaning that the costs of producing information are independent of, and often much greater than, the costs of distributing it. This is certainly true of broadcasting where the size of the audience does not impact on the cost of providing programming. From an economic perspective, what this implies is that it is efficient for information, once produced, to be widely disseminated and that we should look for ways for all users to contribute towards the cost of producing that information. That widespread dissemination and voluntary choice to contribute to information funding can conflict is a challenge that does not diminish the aim here.

Second, on the demand-side, information can be more valuable to consumers if it can be shared. This might arise from benefits associated with shared consumption (e.g. the ability to discuss the news with your friends) but also from the way information competes for attention. When trusted friends and colleagues can recommend the consumption of information to you, it competes more effectively for your attention. But such recommendations are more likely to be forthcoming if your friends know you have access to that information. This is perhaps why pay-walls for news organisations have been more effective when they are 'leaky'. For instance, the *New York Times* pay-wall allows readers to share individual articles freely with non-subscribers. Thus, what subscribers are paying for is the curation or filter of the *New York Times* precisely when they do not want to search for interesting news themselves.

In this chapter, I will apply this same thinking to the television industry and, in particular, how that industry is changing in the face of the proliferation of digital technologies. I will argue that this has not only impacted on the advertising-based business model for commercial television but, importantly, on the type of content that would remain profitable under commercial models. This has consequences for the type of content that might fail to be provided by commercial television and where public broadcasting may have a role in filling the gap.

A Simple Model of Television Demand

To begin, I sketch here a simple model of television demand. Consumers are assumed to value television based on two components. The first component is the familiar utility for entertainment; that is, how much intrinsic enjoyment a consumer receives from watching a programme. I will denote that component by u. The second component is understudied: it is the utility a consumer receives from shared consumption of a television programme. This arises because watching a programme gives consumers more utility if they can share the experience with people they know – a water cooler effect. If a consumer interacts with n people who also view the programme, this component is an increasing function, $U(n)$. The total number of people a consumer could possibly interact with is $N > n$.

There are also things that detract from the enjoyment of television. One thing is having to pay for it (say, a price or subscription fee of p). Another thing is advertising. As these interrupt television, consumers would prefer to avoid them. The cost associated with a certain quantity of ads, a, is simply assumed to be a. Putting all this together, if a consumer watches a programme that costs p to view and has ads, a, and if n of their social network also watch it, their overall payoff is:

<eq>$v = u + U(n) - p - a$</eq>

This model means that television is not a simple economic good. In particular, demand is impacted on by both the expectations and the reality of how a consumer's social network consumes television. When a programme is popular in a social network, a provider can both charge more and supply more ads. When a programme is not popular, it cannot. But the existence of the network makes demand, especially when a programme is new, more elastic with respect to both price and advertising. This is why advertising can work well as a business model. It is often difficult to change price upwards when a programme becomes popular but it is not as hard to increase advertising levels and to charge advertisers more in those cases.

Timing and Advertising

The tension with respect to advertising is, of course, that consumers would like to avoid ads. As long as there has been television advertising, there has been concern about whether consumers pay attention to them. Did they use ad breaks as an excuse to visit the bathroom? Did they move to work on a crossword? Did they perhaps talk with other people in the room?[26]

But of greater concern was the use of technology to avoid ads. This was an initial use of the VCR (see Greenberg, 2008) and later of digital video recorders (such as TiVo). These technologies allowed consumers to watch programmes and skip the annoying ads. In the case of the VCR, this did not even show up in television ratings and so the volume of ad viewers became even more uncertain.

One force working against the use of technology to avoid ads is that invariably they require time-shifting. That is, it was a challenge to avoid ads if the intention was still to watch the programme close to the time it was broadcast. That meant that ad avoidance was as much a by-product of a willingness to view programmes at a different time than the broadcast time as it was a direct benefit in of itself. Importantly, if programmes had a high social component, then the incentive to time-shift was diminished and this increased the likelihood that consumers would also not avoid ads.

Thus, an important driver of the effectiveness of ad-supported television were consumer's choices on the timing of their viewing. The more that they wanted to coordinate with others for social reasons, the more they would view television when broadcast, alongside the ads that were part of that broadcast. For this reason, advertisers and broadcasters needed to be concerned about the temporal agglomeration of viewing and the technological forces that were pushing against that.

The Impact of Digitisation

Digital technologies have transformed the television landscape. In particular, it has resulted in both improved quality of video distributed and also a proliferation in the ways in which video can reach consumers. Of most interest is the ability to pull pure video content into homes based on a

[26] As it turns out, this actually may be good news for advertisers. When people watch television with other people, they often engage with the ads themselves. See Jayasinge and Ritson (2013); and also Ritson and Elliott (1999).

schedule set by the consumer. To be sure, video cassettes and then DVDs allowed this, but downloadable programmes have brought the long-envisioned 'on-demand' notion to reality.

In principle, this should change little about the business models to support television. Just because consumers can opt to view content at a time of their own choosing does not prevent advertising being associated with it. Moreover, the same forces pulling consumers to watch television at the same time are still present. However, this is not a new equilibrium but still a transition. It is costly to expect many viewers to stream a programme online simultaneously as bandwidth can still be strained. This is especially so since the existing methods of distribution still exist. Thus, incumbent broadcasters have strong incentives to push consumers away from download options. Hence, simultaneous broadcast and streaming is rarely seen.

In the absence of simultaneity, the less socially inclined will time-shift using download television. This can still have an impact on the more socially inclined as some interactions might be lost but the overall reduction in value is muted. What is more serious is what occurs for ad-adverse consumers (see Anderson and Gans, 2011). They have more options too. First, there are now legitimate, although delayed, download options (such as through iTunes) that at a cost are similar to time-shifting using DVRs. Second, there are opportunities for gaining television content unofficially.

In both these cases, one side-effect is positive: the metrics for advertising actually improve. It is easier to measure the audience viewing ads. In addition, time-shifting and on-demand options improve the viability of certain types of programming that may have been previously unviable. Programmes such as *Lost* that involved long, multi-year story arcs become feasible. Previously, with pure broadcast, such programmes would suffer from diminishing audiences where those who missed out could not easily catch up with the crowd. With a stock available on-demand, viewers can catch up and in the process rejoin the crowd and the social benefits this may confer.

But, against this, is a more difficult balancing act: it is harder to coordinate viewership to support a strong advertiser-based option. That is, with a significant share of viewers waiting to view content, the social effects from simultaneity are diluted. This removes the social acceptability of discussing television at the water cooler in fear of transmitting spoilers. Thus, television becomes less temporally agglomerated.

It would be a mistake to conclude from this, however, that the advertising model is diminishing in importance. On the contrary, what it implies is that it is less likely to be supported by the bundle of programming that would previously constitute a channel. Instead, advertising will be more effective where there is a strong social element that drives simultaneity, while other forms of revenue will be required for content without that element. In a sense, traditional simultaneous broadcast will involve more of the programming that is valuable consumed simultaneously and less of other forms of programming. In this way, there is an efficiency in the reallocation.

In addition, it is worth emphasising that these same pressures apply to subscription or fee-based television as well; especially where there is a social component to demand. In that situation, the ability of technology to pull consumers across a greater temporal dimension in their viewing may have the consequence of diminishing the value of such television. Again, it is programming that compels a social element and perhaps generates it that will be relatively more attractive in competition for viewer's immediate attention and so the mix of viable programming will be altered by these pressures.

Thus, we have a picture here of forces acting to compete for the social component of viewers and hence developing content that reinforces that social dimension in order to coordinate consumers more in their temporal viewing habits. This will guide consumers' immediate viewing choices, with other programming being watched at times when there is no compelling socially driven option. These pressures have always been there but the technological changes have made them starker. In particular, there is a greater relative return to mass-market rather than high-quality niche programming.

If I had to conjecture what types of programming this would favour, on the advertising-based side, news, sporting events as well as reality television programming (including *Survivor*-like contests and talent contests like *Britain's Got Talent*) will fare well. On the subscription-side, higher quality dramas like *Game of Thrones*, *Downton Abbey*, and *Lost* that achieve a cult-status will be favoured. What will fall increasingly by the wayside will be sit-coms, self-contained drama (like *Doctor Who*), and documentaries. In other words, the social component will drive out the intrinsic entertainment component in the programming offered via traditional television models.

Globalisation

The great connectedness afforded by the internet has created opportunities to leverage the social component of television demand but also challenges. The opportunities arise because a consumer's social network is potentially larger and so the quality of television programmes can be more readily communicated. This increases both the potential for hits but also for niche programming that appeals to particular groups (the so-called 'long tail': see Bar-Isaac et al., 2012).

The challenges arise because this connectedness transcends international boundaries. Previously, content providers would engage in nation-specific licensing that would allow local broadcasters to choose the timing of programming. Thus, they could leverage different seasons in ensuring that programmes are matched for when an audience may be largest. This would also occur in terms of the day of the week and exploit national differences in terms of when it is best to broadcast a programme.

But the social component of programming demand as well as connectedness has made the demand for simultaneity global. Consequently, keeping to delayed broadcast harms consumers' ability to interact on global social networks. Thus, they have a stronger incentive to find alternative means of procuring television content. That is why delayed programming is associated with greater file sharing of television and broadcasters have been forced to move towards a more globally synchronised schedule. This has deepened the relative weight on programming based in the country of origin.

Short-Videos

Thus far, I have not mentioned the important new market for shorter videos (namely, YouTube). This now captures a considerable share of viewer attention and is essentially an advertising-supported medium. What are the impacts of this?

Most importantly, the attention captured by shorter videos is likely substituted from television. There are exceptions (such as snippets of talent shows driving demand for the full version of those shows). But in the aggregate one expects a strong substitution effect.

This is a challenge for broadcasters seeking to bundle content into channels but there is also a possibility that the news may not be all that bad on the advertising revenue front. This is because shorter videos have less opportunity for interrupted placement of ads and possibly less opportunity for ads *per se*.[27] That gives traditional longer-form programming a competitive advantage in the market for video ads (see Athey et al., 2012).

Public Broadcasting

One view of public broadcasting is that it should provide programmes that are under-served in the market relative to an assessment as to what might be socially desirable (see Barwise and Picard, 2012). The above analysis has suggested that the most commercially valuable programming may shift towards programmes that have a strong social component and potentially more mass-market appeal. This would reduce the need for public broadcasters to provide sporting, news content, and reality television but increase the opportunities for self-contained sitcoms and drama as well as traditional public broadcaster areas such as documentaries and educational content.

Conclusion

This chapter has offered some thoughts about the impact of digitisation on television broadcasting. It has emphasised the importance of social components of demand that arise both from the value of joint consumption of television as well as the impact of referrals from trusted people in driving attention towards particular programmes. The analysis has suggested that the type of content that will be commercially most attractive will have an increasing social component in the future.

Of course, this analysis is somewhat speculative; albeit grounded in economic theory. Hopefully it can provide some inspiration to those examining trends in the industry to examine the social component of television further.

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[27] Of course, the scope for ad targeting is improved and also, the ability to take action to skip an ad may mean that ads that are actually viewed are on average more effective.

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Jayasinge, L., and Ritson, M. (2013) ‘Everyday Advertising Context: An Ethnography of Advertising Response in the Family Living Room’, *Journal of Consumer Research* (forthcoming).

Ritson, M., and Elliott, R. (1999) ‘The Social Uses of Advertising: An Ethnographic Study of Adolescent Advertising Audiences’, *Journal of Consumer Research*, 26: 260.

4. Regulating Broadcasting

Dieter Helm

Every major infrastructure and utility industry has its own lobby proclaiming that it is *different* – that it requires special treatment. The broadcasting industry is no exception. Recently the claim to this 'specialness' has been bolstered by the claim that rapid technical change – notably digitalisation – is a 'game changer', requiring a number of policy responses which vary in accordance with the vested interests that lie behind the market participants. It is argued that the increased capacity to choose in real time, and the proliferation of channels has changed the nature of the broadcasting market.

The argument is then carried over to a series of policy recommendations, notably that the current policy interventions in respect of the BBC and licensing more generally are no longer appropriate.

Technological change matters, as does the peculiar features of each activity. But the exceptionalism claim should be treated with a large dose of scepticism. This brief chapter argues that the basic economic concepts that inform market design, the identification and measurement of market government failures, and competition analysis remain highly relevant. The emphasis may be changed by new technologies, but remarkably little turns out to be *different*.

The next section reviews the main economic characteristics of the broadcasting market, and in particular the various public goods that broadcasting provides. Then I consider whether and to what extent technical change has changed the nature of these market characteristics. The following section focuses on public service broadcasting is its narrow and wider senses – in platforms and in programmes, and then there is a conclusion.

The Economic Characteristics of Broadcasting

Broadcasting is a public good in the economic sense. A public good is defined by the nature of the costs, the non-rivalry in consumption, and the excludability of consumption.

The marginal cost of providing broadcasting services to an additional customer is zero. Hence there is a gap between the average and marginal costs. Since the marginal costs are zero, broadcasting is non-rival in consumption. Consumer surplus is maximised if all customers that wish to consume it can, even if the marginal benefit approximates zero.

Broadcasting is also non-excludable – unless some intervention or contract restricts access. This is required because otherwise there is no incentive to create and broadcast programmes. Whilst it has always been possible to enforce the licence fee as an exclusion device, and now enforce subscriptions, the underlying cost structure remains unaltered. Indeed were the abilities to use the law to exclude a determinant of whether a good is public, there would be few if any public goods at all.

Broadcasting creates externalities distinct from the public goods. These range from narrow to broad in their impacts. Narrow externalities arise from the value in use of the information provided to other activities. Wider externalities relate to social benefits of shared information, cultural transmission, and news services, many of which are necessary to the functioning of the economy and the democratic process. In some cases, this is vital to the national interest – for example in emergencies and epidemics.

The broadcasting market has significant elements of market power. A small number of companies control significant parts of the broadcasting industry. This is true in most major economies, including the US. These dominant incumbents face a range of entrants, and indeed a major impact of digitalisation and related technical changes has been to render fringe entry easier. But the impact of fringe competition is limited and the market shares of the major players remain sufficient to expect significant competition issues in the absence of regulation.

These are not the only market failures, but they are the main ones, and they are very significant. They are also well-known. To date they have required significant policy interventions in most countries. This includes the provision of public service broadcasting, the subsidisation of news and other so-called public interest programming, and numerous competition interventions.

The Impact of Digitalisation and Other Technical Changes

There is nothing new about technical change in broadcasting. The history of broadcasting has been one of continuous technical change. Technical change alters the cost characteristics of the industry. Early advances increased the number of channels, and introduced colour to replace black and white.

In the last decade, there have been a series of advances. Broadband forces convergence between the internet and conventional broadcasting, and with it the convergence between the conventional TV, personal computers, tablets, and other mobile devices. Broadband also makes it possible to view past programmes on demand, and increasingly makes real-time viewing possible. The schedule of programmes becomes multidimensional, supported by search engines. With broadband the cost of producing and broadcasting a programme – and the creation of new channels – falls. As a result, new channels can be created and new entry into programme making can be expanded. The scale economies are reduced. These changes are in the technical sense radical, but in themselves they change very little in the underlying market failures, and they add one additional market failure.

Focusing on the existing market failures, none of the above changes the public good aspects of broadcasting. The marginal cost is still zero. Consumption is still non-rival. Excludability remains a problem. Externalities remain. The additional market failure arises in respect of search and information provision in respect of the 'experience good' characteristics. Faced with a bewildering array of channels and programmes, the consumer now faces search costs. How does the consumer know what to watch and whether it will deliver what the consumer wants?

The answer to this problem has traditionally been that channels provide filters. They produce or buy in the programmes, and each has developed particular characteristics. The BBC for example provides a quality threshold. News programmes on the BBC are expected to pass tests which others channels may not – and when standards slip, there are major consequences. It is a phenomenon across the broader publications and media outlets, from peer review, to branded publishers, to public service standards. The consequence is somewhat paradoxical – the more channels and programmes proliferate, the greater the need for screening mechanisms. Given the economics of search – and the fact that it is inefficient for each consumer to bear the costs individually – the case for such filters increases with more choice.

In theory the answer might be for the market to create filters as a competitive business. In practice, across a very wide range of activities in the economy where quality matters, the market fails to deliver. In many cases quality regulation is required.

The case therefore for a retreat from intervention in the face of digitalisation is unconvincing, and indeed more intervention may be required as the market fragments. The detailed design of interventions may need to be tweaked, but nothing more.

Public Service Broadcasting

Public service broadcasting arose in the context of a broadcasting monopoly, when the technology provided for only one provider. In the British case, the BBC was built up to fulfil the public interest role of broadcasting, and it has changed and adapted that role over time, in the face of new channels and the development of the internet and broadband. Other countries have tried more pluralistic models, but none has developed anything remotely like the BBC.

The BBC solves a number of market failures. It provides a public good, and finances this through a club membership fee – the licence fee. This is set at a level dictated by government, and it is for government to decide the trade-off between the level of the licence fee and how much of the consumer surplus is captured, given that the marginal cost is zero. The BBC's Royal Charter provides a peculiar kind of British institutional architecture. It is neither controlled by government nor completely independent of it.

For much of its history the BBC both made the programmes and broadcast them through its channels. The monopoly was vertically integrated. In recent times, this vertical integration has been broken down. The BBC continues to produce programmes, but it is in effect a central buyer, with a host of independent production companies offering their services.

This central buyer model fulfils a number of functions. It is a filter, applying the BBC brand through the channels these programmes are broadcast through. This sets quality and helps to ameliorate the search problem for consumers. It can discriminate and subsidise different kinds of programme according to its estimation of the public value of the programme. It can also encourage competition, by subsidising new entrants. It is a central buyer which socialises the costs of different programmes.

This in turn allows the BBC as central buyer to determine the mix of programmes, based upon its interpretation of public service broadcasting. It can decide how much news, drama, sport, comedy, and so on to provide. Given that the market is not going to provide this programme mix and is unable to cross-subsidise, it is very unclear how the market failures can otherwise be solved. Certain high-cost public interest programmes could only be otherwise provided by high subscription charges. But this does not overcome the fundamental problem that they are public goods – and high subscription charges for minority specialist programmes excludes a number of potential customers, and especially those for whom there may be important externalities. A market in which news is provided to subscription customers, but not to the masses, is one that is unlikely to be socially optimal.

Digitalisation does not alter these fundamentals, though it may reduce costs. The public interest is not satisfied by the private ability to pay in the context of zero marginal costs and major externalities.

Yet these considerations do not address the problem of who decides what the public interest is, and in particular whether and to what extent the BBC can be relied upon to pursue the public interest rather than its own corporate interest. Why should we assume that, as a central buyer, the BBC will act in the public interest?

The extent to which the public interest should be delegated to the BBC, and the form of governance that the BBC operates within are not new questions. They have been asked since the BBC was founded. Digitalisation does not alter the question or the answers. Recent cases have highlighted the problems of the existing forms of oversight and regulation – from Saville, to *Newsnight*, to the Hutton inquiry, the BBC's judgement has been repeatedly called into question. The filters have either been bypassed or they are inadequate. With no precise definition of public service broadcasting, there will always be challenge, controversy, and debate. But these problems do not invalidate the model.

The BBC is not the only answer to the market failures. There are others – and lots of other international models. Part of the public service obligations can be delivered by other broadcasters. From the development of a second independent channel through to the Public Service Publisher model proposed by Ofcom some years ago, there have been many proposals in Britain. The relative merits are much debated, but none of these merits is much affected by technical change.

Conclusions

This brief chapter has considered the extent of the digitalisation impact on broadcasting. It has been argued that, whatever the merits of the licence fee and the role of the BBC as the premier public service broadcaster, they are not much altered by digitalisation.

The economic fundamentals of broadcasting – and in particular the centrality of public goods – remain largely unaltered, and the proliferation of channels and the possibilities of real-time programme choice introduce significant new search costs for consumers.

Thus broadcasting policy cannot escape the key policy questions which have bedevilled it since the 1920s. Britain found a uniquely British solution in the BBC, and over time the BBC has developed its role to cope with one change after another in the broadcasting market. It has evolved to become probably the most respected broadcaster in the world.

The evolutionary changes which have been particularly important in recent years have not been directly driven by digitalisation, though they have had a significant impact. The emergence of the BBC as a central buyer of programmes has forced its internal vertically integrated model into the open. Broadband has given a different technological interface to the conventional television, and the internet has facilitated the development of the BBC's website and the iPlayer.

Ironically, these changes have focused more attention on the traditional problems of broadcasting – the scope and level of the licence fee; the exercise of choice over public service broadcasting; the standards the BBC applies to its editorial functions; and the nature and extent of its national and international news services; amongst others. Not much has changed, and much needs to be done to readdress these core issues, rather than be distracted by the claim of the vested interests that the game has changed and hence the BBC should be radically reduced and even broken up. The interests of the other broadcasters are obvious.

SECTION II

IS THERE A FUTURE FOR PUBLIC SERVICE BROADCASTING?

5. Why isn't Broadcasting Just Another Good or Service?

Jonathan D. Levy[28]

The Reuters Institute for the Study of Journalism, jointly with the BBC Trust, took on a daunting task when it set out to examine the above-posed question and the following subsidiary queries. How should the regulatory framework adapt to an evolving broadcast industry? Is it reasonable to use broadcast regulation to react to deficits in the overall provision of content in the entire media environment (including unregulated aspects)? What are the main concerns in terms of potential anticompetitive effects? The short answer to the question of why broadcasting isn't just another good or service is that broadcasting exhibits standard characteristics of market failure in the technical economic sense and that broadcasting serves important non-economic goals.

Free-to-air (FTA) broadcasting is a public good, i.e. it is non-excludable and non-rival in consumption. Even from an economic point of view, the technical changes that make pay television possible do not solve completely the public good problem. Broadcast content also generates externalities (mostly positive, e.g. a more knowledgeable citizen benefits fellow citizens; expression of shared cultural values can strengthen social cohesion and national identity), another symptom of market failure. Closely related to the externalities point is the fact that broadcasting advances important non-economic goals such as diversity of viewpoint and media plurality, which many countries value as a means of providing citizens with the information necessary to discharge the responsibilities of citizenship and to promote civic engagement. Many societies also see broadcasting as a tool for the preservation of domestic culture. This is not a major issue in the United States, but the United Kingdom (and the EU in general) places much greater weight on this desideratum.

The externalities and non-economic goals considerations suggest a 'universal service' imperative for broadcasting. The term universal service is more commonly used on the telecommunications side, traditionally referring to availability of wireline voice telephone service to almost everyone and at a reasonable rate.[29] On the broadcasting side, the implicit concept has been service available to virtually everyone with no user charge.

The technology of video content delivery, which includes FTA broadcasting, has evolved substantially over the past few decades. The advent of pay television platforms, principally cable and satellite, has substantially increased the range of choices available to citizen/consumers. The reduced transmissions costs associated with pay and digital platforms, coupled with the ability to charge consumers, have made it profitable to target many categories of niche tastes. Tools like the VCR and more recently the digital video recorder (DVR) provide time-shifting flexibility. Internet downloads and streaming support not only time diversity but *place* and *device* diversity, making it possible to consume video on a laptop, tablet, or smartphone, as long as the viewer has an internet connection or mobile data plan.[30] However, due in part to the audience fragmentation that the newer delivery technologies have induced, the economic model for the type of content that

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[28] The opinions expressed herein are those of the author and do not necessarily represent the views of the US Federal Communications Commission or any other member of its staff.

[29] In the US, the concept of universal service is explicitly being expanded to include a minimum broadband capability.

[30] Of course, not all content is available with this flexibility. In the US, cable companies are in the process of rolling out 'TV Anywhere' type services by which authenticated users can access subscription content via an internet connection, but not all platforms and not all content producers have implemented these arrangements.

meets non-economic goals, in particular news and public affairs programming, is under significant pressure.

Hence, regulation alone is unlikely to be adequate to deal with the overall content provision deficits mentioned in the introductory paragraph of this chapter. A role for regulation does remain, but it appears that other policies, including those beyond the purview of a national media/ telecommunications regulatory agency, will be needed to address content provision deficits. These policies include direct subsidy (of content and of some infrastructure), possibly a national digital literacy educational initiative, and other measures to enhance broadcaster incentives to produce news and public affairs programming.

With respect to the major competitive concerns, space considerations limit the discussion to two: horizontal concerns related to assessing the substitutability of FTA and new platforms (both with respect to economic and plurality goals) and vertical concerns with respect to relations between content providers and distribution platforms.

Context

Policy analyses and policy choices are a function of a country's media market structure and the overall legal and social environment. The discussion herein focuses on the US and the UK. The two nations have differences and similarities. In terms of viewing, FTA television is still very popular in both countries. The FTA share of total viewing has certainly dropped over the years, most strikingly in the US, where total viewing of non-broadcast channels overtook broadcast channel viewing ten years ago. However, the (relatively few) major FTA channels still attract on average much larger total audiences than even the most popular of the (many) non-broadcast channels.[31] Pay television is much more popular in the US than in the UK, with roughly 87% of US television households but only about 58% of UK homes choosing to subscribe.[32] The availability of satellite TV service in both countries means that pretty much any household has access to a pay service; in the US cable television is available to over 99% of households.[33] The figure is much lower in the UK.

The continuing decline in broadcast audience shares, at least in the US, has not yet been accompanied by corresponding declines in advertising revenues, and pay television revenues and subscriptions remain robust.[34] Total viewing of 'traditional' television, whether it be FTA or 'linear' pay television (simultaneous point-to-multipoint distribution, as opposed to 'over the top' internet streaming or downloads) continues to increase. Moreover, local US FTA television channels and the major FTA public service

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[31] In the US, the term 'broadcast' refers only to channels provided FTA using radiofrequency spectrum. Non-broadcast channels are delivered via cable, satellite, and other pay television platforms. The terms 'broadcast' and 'non-broadcast' are not used in precisely the same fashion in the UK.

[32] The US figure (total multichannel subscribers as a fraction of total television households) is calculated from SNL Kagan, *US Multichannel Industry Benchmarks* visited 22 May 2013, available from http://www.snl.com/Sectors/Media/USMultichannel.aspx. For UK data see Barwise and Picard (2012), 16 n. 26.

[33] SNL Kagan, *US Multichannel Industry Benchmarks*. The figure provided is number of homes passed by cable as a fraction of total US housing units.

[34] See Television Bureau of Advertising, *Industry Trends: Ad Spending*; visited May 2013, available at http://www.tvb.org/trends/4705 and SNL Kagan, *US Multichannel Industry Benchmarks*. A recent industry report noted that, for the 12 months ending Mar. 2013, the US multichannel video sector experienced its first net subscriber loss – of less than 0.1 per cent. A drop in traditional cable subscriptions was not quite offset by increases in telephone company and satellite video. This may be a harbinger of things to come, but it is too early to discern any robust trend. See Leichtman Research Group, *Multichannel Video Industry Has First-Ever Annual Net Subscriber Loss*; visited May 2013, available at http://www.leichtmanresearch.com/press/052013release.pdf.

broadcasting channels in the UK benefit from must-carry regulations that effectively mandate their retransmission by pay television platforms. Of course, viewing of video over the internet is increasing rapidly (from a small base), but the substantial majority of video is consumed the old-fashioned way. Traditional television is likely to remain significant for a reasonably long time to come, at least until high-speed broadband is available ubiquitously and at reasonably low prices.

In terms of the cultural and regulatory environments, a major difference relates to content regulation. In the US, it is essentially prohibited (with quite limited exceptions) by the First Amendment to the Constitution. The UK permits a considerably greater level of content regulation. The other major difference to note is in the support for public subsidy of video content. Although there may have been some erosion in recent years in the UK public's support for video content subsidies (via the television receiver licence fee that funds the BBC's activities), public subsidies in the UK remain massively higher (by at least an order of magnitude) than in the US. The two countries are similar in that the business model for public service television is under pressure from market fragmentation and new delivery platforms.

Consequences of Evolution and Possible Policy Responses

The video delivery capacity expansion caused by the advent of multichannel pay television platforms such as cable and satellite television and digitisation has led to the fragmentation of the video audience. Fragmentation has at least two consequences. First, the cross-subsidisation of non-remunerative content by advertising-supported broadcasters is less viable than before. Second, audience shares for programming that serves specific public interest objectives (news, public affairs, documentary, etc.) are reduced; hence direct content subsidies to this type of programming are less efficient than before. This has serious implications for the plurality/diversity goal of media policy.

The FCC's media policy goals are generally encapsulated in the three terms 'competition, localism, and diversity'. The FCC has employed multiple concepts of diversity but 'viewpoint diversity' is a prominent one. In this formulation, the goal is for the media to deliver a wide range of viewpoints on political and social issues in order to provide citizens with the information they need to discharge the obligations of citizenship. These obligations include voting, petitioning the government for particular actions, attending a public meeting, etc. To the extent that some political and social issues are locally focused, the localism goal comes into play as well.

The UK has more detailed descriptions of its media policy goals, both by Ofcom and the BBC. Of particular interest here is Ofcom's enunciation of its 'plurality' goal. In a recent document titled *Measuring Media Plurality*, Ofcom defines the goal as 'ensuring that there is a diversity of viewpoints available, and consumed, across and within media enterprises; and preventing any one media owner or voice from having too much influence over public opinion and the political agenda' (emphasis added).[35] The goal is similar to the US diversity goal, but there are some interesting contrasts. First, the US goal of diversity should be understood as instrumental, i.e. citizens' civic participation is enhanced when they actually acquire and then act on media content. The UK goal is more explicitly stated, requiring not only presentation but consumption of media content. Second, the UK goal

[35] Ofcom, *Measuring Media Plurality*, 5 Oct. 2012, p. 1; available at http://stakeholders.ofcom.org.uk/binaries/consultations/measuring-plurality/letters/advice.pdf.

references both internal and external plurality, i.e. it is not sufficient for the total menu of media content to be diverse; certain individual programmes must present contrasting views. An analogous US requirement, referred to as the Fairness Doctrine, was eliminated 25 years ago, due to Constitutional concerns and the finding that, in practice, the doctrine did not fulfil its avowed purpose.[36]

In earlier days, when the number of television outlets (and hence consumer choice) was quite limited, there was a closer relationship between exhibiting public interest content and viewing of it. The author is American but nonetheless assumes that there really was a time when the BBC was widely known as 'Auntie'. One certainly hopes this is so if only because it is a perfect counterpoint to the nickname 'Uncle Walter' bestowed on the prominent news reader (referred to in the US as an 'anchor' and in those days specifically as an 'anchor man') for the CBS network, Walter Cronkite. In those days the notion of television as a national hearth at which we gathered and received information from a trusted authority figure to which we were all related made a lot of sense.

However, times have changed. It is still possible to employ public subsidies to ensure that public interest content is placed before the public, and this can be done on a wider variety of platforms than before – broadcast television, pay television, the internet. But one can no longer assume that this content will be widely consumed. With respect to commercial sources of news and information, the financial pressures associated with audience fragmentation suggest that the number of independent sources of news, especially local news, will decline.[37] The same is true for the quantity of news and its composition. In the US, there is a considerably greater amount of local television news than in the UK. A large number of US television stations provide considerable local news, but a large number do not, and the number that do has fallen over the years. Another likely consequence of financial pressure on television news is a shift away from costly reporting such as investigative journalism. In the UK, television news historically was more regional than local, but the quantity of that has also fallen over the years. In this context, it is interesting to note the new 'Local Digital Television Program Service' (L-DTPS) that Ofcom has just licensed in roughly two dozen cities around the UK.[38] A full analysis of this development is both premature and beyond the scope of this chapter. Nevertheless, it is an intriguing experiment, which goes against the tide a bit.

What to Do

The above discussion suggests that government policy to address, in particular, the non-economic goals of broadcasting should focus on both the

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[36] The Fairness Doctrine required broadcast stations to provide coverage of controversial issues of public importance and to provide a reasonable opportunity for presentation of contrasting views. Interested parties could complain to the FCC if they did not consider a station's coverage of issues adequate. The FCC's decision to eliminate the doctrine drew on Constitutional principles and also on a finding that it imposed substantial burdens on broadcasters without compensating benefits. Indeed, the decision ending the doctrine grew out of an extended administrative proceeding in which a station's coverage decisions were contested by interested parties. It appeared that one (unintended) effect of the doctrine was to cause stations to shy away from coverage of certain issues to avoid 'litigation'. See FCC, *Syracuse Peace Council*, 2 FCC Rcd 5043 (1987), *recon. denied*, 3 FCC Rcd 2035 (1988).

[37] Television advertising expenditures have a cyclical component but have remained relatively stable in nominal terms. The levels for 2012 are roughly the same as 2004. See Television Bureau of Advertising, *Industry Trends: Ad Spending*. Price level increases during this period mean that expenditures have dropped in real terms. Nevertheless, the situation for television, at least in the US, is quite different from that of newspapers, a sector in which advertising revenues have declined precipitously in recent years.

[38] See Ofcom, *Licensing Local Television*, 10 May 2012, available at http://stakeholders.ofcom.org.uk/binaries/consultations/localtv/statement/local-tv-statement.pdf; and *Awards of L-DTPS Licenses*; available at http://licensing.ofcom.org.uk/tv-broadcast-licences/local/awards.

demand- and the supply-side. That is to say, it may be necessary to target citizen/consumers with some sort of educational effort as well as to address the costs and incentives to produce public interest content.

As noted, delivering content on multiple platforms, including the internet, will not guarantee that content will be located and consumed. Moreover, on the internet, the concept of 'internal plurality' is difficult to imagine let alone realise. Citizen/readers assemble their own bundles of content and can skip instantaneously from one story or article to another. Many may actively seek out content that reinforces their previously formed opinions (one may even wish to say biases). These challenges are well beyond the scope of traditional broadcast regulation. They suggest consideration of education for 'digital literacy'– an effort to create 'conscientious readers', who can aggregate information from multiple sources and assess its reliability (Mullainathan and Shleifer, 2005). With respect to national and international news, the internet has certainly expanded the range of sources available, both with respect to traditional media (online presence of newspapers and television stations from around the country and around the world) and new media, whether web-only news sites or commentary/blogs. Moreover, due to the extremely low cost of content storage, the internet has vastly increased the total quantity of accessible information. A digitally literate reader can certainly benefit from this resource. At the local level, however, at least in the US, it appears that the internet has added little to the quantum of local news available. Most local US news on the internet resides on the websites of traditional media.[39]

On the supply-side, countries such as the UK, with a tradition of public support for significant subsidies to broadcasting, could broaden the scope of their efforts. If the audience is gravitating away from the broadcast platform, then perhaps subsidies should be targeted to or at least partially redirected to other platforms. In this context, it remains interesting to an outside observer that Ofcom rejected several years ago its Public Service Publisher (PSP) proposal, which would have at least in part decoupled the subsidy to public service content production from the FTA broadcast platform.[40] In some sense, however, BBC initiatives (notably the iPlayer) can be viewed as embodying this mechanism.

The recent FCC staff report on *The Information Needs of Communities* (*INC Report*: see Waldman, 2011) found deficiencies in specific news categories in the US – in particular investigative reporting and state-level news (including coverage of state government). The public good/externality character of investigative reporting is particularly notable. Public policy measures, whether subsidies or other, may usefully be directed at these areas. With respect to investigative journalism, at least in the US, the challenge is particularly acute because in the interest of maintaining independence, investigative journalism entities are generally reluctant to accept government funding. It may be possible to route government funding through an intermediary grant-making organisation, which might mitigate this problem. In some sense, this is the philosophy behind the Corporation for Public Broadcasting in the US.

In the US, where there is no attempt to mandate internal plurality, even external plurality is under pressure in the smaller of the 210 local television markets. There is a trade-off between ownership plurality and productive

[39] See Hindman (2011). There are a limited number of internet-only local news sites, e.g. the Voice of San Diego, available at http://voiceofsandiego.org.
[40] See Chris Tryhorn, 'OFCOM Scraps "Public Service Publisher" Plans, *Guardian*, 12 Mar. 2008, available at http://www.guardian.co.uk/media/2008/mar/12/ofcom.digitalmedia.

efficiency. In smaller markets, the number of independent commercial television outlets that are viable may be quite small. This is an issue of current debate and open regulatory consideration in the US. Every four years, the FCC, pursuant to Congressional mandate, reviews its broadcast ownership rules, including local market limits on radio and television station ownership.[41] Moreover, in recent years, a variety of cooperative arrangements among stations in the same market have developed, some subject to regulation and some not. Among the latter are 'shared service agreements', under which stations in the same market can pool newsgathering resources.

The impact of these arrangements is still being debated. Some parties argue that, in their absence, there would be less local news and that it is possible for stations sharing newsgathering resources nevertheless to maintain separate editorial viewpoints and bring different perspectives to the same material. In the UK, the *de facto* decision appears to be that many markets can only support one independent commercial entity. There are no limits on local commercial radio station ownership; as noted above, Ofcom has recently licensed a single local digital television service in a few dozen cities. Incumbent television stations in the UK are national with some regional content.

The FCC's *INC Report* was prepared by Commission staff and outside consultants but was NOT officially adopted by the FCC. The following recommendations drawn from that report should be considered in this context.

As noted above, the journalism culture in the US (and probably many other places as well) is resistant to government support, especially for investigative journalism because it could compromise the independence of the enterprise. Hence, it may be difficult for government policy to support or encourage independent non-profit investigative journalism. There are examples in the US of entities that produce investigative journalism on a non-profit basis, funded primarily by philanthropy, so it may be possible to make some adjustments in the tax code to encourage this type of support. ProPublica is a leading US example of this organisational form. Its website offers the following description of its activities:[42]

> *ProPublica is an independent, non-profit newsroom that produces investigative journalism in the public interest … Each story we publish is distributed in a manner designed to maximize its impact. Many of our 'deep dive' stories are offered exclusively to a traditional news organization, free of charge, for publication or broadcast. We published more than 80 such stories in 2012 with more than 25 different partners … Almost all our stories are available for reprint under a Creative Commons license … The Sandler Foundation made a major, multi-year commitment to fund ProPublica at launch. Other philanthropic contributions have been received as well, and more are needed … ProPublica also accepts advertising. And we are constantly exploring possible new revenue streams, including ebooks, although philanthropy, in large gifts and small, will continue to be our principal source of income for the foreseeable future.*

[41] See FCC, *Notice of Proposed Rulemaking* in MB Docket No. 09-182 and 07-294 (2011), available at http://hraunfoss.fcc.gov/edocs_public/attachmatch/FCC-11-186A1.pdf. See paras. 194–208 for a discussion of shared service agreements and related arrangements.
[42] http://www.propublica.org/about.

Most pay television outlets in the United States carry one or more channels of a service called C-SPAN. Its website offers the following description of its activities.[43]

> *C-SPAN (Cable-Satellite Public Affairs Network) is a private, non-profit company, created in 1979 by the cable television industry as a public service. Our mission is to provide public access to the political process. C-SPAN receives no government funding; operations are funded by fees paid by cable and satellite affiliates who carry C-SPAN programming.*

C-SPAN produces three video channels, one primarily devoted to the US House of Representatives, one primarily devoted to the US Senate, and a third channel with additional coverage of national events. C-SPAN also streams content from its website and provides content via broadcast radio in the Washington-Baltimore area and nationally via a satellite radio subscription platform. There are state-level public affairs networks in 23 of the 50 states in the US and one in the District of Columbia. Building on the example of C-SPAN and the state networks, it might be possible to increase the amount of state-level news and information in the US, both by expanding the concept to other states and by expanding the number of outlets that carry existing state networks.

In addition to seeking additional sources of funding for public interest content, it is also worth exploring measures to reduce costs. One possibility mentioned by the *INC Report* is to adapt the 'medical resident' model to journalism schools. Making actual on-the-job experience an integral part of journalism school training would not only further improve the skills of journalism school graduates but could also provide media outlets with a frequently replenished stream of low-cost staff. Another avenue for cost reduction open to government at all levels is making public information available online in user-friendly format in order to reduce the cost of monitoring government performance. An increasing number of government organisations do this, but there is certainly room for expansion of the concept. Coupled with this is what is referred to as 'computational journalism', the development of techniques and software (which could be supported by public investment in the tools) that make it practical and inexpensive for journalists and others to analyse large quantities of public data (see e.g. Hamilton and Turner, 2009).

Performance Metrics

No discussion of regulatory tools in this area would be complete without at least a brief discussion of how the regulator can measure media performance and hence assess the utility of policy measures. This is a particular challenge with respect to non-economic objectives. As the Ofcom advice on measuring media plurality states: '[a]n assessment of sufficiency [of plurality] at any point in time is challenging, as it requires a subjective judgement'.[44] Ofcom's overall performance evaluation procedure for public service broadcasters includes measurement of inputs such as spending and of outputs such as quantity of viewing and consumer satisfaction as measured by fairly detailed surveys. It is not clear that any of these measures can truly address how well the plurality goal is being met. With respect to plurality and indeed the other goals, it is likely that these evaluation techniques work best as indicators of

[43] See http://www.c-span.org/About/About-C-SPAN.
[44] Ofcom, *Measuring Media Plurality*, p. 2.

trends over time in performance rather than as assessments of whether the level of performance is satisfactory at any given time.

In the US, there is no detailed or explicit public evaluation of broadcaster performance. By statute, television station licences are renewed if 'the station has served the public interest, convenience, and necessity' and there have been no serious violations of the Communications Act or FCC rules, or other violations that, taken together, constitute a pattern of abuse.[45] Historically, the FCC has required broadcasters to keep a public file of information on various aspects of station organisation and activities. Any member of the public is entitled to view the file at the station's offices. Pursuant to FCC rule, one item that has to be included is an 'issues-programs list'. This list, to be created quarterly, includes a list of programmes that have provided the station's most significant treatment of community issues, as determined by the station. This information was not required to be submitted to the FCC, and it has apparently played no significant role in the license renewal process, as virtually all licenses are routinely renewed. In its 'enhanced disclosure' proceeding, the FCC sought to require television stations to provide a different and more detailed accounting of its programming. For a variety of reasons, the FCC vacated its initial decision in this area but, following a recommendation in the *INC Report*, did adopt a requirement that television stations place most of the material in their public file into an online database maintained by the FCC. The FCC continues to examine the possibility of restructuring the issues/programs list and of applying the enhanced disclosure requirements to radio stations.[46]

In view of the inherent difficulty of quantifying performance metrics, particularly with respect to the non-economic goals of broadcast policy and in view of the severe limits on content regulation of any kind in the United States, making information on television station activities readily available may provide incentives for stations to maintain good performance or improve performance. The public will be able more easily than before to monitor changes over time in a station's performance and to compare performance of different stations, both within a single market and for similar stations in different markets.

In both countries, non-broadcast channels also contribute to public interest programming, but they receive much lower levels of scrutiny in this regard.[47] In the absence of clear performance metrics for broadcasters and given that increasing competition from other media makes explicit policy intervention by government less practical and maybe less necessary, it is possible that the best that policy-makers can do is ensure some transparency in reporting information about stations and rely on public pressure to impose what discipline it can.

Major Competitive Issues

Media regulators in the US and the UK must evaluate a number of competitive issues, horizontal and vertical, that arise with respect to FTA television and other video distribution platforms. Space permits attention to just a few. At the horizontal level, perhaps the biggest issue is assessing the substitutability of FTA broadcasting and other platforms, e.g. pay television

[45] See 47 U.S.C. §309(k).
[46] See *Second Report and Order* in MM Docket No. 00-168 and MM Docket No. 00-44 (2012), available at http://hraunfoss.fcc.gov/edocs_public/attachmatch/FCC-12-44A1.pdf; and *Notice of Inquiry* in MB Docket No. 11-189 (2011), available at http://hraunfoss.fcc.gov/edocs_public/attachmatch/FCC-11-169A1.pdf.
[47] Note that in the UK some of the digital FTA channels have very limited public service requirements.

and internet, both for economic and plurality goals. In the presence of new and unregulated platforms, some obligations placed on traditional broadcasters may become unsustainable and/or unnecessary. This is a difficult matter; the FCC has received some guidance from Congress but is treading cautiously in various areas.

One indicator of the current state of play is the Commission's Annual 'Video Competition Report'. The report is produced at the direction of Congress and is organised around three 'strategic groups' of providers: multichannel video programming distributors (MVPDs), broadcast television stations, and online video distributors (OVDs). The report analyses the three groups separately, although they clearly exhibit some interdependence. Based in part on the legislative history of the Cable Act of 1992, the Commission determined long ago that broadcast television alone is not a sufficient substitute for cable to constrain its prices, and hence that MVPD remains a separate product market.[48] Viewing of linear video programming, i.e. FTA broadcasting plus cable and direct-to-home satellite television, continues to rise. The time and location shifting function of OVDs suggest that, at least to some extent, these services complement rather than substitute for linear delivery platforms. This is something that could change, particularly as high-speed broadband service, both wireline and wireless, becomes even more widely available. The FCC considered this issue in the Comcast-NBCU merger transaction. The agency concluded 'that most consumers today do not see online video distributor (OVD) service as a substitute for their multichannel video programming distributor (MVPD) service, but as an additional method of viewing programming.'[49]

Another horizontal issue, the conflicting impact of local market ownership limits on different public policy goals, has already been discussed. Common ownership of television and/or radio stations within a local market may increase programming variety or even ensure the survival of outlets that would not be viable independently. However, common ownership would reduce the number of independent 'gatekeepers' in the market which could reduce viewpoint diversity.

The major vertical issues involve the interaction between content providers and distribution platforms, primarily but not exclusively in the presence of vertical integration. Vertically integrated satellite cable programmers (cable operators who also own programming networks) are prohibited from discriminating against unaffiliated MVPDs in the supply of programming. Recently, the FCC substituted case-by-case review for its former flat prohibition on exclusive programme distribution contracts by vertically integrated satellite cable programmers.[50] The FCC also has an open proceeding on retransmission consent.[51] This is the process by which local FTA television stations can negotiate with MVPDs over the terms and

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[48] See FCC, *Fourteenth Report* in MB Docket No. 07-269 (2012), n. 5, available at http://hraunfoss.fcc.gov/edocs_public/attachmatch/FCC-12-81A1.pdf.

[49] However, it also found that 'as a vertically integrated company, Comcast will have the incentive and ability to hinder competition from other OVDs, both traditional MVPDs and standalone OVDs'. This led the FCC to impose certain conditions on the merged entity. See FCC, *Memorandum Opinion and Order* in MB Docket No. 10-56, paragraphs 61, 79; available at http://hraunfoss.fcc.gov/edocs_public/attachmatch/FCC-11-4A1.doc.

[50] See 47 U.S.C. § 628 and FCC, *Report and Order* in MB Docket Nos. 12-68, 07-18, 05-192; *Further Notice of Proposed Rulemaking* in MB Docket No. 12-68; *Order on Reconsideration* in MB Docket No. 07-29, available at http://hraunfoss.fcc.gov/edocs_public/attachmatch/FCC-12-123A1.pdf. Note that the prohibitions are more detailed than mentioned and include a general prohibition of cable operators engaging in 'unfair methods of competition or unfair or deceptive practices, the purpose or effect of which is to hinder significantly or to prevent any multichannel video programming distributor from providing satellite cable programming or satellite broadcast programming to subscribers or consumers'.

[51] FCC, *Notice of Proposed Rulemaking* in MB Docket No. 10-71 2011), available at http://hraunfoss.fcc.gov/edocs_public/attachmatch/FCC-11-31A1.pdf.

conditions (compensation, in particular) under which MVPDs can retransmit the local television station signals.

In the UK, satellite, rather than cable, is the dominant pay television platform, so the vertical issues described above are of particular importance with respect to the satellite platform Sky TV. In 2010, Ofcom required Sky to offer two sports channels – Sky Sports 1 and 2 – 'to retailers on platforms other than Sky's, at prices set by Ofcom'.[52] The same decision raised the possibility that Ofcom would ask the Competition Commission to review competitive concerns relating to the markets 'for the sale of premium movie rights and premium movie services'. These issues were referred to the Competition Commission. It found that 'competition was not effective' in the retail market for pay television but did not find that Sky's position in the two markets specified gave rise to an adverse effect on competition.[53]

The FCC is also required to 'establish regulations governing program carriage agreements and related practices between cable operators or other multichannel video programming distributors and video programming vendors'; the rules established pursuant to this requirement include a prohibition on discrimination on the basis of affiliation or non-affiliation by MVPDs that unreasonably restrains the ability of unaffiliated programmers to compete fairly.[54] For example, The Tennis Channel filed a complaint alleging that cable operator Comcast was impermissibly discriminating against it by placing the channel on a less favourable channel tier than Comcast's affiliated sports programming networks (e.g. the Golf Channel). The Commission found in favour of the Tennis Channel, but the DC Circuit Court of Appeals recently overturned the Commission's decision on evidentiary grounds.[55]

Vertical interactions between content providers and distribution platforms can also arise with respect to the internet. Resolving them in a manner that preserves incentives for innovation by content providers (aka application providers) and the incentives for investment in facilities by internet service providers (ISPs) is a continuing challenge. The technological and business landscape is changing rapidly, and the FCC's policy initiative in this area, the Open Internet Order, is currently under judicial review.[56] That order enunciates a 'no unreasonable discrimination' rule for providers of fixed broadband internet service with respect to lawful network traffic. It also states that 'pay for priority' arrangements (i.e. payment by a content or application provider to a broadband provider in order to induce the broadband provider to directly or indirectly favour some traffic over other traffic in transmission to a subscriber or subscribers) would be unlikely to satisfy the 'no unreasonable discrimination' rule. Moreover, two years prior to adoption of the Open Internet Order, the Commission concluded an enforcement proceeding against a major cable ISP for interfering with certain

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[52] See Ofcom, *Pay TV statement*, 31 Mar. 2010, p. 1, available at http://stakeholders.ofcom.org.uk/binaries/consultations/third_paytv/statement/paytv_statement.pdf.

[53] UK Competition Commission, *Movies on Pay TV Market Investigation*, 2 Aug. 2012, pp. 8–9, available at http://www.competition-commission.org.uk/assets/competitioncommission/docs/2010/movies-on-pay-tv/main_report.pdf.

[54] See 47 U.S.C. §536 and 47 C.F.R. §76.1301(c).

[55] See *Tennis Channel, Inc. v. Comcast Cable Commc'ns, L.L.C.*, Memorandum Opinion and Order, 27 FCC Rcd 8508 (2012), available at http://hraunfoss.fcc.gov/edocs_public/attachmatch/FCC-12-78A1.pdf; *rev'd sub nom. Comcast Cable Commc'ns, LLC v. FCC*, No. 12-1337 (D.C. Cir., decided 28 May 2013).

[56] See FCC, *Report and Order* in GN Docket No. 09-91 and WC Docket No. 07-52 (2010), esp. paras. 54–5 (transparency); paras. 63–4 (no blocking of lawful content by fixed broadband providers); paras. 68–9 (no unreasonable discrimination by fixed broadband providers); para. 76 (pay for priority); paras. 35–6 (interference with peer-to-peer video file traffic); paras. 93–4 (treatment of mobile broadband), available at http://hraunfoss.fcc.gov/edocs_public/attachmatch/FCC-10-201A1.pdf**.** Appealed *sub nom. Verizon v. FCC* No. 11-1355 DC Circuit.

peer-to-peer traffic, often used for sharing video files.[57] The possibility that an ISP might discriminate against independent 'upstream' content (which might or might not compete directly with content provided by the ISP) cannot be ignored.[58]

Conclusion

Technological change has reshaped the media environment over the past 20 years or so, vastly expanding citizen/consumer choice and, it is safe to say, consumer welfare. However the same mechanisms that expand consumer choice make it more difficult for governments to pursue their public policy goals for the media, particularly the non-economics ones. There are certainly policy options that remain open to governments for promoting, say, diversity or plurality. These policies include but are not limited to the traditional tools of broadcast regulation. However, they are unlikely to provide the level of influence over the media environment that the old tools afforded governments in the old days. Hard as it may be for policy-makers and regulators to admit it, the new world of media has reduced their level of influence and they may just have to live with that reality.

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[57] See *Memorandum Opinion and Order* in WC Docket No. 07-52; File No. EB-08-IH-1518 (2008), available at http://hraunfoss.fcc.gov/edocs_public/attachmatch/FCC-08-183A1.pdf. Reversed on other grounds, *Comcast v. FCC*, 600 F.3d 642 (2010), available at http://www.cadc.uscourts.gov/internet/opinions.nsf/EA10373FA9C20DEA85257807005BD63F/$file/08-1291-1238302.pdf.

[58] Although the *Open Internet Order* does not apply the 'no unreasonable discrimination' rule to mobile broadband services, similar business arrangements may well develop in the mobile space. Recently, the sports network ESPN raised the possibility of paying one or more wireless carriers to ensure that subscribers accessing ESPN content over the wireless network would not have that content counted against their monthly data cap. See A. Sharma, E. A. Spencer, and A. Troianovski, 'ESPN Eyes Subsidizing Wireless-Data Plans', *Wall Street Journal*, 9 May 2013, available at http://online.wsj.com/article/SB10001424127887324059704578473400083982568.html.

6. Is Broadcasting Just Another Good or Service?

Andrew Graham

Earlier chapters in this volume have made clear that the question of whether broadcasting is, or is not, just another good or service is amenable to both economic and political analysis. It is, however, by no means simply an ivory tower question. On the contrary, it impinges directly on major issues of public policy. For example, if broadcasting is just another service, marketable like anything else, do we close the BBC? And what would broadcasting look like if it were to be transferred wholly to the private sector? Would we, for example, feel fully at ease if there were a plethora of private sector companies of whom one, possibly looming much larger than now, might be BSkyB? Alternatively, if broadcasting is not just another service, how should it be organised?

One has only to put these questions about policy to recall how much the context within which broadcasting policy has recently changed. Indeed, it is not just broadcasting policy where the context has altered, but the whole question of our view about the functioning of markets. As recently as ten years ago the so called 'Washington Consensus' ruled the day: the state should be minimalist; regulation, if needed at all, should be 'light touch'; and the more that goods and services were distributed through the marketplace the greater the welfare of society. At that time, the question of whether broadcasting was just like another good or service would have carried behind it the presumption that, if it were just another good or service, then it could – indeed *should* – be left to the natural functioning of markets.

In contrast, post the crash of 2008, we move to a world in which, entirely understandably, there is huge cynicism about the working of capitalism. Alongside this and driven by it, within the academic world, we find a much closer scrutiny of the assumptions underlying the working of markets and a much closer examination of why it often appears to be the case that they function so much less well than in the picture painted by the acolytes of liberal economics.

Broadcasting and the world of the media has had its own, equally dramatic, turmoil. As recently as 2010, News International was riding high. At the outset of that year they had launched the bid for BSkyB. By December, everything was proceeding according to plan, indeed even better than planned. Vince Cable had spoken unwisely and, he thought, off the record, about the nature of their bid and been forced to resign. As a result, all seemed clear for the bid to go ahead. Yet if we wind the story forward a mere seven months, the News International story implodes. By July 2011, with the hacking scandal breaking day by day, they were forced to close the *News of the World* and withdraw their bid for BSkyB. What is more, shortly thereafter, Rupert Murdoch was declared not a fit person to run a major public company.[59]

Alongside this, the BBC has moved through its own set of highs and lows. Its most recent peak was undoubtedly at the end of summer of 2012. In the afterglow of the Olympics and with the UK looking like a highly successful country and with its major broadcaster projecting across the globe an appealing image of a country at peace with itself, the BBC stood more admired than at most times in the last decade. Yet just months later, by November 2012, the BBC was mired in the disaster of the Savile scandal.

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[59] The House of Commons Culture Media and sport select committee said he was not a fit person to run a major public company: http://www.bbc.co.uk/news/uk-politics-17898029. However, the 'fit and proper' test was administered by Ofcom who decided that Sky was a fit and proper company to hold a broadcast licence: http://www.bbc.co.uk/news/business-19658811.

Then, within days, that horror was dramatically compounded by the shameful *Newsnight* report supposedly claiming that a senior Conservative politician was a paedophile – only for it to be shown that *Newsnight*, a supposedly trusted part of the BBC's factual reporting, had not carried out even the most basic journalistic checks into the veracity of its story (see the Pollard and MacQuarrie reports).[60]

I will return below to the relevance of this changing context for how we should think about broadcasting policy, but, for the moment, carry forward two thoughts. First, the question of whether most markets in goods and services function well is now much more open to question. Second, the changing fortunes of News International on the one hand and the BBC on the other are a salutary reminder that we are not dealing with the innumerable tiny firms of textbook competition but with major media players and with issues of market dominance and power.

Analysis: Economic Arguments

The changing context for broadcasting does not, however, imply that economic analysis has no insights to offer. I have written about these on numerous earlier occasions (Graham and Davies, 1997; Graham, 1998, 2000; Graham et al., 1999), so I will not repeat myself. In any case, as mentioned, earlier contributors to this volume have already set out the three main considerations. These are the question of whether broadcasting is a public good, the extent to which it generates externalities and the issue of whether broadcasting can be a merit good.

Of these three, the only one on which more needs to be added here is that of merit goods. These are goods and services which benefit individuals but which even well informed people are not aware of in advance of the purchase and, in some cases, not for long periods thereafter. The obvious and rather mundane example is taking care of one's teeth in one's childhood and, more generally, many other aspects of healthcare. Merit goods also include a wide range of things which can be described as 'experiential' goods. That is, it is only *after* one has experienced them that one realises how useful it was to have done so. Most education is of this kind.

There are two cases for focusing on this. First, economists find merit goods particularly hard to model, since most economic models operate on the basis of the core assumptions of economics, namely that consumers are rational and well informed so they will buy the things they want.
The problem with merit goods is that, by definition, the consumer only becomes well informed about them after – sometimes long after – they have bought them.

Second, as a moment's reflection will reveal, much of broadcasting is experiential and so lies, at least potentially, in the realm of merit goods. There is a programme on, let us say, the natural world. If one had to pay for it in advance, one might well not watch, yet many of those who have seen the Attenborough series will find that their whole conception of themselves and the natural world will have been altered by seeing the kinds of things that he is able to bring to us. And, because this has been done as part of public service broadcasting, it is totally free at the point of use. As a result, many more of us will have 'consumed' such programmes than would have been the case if we

[60] See, respectively, ReedSmith, *The Pollard Review: Report*, 18 Dec. 2012, available at http://downloads.bbc.co.uk/bbctrust/assets/files/pdf/our_work/pollard_review/pollard_review.pdf; and BBC Trust, *Findings of the Editorial Standards Committee of the BBC Trust*, 14 Dec. 2012, pp. 10–24, available at http://downloads.bbc.co.uk/bbctrust/assets/files/pdf/appeals/esc_bulletins/2012/newsnight_2nov.pdf.

had had to buy them. Note also that, while it is true that the programme is 'consumed' (we watch it and there is a clear sense in which it has gone), one characteristic of merit goods is that they have some of the qualities of investment: the programme has passed, but the effects linger on in our minds giving a pay-back spread out over months or even years.

To continue the example, but going in the opposite direction, there can be 'demerit goods'. Drugs are the most obvious example. People will pay a fortune to purchase them. They achieve an instant high but the long-run effects are extraordinarily damaging. Thus, seen from the viewpoint of the market, the good that will, in fact, benefit us, but of which we are not yet aware of the benefits, we will be unwilling to buy; whereas the good that brings an immediate rush of satisfaction we pay for gladly, even though it harms us. As a result, a pure profit-seeking broadcaster would produce far too many demerit goods and not enough merit ones, whereas a public service broadcaster, *given different purposes*, will seek to put on broadcasts that expand our experience rather than cramp and diminish us.

This question of the *purposes* for which broadcasters exist is one to which I will return below.

Analysis: The Institutional Framework

Public goods, externalities, and, to a lesser degree, merit goods, are part of the standard framework of economic analysis. There is, however, something fundamentally missing from this analysis: namely the institutions that create and frame the market in the first place. We may think of this in two dimensions – the economic and the political. Consider first the economic. As already noted, one of the core assumptions of standard economics is that for markets to work well, consumers need to be well informed both about their own preferences and about the goods and services that they are to buy. As a result, the provision of information to consumers has to *precede* the market, not be part of it. And broadcasting is one of the key ways in which today's consumers gain all kinds of information, not just about broadcasting.

There is a deeper sense in which institutions need to precede the market. Before Adam Smith wrote *The Wealth of Nations*, he wrote *The Theory of Moral Sentiments*. In the earlier work Smith effectively set out a great deal about the factors he expected already to be in place before markets could function well. Fundamentally these included a set of property rights and the ability to form legally enforceable contracts. Moreover, even though Smith was writing well in advance of the extension of the vote in the 19th century, much of what he expected to be in place for markets to work would, today, be seen as the by-products of a non-corrupt and well-functioning democracy.

To state the obvious, if markets need the framework that today comes from the laws of a well-functioning democracy, we have moved from the economic to the political. It will be equally obvious that democracy is not just another good or service. We do not sell our votes because most of us think this would be an affront to our position as citizens; it is somehow against the whole idea of being a fully functioning member of a society that we would sell this right. Or, ask the question, how much would you pay for democracy? At one level it makes no sense, because you cannot go to a supermarket and buy it. At another level, we know that, where democracy has not existed, people have valued it so highly that they have been willing to lay down their lives to achieve it.

And when people are laying down their lives fighting against tyranny, at, or close to, the top of anyone's list of strategic objectives lies control of the main television and radio channels (with, these days, the social media coming up close behind). Putting this another way, broadcasting has huge potential either to hinder democracy or to be part of its flowering. This factor alone makes it quite unlike most goods and services.

Remembering this, return for a moment to the changing context described above and, in particular, to the alternating highs and lows achieved by both News International and the BBC. As noted there, as recently as 2010, it would have appeared likely that News International would achieve full ownership of one of our major broadcasters. Yet, only months later, think what was revealed to us as citizens of the United Kingdom and what this might have implied about our democracy.

Stripped of its frills, the evidence revealed in the Leveson inquiry, together with what can be observed around the world, suggests that Rupert Murdoch had a strategy based on three elements. First, in each of the three jurisdictions within which he and his companies have operated – Australia, the United States, and the United Kingdom – he has chosen to acquire one upmarket newspaper and one downmarket newspaper. Second, using the upmarket newspaper, he was able to acquire access to all of the 'top people' in the relevant society (irrespective of whether the top people were celebrities or senior politicians or other people in positions of influence). Third, owning also a downmarket newspaper, he has been able to print stories about the 'top people' in the downmarket newspaper. Moreover, at least in the UK according to the Leveson evidence, the printing of such stories (plus the *potential* to print such stories) has been used as leverage on these people. A stronger word than 'leverage' might occur to many of us**.**

What on earth is happening to a supposedly democratic country if one of its major newspapers can buy one of its major broadcasters and so gain yet further control of the people who determine the laws of the country? The celebrities had been infiltrated, the police had been corrupted and the politicians had been deprived of their right to speak out on behalf of the electorate.

The BBC has itself recently committed some huge blunders. Nevertheless, few people think that these blunders have uncovered anything remotely comparable to the illegal phone hacking by the employees of News International. As a result, if public service broadcasting contributes to democracy – and there can be little doubt that this public space within which the issues of the day are debated without control either by the state or a media mogul is a massive contributor to the democratic structure of the UK – then the need for a well-functioning BBC would seem to be at least as substantial now as at any time in the past.

A Thought Experiment

The question of whether or not the media needs any public intervention has, of course, been around for a long time. The most famous defence of the free press was that of John Milton and the publication of *Areopagitica* in 1644. Milton's core claim was, if that the press is free to publish whatever it wishes, truth will eventually drive out falsity. Perhaps so, but it is not at all obvious that Milton's optimism is justified by evidence from the largest media market in the world – the USA. It is, for example, hard to read the recent publication by Thomas Mann and Norman Ornstein: *It's Even Worse than it Looks: How the American Constitutional System Collided with the New Politics of Extremism*, and still hold to Milton's conclusion.

To mention three points in particular: first, Mann and Ornstein report that, sometime *after* Obama's birth certificate has been published and made available to anybody in the media who cared to consult it, surveys still find that more than a third of those replying to some questionnaires believe that Obama was born outside the USA. Not much sign there of truth driving out falsity. Second, Mann and Ornstein report that, in the 2012 election, there was a much larger disconnect between the arguments of the Republicans and how they related to reality than that between the Democrats and their basis in reality. I refer you to Mann and Ornstein to check the facts.

Speaking of 'fact-checking', the third point to emerge from Mann and Ornstein is that, even on the basis of the facts, something strange has been happening in America. As they remark, 'if you looked at where the scales should have been, and where they were, they were weighted. And they weren't weighted for ideological bias. They were weighted *to avoid being charged with ideological bias'* (emphasis added).

The question of bias is, of course, central to how the BBC behaves. We take it as one of the BBC's core characteristics that it eschews bias and, instead, seeks to do its utmost to handle issues impartially and objectively. Having fallen down so badly in the *Newsnight* affair, the BBC ought at the moment to be redoubling its efforts to achieve these goals. I therefore put it to the BBC that they might find it a useful thought experiment to ask themselves how they would behave if they were a significant public service broadcaster in the USA. It would not be an easy task. But that, of course, is precisely the point of the thought experiment. They would have to sharpen both their practices and their thinking.

As part of that thinking I would suggest that those in senior editorial positions in the BBC consult Bernard Williams's brilliant volume *Truth and Truthfulness*. Here, in his characteristically clear and acerbic manner, Williams sets out to despatch the fashionable postmodernist view that there is no such thing as truth. As he cuttingly remarks, 'The tension between the pursuit of truthfulness and the doubt that there is (really) any truth to be found comes out in a significant difficulty, that the attack on some specific form of truth … itself depends on some claims or other which themselves have to be taken to be true.'

Williams does not, of course, fall into the trap of thinking either that there is something as simple as *the* truth or that truthfulness consists merely of a recitation of facts or that facts are uncomplicated. On the contrary, he argues (a) that without narratives we cannot understand the world and (b) that narratives or stories may well carry a point of view. Nonetheless, carrying a point of view or not, we can all, Williams argues, still differentiate between the situation in which someone is trying to be a truth-teller and when they are not. Indeed, it is of the very essence of argument that our ability to contest the plausibility – one might say the truthfulness – of a particular version of history is that one contests the facts. What is more, Williams suggests, truth-tellers, that is, those upon whom we rely to tell us the truth, themselves have certain characteristics. They have an integrity and a concern with veracity and authenticity.

If the BBC is to re-establish the trust of the British, then integrity, veracity, authenticity, and a deep concern to be a truth-teller must be its watchwords.

Broadcasting Policy and the Market

There is another book I suggest as reading for those framing broadcasting policy: *Firm Commitment* by Colin Mayer. To see the relevance of Mayer, we must return to the arguments made at the beginning of this chapter and in particular to the fact that during the last decade we have come to see the functioning of markets through new and more sceptical eyes. No longer do we take it as almost for granted that markets, semi-automatically, produce the best of all possible worlds.

The merit of Mayer's book is that he combines scepticism with clear analysis, and, above all, with a fresh solution. The essence of his argument lies in three points.

First, he shows that in the early days of capitalism, firms often had clear purposes. Indeed, they had what we would nowadays call Mission Statements. These were, of course, the objectives of the owners. However, as capitalism developed, it became clear that owners could not necessarily generate all the capital they needed from their own resources. As a result, there was the great breakthrough in the 19th century of the creation of limited liability and, as a result, a massive injection of shareholder capital. This injection of shareholder capital did, however, bring with it two problems: (a) the running of the firms lay more and more in the hands of managers and these were increasingly divorced from the shareholders who were the owners; and (b) the shareholders, being a widely distributed body of people, had almost no interest in the original purposes of the firm, being concerned, instead, with the share price and with movements in that share price over an increasingly short-term horizon.

Second, according to Mayer, what then happened is that the literature of economics and that of management went almost entirely in a mistaken direction. Observing this disjunction between owners and managers, or as economists call it 'the principal-agent problem', most articles in the academic literature attempted to 'solve' it by seeking ways of aligning the interests of the principals with those of the agents. However, as Mayer shows, given that shareholders had become increasingly short-term and no longer had any concern for the overriding purpose for the firm, this has frequently proved to be a disaster. The modern shareholder, having in mind nothing except monetary gain, is solely obsessed with the movement of a share price – and the movement of that share price sometimes over just weeks or hours or days. As a result, all kinds of monstrosities occur. A dramatic example, given by Mayer is that of BP. It had massively polluted the Gulf of Mexico. Nevertheless, shareholders had been only too glad to allow the rundown in maintenance and repairs that led to this disaster because it boosted the short-term profits of the firm and therefore boosted the share price. No matter the damage to the environment, no matter the long-run damage to the profits of BP. All that mattered was the short-run game.

What is more, the BP debacle is by no means an isolated case. The problem ranges from the mis-selling of financial products by the banks to the substitution of horsemeat for beef – indeed to anything where there is a short-run financial gain, no matter the longer run costs.

Third, Mayer's solution to this situation is not to wish to abandon the use of the marketplace. On the contrary he is, rightly, a great defender of it. But what he regards as essential is that we should have markets operating within the context of a reformed capitalism based on long-term shareholdings and with owners who have purposes.

The relevance of Mayer's arguments to the world of broadcasting and whether it should be treated as simply another good or service follow on naturally. Most obviously, we do not have remotely in place in the UK either of Mayer's requirements for well-functioning capitalism. Thus, even if broadcasting were just any other good (which it is not!), there would be good grounds for not relying on the kind of capitalism we have today to produce the kind of broadcasting that we require. To put this point in its sharpest form, I doubt that many of us would wish to see the BBC for sale, with BSkyB as the bidder and with Rupert Murdoch as the owner.

Second, as it happens, the BBC meets both of Mayer's criteria. It has a very long-term shareholding – the UK public in perpetuity – and it has different purposes from that of the maximisation of profits. Its role, often stated but still worth repeating, is to inform, educate, and entertain.

It is also highly pertinent to observe that the phone-hacking scandal that led to such a crisis for News International only eventually broke surface because of tenacious reporting by the *Guardian* (the 2011 Orwell lecture by the editor of the *Guardian*, Alan Rusbridger shows how they were left alone for over a year as the only newspaper willing to pursue the story and how, during this period, everyone, including the police, tried to warn them off).[61] And what are the two key characteristics that distinguish the *Guardian* from almost all of the rest of the British media? It has the objective of 'liberal journalism' laid down by its founder C. P. Scott and, being owned by the Scott Trust, it has a single shareholder totally committed to the long term.

Concluding Remarks

It has been argued that broadcasting is most certainly not just any old good and service. Given the existence of public goods, externalities, and, even more so, merit goods, there is a good case for the presence of a public service broadcaster. In addition to meeting these requirements better than the market, a public service broadcaster also plays a crucial role in ensuring that other markets, including other markets in broadcasting, are able to operate. Most importantly of all, it plays an even more important role in the functioning of our democratic society.

Finally, as has just been suggested, the BBC (as by far the most obvious part of public service broadcasting in the UK) has different purposes than those of most firms operating within the market. The *lack* of appropriate purposes for most of today's private sector firms and the *lack* of longer term shareholdings ought to be far more at the centre of public debate than is currently the case. Seen from this new perspective, we are fortunate, indeed, that in the newspaper world, the *Guardian* exists and that in world of broadcasting, we have the BBC. British democracy would be a much weaker institution without these two players.

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[61] See Alan Rusbridger, 'Hacking Away at the Truth', *Guardian*, 10 Nov. 2011, available at http://www.guardian.co.uk/media/2011/nov/10/phone-hacking-truth-alan-rusbridger-orwell.

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7. BBC: From Crowding Out to *Dynamising In*

Mariana Mazzucato

The BBC is today accused of (potentially) 'crowding out' private broadcasters: critics accuse it of 'stealing' audience that otherwise would watch private channels, thus diminishing potential income from advertising and, consequently, private investments.[62] The BBC is not alone in being criticised for supposedly crowding out investments. This is a common accusation that many successful public organisations are facing, from international state investment banks (like BNDES in Brazil, and CDB in China, both earning high returns on equity) to large public funding agencies in the USA (like ARPA-E which is leading energy investments).[63] Criticism often argues that the public sector thus stifles innovation.[64]

In economics, the 'crowding out' hypothesis is used to analyse the possibility that public sector investments will reduce private sector investments because both depend on the same pool of savings (pushing up interest rates which reduce the willingness of private firms to borrow, hence invest). Keynesian analysis has argued against this possibility during periods of under-utilised capacity, characteristic in today's economy (Stiglitz, 2012, for the case of counter-cyclical activity in general; Zenghelis, 2011, for the case of green infrastructure). But even in the boom there are many parts of the risk landscape where private business fears to tread, so that public investment does not crowd out but *crowds in* private sector investment through its 'de-risking' activity. Nowhere is this more obvious than in the history of technological change, where the state has often funded the highest risk investments both upstream and downstream in the innovation chain (Mazzucato, 2011).

Yet the words that we use to describe the 'crowding in' process should not use the negative situation as a benchmark: crowding out. In fact, the public sector not only 'de-risks' the private sector by sharing its risk, it often 'leads the way'– courageously taking on risk that the private sector fears. At the heart of US capitalism, usually described as a 'market system', the state has funded most of the revolutionary technologies, not simply fixing markets but leading them with 'mission-oriented' investments that cannot be explained via 'market failure' theory (Mowery, 2010). Thus rather than analysing public sector investment via the need to correct 'market failures', it is necessary to build a theory of how the public sector shapes and creates markets, more in line with the work of Karl Polanyi in 1944 (see Polanyi, 2001). And the BBC is a perfect example.

The State as Mission Maker Not Market Fixer

Across the globe we are hearing that the state has to be cut back in order to foster a post-crisis recovery. The assumption is that, with the state in the backseat, we unleash the power of entrepreneurship and innovation in the private sector. The media, business, and libertarian politicians draw from this convenient contrast, and feed into the dichotomy of a dynamic, innovative, and competitive 'revolutionary' private sector versus a sluggish, bureaucratic, inertial, 'meddling' public sector. The message is repeated so much that it is

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[62] See Weeds, in Ch. 2 above.

[63] Advanced Research Projects Agency – Energy, for more information, see http://arpa-e.energy.gov/?q=about.

[64] This discussion builds on a new book by Mazzucato, *The Entrepreneurial State: Debunking Myths about Private and Public Sector Innovation* (Anthem Press, 2013).

accepted by the many as a 'common sense' truth, and has even made many believe that the 2007 financial crisis, which soon precipitated into a full-blown economic crisis, was caused by public sector debt, rather than the truth: by private sector debt.

And the language used has been forceful. Such ideological language is not exclusive to current governments having to grapple with this prolonged economic and financial crisis, but it has its intellectual and political roots in the ideas of economists like Milton Friedman and politicians like Margaret Thatcher and Ronald Reagan, to name a few.

Indeed, the increasing percentage of public services, across the globe, that are being 'outsourced' to the private sector is usually done using precisely this 'efficiency' argument. Yet a proper look at the real cost savings that such outsourcing provides, especially taking into account the lack of 'quality control' and high (unexplained) costs that ensue, is almost never carried out. Indeed, examples where outsourcing in the public sector is resisted, such as the BBC's choice to build in-house the platform for its iPlayer, has meant not only that it has saved money over time but also that it has been able to keep the BBC a dynamic innovative organisation that can attract top talent, retaining its almost universal reach in the UK in both radio and TV –what public broadcasters in other countries can usually only dream of.

Understanding the role of the public sector, beyond the need and ability for it to correct market failures, requires moving away from the usual contrast between a bureaucratic public sector and a dynamic creative innovative private sector. In 2011 I wrote a book called *The Entrepreneurial State*, arguing that entrepreneurship is not (just) about start-ups, venture capital, and 'garage tinkerers'. It is about the willingness and ability of economic agents to take on risk and real 'Knightian uncertainty': what is genuinely unknown.[65] Attempts at innovation usually fail – otherwise it would not be called 'innovation'. This is why you have to be a bit 'crazy' to engage with innovation … it will often cost you more than it brings back, making traditional cost-benefit analysis stop it from the start. But whereas Steve Jobs talked about this in his charismatic 2005 Stanford lecture on the need for innovators to stay 'hungry and foolish',[66] few have admitted how much such foolishness has been 'seriously' riding on the wave of state-funded investments. Most of the radical, revolutionary innovations that have fuelled the dynamics of capitalism – from railroads to the internet, to modern-day nanotechnology and biotechnology – trace the most courageous early and capital-intensive 'entrepreneurial' investments back to the state. Not only in terms of upstream research, but also high-risk early-stage funding to companies often provided by the likes of the government-funded Small Business Administration (and its SBIR programme), rather than private venture capital. All of the technologies that make Apple's iPhone so 'smart' were government-funded (internet, GPS, touch-screen display, and the recent SIRI voice activated personal assistant) – and Apple itself received its early-stage financing from an SBA programme. And while pharmaceutical companies like to justify their high prices in the name of the high risks they take in research, the path-breaking investigative work of Angell (2004) has shown that 75% of the most innovative new medicines (new molecular

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[65] 'Knightian uncertainty' refers to the 'immeasurable' risk, i.e. a risk that cannot be calculated. This economic concept is named after University of Chicago economist Frank Knight (1885–1972), who theorised about risk and uncertainty and their differences in economic terms.

[66] See John Naughton, 'Steve Jobs: Stanford Commencement Address, June 2005', 9 Oct. 2011, *Guardian*, available at http://www.guardian.co.uk/technology/2011/oct/09/steve-jobs-stanford-commencement-address.

entities with priority rating) come from public labs, such as the National Institutes for Health, not private pharma.

The irony is that today, more than ever before, there is lots of talk about the need for public–private partnerships, alliances, 'open-innovation', and ecosystems of actors to make sectors, including broadcasting, more dynamic. Yet by ignoring the true role of the public sector in such alliances and 'ecosystems' we have risked not only creating ineffective partnerships, but also in many cases have created parasitic rather than symbiotic ecosystems (Mazzucato, 2013).

Standard economic theory justifies state intervention when the social return on investment is higher than the private return – making it unlikely that a private business will invest: from cleaning up pollution (a negative 'externality' not included in companies' costs) to funding basic research (a 'public good' difficult to appropriate). The BBC invested in 'public good' areas, for example, when it developed PrestoPrime, whose goal was to develop practical solutions for the long-term preservation of digital media (BBC, 2013). Yet the BBC, and the state in general, does much more than investing in public goods. Indeed, in the USA the market failure explanation (through externalities and public goods) explains less than one-quarter of the R&D investments made by the public sector. These have instead been driven by big visionary projects – like putting 'a man on the moon', or creating the internet, and modern-day nanotechnology. All these required a vision, a mission, and a plan – much more than a simple calculation of social and private returns (Mowery, 2010).

Building such missions requires *confidence* about what the state's role in the economy is. As eloquently argued by Keynes in the *The End of Laissez Faire* (1926), '[t]he important thing for Government is not to do things which individuals are doing already, and to do them a little better or a little worse; but to do those things which at present are not done at all'. This requires *making things happen* in specific spaces – calling for not just bureaucratic skills (though these are critical, as pointed out by Max Weber) but real technology-specific and sector-specific *expertise*. It is only through an exciting vision of the state's role that such expertise can be recruited, and is able to then map out the landscape in the relevant space. Indeed, a key part of the 'secret' of DARPA – the agency that invented *and* commercialised the internet within the US Department of Defence – has been its ability to attract talent and create excitement around specific missions. And it is no coincidence that a similar agency in today's US Department of Energy, ARPA-E, is not only leading US green investments, but also having fun on the way – in the words of Grunwald (2012), working in ARPA-E 'feels like Google'.

While many of the examples I draw on come from the US – purposely to show how the country that is often argued to most represent the benefits of the 'market system' has one of the most interventionist governments when it comes to innovation – more modern-day examples are coming from 'emerging' countries. Indeed, visionary investments are exemplified today by confident visionary State Investment Banks in countries like Brazil and China – not only providing counter-cyclical lending but also directing that lending to new uncertain areas that private banks and venture capitalists (VC's) fear. And here too, like in DARPA, expertise, talent, and vision matter. In the UK, the BBC is a notable example of a visionary, risk-taking institution working to create innovative programmes, technologies, processes, services, and solutions that the private sector would not dare to undertake.

The BBC as the Dynamic Element Catalysing UK's Creative Industry

The BBC generates high return on its investments and significantly contributes to the UK economy (according to a study based on a method developed by Deloitte, the BBC generates £8.3 billion of Gross Value Added, or two pounds of economic value for every pound of the licence fee (BBC, 2013.) The BBC also invests in in-house R&D, creating innovative products such as the iPlayer (mentioned above) or Ingex, a system used for tapeless studio recording based on inexpensive PC hardware that it uses to digitise its vast archives. And, contrary to what critics claim, the BBC is the dynamic element in the UK's creative industry – the catalyst that directly or indirectly generates the chemical reaction that makes private companies (incumbents and indies) invest in risky innovative enterprises. The BBC was a key player in the collaborative effort to develop Stagebox, an open-standard-based project that allows HD multi-camera productions to use standard internet technologies to link equipment. The Stagebox project is an example of collaborative innovative enterprise that involved private companies such as Bluebell, Leading Light Technologies, CoreEL, and Xilinx (BBC, 2013). Would they have developed the same open-source technologies without the BBC?

The BBC innovation model is purposively open regarding technical standards, so that others in the industry can draw on its knowledge to develop their own products. By following this open standards model, the BBC is able to invest in areas that are not commercially viable in the short run but that have strategic long-term potential for audiences and the UK's creative industry. But the BBC also is able to harvest returns from its investments, holding a portfolio of 134 patent families that it licenses to third parties. This way, the BBC is able to generate licensing revenue (for example, from the technology that underlies the online platform Radioplayer) which flows back to the UK and itself, thus allowing it to engage in the next round of innovative investments. This is something only a few state-owned institutions can be proud of: to develop innovative, breakthrough technologies and also reap financial results!

The BBC also invests in training and mentoring of small enterprises and young individuals, which otherwise would probably struggle to find opportunities to develop (and fund) their productions. The BBC then plays also the role of 'business angel'. In 2008, for instance, the BBC acquired a 25% stake in the UK independent producer Big Talk Productions, funding it with further £1,125,000 in loans. The company generated not only revenues of £11 million in 2011 alone, but also received recognition for its productions, such as the comedy series *Rev* (aired on BBC2), which was named BAFTA's Best Situation Comedy in 2011. Indeed, in many sectors, as private finance has become increasingly short-termist and risk-averse (with venture capitalists wanting returns within three years), such state financing of early-stage companies has become increasingly important.[67]

The list of benefits that BBC generates to the United Kingdom goes on and on. From showcasing the country's talents and culture to promoting foreign direct investments (£32 million of co-production funding from overseas broadcasters in 2011–12). So why is the BBC under attack, when it is seen by the world audience and industry professionals as *the* example of

[67] See Mariana Mazzucato, 'Tax Payers Helped Apple But Apple Won't Help Them', *Harvard Business Review*, 8 Mar. 2013, available at http://blogs.hbr.org/cs/2013/03/taxpayers_helped_apple_but_app.html?utm_source=Socialflow&utm_medium=Tweet&utm_campaign=Socialflow; and also FINNOV, *Do Financial Markets Reward Innovation?*, Policy Brief (Spring 2010), available at http://www.finnov-fp7.eu/sites/default/files/FINNOV_POLICY_BRIEF%20Spring%202010.pdf.

innovative integrated media company? Indeed, the BBC has succeeded in doing exactly what Keynes claimed, above, is the point of government: not spending on just anything – a little better or worse than the private sector – but on those areas not being pursued at all by the private sector. If it is to be blamed for 'crowding out' private broadcasters, it is necessary to prove that the latter would engage in the part of the landscape that the BBC has dared to pursue. Critics have not used proper metrics, but ideology, to make the accusation. The challenge, however, is to think about what type of metrics might be used to describe this landscape, and the BBC's actions within it, not so much in terms of fixing market failures, but in terms of shaping and creating markets. Karl Polanyi showed that the notion of the market as self-regulating is a myth unsupported by the historical origins of markets: 'The road to the free market was opened and kept open by an enormous increase in continuous, centrally organised and controlled interventionism' (Polanyi, 2001: 144). In his view, it was the state which imposed the conditions that allowed for the emergence of a market-based economy. His work helps us understand the role of the state in shaping and creating markets, not only fixing them. To talk about the future of the BBC, what we need is not static neoclassical economic analysis, but Polanyi-Keynes type investigation of the emerging broadcasting market and landscape, and the role of the public sector in making things happen that otherwise would not.

Concluding Remarks

And this is the punch line: when organised effectively, the state's hand is firm but not heavy, providing the vision and the dynamic *push* (as well as some 'nudges' – though nudges don't get you the IT revolution of the past, nor the green revolution today) to make things happen that otherwise would not have. Such actions are meant to increase the courage of private business. This requires understanding the state as neither a 'meddler' nor a simple 'facilitator' of economic growth. It is a key partner of the private sector – and often a more daring one, willing to take the risks that business won't. The state cannot and should not bow down easily to interest groups who approach it to seek handouts, rents, and unnecessary privileges like tax cuts. It should seek instead for those interest groups to work dynamically with it in its search for growth and technological change. Understanding the unique nature of the public sector – as more than an inefficient 'social' version of the private sector – impacts the nature of the public–private collaborations that emerge – as well as the 'rewards' that the state feels justified to reap. An entrepreneurial state does not only 'de-risk' the private sector, but envisions the risk space and operates boldly and effectively within it to make things happen. Indeed, when not confident, it is more likely that the state will get 'captured' and operate in areas that should be served by private businesses but are not – possibly 'crowding it out'. When not taking a leading role, the state becomes a poor imitator of private sector behaviours, rather than a real alternative. And indeed, the usual criticism of the state as slow and bureaucratic is more likely in countries that sideline it to play a purely 'administrative' role.

So it is a self-fulfilling prophecy to treat the state as cumbersome, and only able to correct 'market failures'. Who would want to work in the state sector if that is how it is described? Is it a coincidence that the 'picking winners' problem – the fear that the state is unable to make bold decisions on the *direction* of change – is discussed especially in countries that don't have an entrepreneurial vision for the state, i.e. countries like the UK where the state takes a backseat and is then blamed as soon as it makes a mistake. Major socio-economic 'challenges' such as climate change and 'ageing' require an active state, making the need for a better understanding of its role within public–private partnerships more important than ever.

My participation in the Reuters Institute and BBC Trust symposium 'The Economics of Broadcasting' made me realise just how important the implications of these points are for the BBC's own understanding of its role in the broadcasting landscape, and the development of a future strategy that is bold and courageous, shaping and creating the future of broadcasting. And the need to build a more symbiotic landscape, with less fear of crowding out and more courage to build something new. An aim that cannot be understood using the economists' jargon of fixing market failures. If the BBC restricted itself to only doing the latter, it would produce old-style boring documentaries and news programmes, never achieving the kind of market share that it continues to achieve today – producing even cutting edge soap operas (which the critics fear the most precisely due to their ability to achieve real influence). The BBC must not fear competing with private broadcasters (and get accused of 'crowding out'), it must do so fiercely, but on visionary terms.

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8. The Economics of Public Service Broadcasting: A Research Agenda

Diane Coyle and Paolo Siciliani

In the analogue era, the constraint of spectrum scarcity meant there was room for only a handful of TV channels. What's more, the technology did not permit the exclusion of non-paying audiences, and this 'non-excludability' ruled out subscription-based pay TV. Commercial broadcasters therefore had to transmit their channels free to air (FTA) and rely on advertising revenues. The two-sided-nature of this business model – needing to attract audiences and advertisers alike – meant that commercial programme-making was aimed at attracting mass audiences with broadly popular programmes.

Under these circumstances, public intervention was usually justified by the need to cater for a wider variety of programmes, including those of niche interest. In particular, public service broadcasting was justified in order to guarantee the provision and consumption of 'merit good' programmes, those reckoned to be beneficial for wider reasons such as good citizenship. The restricted choice of channels available helped ensure that this kind of programme would not only be broadcast but also watched by large numbers of people.

The traditional approach to PSB therefore did rely on key market failures such as consumption externalities and information asymmetries, especially the social benefits arising from bringing a large popular audience to programming with civic or educational benefits; but spectrum scarcity and non-excludability due to analogue technology were nevertheless the specific market failures that helped PSB intervention achieve its aims and were normally cited as the main externalities public service broadcasting aimed to address.

Multichannel Pay TV: The First Phase of Digital-Disruption

The first wave of digitalisation – which culminated with the digital switchover from analogue broadcasts to DTT in 2012 – dramatically increased the transmission capacity of legacy broadcasting platforms, enabling digital multichannel TV platforms (i.e. both satellite and terrestrial television); and it allowed effective content encryption for terrestrial viewers, thus creating the possibility of pay TV business models across satellite, cable, and terrestrial platforms.[68]

It was therefore readily assumed that digitalisation would overcome the problems of too little variety and too low quality under analogue FTA commercial broadcasting: audience fragmentation over multichannel platforms would prompt the emergence of specialised channels targeting niche audiences; and the new technical ability to charge audiences would deliver the revenues to underpin quality.

However, it is far from clear that digitalisation has had the expected consequences. In particular, the high fixed costs of TV production and the unique attraction to advertisers of large numbers of viewers mean that all commercial broadcasters continue to have strong incentives to attract a mass audience.

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[68] Gavyn Davies points out that the imposition of the licence fee was an exclusion mechanism, albeit a legal rather than a technological mechanism. However, it was only thanks to the technological advancements brought by digitalisation that it became possible for commercial broadcasters to implement partial exclusion in a practical and convenient way.

Consider first the costs of producing and transmitting TV programmes. It is tricky to envisage what the market would provide in a 'counterfactual' world with no existing PSBs. The reason is that the 'crowding out' effect of PSB programming is unknown – to what extent do these broadcasters inhibit the supply of similar programmes by non-PSB commercial broadcasters? Those who argue for a very narrow scope for PSB programmes believe that digital pay TV providers would broadcast a similar variety and quality of programming.

But this might not be the case. The audience fragmentation due to the mass adoption of multichannel digital platforms could reduce the incentive to invest in programme range and quality. As Helen Weeds explains in her chapter, in the digital pay TV business model, consumers should be willing to pay more for higher quality so the higher the expected number of viewers, the stronger is the incentive to incur high ('first copy') programme costs, because there is no extra cost of broadcasting to additional viewers. Therefore, multichannel audience fragmentation could bring about a trade-off between programme variety (in an attempt to target niche audiences) and programme quality (driven by scale economies thanks to large paying audiences). Dieter Helm suggests (p. 27) that in the pay TV world, services for minority tastes are therefore the *most* vulnerable, and therefore there is an enhanced argument for a public service 'central buyer' who can cross-subsidise between genres (as well as seeking to expand the range of programmes appreciated by individuals for citizenship and social reasons).

The importance of scale economies due to high and relatively fixed production and transmission costs might as a result favour foreign productions, typically from the US, which benefit from their access to large domestic audiences. By the same token, domestic productions might be commissioned with an eye on foreign markets, with the aim of reselling programmes abroad (especially the US). Under both circumstances the risk is that UK (and, even more, the UK's national – not to mention regional) culture and civic life might be underrepresented. Similarly, the local provision of quality programming for 'minority interests' could be adversely affected by the economics of digital pay TV.[69]

Turning to advertising revenues, a similar trade-off between programme variety and quality is at work under FTA broadcasting as well. Net advertising revenue (NAR) has stayed broadly flat (both in nominal terms and, to a lesser extent, as a share of overall industry revenue[70]) over the last decade, although channel proliferation has led to a dramatic increase in total and first-originated hours of FTA TV output. The share of NAR attributable to main PSB commercial channels (notably, ITV and C4) has decreased less than proportionally to their corresponding reduction in terms of audience shares.[71]

The commercial FTA channels are therefore said to trade at a premium, meaning that the price of advertising on a particular channel is above the

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[69] It is worth noticing that the opportunity to tap into foreign markets in the pursuit of new sources of revenue is increasingly important also for independent content producers reliant on commissions from FTA commercial broadcasters. See e.g. Adam Crozier, ITV CEO, *ITV plc Preliminary Results 2012*, 27 Feb. 2013, available at http://www.itvplc.com/media/news/itv-plc-preliminary-results-2012. ('A key part of the Transformation Plan is building an international content business. ITV Studios achieved strong organic growth both in the UK and overseas, with revenues up by £100m to £712m, driven by our ongoing investment in creative talent and developing new programmes. We're now building on our healthy creative pipeline with selective acquisitions in key and emerging creative markets.') Arguably, this trend may be a reflection of the gradual decline in total spending in UK originations dating back to 2006. See Ofcom (2012), fig. 2.30 at p. 144.

[70] Ibid., respectively, figs 2.22 at p. 136 and 2.23 at p. 137.

[71] It is worth remembering that the observed pattern is conservative due to the presence of a price cap on advertising over ITV's flagship channel. See Competition Commission, *Review of ITV's Contracts Rights Renewal Undertakings – Final Report*, 12 May 2010, available at http://www.competition commission.org.uk/assets /competitioncommission/docs/pdf/inquiry/ref2009/itv/pdf/final_report.

average for all channels.[72] The main driver for such a premium is the unique ability to regularly attract mass audiences, maximising the 'campaign reach' prized by advertisers running brand-building campaigns.[73]

The corollary of a premium for mass audiences is, however, a discount for niche audiences. Therefore, the greater the audience fragmentation due to channel proliferation, the more the advertising revenue deflation experienced by smaller channels struggling to sell an ever-increasing airtime inventory.

Accordingly, the brand-building nature of TV advertising arguably also implies a trade-off between variety and quality due to the imperative for mainstream commercial FTA channels to cling to their unique ability to regularly bring in mass audiences.

The 'traditional' market failures from the analogue era might therefore have survived digital switchover, due to the adverse economics of serving niche audiences in the multichannel world. Both the cost structure of TV, in the subscription model, and the interaction between advertisers and audiences, in the FTA model, tend to work against the provision of a wide range of programming and against additional investment in quality.

A further issue in the subscription model is the fact that potential viewers who are unwilling to pay will be excluded even though the cost of serving these untapped audiences would be trivial once the fixed ('first copy') cost to produce the content has been incurred. There is now a larger public good problem than in the analogue world, in other words. The near-zero marginal cost means it is economically inefficient not to broadcast to the additional viewers.[74]

The classic solution was thought to be found in price bundling: by selling access to a portfolio of channels catering for a broad range of tastes to a large base of heterogeneous viewers, consumers' willingness to pay would be more uniform. Diversification within bundles could give all customers something they enjoyed and would pay for.[75] However, the possibility of selling premium channels separately (i.e. mixed bundling) makes this approach less likely.

The analysis is complicated by the fact that not only do subscription and FTA business models coexist in the market, but consumers may also access both platforms at the same time rather than choosing just one or the other. The complexities make it very hard to draw robust inferences about what range and quality of products would be available in any counterfactual world. However, the simple 'crowding out' argument that subscription channels would broadcast the same types of programmes as FTA PSBs is not obvious.[76]

The simple model also assumes that all rivals will invest in range and quality. In reality, though, the use of premium content exclusivity (e.g. sports events and Hollywood movies) is widespread in subscription TV.

[72] Ibid., paras. 5.27–5.30.
[73] Ibid., paras. 5.49–5.65.
[74] This classic public good characteristic is a feature of a wide range of digital goods that can be provided at zero marginal cost.
[75] For a schematic presentation, see Armstrong and Weeds (2007).
[76] In the literature there seems to be a consensus that variety/diversity of programming under pay TV is higher (see e.g. Peitz and Valletti, 2008). By and large, however, whilst programme quality under pay TV can be higher when the pay TV broadcaster also sells advertising airtime (see Armstrong, 2005), without advertising on pay TV channels quality could be higher under FTA. That is, as long as the nuisance from advertising for viewers is not too high compared to the profit margin earned on airtime sales (see Lin, 2012). However, viewers may have differing degrees of tolerance for ads, with those who particularly dislike ads-interruption adopting ads-avoidance-technologies (e.g. PVR). Needless to say, the greater the diffusion of these technologies, the smaller the pool of eyeballs that could be reached by ad campaigns and the weaker are the incentives to invest in quality programming to sell advertising airtime: i.e., to the extent that those who value the content the most are also those more likely to use ads-avoidance-technologies (see Anderson and Gans, 2011).

On the one hand, the ability to appropriate financial returns by granting exclusive rights may be a powerful incentive to invest in higher quality. On the other hand, pay TV prices are bound to rise as a result (i.e. in line with increase concentration on the supply-side), thus increasing the likely number of viewers excluded. This is particularly so when the sale of exclusive rights triggers bidding wars.[77]

While in principle premium content exclusive rights are available to FTA broadcasters too, over time pay TV operators have systematically outbid the former.[78] This trend might simply reflect the fact that the pay TV business model is superior when it comes to extracting economic rents from subscribers; that is, as opposed to the FTA business model's ability to capitalise on eyeballs reached by charging advertisers.[79]

Nevertheless, there are reasons to suspect that the cost escalation in the acquisition of exclusive rights for premium channels might come at the expense of other (fungible) content included in the portfolio of pay TV channels.[80] This 'crowding-out' by premium content could occur if the pay TV operator does not expect to be able to increase subscription fees by as much as needed to invest in high-quality content across the board.[81]

The observed stickiness in overall net advertising revenue suggests that similar 'crowding-out' effects might ultimately bite for FTA commercial broadcasters as well, insofar as they were caught into bidding wars for exclusive access to rivalrous premium resources (e.g. on-screen talent).

The bidding wars for premium content may be a symptom of risk-aversion, whereby rival broadcasters seek to secure access to scarce resources believed to drive large audiences in a predictable way, in an attempt to reduce uncertainty.[82] Increasing rivalry due to channel proliferation – resulting in audience fragmentation – is bound to fuel this kind of risk-aversion.

It is not straightforward to describe the likely broadcasting landscape absent PSB intervention but it would probably feature the coexistence and joint-consumption of both FTA and pay TV commercial channels, with the former focusing on general programming for the mass audience, while the latter focused on exclusive premium content, plus a fringe of niche channels.

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[77] See Weeds (2012). It is worth observing that when the cost of a quality provision is higher, the level of programme quality offered by the broadcasters might actually be lower. Moreover, when rival broadcasters face higher costs for increasing programme quality, then a strategic effect might exist that reduces competition, and as a result, increase profits: see Lin (2012).

[78] The topical example is the sale of TV rights to watch UK Premier League football. In 2006, the EU Commission forced the Premier League to sell TV rights to at least two separate broadcasters. The stated purpose was to encourage the return of some matches to free-to-air channels and to stimulate competition, driving down prices, and encouraging more people to watch football on TV. However, it was pay TV new entrants who sequentially ventured into the market to challenge the UK pay TV incumbent (BSkyB), with the result that the revenues raised by the FAPL over successive auctions has grown steadily ever since. The cost per game increased by almost 60% from £4.12m over the three seasons up to 2009/10 to £6.53m from the next season. See Enders Analysis, *Football and the EU: Careful What you Wish for*, 21 Feb. 2013, available from http://www.endersanalysis.com/content/publication/football-and-eu-careful-what-you-wish.

[79] In this respect, Ofcom reported that subscription revenue grew on average by an annual rate of 6.7% over the 5 years up to 2011, as opposed to a meagre 0.5% for net advertising revenue. See Ofcom (2012), fig. 2.22 at p. 136.

[80] E.g. Enders Analysis reported that the substantial increase in the cost of FAPL rights that will kick in in 2014 may be offset at least partly against other programme budget revisions. See Enders Analysis, *Live FAPL Rights Reach Dizzy New Heights*, 15 June 2012, available from http://www.endersanalysis.com/content/publication/live-fapl-rights-reach-dizzy-new-heights.

[81] E.g. in the UK there is growing evidence that the penetration of pay TV (digital and cable) platforms have plateaued: see Ofcom (2012), fig. 2.40 at p. 154. Moreover, a combination of an ageing population and relatively lower spending power for younger age cohorts militates against a sustained growth in the average disposable income for discretionary spending: see Enders Analysis, *Demographic Trends – Old Money and the New Media Dilemma*, 19 Sept. 2012, available from http://s106656.gridserver.com/content/publication/demographic-trends-%E2%80%93-old-money-and-new-media-dilemma.

[82] Other common tactics to reduce uncertainty are: to rely on familiar formats (i.e. crime and legal); to prioritise low-costs genres (e.g. comedy and entertainment); to plan for longer narrative arcs; to hire actors and/or writers with established reputation; and to purchase foreign productions that have already proved to be popular: see Hargreaves Heap (2005). Arguably, the last two options can well be rivalrous in nature in case exclusivities are granted over their exploitation.

However, there are grounds to believe the quality and variety would be *less* than in the PSB world. FTA broadcasters would need their flagship channels to draw mass audiences on a regular basis; whereas pay TV operators would arguably still concentrate their programming budget on the acquisition of premium content on an exclusive basis to drive subscription revenue.

Digital broadcasting overcomes spectrum capacity shortages and enables the exclusion of non-subscribers in pay TV services, but does not overcome other important externalities. Technological change enables the provision of many niche services in a multichannel world. But there are economic drivers working against the provision of a wide variety of high-quality content. These are the high fixed costs and near-zero marginal costs of providing TV programming, the preference advertisers have for a mass audience, and the possibility of using premium content to capture subscribers.

Content Convergence Online: The Second Phase of Digital Disruption

Digital switchover has not drastically altered the way the public engage with television. By and large, viewing is still largely a shared experience,[83] tethered to the main TV screen in the living room,[84] and according to the linear scheduling by broadcasters.[85]

However, the advent of online distribution of long-form TV content promises to unlock entirely new patterns of consumption, where people can watch what they like, when it suits them, on portable devices and, possibly, while on-the-go. It is sometimes assumed that this will militate against shared viewing.

So far reality has fallen short of early expectations about the speed and extent of the shift to on-demand viewing.[86] The popularity of time-shifted viewing – either off recording devices or through online catch-up services – could be thought off as a form of quasi-linear viewing, in the sense that these technologies provide a buffer to cope with the abundance of what is on offer in linear digital multichannel platforms, rather than representing a form of departure from the traditional broadcasting model.[87] This may help to explain why the vast majority of time-shifted viewing still occurs within two days of the original (linear) broadcast.[88]

However, as pointed out by Gavyn Davies in the next chapter (p. 70), recent evidence on young audiences' decreasing use of (linear) radio stations might prefigure a paradigm shift along generational lines.[89] Indeed, across the Atlantic the debate is shifting from 'cord-cutters' (those who decided to trade down from traditional cable pay TV to, primarily, subscription-based OTT services such as Netflix) to 'cord-nevers', typically young adults coming out of college with no intention to buy cable pay TV in the first place.

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[83] Deloitte (2012b), figs 3 and 4 at pp. 6–7.
[84] Ibid., fig. 2 at p. 5.
[85] E.g. live TV scheduling is still used by about 70% of owners of recording devices (PVRs) when seeking out TV content: ibid., fig. 13 at p. 23.
[86] See Barwise and Picard (2012).
[87] Indeed, this is even more the case when recording devices are merely used to avoid ads e.g. by starting the playback of the recorded programme only a few minutes after the scheduled time.
[88] E.g. BARB have recorded the time-shifted viewing habits of households with Sky+ boxes beyond the conventional 7-day window (up to 28 days) since 2008. Whilst their figures show that the amount of playback within the 7 days initially dropped from 89% in 2008 to 85% in 2010, over the last two years it seems to have plateaued at 84% of all playback (almost 70% within the first two days). See BARB, *What's New, What's Next*, Jan. 2013, available at http://www.barb.co.uk/whats-new/267. See, also, Ofcom (2012), at p. 180 ('According to Ofcom's media tracker research, the main reason why people use online TV and film services is to catch up on TV or films they missed when broadcast (59%)').
[89] Ofcom found that people aged 16–24 are most likely to use TV catch-up services (48%), an increase of 7% points since 2010: see (Ofcom, 2012), fig. 263 at p. 173.

It would be unwise to pretend to know how commercial business models will evolve as a result of the mass adoption of IP distribution for long-form TV/audiovisual content, which one, if any, will prevail, and how the everlasting tension along any media supply chain between content and distribution will pan out.[90] Still, some of the impacts of this second phase of digital disruption with respect to the market failures outlined above are already evident.

Generally speaking, the advent of IP distribution drastically reduces some entry barriers since any content provider can now technically bypass traditional broadcasters to reach potential viewers (although significant barriers in the form of marketing or audience attention remain). To the extent that this process of disintermediation further intensifies audience fragmentation due to the proliferation of TV-like content offerings online, this second phase of digitalisation might make the market failures currently at play in (quasi)linear TV broadcasting all the more acute.

For the proliferation of content would tend to make consumers more fickle, which might in turn increase risk aversion on the part of broadcasters less able to take consumer loyalty for granted. The original imperative to retain audience numbers means that the risk profile of any 'flop' in terms of non-returning viewers is likely to be heightened in a fully converged media landscape.

The main new strategy developed to increase consumer retention is what has come to be known as 'big data', which basically consists of meticulously monitoring consumer activity online. This data-gathering drive affords a granularity of insight into consumer tastes not seen before, which could then be used to 'curate' the content offering, increasing the relevance of content recommendations.[91] In future, though, 'big data' could also be used to 'curate' the production of content to increase the chances that it will appeal to observed consumer tastes.[92] In other words, it is possible that such an intense focus on what audiences currently watch could result in offering them more of the same.

These content strategies are most likely to be pioneered by new OTT entrants,[93] whose risk profile due to 'flops' is bound to be higher than for established TV broadcasters. Nevertheless, reliance on 'big data' can be easily

[90] E.g., back in 2000, the European Commission was concerned that a combination between a dominant ISP and two of the largest music labels could monopolise the then nascent market for online music delivery by leveraging the gatekeeper role of the former. See Miguel M. Pereira, *Vertical and Horizontal Integration in the Media Sector and EU Competition Law*, 7 Apr. 2003, European Commission, p. 6, available at http://ec.europa.eu/competition/speeches/text/sp2003_009_en.pdf. As we all know, the gatekeeper role was instead going to emerge from an intermediate stage in the value chain – that of portable music devices – and without recourse to vertical integration, either upwards or downwards.

[91] The OTT service Netflix constitutes a prominent example of the use of personalised recommendations empowered by data algorithms: see The Netflix Tech Blog, 'Netflix Recommendations: Beyond the 5 Stars', 6 Apr. 2012, available at http://techblog.netflix.com/2012/04/netflix-recommendations-beyond-5-stars.html. See also Netflix, 'Netflix Long Term View', pp. 3–4, available at http://files.shareholder.com/downloads/NFLX/2399389974x0x656145/e4410bd8-e5d4-4d31-ad79-84c36c49f77c/IROverviewHomePageLetter_4.24.13_pdf.pdf ('For Netflix, the user's home page is the personalized ranking of what we think will be most relevant for that specific user at any given time. By analyzing terabytes of data from every recent click, view, re-view, early abandon, page views and other data, we are able to generate a personalized homepage filled with the content most likely to please. Our aim is to keep inventing and tuning algorithms to generate higher satisfaction, viewing, and retention, for whatever the level of content we can afford in that territory.')

[92] Ibid., p. 6 ('Over the years, we've successfully developed the art of estimating how much our members will watch a given show or movie based upon how it has performed to date in other, earlier channels (theatrical for movie; broadcast and cable first-run for TV) and on how comparable titles have performed on Netflix. … With Originals, we are now extending that concept to estimate the attractiveness of projects that are brought to us by professional producers.')

[93] Besides Netflix, the ranks of new OTT content producers/sponsors include the likes of Amazon, Microsoft (for its Xbox Live platform) and Google's YouTube. See e.g. Greg Satell, 'What Netflix's "House of Cards" Means for the Future of TV', Forbes, 3 Apr. 2013, available at http://www.forbes.com/sites/gregsatell/2013/03/04/what-netflixs-house-of-cards-means-for-the-future-of-tv.

imitated,[94] thus potentially unleashing a process of conformism in supply, whereby risky creativity might ultimately be taken over by safer 'incrementalism'.[95] The international scale of these new OTT entrants suggests that this 'big data' drive will surely transcend traditional national boundaries, thus increasing the importance of being able to reach (and thus appeal to) audiences on a global scale.

Whilst 'big data' can and will be purposefully applied both in FTA and pay TV broadcasting, it is the two-sided nature of the former business model that makes FTA broadcasters particularly interested in leveraging this new trend. Joshua Gans argues that broadcasters' ability to build the popularity of a programme through social networks will be an essential weapon in the battle to keep audiences in the habit of watching linear TV. 'Non-storable' genres such as reality TV and premium sports events will be particularly important.

Unlike the traditional 'water cooler effect' of discussing last night's viewing, this feedback-loop mechanism occurs live at the time of watching via social networks. The contemporaneous viewing means that the broadcaster as well as advertisers can monitor, and hence exploit, this new source of data on consumer tastes.[96]

Joshua Gans also observes how the combination of time-shifting and this virtual contemporaneous 'water cooler effect' can support the development of TV series with a long and complex narrative arc, thanks to the fact that latecomers who are enticed by the 'buzz' can easily join (live) the virtual community by catching up on missed episodes.[97]

The use of social networks such as Twitter and Facebook to comment live on what is being watched is an example of elementary 'second screen' application – the use of an additional monitor (a tablet or smartphone) while watching television – for the opportunity for social engagement and interaction offered by the synchronisation between TV content and 'second-screen' applications confers an insurmountable first mover advantage on the TV broadcaster, who will know the plot of the programme in advance and be able to develop compelling interactions.[98]

This is a potential competitive advantage because, besides the provision of complementary content (e.g. background factual information), second-screen applications could be used to sell advertising. This form of synchronous advertising could prove to be a compelling proposition to the extent that it reduces the risk of viewers avoiding ads. This form of advertising might appeal to both FTA and pay TV broadcasters.

The risk of ad avoidance could be further reduced by increasing their relevance thanks to a finer targeting over online distribution platforms empowered by 'big data'. [99] But it is an open question how much targeted

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[94] However, to the extent that the first mover is able to maintain its position by preventing rivals from attracting enough critical mass (and corresponding online traffic) needed to gather their own data, this strategy might indeed confer an insurmountable first mover advantage.

[95] See, in this sense, Andrew Leonard, 'How Netflix is Turning Viewers into Puppets', 1 Feb. 2013, Salon, available at http://www.salon.com/2013/02/01/how_netflix_is_turning_viewers_into_puppets/print.

[96] E.g. according to Twitter, 40% of all UK Twitter traffic at peak TV viewing time is about TV, with the majority of users belonging to the upmarket ABC1 demographic: see Twitter, 'Tune in with Twitter – Driving Discovery and Engagement with TV', available at www.broadcastnow.co.uk/Journals/2013/01/17/g/f/h/TwitterTV.pdf. See, also, *Boston Globe*, 'Cambridge's Bluefin Labs Decodes Social Media Chatter', 25 Nov. 2012, available at http://www.bostonglobe.com/2012/11/25/cambridge-bluefin-labs-decodes-social-media-chatter/SLDp9nflJK0tFQKBPuVZhP/story.html.

[97] It is worth noticing how these long-running TV series that succeed in growing a devoted community of fans can become self-standing brands, thus potentially cannibalising the brand equity of both the content producer and the broadcasting channel.

[98] Arguably, one exception could be that of foreign productions already screened abroad.

[99] Besides concerns about privacy and data security, it is worth reflecting about the concern that the audience is increasingly becoming the product and the advertiser the customer.

advertising will benefit FTA broadcasters, given that a higher level of granularity in terms of audience segmentation might impinge on their ability to reach mass audiences on a regular basis.[100]

If anything, therefore, the second phase of digital disruption could tend to worsen the trade-off between content variety and quality, to the extent that it leads to the provision of programmes that not only generate mass audiences on a regular basis, but especially drive live social interaction online.

A similar trend could affect pay TV broadcasting. On the one hand, it is often argued that digital convergence will make it feasible for OTT rivals to be able to outbid pay TV incumbents for exclusive premium content.[101] On the other hand, one of the main advantages of OTT propositions to 'cord cutters/nevers' is that they can avoid having to pay for a long tail of undesired channels normally included in traditional pay TV bundles.[102] These two forces would tend to undermine the established price bundling strategies of pay TV operators that secured funding for niche channels.

By investing in their own content, OTT rivals insure themselves against the risk of being starved by traditional content providers of the quality content which is key to driving customer acquisition.

Netflix, in the best-known example to date,[103] decided to release the first series of its first production, *House of Cards*, all at once, thus spurring so-called 'binge viewing', whereby viewers watch numerous episodes in one session.[104] This novel form of distribution risked discouraging the contemporaneous use of social media whilst watching so as not to spoil the experience of those who haven't indulged in 'binge viewing'.[105,]

Far from allaying remaining concerns linked to traditional 'consumer' market failures, digital convergence might therefore actually aggravate them due to pressures on both the FTA and the pay TV broadcasting models, which would tend to penalise content diversity/variety. There is a risk that increased rivalry would feed into higher risk aversion and, in response, conformism in programming; while bidding rivalry might ultimately drive up premiums charged for exclusive content.

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[100] It is perhaps not surprising therefore that, so far, targeted advertising initiatives in the UK have been launched primarily by operators with little to lose in terms of cannibalisation of revenues from the sale of TV advertising airtime, such as BSkyB, Virgin Media and, more recently, Tesco: see Reuters, 'Tesco Plans Targeted Advertising with Launch of Free TV Service', 6 Mar. 2013, available at http://uk.reuters.com/article/2013/03/06/uk-tesco-tv-launch-idUKBRE9250I720130306. Among the PSB broadcasters, only C4 has so far introduced 'sub-demographic' targeting for the 4oD catch-up online service, although the stated ambition 'is to translate this for linear TV': see 'Your House, Your Advert', *Television: The Journal of the Royal Television Society*, Mar. 2013, p. 31. See also Deloitte (2012a); and also Felix Salmon, 'Content Economics, part 1: Advertising', Reuters, 21 Feb. 2013, available at http://blogs.reuters.com/felix-salmon/2013/02/20/content-economics-part-1-advertising.

[101] See, with respect to premium movies, Competition Commission, *Movies on Pay TV Market Investigation: A Report on the Supply and Acquisition of Subscription Pay-TV Movie Rights and Services*, 2 Aug. 2012, para. 7.10 at pp. 7–3, available at http://www.competition-commission.org.uk/assets/competitioncommission/docs/2010/movies-on-pay-tv/main_report.pdf.

[102] See e.g. Brandon G. Withrow, 'Will 2013 Be the Year of the Cord-Cutters and Cord-Nevers?', Huffington Post, 22 Feb. 2013, available at http://www.huffingtonpost.com/brandon-g-withrow/cord-cutters_b_2713905.html. For an economic discussion, see Waterman et al. (2012).

[103] In Apr., Amazon launched 14 televisions pilots, which it financed, in order to monitor customer feedback to decide which ones to produce as full series. See Brad Stone, 'Amazon Tries to Push Into Original TV Programming', 27 Mar. 2013, Bloomberg Business Week, available at http://www.businessweek.com/articles/2013-03-27/amazon-tries-to-push-into-original-tv-programming.

[104] See Liz S. Miller, 'Binge-Viewing Netflix's House of Cards: I Just had a Very Long Day of Drama', PaidContent, 1 Feb. 2013, available at http://paidcontent.org/2013/02/01/binge-viewing-netflixs-house-of-cards-i-just-had-a-very-long-day-of-drama.

[105] See Liz S. Miller, 'House Of Cards, One Week Later: Spoiler Alerts and the DVD Question', PaidContent, 10 Feb. 2013, available at http://paidcontent.org/2013/02/10/house-of-cards-one-week-later-spoiler-alerts-and-the-dvd-question. See Joshua Gans, '"House of Cards" Wants to be Shared', 6 Feb. 2013, Digitopoly, available at http://www.digitopoly.org/2013/02/06/house-of-cards-wants-to-be-shared/. However, immediate release and the ensuing 'binge viewing' do not prevent the kind of user feedback or expert review that people often rely on to decide whether or not to consume an 'experience good' such as a TV programme. Quite the contrary, it could be argued that the 'buzz' created by this innovative marketing approach must have provided a welcome demand boost.

Ultimately, the distinction between advertising-based FTA and pay TV business models could become progressively blurred,[106] as digital convergence could spur operators to explore new hybrid business models with combinations of elements from both. However, the idea that digital convergence will promote total disintermediation of content provision is far-fetched.

Audiovisual content is and will remain an 'experience good' in nature. Therefore the explosion of content offerings over the internet is likely to mean the emergence of some new form of content agglomeration, and hence of intermediation. In this respect, as argued below, content distribution over the internet might merely replace legacy content aggregators with a new breed of internet gateway keepers.

The new technologies are simply new instruments in the broadcaster's toolbox, and it is up to the individual organisation to decide how to exploit them in a way that is consistent with its strategic mission. In this respect, institutional differences matter.

Pay TV and OTT operators will be profit maximisers. Whilst it is objectively challenging to translate the multifaceted objectives of PSB institutions into a simple objective function that is easy to model,[107] it is clear that it is not only (or at all in the case of the BBC) profit maximisation through either advertising or subscription revenues.

Having said that, as pointed out by Helen Weeds and Jonathan D. Levy, the key issue for public service broadcasting is not whether there is a justification for intervention, but rather whether intervention can actually be effective in a digitally converged media landscape.

For it will be increasingly difficult for the PSBs to retain audience attention when plenty of commercial content is just a click away. In the analogue era, lack of choice made it relatively straightforward to nudge the viewer towards the range of programmes defining the public service remit, but the explosion of choice under digital convergence makes it very easy for viewers to avoid watching these at all if they so wish.

It might be argued that only those viewers with a strong preference for specifically public service programmes will still seek them out, but these viewers would plausibly be willing to pay at the point of use to watch them anyway. So there is a potential challenge to the near-universal reach of PSBs.

However, this view is premised on an implausibly narrow understanding of what programmes are provided under the public service remit. It has never been the case that the viewer was 'forced' to watch edifying programmes that would broaden his/her horizons and, thus, be a good thing for society overall. Public service broadcasting is a far subtler art, encompassing a range of programmes and the links between programmes

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[106] In this respect, it could be argued that the traditional distinction between FTA and pay TV adopted by regulators and competition watchdogs is under increasing pressure, given that digital convergence allows both types of operator to compete over both sources of revenues: advertising and pay-per-viewing. Accordingly, the decision of whether to opt for one business model in particular could be thought of as a strategy of differentiation, whereby rivals position themselves at the opposing extremes of what has become a continuum between FTA and pay TV in order to soften pricing rivalry and be able to exert market power over their corresponding sides – i.e. advertisers and subscribers. Needless to say, such a strategy of 'maximum differentiation' in terms of business models would come under strain in a crowded media landscape, where new entrants can opt for hybrid business models, thus unravelling incumbents' strategic positioning.

[107] There are hardly any attempts to model the objective function of PSBs in a mixed economy: see González-Maestre and Martínez-Sánchez (2010). A trade-off might arise between the maximisation of consumer welfare and audience reach, which in the canonical 'spatial' model of competition is reflected in the trade-off between quality and variety discussed throughout this chapter. This is definitely an area for further research. Nevertheless, PSBs are subject to strict discipline in terms of value for money: see Picard (2003).

either via linear schedules or newer means (see Helen Weeds, at p. 9 above).[108] Public service paternalism is less nannying than it once perhaps was.[109]

However, viewers' choice-set has already been greatly enlarged with the advent of multichannel digital platforms, yet PSBs have held on, by and large, to their share of viewers (thanks in part to their launch of digital channels). Audiences regard watching TV as relaxation and their choices may be subject to a 'default bias', keeping them with familiar channels at the top spots of any TV EPGs.

This EPG prominence is put in jeopardy by the relentless process of disintermediation brought about by digital convergence. Even more concerning for advocates of continued PSB intervention is the prospect that, paradoxically, the explosion of choice would see the emergence of new online commercial gatekeepers whose function will be to steer the audience overwhelmed by 'choice overload'.

Prominence might become a scarce resource to be sold to those content providers with the highest willingness and ability to pay. This regime change would tend to replicate, if not amplify, the same dynamics underlying the quality–variety trade-offs and the risk for conformism in programming due to risk aversion described above. However, the two-sided nature of these online gatekeepers would tend to make sure that the most popular brands will always be prominent, and these might include the PSBs.[110]

The landscape of content provision following the second digital disruption is of course a matter of speculation. However, the former scenario has led to the suggestion that back-stop regulation is required to guarantee prominence online to PSBs (see Foster and Broughton, 2012). Whereas, under the latter scenario, it would not be mere viewer inertia keeping PSB content popular, but rather the continuing appeal of PSB programming.

Besides, digital convergence might give rise to a strong polarisation of content offered online, with both 'superstars' and 'long-tail' effects. Low entry barriers combined with search costs spurs content providers to design their products to either aim at broad-based audiences or target narrow niches (see Bar-Isaac et al., 2012). As mentioned above, these dynamics operate on a global scale. This polarisation, though, would come at the expense of content offers which are crowded out by increased competition from both of these.[111] If this 'squeezed middle', which could for example include UK dramas, children's programmes, and accessible current affairs programming, is thought of as high-quality content that unites, in an attempt to cater for different audience tastes and preferences in a way that neither caters to the lowest common denominator for the largest possible audience, nor just serves a narrow niche, it will be a gap appropriate for public service providers. In a highly competitive converged media landscape, an editorial strategy serving

[108] The PSB broadcaster would schedule new and/or 'challenging' programmes alongside established and/or popular ones in a way to entice the audience to watch them. This practice is labelled 'hammocking', and is based on the principle that the information asymmetry due to the fact that TV programmes are 'experience goods' can be addressed through the signalling power of a trusted brand (akin to repeat purchasing).

[109] Indeed, this criticism was first raised by Coase back in 1966: see discussion in Armstrong and Weeds (2007).

[110] See Baye et al. (2012). This tension is strongly reminiscent of the debate whether 'organic search' – where search results are in principle unadulterated – is being manipulated by the platform owner to promote affiliated content producers. Suffice to say that this debate has attracted antitrust scrutiny: see Joaquín Almunia, VP of the European Commission responsible for Competition Policy, 'Statement of VP Almunia on the Google Antitrust Investigation', 21 May 2012, available at http://europa.eu/rapid/press-release_SPEECH-12-372_en.htm?locale=en.

[111] As explained above, Joshua Gans highlighted the possibility of a similar middle gap in the spectrum of content on offer under digital convergence, where the main driver is the use of social media to either interact live or build strong communities around long-running TV series. Therefore, those programmes genres that either lack a long narrative arc or do not, like live events, induce viewers to comment on social networks while watching might be undersupplied by commercial content providers. See Tim Harford, 'Changing Channels: Why TV has had to Adapt', 23 Feb. 2013, available at http://timharford.com/2013/02/changing-channels-why-tv-has-had-to-adapt.

the middle might be ultimately crowded out in the commercial marketplace.[112] For it is riskier than the alternatives, given the economics of online content.

However, in a crowded commercial media landscape, PSB content might fail to stand out amid the many choices on offer, no matter how sound the strategy. PSB prominence will need to be supported both through updated, relevant prominence rules and PSBs' own reputation and brand values. A 'focal point', a popular and trusted brand, would help to guarantee online prominence.[113]

The BBC brand (and the iPlayer) is proving to be an effective 'focal point' so far. To keep it this way, though, it is essential to maintain the broadest range of output in terms of both genres and audience preferences covered. To achieve this, the BBC is likely to need sufficient scale in the face of the high fixed cost economics of broadcasting, a wide range of programming, and to develop successful editorial and technological strategies. In addition, the regulatory protections for the BBC and other PSBs, such as prominence, will need updating.

Conclusions

The changing salience of the several market failures in broadcasting, due to digital technologies, raises a number of questions about the nature of the public service intervention required. The key questions for further research are:

1. How can public service providers sustain their ability to both provide and also bring audiences to multiple content genres, given changes in content availability, distribution technology, and audience habits?

2. How can the public service intervention be shaped best to support innovation and new entry given that the dynamics of digital markets, due to both large economies of scale in distribution and network/platform effects and the revenue attraction of providing content to appeal to mass audiences, will drive concentration?

3. As the scale of economies are making media markets increasingly global, what are the specific needs to support national cultures, and national media providers?

4. How will the regulatory framework for PSBs need to be updated to enable them to continue delivering consumer welfare in the world of online digital broadcasting?

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[112] It is worth noting how this theoretical framework can also be applied to the provision of impartial news and current affairs coverage under digital convergence: see Sambrook (2012).

[113] It is worth noticing that the need for a 'focal point' tends to militate against alternative solutions proposed in the past where instead of a single PSB broadcaster 'an arts council of the airwaves' is set up, with an authority responsible for disbursing public funds in a fragmented way on a content-by-content basis.

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9. A 2020 Vision for the BBC

Gavyn Davies

I resigned as BBC Chairman on 28 January 2004, and have hardly made any public comments on the BBC or its affairs since then. Nor have I spent much time thinking about the role and structure of BBC, as may become painfully apparent! However, it has been fascinating to get a chance to look back at what has happened in the past 10 years, and to consider whether the changes in the broadcasting landscape have done anything fundamentally to alter the case for public service broadcasting and the role of the BBC.

It will not come as much of a surprise to my friends and former colleagues at the BBC to hear that I have not changed my mind in any significant respect about the value and role of the organisation. In fact, I believe that the profound changes in the technological landscape in the past decade have in many ways strengthened the case for a large, publicly funded organisation like the BBC to exist.

It is the fate of the BBC to be questioned and examined more than any other public organisation in the UK, except perhaps the National Health Service. That has always been true throughout its history. How many times have we been told that the BBC has outlived its usefulness, given the profound changes taking place in the media landscape? That tradition goes back at least into the 1950s. Yet the BBC's work remains critical for the future of our British democracy.

To do this important work, such an organisation must retain scale, indeed universal access, and in my opinion, it must continue to provide services which are free at the point of use. These services must inform, educate, and entertain, as they have always done, and must do so in a way which the private sector, left to its own devices, would fail to accomplish. There is no reason why the BBC cannot continue to do all of this long after the end of its current charter period in 2017.

Changes in the Landscape in the Past Decade

I would like to start with some observations about the way in which the landscape has changed in the past decade. Many of these changes were accurately predicted, or were already in train when I was at the BBC, but there have also been some significant surprises.

Many people argue that the technological landscape has changed so quickly in the past decade that the BBC must change with it, or face extinction. That, of course, is true if we are talking about distribution mechanisms, the ways in which BBC content is delivered to the final user. I am very optimistic that the BBC can handle these issues successfully, as it has always done. It has retained very high levels of reach in the past decade, as the market has changed dramatically all around it.

In the BBC's history, it has coped with many changes in distribution – the arrival of television, colour television, digital television and radio, the web and iPlayer. In each case, the BBC has not only been able to cope with the change, it has actually been in the vanguard of making the new technology rapidly acceptable to the general population.

But the real role of the BBC is not about distribution mechanisms, it is about the creation and dissemination of high-quality content. And in that regard, I do not think that changes in the landscape matter as much as many people contend. In today's world, we see many examples of high-quality content being distributed widely, but with high purchase prices being incurred by consumers, and with very small audiences as a result. We also see many examples of very low-quality content being distributed free of any charge to the user. What we do not see is many examples of high-quality content being distributed free at the point of sale, because private sector funding cannot cope with the costs of creating the content.

At present, some newspaper websites are an exception to this rule, but I do not expect this to last for long, since the economics do not make much sense. If we want high-quality content delivered to large audiences, with no charge at the point of use, then a publicly funded model seems to be the only viable option.

It was already clear in 2004 that most consumers would soon gain access to multichannel digital television services, though there was too much pessimism about how difficult the switchover process might turn out to be. I remember thinking, quite mistakenly, that switching off the analogue signal in 2013 would prove to be a political nightmare. Fortunately, the government and the BBC cooperated well in accelerating this process, and I believe that the role of Freeview, launched by Greg Dyke when he was director-general, was crucial.

We have now reached a point where 96% of all UK consumers have access to multichannel digital television services, and the days of spectrum shortage are effectively over. Along with this change has come a substantial shift towards subscription services, led by Sky, which has become dominant in the provision of sports and movies to British households. The BBC has lost access to many sports rights, which I regret, but I now accept this as inevitable. There is much else left for it to do.

While the BBC has been very successful in maintaining its market share among households who already had access to multichannel services in 2004, there has inevitably been a loss in overall market share as more households gained access to much greater choice. However, now that the switchover process has ended, the erosion in BBC market share should also end, provided of course that the BBC can continue to provide programmes which people want to watch.

The switchover process has ended with the BBC retaining a one-third market share of television services, and a one-half share of radio services, which are somewhat higher figures that I might have predicted a decade ago. Meanwhile, other public service television providers have faced greater difficulties than the BBC in maintaining market share. ITV1 (itv, after its recent rebranding), for example, has seen its television share falling from 40% in 1992 to 16% today, a decline which has forced it to rethink its commitment to public service genres such as arts programming, regional news, and the like.

The problems faced by ITV have occurred largely because of changes in the advertising market, which have seen its share of advertising revenue declining sharply. New forms of advertising on the internet have provided competition for ITV, Channel 4, and Five, and the slump in advertising spend since 2007 has been unprecedented. Furthermore, ITV's advertising rates have been held down by public regulation, following the merger of Carlton and Granada. Not many people argue today that any of the BBC’s domestic services should be financed by advertising.

The trials and tribulations of ITV, Channel 4, and others have always been of direct relevance to the BBC. In business, it is usually nice to see a rival in trouble, but that is not the case in this instance. Since the 1950s, the BBC's programming has greatly benefited from the competition it has faced from

ITV (and indeed all of the commercial broadcasters including Sky, which have done many things better than the BBC did before them). Competition is extremely healthy for an organisation which has no imperative to face the test of the marketplace. Furthermore, whenever ITV has faced difficult economic times, the political process has become more hostile to the publicly funded BBC.

So it would be nice in many respects to imagine that the commercial public service broadcasters (or PSBs) can be returned to full health. But that seems improbable. More likely, they will slowly drift towards becoming fully commercial broadcasters, leaving the BBC to fulfil the public service remit on its own.

One critical conclusion from this saga is that the public funding of PSB has proven more durable than a model based on private funding plus regulation. As privately funded PSBs have faced increasing difficulty, the role of the BBC has become ever more important as the only viable provider of PSB.

Outside the world of traditional broadcasting, the technological landscape has changed even more dramatically in the past decade. Again, many of the broad outlines of these changes were predicted 10 or 15 years ago, especially by John Birt and his colleagues at the BBC in the 1990s. They launched the BBC website in 1997, and the BBC's digital television services in 1998. When I became Chairman in 2001, this extension of the BBC's boundaries was still highly controversial, and vehemently opposed by the private sector. But without these innovations, the BBC would certainly have been in deep trouble as technology and consumer habits changed in the new century.

The increased use of the internet by domestic consumers, first on PCs and then on mobile phones and tablets, has meant that a BBC without a significant online presence would already have become an anachronism. BBC News Online now commands about 30% of the UK news market, roughly the same as all of the British newspapers put together. This has naturally created a great deal of opposition from the press, which has been unable to monetise its web presence partly as a result of competition from free BBC services.

But newspapers in other countries have faced similar difficulties, and they have not had the BBC to contend with. To a large extent, this stems from an inherent problem with monetising web services, not from the presence of the BBC in the mix. Furthermore, few observers would argue that the nation is worse off as a result of this mixed economy in web services. After all, no one seriously argues that the scope of the National Health Service should be curtailed solely in order to leave room for profitable private sector health services to expand.

What matters is the overall welfare of the public, and that should also be the case in broadcasting and the web. Note that I am arguing here for a mixed economy in this field, not for the dominance of a monopoly public provider, which would certainly be very unhealthy.

People are now consuming more and more of their audio and visual experiences via the web, rather than via broadcasts or recorded materials. Most of this is free-to-air. It turns out that users are very reluctant to pay subscriptions or even to watch ads. Even a simple process of registration is heavily resisted by users.

Furthermore, an increasing proportion of television viewing is being undertaken by time-shifting through VCRs and the digital equivalents. At present, around 10–15% of all television viewing is done in this way. This, of course, is providing a new headache for advertising-funded programming, since consumers are finding it easier and easier to skip the ads. My wife remarked to me that it was very odd finding that she had to watch the ads on ITV Player, and that she did not like it. That, she said, was like television in a previous era.

In view of all these changes, it is perhaps somewhat surprising that the presence of the traditional television set, updated of course for technical advances, has maintained a central role in most people's lives. Given the growth of the web, and of services like YouTube, I would not have predicted a decade ago that the number of hours spent watching television per person would have risen rather than fallen in this new world.

Yet this is exactly what has happened. It has now risen to 4.0 hours per person per day from 3.6 hours a decade ago. It is our national habit. As new forms of digital entertainment have grown, people have simply added these to their schedules, without reducing their exposure to television. A new habit, which is increasing rapidly, is to watch television while simultaneously using websites on mobile phones and tablets.

Radio listening has also proven robust, though there has been a slight fall in traditional radio listening as the availability of digital music, whether legal or illegal, has grown very rapidly.

The BBC, of course, is a content provider rather than a distribution mechanism, so it should not really matter how people choose to consume the creative output of the BBC. However, because the BBC's funding mechanism, the licence fee, is entirely dependent on broadcast television, a shift in public habits away from television could have proven to be a major threat to the organisation, and to the provision of PSB in this country. That has not yet happened, though one day it might.

There is no doubt that television has maintained a central role in all of our lives in part because of a drop in the cost of large-screen TVs, and lately because of the integration of TV services and the internet. This seems likely to remain the case well into the next charter period after 2017. One day, it is possible that traditional television will cease to have a universal place in all our homes, in which case it will become impossible to maintain the present licence fee arrangements. Fortunately, this is not likely to happen by 2017. The question of whether it is practically possible to levy a licence fee, as distinct from the amount which should be charged, is not likely to rear its head for some time yet.

The Debate on BBC Governance

I would now like to turn to the governance of the BBC, a subject which is almost bound to receive a disproportionate share of attention in the debate about the new charter. I have often found it surprising that people and politicians who generally support the BBC and its objectives frequently do not support its governance structure. They appear to make almost no connection between the success of the BBC in serving the public and in winning public trust on the one hand, and the independence of its governance arrangements on the other. Furthermore, the leadership of BBC management is often very lukewarm in its support of the governance structure, in part because it sees the trustees, and formerly the governors, as being out of touch with programmes and audiences. In addition, self-regulation has fallen out of favour in many other parts of our national life. Yet it is surely no coincidence that the BBC has served the public so well under its current governance arrangements, which have been broadly unchanged for decades.

Although the old Board of Governors was replaced by the BBC Trust in the most recent charter, I do not believe that there were any really fundamental changes in the governance mechanism. Crucially, the role of the Chairman of the BBC, which is the linchpin of the governance system, was left basically unchanged. The relationship between the Chairman and the director-general has always been critical for the success of the BBC, and much of the work of the Chairman is done in private where it can be most effective. Furthermore, although the BBC Trust was made more independent of the management team than had been the case under the old system, the BBC continued to be essentially self-regulated.

Any governance system for the BBC needs to fulfil at least three objectives.

1. It must ensure the independence of BBC programming, especially news coverage, from the political system. The BBC is a public body, but it is not a state broadcaster. It serves the public, and not the government. If the licence fee payers ever cease to believe this, then we might as well close the BBC down.

2. The governance system needs to ensure that the BBC seeks the maximum degree of quality and distinctiveness in its programming. This is a never-ending battle, since the management will always seek to maximise audience share, for reasons of competition and career advancement.

3. The trustees need to ensure that the BBC provides value for money to the licence fee payer. This is also not easy in a huge organisation which is generally not subject to market pressures, and which operates in a service industry where productivity is very difficult to measure accurately.

I would argue that the existing governance system has fulfilled all three of these roles pretty well for a long period of time, often under enormous pressures. Of course the BBC has done many things wrong, but it always seeks to correct its mistakes in an open and honest manner. Its capacity for self-flagellation is unrivalled. And of course the public knows all this, which is why trust in the BBC remains very high, even at times of maximum stress.

Trust in the BBC, which was already high in 2004 despite the criticisms levied by the Hutton inquiry, rose further up to 2011, a period in which trust in other organisations fell sharply. Trust dipped during the recent tribulations, as it has in previous similar periods, but has already started to rise again.

It is difficult to think of another organisation, either public or private, again excepting the NHS, which can make similar claims to these. This has not occurred in spite of the governance system, it has occurred because of it. The burden of proof should be on those who wish to change such a successful system, rather than on those who seek to defend it.

Critics tend to draw attention to the following alleged drawbacks of the system.

1. They say that the system leads to regulatory capture, in which the BBC Trust makes decisions which are in the management's interest, rather than the public interest.

2. They argue that the system does not allow for sufficient contestability, under which the BBC's incumbent staff would complete with external providers for public money to provide BBC services.

3. It is argued that the system does not give sufficient weight to the interests of private providers of competing services which may be crowded out by public provision.

I agree that these are dangers which need to be watched carefully, but there is no proof that any alternative system would be any better at handling them. Other systems may be more transparent than the current BBC system, but they may be much more subject to regulatory capture by private companies, and they might be far more slow-moving than the current mechanism. Furthermore, they would be almost bound to seriously compromise the role of the BBC Chairman, which, as I say, is the linchpin of the present arrangements.

There are some suggestions for a new governance regime which are perfectly sensible on the surface, including Mark Oliver's idea of a public sector broadcasting trust, covering all of the PSBs and offering advice to the government on critical BBC matters, but this would surely create confusion over the role of the BBC's internal board. Making changes for the sake of change is always appealing to politicians, but it does carry costs.

When I was Chairman, I argued consistently for the maintenance of the governance system, and whatever mistakes we made I do think that we protected the independence of the BBC well. Greg Dyke, as director-general, was not a fan of the Board of Governors, and he preferred external regulation, which he thought would not be too intrusive. Greg worked extremely well with both of his Chairmen, and was entirely right about the need to change the culture of the BBC, which is a creative organisation or it is nothing, but he did not enjoy the formality of governors' meetings very much at all.

I was not confident that Ofcom would prove to be a sufficiently strong supporter of public service broadcasting, and feared it would be captured by influential private companies, although such concerns have been greatly alleviated by the actual behaviour of Ofcom since then.

Following a long-standing BBC tradition, I also argued that the National Audit Office (NAO) should not be permitted to audit the BBC's financial activities, believing that they would tend to pick on highly sensational investigations rather than on the nitty-gritty of everyday spending, which is what really determines value for money for the licence fee payer. This hostility to the NAO eventually proved impossible to sustain in a climate of political scepticism about the BBC's internal accounting arrangements. We have yet to see the full effects of these changes. There have been some examples of political sensationalism already, but in retrospect I do not think that this was a battle worth fighting.

My final point on governance is the following. The BBC is very different from a private monopoly or oligopoly, which is seeking to make profits by selling its products to customers. In such a situation, exemplified by a private energy company or the rail network, there is a sharp distinction to be made between the protection of the shareholders and the protection of the public. The interests of the shareholders are protected by the board and its chairman, while the interests of the public are protected by the regulator. They are doing entirely different jobs. In the case of the BBC, in contrast, the shareholders and the public are not distinct. They are one and the same. Therefore you do not need two separate entities – a regulator and a BBC

Board – to do only one job. I have never been able to persuade people of the importance of this distinction, but I continue to believe that it is valid.

The Economics of Public Broadcasting in the New World

I would now like to turn to the economics of broadcasting, a subject which continues to lie at the heart of the BBC's future as a publicly funded organisation. Andrew Graham and I wrote about this subject in the 1990s, arguing that broadcasting was a classic public good, which should be provided free at the point of sale to all potential users in the country.

In those days, broadcasting clearly fulfilled the criteria which are normally used by economists to define a public good. It was non-excludable, in the sense that, once it had been provided for one citizen, it could not be denied to any other citizen. And it was non-rivalrous, in the sense that one citizen's consumption of a broadcast did not deny that broadcast to any other.

Furthermore, we pointed out that setting up a mainstream broadcaster – like the Sky satellite network, for example – was subject to massive economies of scale, which would tend to create concentration of power in only a few hands. Such an industry would not be perfectly competitive, and therefore could not be left safely to the free market, at least not without considerable regulation.

Finally, we argued that there were considerable externalities in the provision of broadcasting, both good and bad. In particular, the role of a public broadcaster in providing news coverage and education to the citizens of the UK was, we believed, critical for the creation of a healthy democracy. All of these arguments suggested that there was something different about broadcasting, something which meant that it should be provided, at least in part, outside the commercial sector.

In the late 1990s, the government report which I chaired into the financing of the BBC argued that these criteria would remain valid as new technologies spread through the sector, notably satellite broadcasting, multichannel, and the rise of the web. These arguments were employed to justify a considerable increase in the BBC's licence fee, in order to enable the BBC to increase its footprint into the new distribution mechanisms.

The question for today is whether these traditional arguments for treating broadcasting and web distribution as public goods have now changed. For the most part, I believe that the arguments remain intact.

It remains clear that there are still positive externalities in the provision of public information, whether through traditional broadcasting or web services. It also remains true that the distribution of programming or web content involves incurring virtually no marginal cost at the point of use. There is some marginal cost, of course, when content is accessed via the web, but it is not very large relative to the cost of creating that content in the first place. That remains a classic characteristic of a public good.

While many of the arguments have therefore not changed, one important argument has changed, and that needs to be admitted. Whereas free-to-air broadcasting used to be a universal good – if you provide it for one citizen you automatically provide it for all – that is no longer true in the digital world.

It is now very straightforward, both in digital television services and in web provision, to restrict coverage to those people who have paid directly to receive the service. In other words, it is now possible to fund the BBC entirely through subscription, with people buying either the entire BBC package in one payment, or subscribing to individual channels and services separately.

Subscription has clear advantages, since people pay only for the services they wish to consume. Under the subscription model, the element of compulsion, which is necessary in the licence fee, would disappear, and the severe problem of having to collect the licence fee from people who do not want to pay it would also disappear. When I examined this option as Chairman, surveys suggested that, given a choice, around 60–70% of the population said that they would subscribe to the overall BBC package at a price close to the existing licence fee, which would currently imply a subscription charge of around £150. Even if this were true, it would obviously involve a very significant curtailment of BBC's services, since a large proportion of the current revenue would be lost. If the subscription fee were increased in order to avoid this, the number of subscribers would certainly decline, and it could no longer be claimed that the BBC represented a universal national service.

Furthermore, once the BBC had to compete for subscription fees, it is almost inevitable that the type and direct commerciality of services would change. Why should a subscription fee-based BBC not charge subscriptions for football and movies? Over time, I think this would inevitably change the focus of the organisation in a fundamental way. Finally, making a charge at the point of sale, in order to finance the provision of services which incur zero marginal costs in distribution, is economically inefficient, and carries welfare costs which are not necessarily immediately visible to the political system.

We can already see that the case for making the BBC a subscription service is attractive to many people, and it undoubtedly represents the main alternative to the present system. However, if the nation wants all of the benefits which are derived from the universal coverage of the BBC, a system based on subscription, by definition, cannot provide the right answer.

The Distinctiveness of BBC Services

Finally I would like to comment on an issue which always and rightly occupies a central place in discussions about the BBC, which is the distinctiveness or otherwise of its output. This of course gets to the heart of its public service role, and therefore ultimately to its *raison d'être*. There is no future for the BBC if it simply offers a different version of what is already available via commercial services. And I have always felt that the BBC is subject to some fair criticism on these grounds.

In my early days as Chairman I got off to the wrong start on this issue by suggesting that the BBC tended to 'over-serve' the middle classes while underserving young people, the north, and minority groups, including our immigrant communities. This was widely believed by the governors and the management board at the time, and we had lots of figures to prove it. I am sure the issue is still debated. Greg Dyke was rightly concerned that a universal licence fee system could not be maintained if large minority groups were permanently not attracted to the BBC's services. But my remarks gave entirely the wrong impression about content. They understandably created an outraged response which forced me to apologise for creating the wrong impression about my true beliefs on the distinctiveness of BBC content.

The most difficult task which the BBC faces, and has always faced, is to provide distinctive and uplifting content while simultaneously attracting mass audiences for much of its output. Doing one without the other is not enough. And the fact that it needs to do both inevitably means that there will always be a debate about whether it has got the balance right.

Distinctiveness does not necessarily mean elitism, or not always at any rate. But I think it does involve an unyielding commitment to serve all parts of the audience in a serious way, without dumbing down their interest and passions. Sometimes, the desire to reach a maximum-sized audience with each and every programme, or channel, can get in the way of this endeavour. There is evidence that a significant minority of the audience believes that there has been a trend towards dumbing down in television programming.

The tyranny of the audience figures is one which is very hard to overcome, although successive generations of BBC leaders have tried very hard to do this. In a 2010 report for Policy Exchange, titled *Changing the Channel*, Mark Oliver says the following:

> *BBC management obtain ratings on a daily basis, while monthly and weekly reach are the focus of management resource allocation decisions. Worse still, BBC value for money exercises often focus on cost per viewer or listener hour rather than comparing cost with quality and distinctiveness delivered. This all tends to make the BBC an organisation that tries to maximise reach first and quality/distinctiveness second. It should, instead, be an organisation that seeks to maximise quality and distinctiveness, subject to a certain realistic minimum requirement for reach and share of overall consumption.*

One great and distinctive series, like David Attenborough's *Africa* or Miranda Hart's *Miranda,* is worth more than a lot of the acreage which fills daytime television. BBC management knows this very well, but it is a message which always has to be reinforced by the Trust.

Conclusion

A great deal of what I have said has covered familiar debates. I have argued that the case for the BBC's public service role remains intact, despite profound changes in the technological landscape. These changes will alter the mix of the distribution systems used by the BBC, but will not alter its core responsibility, which is to provide distinctive and uplifting content on a universal basis, free at the point of use. The licence fee system is not about to collapse, since television use has proven remarkably resilient, and subscription does not provide a viable alternative means of funding for a universal service. The independence of the BBC's governance system is an important reason why the BBC has maintained public trust, and it is worth defending. The argument that broadcasting and web content no longer represent public goods is invalid: the commercial sector cannot and will not do what the BBC should do.

When I resigned from the BBC on 24 January 2004, I hastily wrote a resignation statement, having had the pleasure of reading an advance copy of the Hutton Report at 4.00 am in the morning. I would like to take the liberty of ending by quoting a short extract from this statement:

> *The BBC is not owned by any government, but is held in perpetuity by its governors and management for the British people. The public should not take its existence entirely for granted.*
>
> *It is frequently under attack, both from competitors, and from others who do not share or understand its principles. Its friends are too often silent when it is under threat. In the charter debate now under way, the massive silent majority which loves the BBC needs more often to make its voice heard.*
>
> *Otherwise its future may not be secure.*

About the Contributors

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Media and Entertainment

The end of television as we know it

A future industry perspective

IBM Institute for Business Value

IBM Business Consulting Services, through the IBM Institute for Business Value, develops fact-based strategic insights for senior business executives around critical industry-specific and cross-industry issues. This executive brief is based on an in-depth study by the Institute's research team. It is part of an ongoing commitment by IBM Business Consulting Services to provide analysis and viewpoints that help companies realize business value. You may contact the authors or send an e-mail to iibv@us.ibm.com for more information.

The end of television as we know it

A future industry perspective

Executive summary

Television (TV) has an inspiring past, ripe with milestones back to 1831, when British physicist and chemist Michael Faraday discovered electromagnetic induction.[1] The medium came of age in the 1950s, with popular shows like *I Love Lucy*, the 1954 World Soccer Championship, color broadcasting and the beloved remote control. For several generations, the TV audience happily embraced scheduled programming. For the industry, making a connection with consumers was a pretty straightforward, one-to-many experience…until recently.

Today, audiences are becoming increasingly fragmented, splicing their time among myriad media choices, channels and platforms. For the last few decades, consumers have migrated to more specialized, niche content via cable and multichannel offerings. Now, with the growing availability of on demand, self-programming and search features, some experiencers are moving beyond niche to individualized viewing. With increasing competition from convergence players in TV, telecommunications and the Internet, the industry is confronting unparalleled levels of complexity, dynamic change and pressure to innovate.

"The industry is confronting unparalleled levels of complexity, dynamic change and pressure to innovate."

To hone our point-of-view of the mid-term future circa 2012, from both a demand and supply perspective, IBM conducted extensive industry interviews across the value chain and commissioned Economist Intelligence Unit (EIU) primary research in the U.S., Europe and Asia.

Our analysis indicates that market evolution hinges on two key market drivers: openness of access channels and levels of consumer involvement with media. For the next five to seven years, there will be movement on both of these fronts – but not uniformly. The industry instead will be stamped by consumer bimodality, a coexistence of two types of users with disparate channel requirements. While one consumer segment remains largely passive in the living room, the other will force radical change in business models in a search for anytime, anywhere content through multiple channels. The tech- and fashion-forward consumer segment will lead us to a world of platform-agnostic content, fluid mobility of media experiences, individualized pricing schemes and an end to the traditional concept of release windows.

"Companies must get in front of change…or consumers threaten to leave them behind."

Given the influence of both segments in the 2012 forecast period, strategists must today work amid fragmentation, divergence and opposition in the market to optimize across nascent and long-standing business models; across new and traditional release windows; with old and new content programmers; and with both Internet Protocol (IP) and traditional supply chains. Given new market imperatives and heightened operating complexities, we expect value to shift throughout the industry, creating new winners and losers.

Today is the beginning of "the end of TV as we know it" and the future will only favor those who prepare now. Here, we enumerate six priority actions for executives: Segment, Innovate, Experiment, Mobilize, Open and Reorganize.

- *Segment:* Invest in divergent strategies and supply chains for bimodal consumer types. Identify, develop and continually refine data-driven user profiles in order to optimize product and service development, distribution, marketing messaging and service migration. Dynamically tailor content, advertising, pricing and reach.

- *Innovate:* Innovate business models, pricing, windows, distribution and packaging by creating – not resisting – wider consumer choice. Take risks today to avoid losing position over the long term.
- *Experiment:* Develop, trial, refine, roll-out. Repeat. Conduct ongoing market experiments, alone and with partners, to study "real life" consumer preferences. Invest in new measurement systems and metrics for the on demand world of tomorrow.
- *Mobilize:* Create seamless content mobility for users who require on-the-go experiences. Help ensure easy synchronization across devices and without required user modification.
- *Open:* Drive open and standards-based content delivery platforms to optimize content and revenue exploitation, and to create high business flexibility and network cost-efficiency. Position open capabilities to bolster digital content protection with consumer flexibility, and for plug-and-play business upgrades necessary in the fast-changing marketplace.
- *Reorganize:* Reassess your business composition against future requirements. Identify core competencies needed for future competitive advantage. Isolate non-core business components for outsourcing, consolidation or partnering. From an external perspective, reconfigure the business to leverage market and financial levers to buy, build or team for future competitiveness.

Research methodology

IBM conducted more than 65 one-hour interviews with "C-level" and senior industry executives, Wall Street analysts, economists and technology visionaries inside and outside IBM. Further, IBM commissioned primary research by the Economist Intelligence Unit (EIU). The EIU surveyed 108 industry executives from three constituencies: 1) cable, broadcast and Pay TV networks, 2) multiple system operators (MSO) and direct broadcast satellite (DBS) providers, and 3) new entrant video telecommunications companies. Respondents were evenly split among three geographical regions: Europe, Asia and North America.

A future scenario

This executive brief begins with a glance at a future consumer experience. For an advanced user in 2012, the TV experience will go far beyond traditional "lean back" behavior and constrained content access channels. Here we provide a look ahead…

My gadget-lover's dream realized

I am in digital-electronics-gadget nirvana. And, I am not afraid to boast. My home sports a fully wireless broadband (WIMAX) Internet environment, where content moves freely among the home server, several multiple high definition (HD) screens, the office PC and the mobile devices that I continually upgrade.

I regularly acquire favorite TV shows (new and old) either from Internet search engines such as Google Video, the video/telecommunications provider's on demand archive or fully-loaded Internet video destinations. I can't remember the last time I made "appointment TV," since I download or watch on replay from my multi-room digital video recorder (DVR) every important program or episode. A Bluetooth-like signal on my cell phone triggers the logon for my media center system. When ready to watch TV, I am greeted with a mosaic screen with tiles of favorite TV channels, suggested programs from the last 24 hours, season's passes and tailored on demand choices.

My home network offers different on demand pricing packages, dependent on the number of times I plan to watch, copy or download – and whether the content is a preview. When not skipping through, I am more amused than ever by advertising, particularly since it is tailored for me and comes with relevant links, add-ons and a variety of purchase options within the commercial itself. While all of these options can feel overwhelming to some, I view them as a challenge with a large pay-off. I will continue to put in the energy to be first on the block with the latest "gadget-lover's dream realized."

This scenario represents one key group of consumers who lead the market. While the future will deliver these gadget-lovers' dreams and more, it will be some time before leading-edge users inspire the mass audience. Suppliers are laying the foundation of change with infrastructure upgrades and service experimentation, but ultimately consumers will drive the multifaceted adoption schedule. At this important industry juncture, this paper profiles a TV industry whose relationships with both consumers and suppliers are undergoing significant and complex change.

Unparalleled levels of complexity and dynamic change

Significant changes in both demand and supply are driving the industry to unparalleled levels of complexity and dynamic change. This section of the paper explores current trends and challenges impacting the future prospects for participants within the TV industry. Key issues to appraise include strong consumer demand; audience fragmentation; misaligned business models; converged competition; and burgeoning market experiments.

The picture is bright for consumers

TV content is more popular than ever with consumers despite the availability of myriad alternatives, including digital music subscriptions, film DVD rental services, satellite radio and massively multi-player video games. Total TV consumption hours have continued to grow, with the average U.S. household estimated to spend 1826 hours with its TV in 2005 (the equivalent of more than five hours per day).[2] Hours viewed from content downloads and TV DVDs can be added to this traditionally measured consumption.

"TV consumption is expected to rise, in part due to the appeal of new technologies which allow increased control over when, how and where content is viewed."

Many once predicted that broadband media platforms would be the greatest risk to TV viewership, but thus far, broadband seem to be without significant cannibalization effects. For example, before broadband reached mass adoption in the U.S. – defined as 25 percent of U.S. households – TV consumption grew at a 1.6 percent compound annual growth rate (CAGR) for the period 1996 – 2003.[3] Even after the point of mass broadband adoption, viewership increased year-to-year in 2005 by 2.5 percent.[4] Going forward, analysts predict TV usage to grow by an average of 1.7 percent per annum through 2008.[5]

Even the youth audience, ever experimental with new forms of media, continues to log in 3 hours and 51 minutes of TV hours per day.[6] A 2005 survey by the Kaiser Family Foundation reported that TV garners three to four times as many minutes per day as either computers (at one hour and two minutes, on average) or video games (boys at one hour and thirty-four minutes; girls at forty minutes, on average).[7] While there will surely be some movement to video games and other media, overall TV consumption is expected to rise, in part due to the appeal of new technologies which allow increased control over when, how and where content is viewed.

Audiences become finer and finer

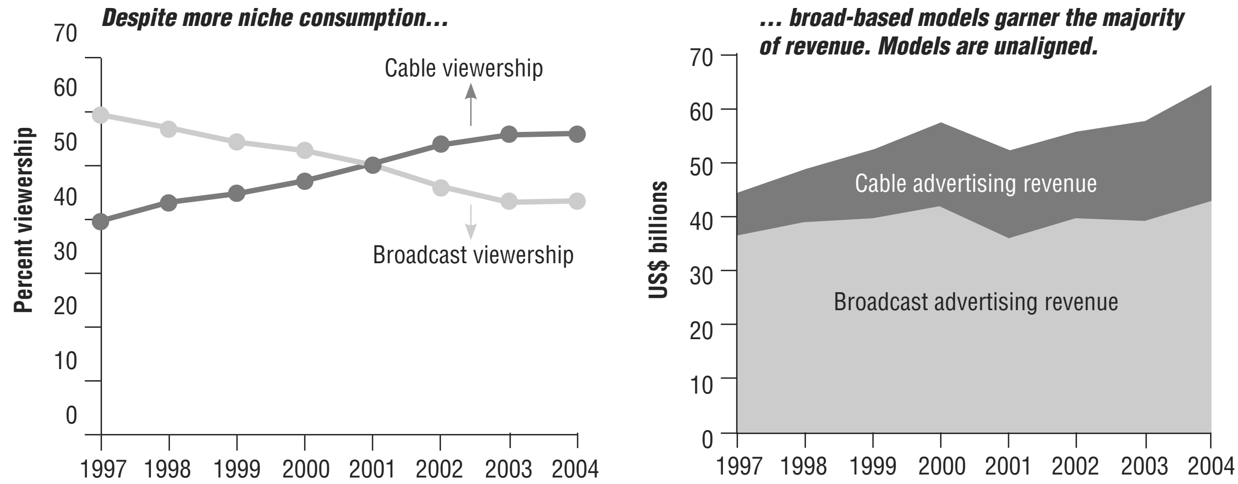
Consumers love content, but are having their attention more finely fragmented by over-choice and evermore proliferating channels and platforms. In days of yore, a consumer had only a few broadcast channels from which to choose. Today, the average U.S. household has 91 TV channels[8] and, in both the U.S. and abroad, the number of offered channels ranks in the hundreds.[9]

In the face of explosively expanding choices across all media (for example, tens of thousands of podcasts,[10] more than 43,000 magazines worldwide,[11] over 350 million Internet domains[12] and multicasting TV streams), viewers have trended toward targeted, niche content and messages. In 2005, 57 percent of U.S. TV viewership was on cable content networks versus broadcast.[13] Similarly, viewership in other countries has tracked away from broadcast, free-to-air channels to more specialized, targeted content. Demand is going niche and beyond, yet business models lag.

Consumers change…models lag

One of the key revenue sources in TV, advertising (which funds approximately 50 percent of the market[14]), should theoretically be most elastic to audience changes. And to some degree, revenues have adjusted. From 2000 to 2004, niche advertising CAGRs for U.S. and European cable/multichannel networks were 7.4 percent and 6.2 percent respectively, compared to a 2 percent CAGR for broadcast/terrestrial advertising.[15] Yet, cable in the U.S. collects only 30 percent of advertising revenues today, despite garnering almost double that percentage of viewership (see Figure 1).[16]

Figure 1. U.S. broadcast and cable viewership and advertising revenues, 1997-2004.



Source: CSFB Media & Entertainment Stock Source, March 2005, PwC Global Entertainment & Media Outlook: 2005–2009.

"Misalignment between performance and revenues primes the market for correction."

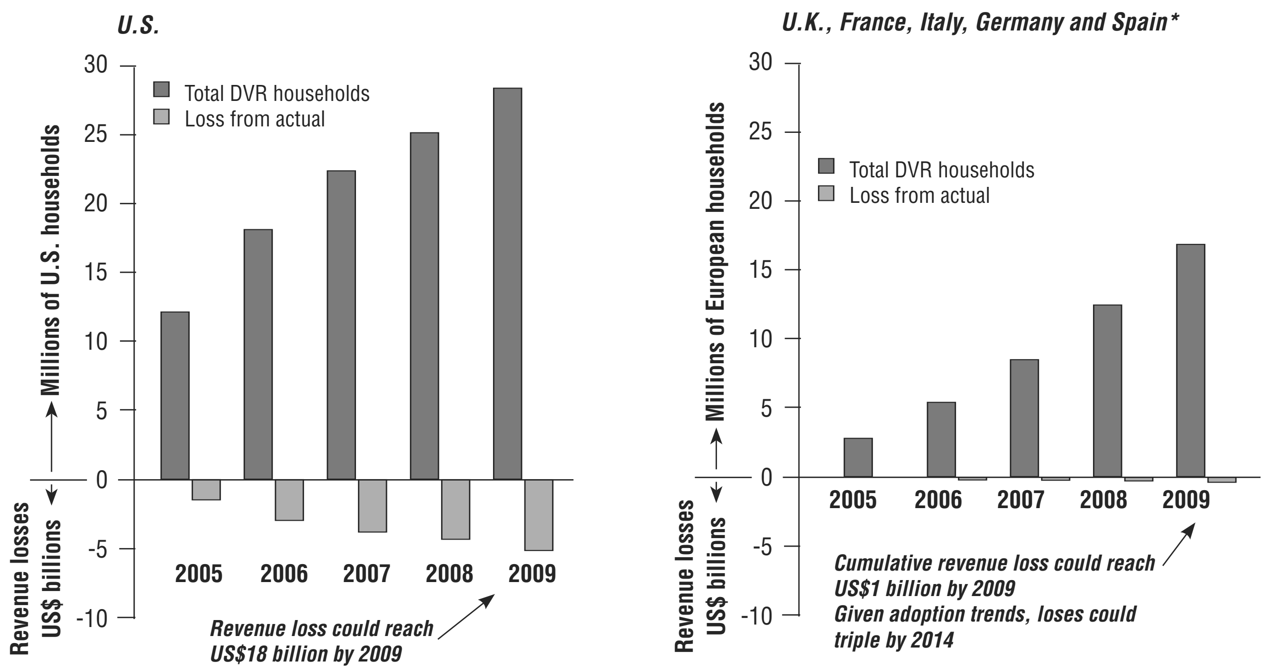
This may be due to lagging perceptions about the reach and effectiveness of broadcast messages, or the complexity involved with any alternative, non-broadcast media placement. Regardless of the causes, today's misalignment between performance and revenues primes the market for correction.

Further, with today's growing availability of self-programming, search and on demand, some users are moving from a niche orientation (targeted content on cable and multichannel networks) to individualized services. Increasingly, viewers are becoming audiences of one, with individual power to determine specifically when, how and what they watch.

"The IBM/ EIU survey revealed that 70 percent of MSO, DBS and Telco executives said 'on demand content' is a chief motivation in consumer purchase decisions, next to price."[17]

As the DVR makes advances – not just in the U.S., but also the U.K., Germany, France, Spain and Italy – ad-skipping is also taking off as, one by one, viewers opt out of advertising content. Ad-skipping is expected to lead to losses of 6 percent in U.S. TV annual advertising revenues in 2009.[18] Even with a slower roll-out in other regions, DVRs are still expected to have a material impact on advertising, with depressed annual revenues ranging from 2.4 percent in Germany to 6 percent in the U.K. in 2012 (see Figure 2).[19]

Figure 2. Forecasted DVR adoption and lost advertising revenues, 2005-2009.



*Note: *Households are total for U.K., France, Italy, Germany and Spain; Ad revenue loss is averaged for these territories. These territories represent over 64 percent of ad revenues for Europe/Middle East/Africa region.*
Source: U.S. chart: Sanford C. Bernstein Research, "Pipe Dreams," May 2004; IBM Institute for Business Value analysis. European chart: UBS Investment Research, "DVR – Broadcasters' nemesis?" October, 2004; PwC, "Global Entertainment and Media Outlook: 2005-2009," June, 2005; IBM Institute for Business Value analysis.

Overall advertising is expected to rise (in part because DVRs inspire more content consumption), but its potential will be mitigated by the DVR impact. It is noteworthy that in addition to the DVR, there might also be a negative impact on the advertisement model from on demand TV. Consumers may opt to buy episodes without advertising or skip through on demand content where allowable. Unlike the DVR, the on demand model is being heavily managed by content owners and networks. The bottom line is that as these new technologies move from the early adopter stage to the mass audience, we expect continued downward pressure on TV advertising (and the traditional 30-second spot), as even the most passive viewer enjoys ad-skipping and time-shifting (choosing *when* a TV program is viewed).

As consumers continue to move away from broad-based experiences, broad-based business models will be challenged as never before. And, advertising is merely the first revenue category to adjust to this trend. Content models, today sold in bulk or bundles among major institutional players, will also go in search of more user-driven, on demand opportunities on a widespread basis.

Industry perspectives:

"In ten years, mass market will stop always trumping niche market."

– Global Software Executive[20]

The IBM and EIU research with executives across the TV value chain confirm this trend to individualized services from broad-based models. Most surveyed executives, regardless of company origin, placed the least confidence in TV advertising compared to user-driven, on demand revenue streams (see Figure 3).

While there is industry consensus about impending revenue transition, the EIU survey revealed a lack of agreement regarding replacement revenues. With uncertain return on investment in TV and lagging metrics, advertisers may simply move dollars to the Internet, where metrics are individualized. Arguably, this – a double-whammy coupled with the DVR – is happening already. Though Internet revenues start with a smaller base, its advertising growth rate is forecast to be almost triple that of TV advertising by 2009.[21]

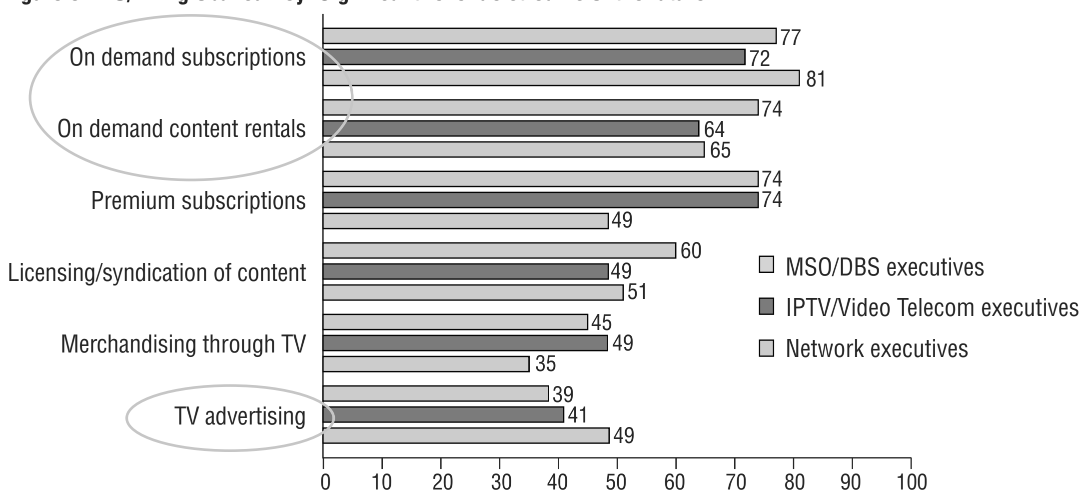
Convergence has finally arrived

Convergence in TV, telecommunications and the Internet is pitting the giants of industry against one another. Two key aspects of converged competition are video distribution and content aggregation.

"Convergence pits industry giants against one another."

First, we look to convergence in distribution and assess how the "triple play" (offering video, voice and high-speed data) and "quad play" bundles (triple play plus mobile) may evolve. In the video distribution marketplace, incumbents and new entrants alike are battling to provide TV and other services to the living room. In doing so, players have been engaged in a network upgrade cycle to win consumer loyalty and higher average revenues per unit. Between 1996 and 2004, the U.S. cable industry spent over US$95 billion on upgrades to move to two-way plant, with its potential for High Definition television (HDTV), digital cable, video on demand and digital phone.[22] With more than 90 percent of U.S. households passed by activated two-way infrastructure by the end of 2004,[23] the foundation was laid to convert 28.5 million households to digital cable and 23.9 million for video on demand by year-end 2005.[24] In Europe, while digital TV is estimated to be in 52 million homes (37 percent of total TV households),[25] video on demand is slower to be offered.[26]

Figure 3. EIU/IBM global survey: Significant revenue streams of the future.



Percentage of respondents who said the revenue stream would be a "4" or "5" on a 5-point scale, where 5 was "Very important"

Source: IBM Institute for Business Value survey conducted by the Economist Intelligence Unit.

Internet Protocol Television (IPTV) reroutes competition

Internet Protocol (IP) for video distribution. IPTV is the use of an IP broadband network to deliver quality TV content. IPTV is not open Web TV, as it is commonly mistaken. Most IPTV systems involve conditional access and set-top box equipment, similar to current services provided by digital satellite or cable companies. However, as broadband speeds to the home increase, consumers may begin receiving quality TV directly over the Internet – without the need for designated "pipes." For now, however, delivering even standard definition TV is challenged over residential high-speed data connections.

IPTV and the changing competitive landscape. IPTV is the moniker often used to connote the entry of telecommunications providers into video distribution. However, even within the telecom community, the term is often ill-fitting. In the U.S., for example, AT&T (formerly SBC Communications) is introducing video service over IP, while competitor Verizon Communications is not – instead using cable's quadrature amplitude modulation (QAM) scheme over fiber. Both AT&T and Verizon Communications, like their peers around the globe, are using new proprietary fiber networks to compete directly with traditional cable and digital satellite companies.

New entrant telecommunications providers around the world are also doing network upgrades in order to move into the video distribution business. With their core voice businesses under attack, telecom providers are investing heavily in fiber-to-the-home or curb and next generation networks for video services. Often, the roll-outs are pure IP-based distribution of video, though some more closely resemble cable's QAM scheme over fiber. Whatever the technical transport mechanism, the borders of competition are falling between telecommunications companies and traditional video providers.

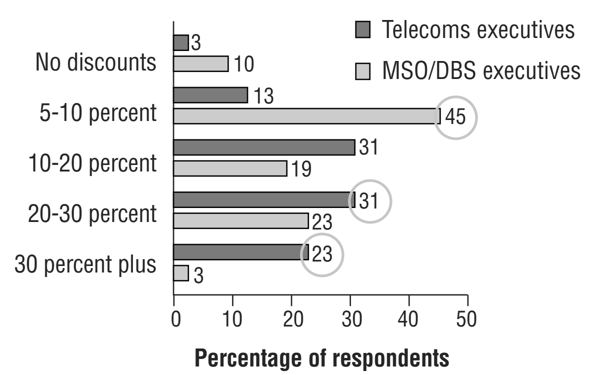
Most advanced IPTV roll-outs to date are found in Europe and Asia: China Netcom Group, Hong Kong's PCCW, Taiwan's Chungwa Telecom and Italy's FastWeb are all global examples of functioning, pilot IPTV networks. In select countries, like China and France, partnerships with municipalities are helping to speed upgrades and usage. In the U.S., Verizon Communications, Bell South Corporation and AT&T (formerly SBC Communications) have announced plans to pass more than 34 million homes by 2009 with fiber.[27] Accordingly, these three major U.S. entrants aim to convert up to 5 million video households by 2009, taking share equally from DBS and cable incumbents.[28]

"If upgraded TV features don't prove new value to consumers, competition will devolve to price alone, placing pressure across the value chain."

With triple play or quad play bundles, competition is expected to be fierce in the forecast period of this paper. As the EIU research shows, the new entrant telecom providers seem poised to buy share (see Figure 4).

The growing popularity of triple and quad play bundles brings the possibility of a protracted price war. If upgraded features cannot prove new value to consumers, competition may devolve to price alone – placing pressure not just on distribution players downstream, but other value chain players as well. Greater profitability is expected to lie with those competitors who can manage the value-added play and not fall prey to discussions of price alone.

Figure 4. EIU/IBM global survey: Triple play pricing strategies.

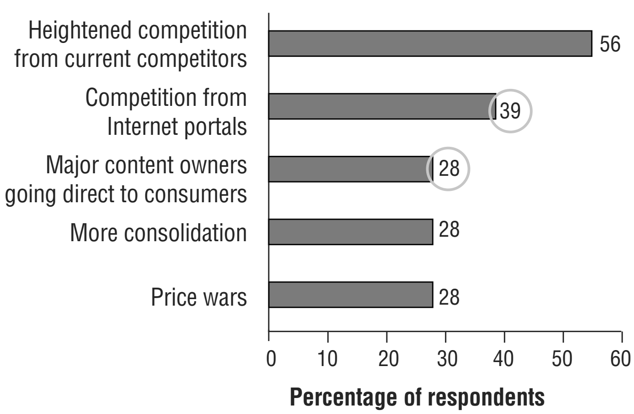


Source: IBM Institute for Business Value survey conducted by the Economist Intelligence Unit.

Besides convergence pressures in distribution, there is a second dilemma: Will Internet content aggregators circumvent traditional programmers? The Internet channel creates a potential bypass to traditional content packaging and programming, a function previously owned by networks for program line-up and scheduling. The EIU research indicates that today's programmers – the TV content networks – rank Internet services among the top areas of concern (see Figure 5).

When asked which competitive challenges they expect to be most significant in five to seven years, network executives worldwide cited nontraditional threats like Internet portals (such as Google, Yahoo! and AOL), and content owners going direct. While the degree to which mainstream users will watch Internet TV is debatable, it is clear that more "lost eyeballs" translates into further weakening of the traditional media network model. It is feasible that networks without consumer brand identities will effectively be squeezed from the market.

Figure 5. EIU/IBM global survey: Network executives' response to "What are the most significant competitive challenges your company will face in 5-7 years?"



Source: IBM Institute for Business Value survey conducted by the Economist Intelligence Unit.

Industry perspectives:

"Networks will be extinct in fifteen years."

– European Public Broadcaster [29]

The beginning…but not nearly the end…of market experimentation

Market changes in supply and demand are triggering trials of new business models (see Figure 6). As Entertainment economist Harold Vogel explained, TV networks and content owners are "trying to find a model that enables them to recapture some of the profitability that goes away when people watch television differently than they have historically."[30]

In 2005, public broadcaster the British Broadcast Corporation (BBC) began piloting "My BBC Player," a technology that allows consumers to use broadband to download and share programs. With a public charter to "drive the market for free-to-air digital TV, digital radio and new media, focusing on improvements in awareness, availability and take-up,"[31] the BBC has launched a trial to make content freely available for seven days with peer-to-peer (P2P) software. Without conflicts from affiliates or network advertisers (that constrain its commercial counterparts), the BBC has experimented farther than most others in the global marketplace.

In November 2005, the Walt Disney Company, Disney ABC Television Group and Apple created another on demand landmark with their partnership to enable access to day-old episodes of popular shows via iTunes Music Store. In the first nineteen days, this major, first-of-kind launch tracked over 1 million downloads, purchased at US$1.99 per episode.[32] Content does not expire and is portable on the Apple Video iPod. Soon thereafter, competitors such as NBC, CBS and Warner Bros. released similar on demand announcements of their own.

Figure 6. Examples of emerging business models.

	Akimbo	BBC "My BBC Player"	CBS and Comcast	Disney and Apple	MTV "Overdrive"	NBC-Universal and DIRECTV	Time Warner Cable "Start Over"	Warner Bros. and AOL "In2TV"	Yahoo and TiVo
Consumer device	TV	PC	TV	iPod	PC	TV	TV	PC	TV, PC
Revenues at launch	Monthly user fee of $9.99	No user fee	$0.99/episode Advertisements (but can be skipped)	$1.99/episode No advertisements	Skip-resistant advertisements	$0.99/episode No advertisements	Free access with TV cable subscription Skip-resistant advertisements	No user fee Skip-resistant advertisements	Access with TiVo subscription
Attributes	• Proprietary set top box required for on demand • Content includes Turner Classic Movies, BBC and Discovery	• P2P media player for BBC content • Most shows available for seven days after first run • To launch 2006	• CBS owned content to Comcast subscribers in markets with CBS owned and operated stations • To launch 2006	• Episodes of select ABC content one day after airdate on video iPod • PC playback with QuickTime	• Five genre-driven video channels • Music videos, trailers, news, behind-the-scenes footage	• NBC owned shows on demand to DIRECTV subscribers • To launch 2006	• Program restart anytime during its broadcast window • No ability to save programs	• 14,000 episodes available • Six thematic channels • One minute of advertising inserted into show • To launch 2006	• TiVo functionality for Yahoo media content (Launch) and video search • To launch 2006

Source: Company Websites; IBM Institute for Business Value analysis.

Much like the various alliances in the early online forays of the music industry, these solutions are only the beginning – "placeholders" which do not yet allow for the ubiquitous access to content anytime, anywhere. The TV market will continue to evolve literally day-by-day, as industry participants keep seeking new, profitable models that serve consumer needs. As all of this activity leads to greater industry learning, as well as disruption, the riskiest option now seems to be that of inaction.

Music industry experience offers lesson for TV

At the turn of the 21st century, the music industry had seen five years of relatively stable CD sales growth.[33] However, as Napster gained momentum and CD sales started to slip, the industry was slow to react.

Napster quickly swelled and at its peak had 80 million users who traded over 15 billion songs.[34] In two years, the percentage of North American online households downloading music illegally had jumped from practically nonexistent, to just under 30 percent.[35] With downloads skyrocketing and artists crying foul, the music industry's lawsuit shut down the P2P Napster service in early 2001.[36] However, this effort did not stop copycat global networks which launched with new technology impervious to worldwide court or regulatory oversight. The U.S. music industry saw unit sales fall 21 percent between 2000 and 2003, the largest technology related revenue loss of any media business in the last two decades.[37]

The release of the iPod, followed by the iTunes launch in 2003, finally proved that embracing new technology could bolster revenue. With hip design and fluid user interfaces, iTunes dominated the market and enticed users back from P2P file sharing. Apple has now sold half a billion songs online and digital music accounts for 4 percent of the US$13.4 billion global music market.[38] Following four consecutive years of declines, the music industry experienced solid growth in 2004, up 5.7 percent globally, fueled by digital distribution and mobile music.[39]

The key lesson from Music is to *get out in front of a changing marketplace.*

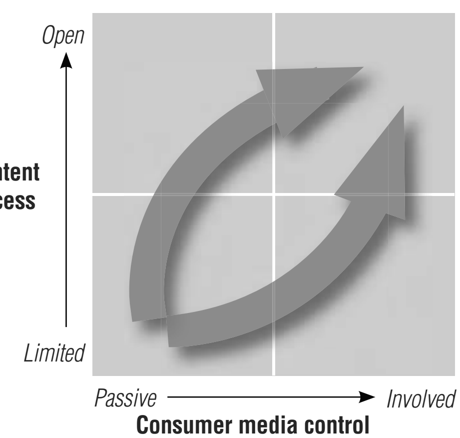
Views of the future

Given the trends in motion, great disruption to the value chain appears nearly inevitable for the long-term. However, analysis shows that radical upheaval may be outside the forecast period of this paper, as the mainstream user takes time to catch up to the tech-optimists and fashion-forward users. This section of the paper outlines our view of the long-term future, as well as assumptions on the evolutionary mid-term and impending value shifts for 2012.

The next great "earthquake" is coming (but not today)

Looking beyond the year 2012, we believe two key drivers will define long-term TV industry disruption: Open *content access* and highly involved *media consumers* (see Figure 7). The blue arrows show the expected movement to the upper right quadrant over time, as many mainstream users become more involved with their TV experiences and enjoy greater access to content through new platforms and channels.

Figure 7. Drivers of change for the long-term future state of the TV industry.



Source: IBM Institute for Business Value.

The spectrum for consumer media control ranges from *Passive* to *Involved*. At one end, the historical and still predominant passive experience represents a "lean back" mode in which consumers do little more than flip on the remote and scan programming. At the other end are consumers who want to "lean forward," for a PC-like experience. Involved users will self-navigate, toggle, search and self-author content – and, this interactive group is willing to invest heavily in its TV and media experiences.

> *"We believe two key variables will define long-term disruption: Open content access and highly involved media consumers."*

The content access axis describes the channels for obtaining content, whether limited by a service provider in a safe haven or accessible through a more open, Internet-like state. The *Limited* end of the spectrum represents the predominant current state – a controlled environment like a "walled garden." Here, just a few distributors (namely MSOs, DBS and telecommunications providers) clear conditional access hurdles and aggregate content. By contrast, the *Open* end depicts a model where both protected and unprotected content is readily available through multiple platforms, channels and distributors (including mobile and Internet).

The matrix framework predicts disruptions across the market. While some tech-forward consumers can immediately force change, the tipping point will not be reached until the mass audience adopts behavioral shifts. Changes might include:

- Content bundles are "de-bundled" by consumer demand
- Internet content distributors take significant share from broadcast, cable or satellite networks
- Media networks without a consumer brand identity suffer the consequences of consumers "going around" them
- Search and self-programming reduce the value of content adjacencies (the time slot before or after a hit show), fundamentally changing marketing and promotions.

Media consumers: A "Generational Chasm"

Massive Passives. Just beginning retirement, Sharon, age 61, and Ken, age 65, plan certain types of entertainment into their daily routine. Along with Ken's regular golf and bridge outings and Sharon's various social clubs, they both look forward to certain favorite prime-time and news magazine programs. Like many of their friends, they splurged last year on a large flat-screen TV, where Ken especially loves to watch live Dallas Cowboys football and golf tournaments. Sharon checks the TV Guide to stay informed about the movies-of-the-week and network specials. Her grandson is trying to teach her to use the built-in DVR, though she often forgets about the device's live-pausing or ad-skipping potential. Definitely part of the "lean back" category, Ken and Sharon haven't greatly modified their TV viewing habits in the last twenty years.

Two distinct sub-groups, Gadgetiers and Kool Kids, comprise the more involved, "lean forward" consumer segment:

Gadgetiers. Helene, age 29, is married to Franz, age 33. These on-the-move, working parents have set up a surround-sound home theater, enjoy downloads on the hottest portable devices, and transfer content and data via their WiMAX Internet connection. Helene and Franz have no preferred service provider for video service (cable, satellite or telecommunications provider), as long as they get top quality bundles at a value. Given their schedules for work-related travel, neither minds paying for certain content or services to accommodate their lifestyle. They have a particular fondness for convenience-oriented services like TiVoToGo and iTunes, which make their portable lives more flexible and fun. They also selectively use P2P resources for missed programming that is not available through on demand systems. Feeling great ownership over their media experiences, Helene and Franz enjoy showing friends and family their Gadgetier ways – even sharing information with other technophiles on various video blogs.

Kool Kids. Marcus, age 13, and Semana, age 15, are brother and sister. Both were exposed to high bandwidth networks as very young children and they experiment unflinchingly with media and platforms. While they have little disposable income, they follow all the latest gadget crazes. The mobile device is the centerpiece of their lives and they text message while doing one, two or three other tasks. Though their parents refuse to allow it in their presence, Semana and Marcus even do instant messaging on the TV set while watching favorite shows. Marcus uses his tech-savvy to try to bypass network blocks and content encryption in order to rip and share content. Likewise, Semana doesn't worry about piracy warnings as she trades copies of CDs with her friends. Without thinking about it, both are heavily invested in media experiences and spend much time seeking TV episodes, current films and hard-to-find, cool niche content. Like practically all their friends, these teenagers have posted detailed profiles to several social networking sites, relying on those connections for media recommendations and most other aspects of their lives.

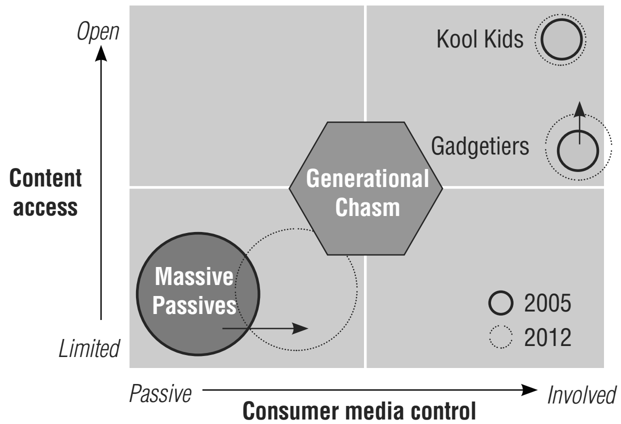
Bimodal consumers until 2012: It's all in how they lean

Suppliers lay the foundation of change with network upgrades and converged service roll-outs. However, the industry tipping point ultimately depends on the mix of users and their acceptance of new services and pricing. For the short- and mid-term future, the TV industry will be marked by a bimodality among consumers: those who are mainly passive viewers and those who demand a more interactive media experience. This future state is described as the "Generational Chasm" because there is a rough correlation between a consumer's age and whether that person is more likely to be a passive or active viewer of TV content.

Today, the Massive Passives far outnumber the influential, fashion-forward, early adopters personified by the Gadgetiers and Kool Kids. Though the mass audience is indeed dwindling, it will take time for technology fluidity, education and customer service to take hold. As a result, the Generational Chasm is the expected state of the TV industry for the coming five to seven years, featuring the coexistence of these two distinct audience types (see figure 8).

"The Massive Passives, the largest group today, represent the annuity to fund the industry's future growth."

Figure 8. Bimodal consumers and the Generational Chasm.



Source: IBM Institute for Business Value.

Massive Passives are generally content with their traditional TV experiences and uninspired to change viewing habits drastically in our forecast period. These device followers are expected to keep the TV as the media centerpiece for the near term and watch scheduled programming, with growing time-shifting.

By contrast, the Gadgetiers and Kool Kids seek more experiential interactive video experiences, with heightened control of aggregation, content sources, space-shifting (choosing *where* video content is viewed), time-shifting, user contribution of content and device interoperability. These early adopters are leading the way toward open distribution models.

Gadgetiers spend as much time with their PCs for media experiences as their TVs, often time-shifting and space-shifting with PCs and other devices. As this group grows over time, it can represent revenue growth opportunity for industry incumbents – if compelling content and device/platform extensions can be offered.

"If you don't get in front of Gadgetiers, they will leave you behind."

Kool Kids are distinct in their reliance on content sharing. This group has more time available than other groups, but fewer funds. As a result, they are device aspirants, using mobile devices as the centerpiece of their social and media experiences. Time-shifting and space-shifting are both prevalent with mobile, physical copies. Kool Kids represent revenue cultivation opportunities as the industry works to mitigate or prevent Napster-like propensities.

Analog switch-off will most affect the Massive Passives

Digital TV switch-over hits mid-forecast period. Within a few years – the exact date is still being determined by the FCC and Congress for 2008/2009 – broadcasters in the U.S. will suspend traditional analog transmissions and switch over to all-digital signals. The transition will free up valuable spectrum which the FCC will reallocate, some to public services, such as fire and police bands. Furthermore, when inevitably combined with HDTV, digital TV offers better picture quality, richer digital sound and available digital data for many interactive purposes. Similar transitions are going forward in most major markets, with Japan, South Korea and the U.K. leading the way for transformations between 2008 and 2012.

Complex transition for consumers and companies alike. The analog-to-digital transition will be complex for several reasons. The analog shut-off is unique, in that past industry transformations (such as the start of FM radio) have typically been additive, not substitutive, and have been backward compatible. When the analog signal is ceased in the U.S., analysts predict that 200 million of the 300 million sets will not be digital-ready.[40] With cost upgrades estimated at approximately US$50-60 per TV set, the total cost is monumental and no full payer has been identified.[41] In Europe, even fewer households are digital than the U.S., illustrating the immense cost to be borne out in each global region for the transition. Any way you split the spectrum, digital TV is going to offer consumers more choice and greater interactivity – but it will entail transitional discomfort (particularly for Massive Passives, who are likely to be less comfortable with environmental change) in combination with vast industry expense.

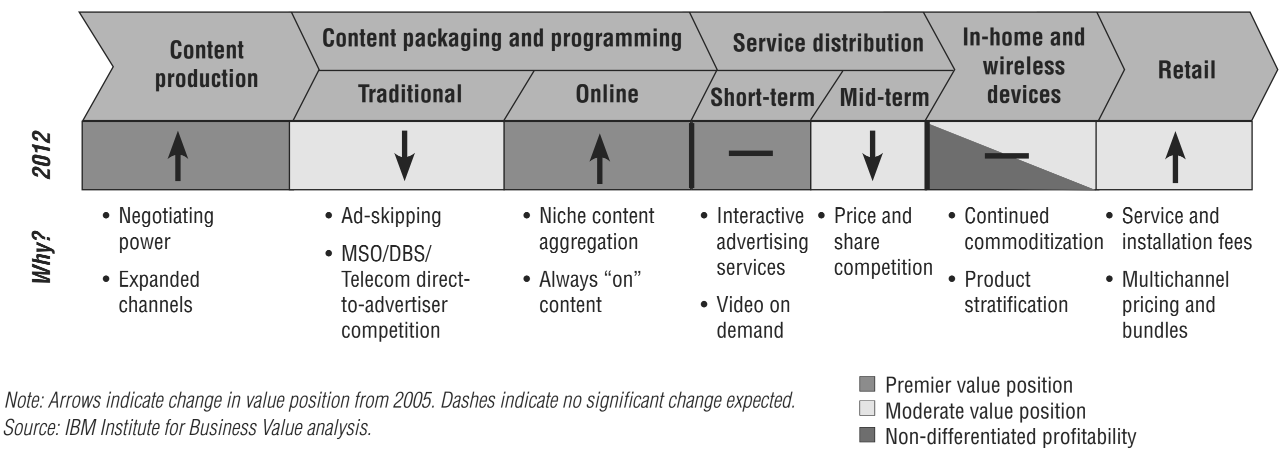
Value shifts in a bimodal world

Due to the growing complexity and bimodality of the market, we expect value shifts in the industry as new and old participants fight for new relevance and prominence. In Figure 9, we have outlined possible scenarios for winners and losers in 2012 (as an extension of trends afoot in 2005).

For example, given the move of some advanced users to new screens, such as PC and mobile, and away from traditional broadcast schedules and advertising, it is conceivable that traditional programmers will weaken in the years ahead. Hence, the graph shows a downward arrow for that group, indicating loss of position from 2005. Furthermore, as Gadgetiers and Kool Kids actively seek new IP-based video experiences, it is fathomable that online packaging and programming providers – such as Internet portals or search engines – will extend their position with users by adding TV and video offerings. In doing so, they can capture advertising and service revenues. The marriage of consumers and content aggregation may place the portals into a high-margin, high-value position within the TV business. An arrow pointing upward indicates that strengthening position between 2005 and 2012.

While the scenarios discussed above are only speculative, what is certain is that new winner and losers will rise up in the next five to seven years, given the degree of change ahead. Competing and maintaining value in the marketplace will be at least partially dependent on each company's ability to adapt, reset strategies proactively and prioritize action steps.

Figure 9. Speculative value shifts 2005 - 2012.



Note: Arrows indicate change in value position from 2005. Dashes indicate no significant change expected.
Source: IBM Institute for Business Value analysis.

Priority actions for future success

Providers of content creation, packaging, programming and distribution must act quickly to develop and implement complex strategies for a complex marketplace. Six key priority actions are essential to prepare for success in the TV industry of the future: Segment, Innovate, Experiment, Mobilize, Open and Reorganize.

1. Segment: Invest in divergent strategies and supply chains for bimodal consumers.

Successful companies of the future will segment the market to serve both the "lean back" Massive Passives and the "lean forward" Gadgetiers and Kool Kids. To both protect current and grow future revenues, leading companies will need to:

- Dynamically profile consumer groups
- Tailor services and products by segment
- Cost-effectively operate tandem channels
- End the "one size fits all" marketing approach.

The first step is to perfect a process for acquiring and analyzing consumer data. Data will be crucial to profitably discriminating among user groups on pricing, bundles, technology integration, content form and function, release windows and advertising formats, among others. By constantly honing data-driven psychographic segmentation, a company will be armed with necessary information to pre-empt and meet market needs. To systematize information flow, continuous data mining and predictive modeling, technologies like customer relationship management systems are in order.

Just as product and service development must be reoriented by segment, so too must delivery supply chains. To deliver to bimodal demand, providers will need to develop and operate tandem supply chains and channels. In other words, while preserving status quo processes and systems for the Massive Passives, there must be initiatives to develop and upgrade nontraditional channels on behalf of the demanding Gadgetiers and Kool Kids.

To maintain the bottom line in this complex environment, executives will have to achieve significant cost savings from the traditional supply chain in order to invest in new delivery channels. While each company along the value chain targets users from a different vantage point, none will be exempt from the tremendous cost pressures arising from bimodal demand – and its associated requirements for multifaceted supply.

> *"To maintain the bottom line, a company will have to achieve significant cost savings from the traditional supply chain in order to fund new delivery channels."*

In addition to developing divergent product and delivery strategies, each company must also differentiate communications and sales strategies. Providers must offer to each consumer segment unique marketing messages, migration up-sell strategies and sales outreach plans. This will be crucial in moving all segments – at different rates and speeds – along the future path. Asymmetrical strategies will be required in service packaging, marketing reach and communication integration, among other things (see Figure 10).

Figure 10. Suppliers will need divergent strategies for divergent consumers.

	Lean back consumers	*Lean forward consumers*	
	Massive Passives	**Gadgetiers**	**Kool Kids**
Screens	• TV	• HDTV • TV on PC	• TV on cell phone, PSP
Content preferences	• *BBC World News* • *Good Morning America* • *World Cup Soccer* • *Monday Night Football*	• *The Office* preview episodes • *Daily Show* interactive • CNET news segments	• Ring tones of *Alias* • *Lost* video blog • GameTap
Content consumption	• Appointment TV • Prime-time	• On demand • On replay via DVR • On own time	• P2P download • On replay via DVR • On demand to mobile device
Advertising	• 30-second spots • Program-integrated messages	• Click-throughs • Long-form/short-form content • Program-integrated messages	• Social networking links • Instant Message (IM) advertisements • Short-form content
Communication applications	• Traditional applications for each device	• Multi-purpose devices • Cell phone programming of DVRs and other convenience-oriented services	• Constant social connection across devices • Instant messaging and communities on TV screen
Service packages	• Bundled TV channels • Bundled "triple plays"	• *A la carte* niche channels • On demand season's pass by program	• Bundled channels (parents) • *A la carte* mobile VOD
Marketing outlets	• Best Buy • Reitangruppen • Wal-Mart	• BitTorrent • Google • Del.icio.us • Bic-Camera Yurakucho	• My Space • Facebook • Hi5

Sources: IBM Institute for Business Value analysis.

"One-size-fits-all" no longer works in our heterogeneous marketplace. Simply put, to segment is to succeed.

2. Innovate: Take risks today with business models, pricing, windows and packaging.

To avoid losing market position in the long term, you must be willing to risk aspects of your business today in the name of future success. To optimize uptake and profit-ability, companies across the TV landscape should:

- Create new innovative content, delivery models, pricing and packages
- Go to market with a dynamic schedule
- Calibrate pricing across all new and old windows of opportunity.

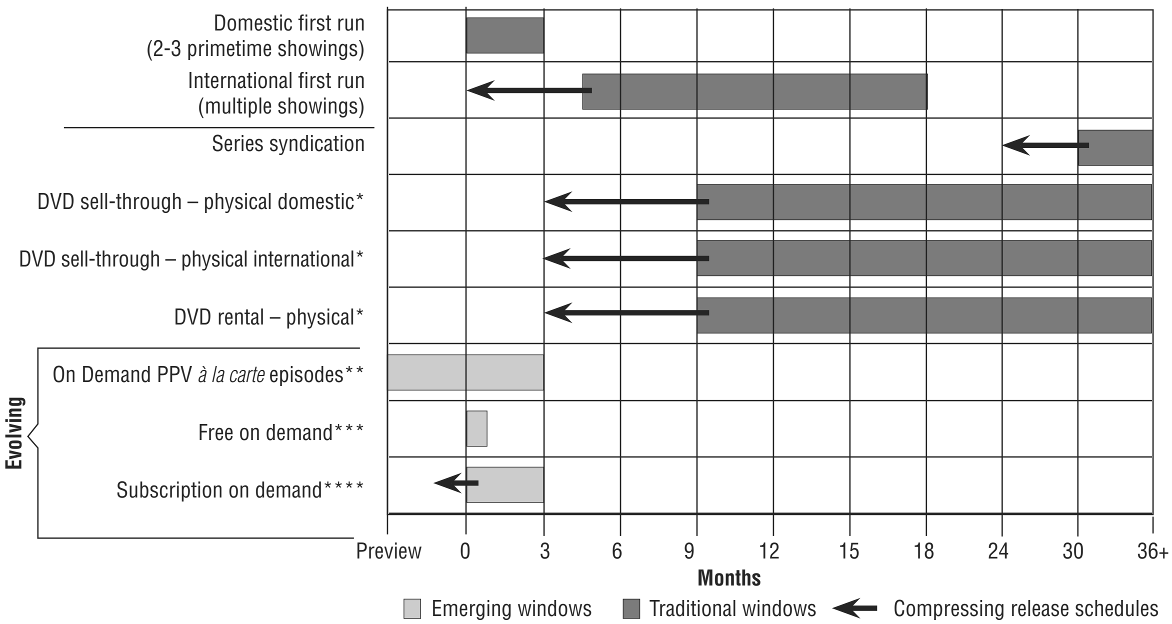
What does this mean? To start, companies will need a balanced, yet aggressive, stance toward new content bundles and packaging. For an executive upstream on the value chain, this will mean embracing new content form functions, as well as new delivery models such as subscription content on demand, free on demand, and *à la carte* pay-per-view (PPV); for an executive downstream, these necessary risks may span from *à la carte* channel rate cards to "quad play" mass bundling.

The economic pie will increase with more consumer choice. But, managing the right content (bundle, de-bundle or splice of content) *at the right time with the right price* will be critical for profits (see Figure 11).

Content will have to be divorced from its traditional platform or schedule in order to open new revenue sources. Illustrations include:

- Paid user content on demand (subscriptions or pay-per-view): Best suited for first-run shows or valuable branded archival programs with long commercial

Figure 11. Evolving TV content release windows.



*Notes: *DVDs assumed to contain one (or more) season of TV content. **PPV on STB, iPod, media center, disc, etc. ***Primetime available after first airing free of charge. ****Subscription pay TV "on-demand" after first airing.*
Sources: IBM Institute for Business Value analysis.

lifecycles. Includes "season passes," *à la carte* purchases and "long-tail,"[42] niche acquisitions. Strategy capitalizes on user willingness to fund content directly; opens another revenue source.

- Free user content on demand: Best suited for content that is untethered to long commercial lifecycles. Includes perishable content (nightly news, weekly commentary, and late-night comedy), back-catalog, non-branded niche content or that funded by public license. Strategy extends loyalty, viewership and/or advertising reach.

At the same time, executives are charged with studying and reassessing pricing strategies. To optimize income, providers need to weigh the price consumers will bear (with each package and offering, new and old) against all associated delivery and opportunity costs. For example, cost analysis for new digital downloads and on demand models will have to include physical transport, licensing costs and partner revenue-sharing, as well as lost revenues from traditional sources, like advertising. Further, strategists must face the ultimate question for the bottom line: "What pricing strategy forestalls the next illegal P2P forum, and keeps consumers in the fold?"

To fully leverage the complex demands from consumers, savvy providers need to commit to the ongoing innovation of business models, release windows and pricing strategy. Doing nothing is almost certainly the costliest option of all.

3. Experiment: Develop, trial, refine, roll-out. Repeat.

Innovation only comes to life through experimentation and trial. In this age of complexity and uncertainty, ongoing experiments need to test uncharted territory. To win in the future, companies should:

- Conduct market trials *now* to gauge consumer behavior "in action"
- Constantly refine products
- Invest in underlining new metrics for new models.

At industry pivot points, user feedback arguably has its greatest impact. As such, companies must repeatedly test consumers on service options, product attributes, brand perception, pricing schemes and user-friendliness, to name only a few.

For illustration, consider next generation advertising models. With advertisers funding half the industry[43] and the DVR threatening revenue stability, it is paramount to surface and test models which augment (or replace) the 30-second spot. To invest most astutely in tomorrow, companies will need to be guided by demonstrated user acceptance, attention, retention, click-throughs and buy-rates associated with each new possible advertising model. In this case, options will range from short- or long-form advertising, interactive merchandising or time-sensitive overlays for archived on demand (see Figure 12). While advertising is the highlighted example, emerging content models and delivery channels all need to pass through similar rigorous trials and experimentation. And, experimentation cannot be a static exercise…it is a continual process with ongoing results, which contribute to the dynamic refinement and distillation of the right end-user product.

To bolster new business models (advertising and far beyond), companies must invest in new metrics to monitor progress and success. Traditional metrics, like audience ratings, have not been based on realtime, individualized data. Instead, sampling methods were used to generalize consumer behavior.

In order to deliver segmented and tailored media experiences, it is imperative to capture more granular measurements and metrics. From individualized audience-tracking to click-stream analysis in the living room, companies will need new tracking systems to support more on demand and pseudo-individualized products, services and models.

As the industry transitions from a broadcast environment to its next manifestation, companies must be dedicated not only to ongoing trials and experiments, but also to a culture and mantra of experimentation.

4. Mobilize: Create seamless content mobility.

Companies have to strive to take content mobile for tech-forward users like Gadgetiers who want their entertainment and content "on the go." These users have steep requirements for portability of their devices, media and experiences, and keeping apace of user demand will require companies to:

- Deliver easy synchronization among devices
- Provide consumer-friendly services without required user modification.

Figure 12. The spectrum of possible future advertising models.

	Broadcast ads	Product placement and sponsorship	Operator driven ads	Localized ads/ targeted ads	Short- and long-form content	Customized video on demand	Interactive merchandise	Value added content	Time sensitive ad inserts
Potential revenue models	• Traditional cost per thousand (CPM)	• Fee-based model	• Premium CPM • Revenue-sharing • Cost per click-through (CPC)	• Premium CPM • CPC	• Premium CPM • CPC	• Video on demand (VOD) CPM • CPC	• Revenue-sharing on merchandise • CPC	• Premium CPM • CPC	• Premium CPM • CPC

Low — **Implementation complexity** — **High**

Source: IBM Institute for Business Value analysis.

Two early market examples illustrate an evolutionary trek for mobile content. TiVoToGo, a service extension offered by U.S.-based TiVo, enables users to move recorded TV programs from their home TiVo DVR to PCs, MS Windows-based portable devices or DVD-Rs. As of September 2000, TiVoToGo had an install base of 1.1 million users with the requisite physical hardware.[44]

Another company, Porto Media, leverages retail space to introduce and assist in mobile experiences. This Irish service provider and technology developer has launched a flash memory module that enables fast, secure, digital content downloads via in-store kiosks to secure digital (SD) cards. With Porto Media technology, a DVD quality movie can be burned to an SD card in less than 20 seconds.[45]

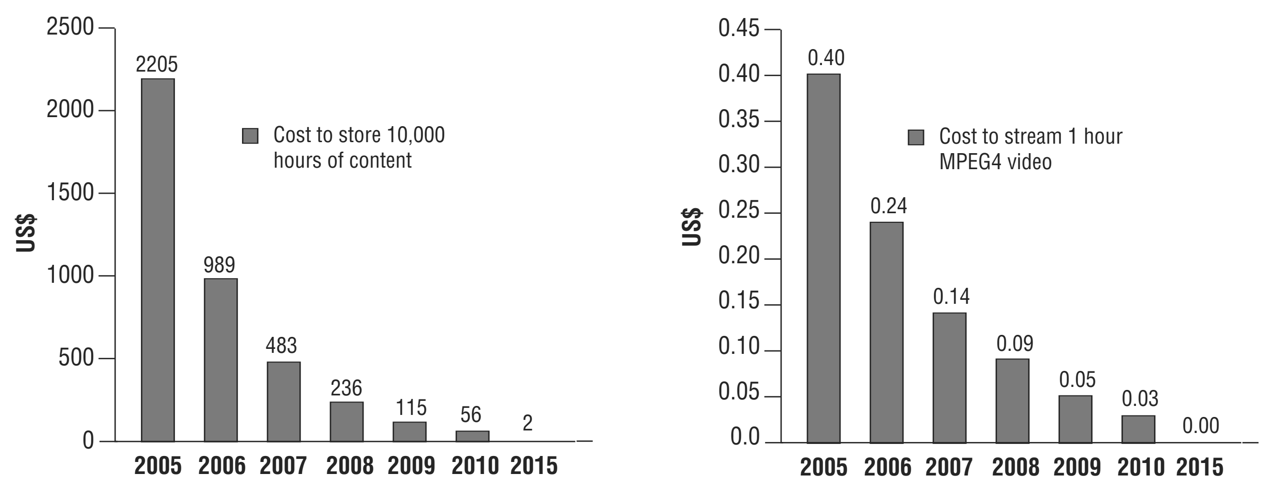
Industry perspectives:

"Customers want content across platforms. This is the three-screen future."

– North American IPTV Telecom Executive[46]

Industry players need to act or consumers will simply find low-cost solutions of their own. For example, two key components of do-it-yourself services – video streaming and video storage costs – are tumbling downward, *à la* Moore's Law. Total costs of 10,000 hours of video storage are projected to shrink from US$2205 in 2005 to US$56 by 2010, and significant cost declines are also forecasted for streaming video (see Figure 13).[47] If providers do not act quickly, self-sufficient, high-value consumers (namely those of the Gadgetier ilk) will likely choose to create their own mobile services rather than pay TV value chain players to play.

Figure 13. Projected costs to stream and store video content, 2005-2015.



Source: Sanford C. Bernstein Research, "Media Time Running Out," February 25, 2005.

5. Open: Open and standards-based content delivery platforms.

Companies up and down the TV value chain need open and standards-based delivery networks to optimize content development and distribution – as well as to enable continuous improvements in business flexibility and network cost-efficiency. Forward-thinking companies can leverage these capabilities to bolster content protection (with enhanced consumer flexibility) and for essential plug-and-play upgrades necessary in the ever-changing marketplace. This includes standards-based or open:

- Interfaces
- Content ingestion/indexing
- Encryption/decryption
- Encoding/decoding
- Middleware
- Storage
- Home networking, and much more.

By moving to such optimized delivery platforms, companies have reported positive movement along performance metrics: faster time-to-market with new products, improved agility in reacting to production needs, reduced cost structure, improved asset use, better integration of third-party content, improved procurement leverage, greater responsiveness to market demands, reallocation of resources to value-added activities and much more. Several companies have begun large-scale initiatives in this area:

- The National Football League (NFL), the body which oversees the most popular U.S. sport, as well as its NFL Films division, implemented an open digital workflow in order to optimize content collection, management and use. Its network is "architected" as the digital foundation for content creation and distribution. The NFL enables on demand access to its films division for every play from every game on a weekly basis, allowing editors, producers and analysts to access any game content for near-realtime repurposing and distribution in new programming.
- China Central Television or CCTV, China's largest national TV network with fifteen content channels and international coverage, launched an all-digital TV solution with centralized storage across the enterprise. The all-digital supply chain allows consumer services such as viewing archived video or live broadcasts over a standard IP network. On an open platform, CCTV is able to upgrade features and services as needed.
- Singapore telecommunications carrier MobileOne Ltd. moved to an open delivery solution to manage, provision and bill for delivery of downloadable content services to a variety of mobile devices. With its open delivery solution, MobileOne Ltd. can deliver multiple content types to different devices using different protocols.

High Definition (HD) and standards-based initiatives

Consumers go for it. HDTV is ready to take off around the world. HDTV sets boast four times as much picture information on the screen as "regular" TV, creating a higher resolution picture and richer viewing experience. With a widescreen aspect ratio (16:9), better sound quality (often Dolby 5.1 or better), and ready content for sports fans and cinephiles, consumers are trading up current TV sets as prices drop. Five years ago, an HDTV 32-inch set might have cost US$5000, but today average prices are dropping below US$1000 in major Asian, U.S. and U.K. retail outlets. As a result, by 2009, the HDTV market is expected to grow to US$65 billion in the U.S. alone.[48]

Industry promotes content management standards. As HDTV rolls out, content owners, technology and electronics companies are working together on next generation content management for HD optical media in Advanced Access Content System Licensing Administrator – (AACS LA). The major studios and consumer electronics firms have been enmeshed in a "format war" between Blu-ray and HD-DVD. Whichever format is chosen, the content owners and electronics companies are dedicated to using the HD technology inflection point to industry advantage by introducing more compelling entertainment experiences, with more secure formats and greater storage for additional value-added content. HD with robust content management technology will create opportunities for new business models for content owners, distributors, content aggregators and electronics companies.

6. Reorganize: Assess assets and company "make up" against future requirements.

In planning for future competitiveness, forward-thinking executives must conduct inward and outward examinations of their business. To compete amid growing market complexity, companies must:

- Harness differentiated skills and competencies
- Leverage financial markets to buy, build or team to future success.

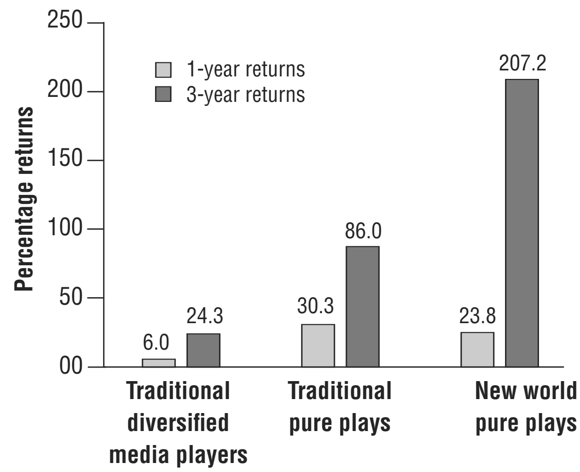
First, companies must turn the analytic microscope inwardly and identify the array of differentiated skills and competencies needed for future competitiveness and advantage. Concurrently, executives should also assess the aspects of business which are basic and, therefore ripe for consolidation, outsourcing or partnering. Through this process of "componentizing" the business, companies can focus on components – or groups of business activities – that move the enterprise toward greater future specialization in comparison to competitors. In doing so, a leaner, stronger company of tomorrow can be built by securing differentiated and competitive assets, while the rest are delivered most cost-efficiently and without disproportionate management attention.

Companies also need to understand how best to optimize and leverage worldwide financial markets to buy, build or team to future competitiveness. The market itself has indicated favor for less diversified or pure-play media and entertainment companies. Financial markets have valued pure-play media organizations manifold over traditionally diversified companies (see Figure 14).

This recognition prompts another avenue for strategic analysis and decision-making. Within the next five to seven years, large TV/media companies should strategically capitalize on financial market trends with divestitures, vertical mergers and acquisitions, or company business unit spin-offs. We believe this period will be marked by concurrent disaggregation and reaggregation.

Reorganization is critical for market resilience and repositioning. Savvy executives must consider this lever – as well as those mentioned in the other recommendations – in the battle for future stronghold.

Figure 14. Global total shareholder returns, 2002-2005.



Note: Traditional diversified media majors include The Walt Disney Group, News Corp., Viacom, Time Warner and Liberty Media. New world pure plays include eBay, Yahoo!, NetFlix, Napster, Real Networks, Sirus, XM Satellite, NTT Docomo, Telefonica Moviles. Traditional pure plays include Pixar, Dreamworks, Grey Television, Warner Music Group, Electronic Arts, Atari, Nintendo, Activision, THQ, Jamdat, Blockbuster, Echo, Cablevision, LionsGate, Univision, EMI Group, Asian Satellite Television Network.
Sources: Bloomberg, July 2005; IBM Institute for Business Value analysis.

Conclusion: The beginning of the end… adapt or succumb

"The end of TV as we know it" describes an industry facing changing consumer demand, misaligned traditional business models, converged competition and burgeoning IP services. Players within the TV industry sit on the precipice of an impending upheaval that promises to be no less dramatic than that experienced by the music industry.

Given the bimodal demand predicted through 2012, strategists must work amid fragmentation, divergence and opposition in the market to optimize across nascent and long-standing business models; across new and traditional release windows; with old and new content programmers and aggregators; and with both IP and traditional supply chains.

At a time of exquisite change in both demand and supply, immediate action is required. The six recommended priority actions offer a blueprint for proactive strategy. While each tenet is universal, it is incumbent upon each TV industry competitor to view the recommendations through the prism of its own particular business circumstances and uniquely prepare for the disruptiveness – and opportunity – ahead.

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With business experts in more than 160 countries, IBM Business Consulting Services provides clients with deep business, process and industry expertise across 17 industries, using innovation to identify, create and deliver value faster. We draw on the full breadth of IBM capabilities, standing behind our advice to help clients innovate and implement solutions designed to deliver business outcomes with far-reaching impact and sustainable results.

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Scenarios for the Future of Public Broadcasting

What Does Public Service Mean in the Multi-Choice Digital Age?

Channeling Public Interest Media: Reporting on the Public Broadcast System

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Strategic investment scenarios

Sustaining investments

- Sustain the legacy business
- Best practices improvements
- Collaborations to lower costs and gain scale

Strategic investment scenarios

- Repositioning investments
- Often disruptive innovations (*à la* Clayton Christensen)
- Reposition in new directions consistent with original mission

Über trends in electronic media

Digitization

- Content meets mathematics
- Noiseless generations for production & distribution
    - Metadata – data about data
    - Find, manipulate and distribute content with great granularity and flexibility
    - Repurpose content
    - Extend the life and value of media assets
- Search

Personalization

- Content meets self-organization
- Tagging ('folksonomies')
- XML syndication (RSS, Atom)
- Attention (metadata that tracks to what people are paying attention)

Example: Tagging at **flickr**

Tags / norway

Sample photos from the RSS feed of the tag ‘norway’ from flickr.com

Example: RSS

- Really Simple Syndication (better: Really
  - Simple Subscriptions)
  - It's very easy to implement.
  - It aggregates in one place what's new in
- web content to which you subscribe.
  - Combined with personalization, it will provide a powerful distribution platform for pubcasters (or, a powerful competitor).
- Open a Bloglines.com account and try it.

Democratization

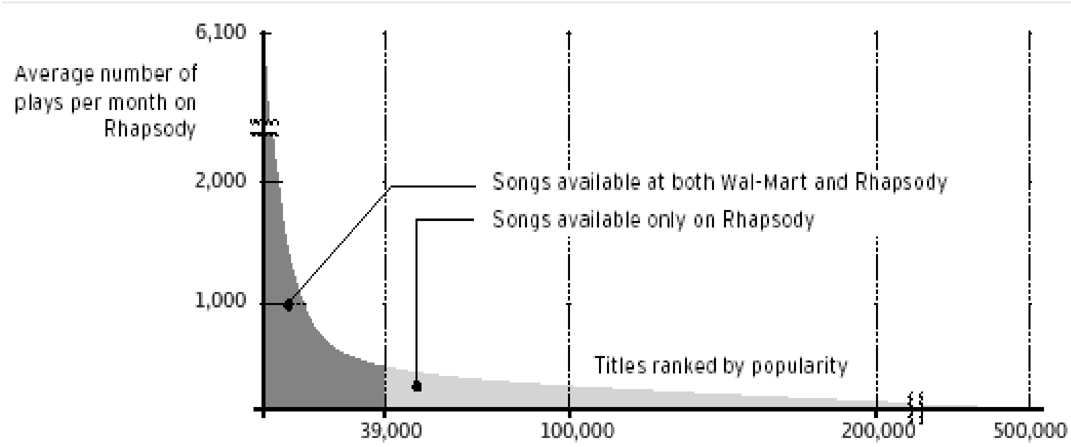
- Content freed from gatekeepers
- Inexpensive but powerful production tools
- Low barriers to effective distribution
- Search and referral substitutes for marketing

- Example: Podcasting

  - Works with any portable media players, PCs, Macs, and most news aggregators.
  - Means adding an enclosure to an RSS 2.0 item (can be a link to any file: MP3, WMV, etc.).
  - Specialized aggregators can automatically sync your files with the player.
  - Implications for how we do journalism and production.

The "long tail" meme

- "The future of entertainment is in the millions of niche markets at the shallow end of the bitstream." (*Wired* Editor in Chief Chris Anderson)
- Real time is hits oriented. For non- real time long-tail distribution, success can come with much smaller numbers.
- Amazon, iTunes, Netflix, *et al.* have much larger inventories than corresponding brick-and-mortar stores
  - The average record store has 40,000 tracks, but Rhapsody has 735,000.
  - "The average Barnes & Noble carries
  - 130,000 titles...[, but] more than half of
  - Amazon's book sales come from outside
  - its top 130,000 titles.



Broadcasters must adapt to:

- A multi-platform future
- We're evolving from distribution over one platform to distribution over multiple platforms:
    - Over-the-air transmitters
    - Internet and broadband
    - Cable and satellite
    - Physical media
    - Mobile and portable devices
- A multi-choice future
    - The number of "channels" through which users will be able to access our content will continue to grow.
    - Increasingly, users want control over when and where they use our content.
    - Increasingly, users want choice and personalization.
    - Successful public broadcasters are morphing into digital libraries.

(From Dave MacCarn, WGBH)

The new media divide

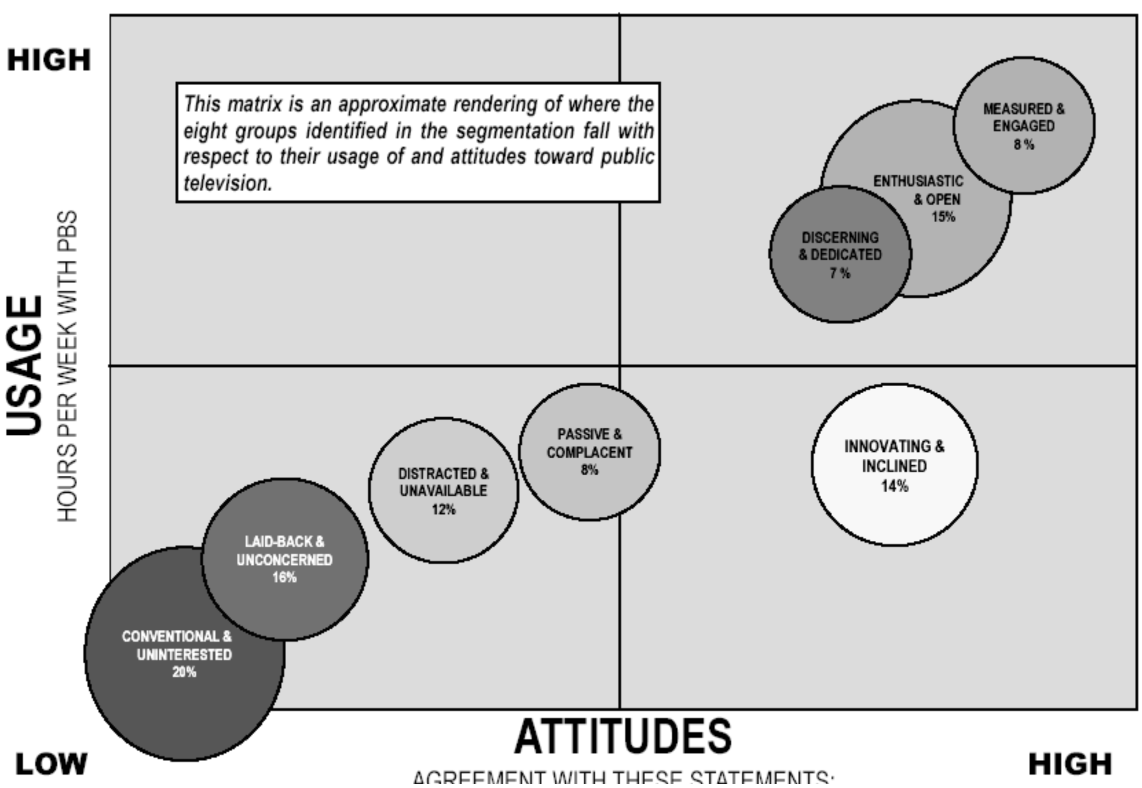
- People are taking control over their media usage.
    - "My time" (non-real time) is the fastest growing segment of media usage.
    - "I want what I want, when I want it, the way I want it."
        - So it's less and less audio vs. video or print vs. electronic,
        - It's Real-time vs. "my time."
- Who does "my time" serve?
- People who have already left linear programming for other reasons:
    - Career
    - Chores

- Community
- Family

- People who can't get enough of what they like on your stations.

CPB TV primetime study

- PTV viewing was small in two segments compatible with PTV:
  - "Innovative & Inclined"
  - "Distracted & Unavailable"
- Together, they are 26% of viewers:
  - Limited free time
  - Frequent users of technology
  - Medium-to-high users of public radio



Real-time economics

- For real-time broadcasting, distribution costs scale perfectly ($ for 1 = $ for 1,000,000), but time for content is dear.
  - Rewards AQH listening/viewing.
  - Programmers are tacticians.
- Programming strategy is finding hits and competing with other hit-programmers.

"My time" economics

- For "my time" distribution, costs scale incrementally with use, but time for content is limited only by storage.
  - Requires a business model to cover incremental costs.
- Rewards cumulative access over time.
- Programmers are curators.
  - Make the "tail" lo-o-o-ong.
  - Programming strategy is to make content personalized and accessible.

Public Service Publisher

- A "my time," "long tail" repositioning initiative
- Public broadcasting stations and independent producers
- Partnering with Open Media Network for content distribution component
- To include citizen-supplied media
- Broadcasters can serve as enablers for community public service content
- Multi-platform content delivery from a common user interface
  - Internet
  - Free
  - Subscription
- Pay per use
  - Cable VOD
  - DTV broadcast data caching
  - Physical media (DVD, CD)
- Station-supplied
- Amazon, Netflix, et al.
- Users can access via portal or station-affiliated pages
- B2B services
- Station program guides
- Fair use recording

New revenue sources

- Member benefits (more content, convenient times)
- New audience revenue (relationship building, underwriting)
- User compensation for access to niche, premium or hard-to-find programming
- Assets in permanent distribution build record of community value, important for tax-based, foundation and philanthropic funding
- B2B revenues (rights to distribute, marketing content for derivative works)
- Distribution services (datacasting, load balancing, “my time” traffic)

“Pull” urgencies

- Opportunities:
  - “My time” use growing rapidly.
  - PBCore, broadband, off-the-shelf core technologies are in place.
  - Long-tail businesses are succeeding.
  - Pubcasters and partners have great and deep content assets.
  - There is substantial interest in use of “my time” electronic media by other public service organizations.

“Push” urgencies

- Threats:
  - Competition for pubcasters is coming from the for-profit sector.
  - It’s no longer a one-platform world.
  - XML-based syndication to portable devices is growing and presents a real “bypass” to linear programmers.
  - Barriers to entry are low. If we don’t do it, someone else will.

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Big Bird to the Rescue?

Public television remains largely indifferent to calls to boost serious news coverage

By Elizabeth Jensen

Representative Earl Blumenauer stood before a microphone outside the Capitol building in February to make a passionate plea for continued federal funding of public broadcasting. The Oregon Democrat argued that news, specifically community news, is "not commercially viable. The public needs to be there."

But in making his case, the bow-tied Congressman stood shoulder-to-shoulder with a life-sized, fuzzy-suited Arthur, the aardvark star of the popular pbs kids' show. Stuffed plushies of Big Bird and Grover, the *Sesame Street* Muppets, perched on his podium.

And therein lies a conundrum: The public interest community wants public media to rescue serious journalism. But in public television, at least, Big Bird is the big draw.

Focused on self-preservation as they are, burdened with high overhead and declining income, the nation's 356 public television stations have done precious little to fill a news gap in an era when newspapers are struggling for survival and commercial broadcasters increasingly embrace polarized opinion programming. Public television players are instead clamoring for safe programming that doesn't alienate core viewers. The biggest programming news coming out of the PBS annual meeting in May was a new *Antiques Roadshow* spin-off.

Public media today is held up as the potential savior of serious journalism, the place with the potential to tackle the tough topics—complicated revolutions in Arab lands and zoning board shenanigans alike—that an informed citizenry needs to function. Bill Kling, the just-retired president and chief executive of American Public Media, predicts public broadcasting will be "the last journalism standing."

Public radio has certainly taken up the cause. NPR has created an investigative unit, showcased foreign coverage, and launched multiple projects to bolster local station news reporting, which many stations have embraced. But public television?

With a few notable exceptions, it seems oddly absent from the fevered conversation about innovation and radical rethinking of the possibilities of journalism. The system certainly has the capacity to try some new and different approaches to delivering news, with nearly two stations for every population market except the smallest ones.

But only a few stations are experimenting with news. Others have yet to attract solid funding for their efforts and many of the rest aren't interested in pursuing more news. The system overall has done little to address a Byzantine structure that can discourage local newsgathering. Nor has it helped forge a way for stations to work together on a coordinated strategy.

On the national front, PBS has two solid news offerings—*PBS NewsHour* and *Frontline*—but not much else. David Fanning, *Frontline*'s executive producer and founder, says that by not making journalism an urgent priority, public television is missing an opportunity. "I think this is about defining ourselves in the landscape," he says. "Even if journalism on air is not always going to get you the highest audiences, it's going to get you attention and it's going to make you more relevant."

Despite their high hopes for so much more, viewers who are counting on public television to fill the gap for serious news on a large scale are bound to be disappointed. Unless significant reforms are made, public television won't be making everything A-okay for the news business.

News Is a Tough Sell

News, be it local, national, or international, has been a tough sell ever since PBS was founded in 1970. A preference for safe, non-controversial programming like *Sesame Street* is part of its DNA, says Lawrence Grossman, PBS president from 1976 to 1984.

One of Grossman's first bold moves at PBS was to offer a new half-hour national news program, *The MacNeil/Lehrer Report*, to stations for free for six months. Station managers were outraged, insisting that, he remembers them saying, "Washington" shouldn't dictate programming, and that "localism will determine our own curriculum."

The managers' protestations were not to protect locally produced news shows, Grossman explains. "No one does local news programming," he says, calling it the "great contradiction" of public television. Rather, the stations were fighting to reserve the right to pick whatever programs they chose, and to air them when they pleased. If they were locked into a specific half-hour of *MacNeil/Lehrer*, they feared a small piece of their prized independence would be lost.

Despite the initial controversy, *MacNeil/Lehrer*'s brand of intellectually rigorous newsgathering was a hit with viewers. In 1983, pbs wanted to expand the newscast to an hour. It was another fight, says Linda Winslow, the *NewsHour*'s current executive producer.

“A number of stations traditionally felt they were just not convinced that news and public affairs was a big part of the mission of public broadcasting,” she says. Stations saw their role as providing an alternative to the commercial networks and questioned why they should cover the same events as ABC, NBC, and CBS.

Something else was at work in stations' reticence to engage in news. Grossman believes the reluctance reflected their origins as extensions of controversy-averse universities and boards of education. “The idea was to avoid issues that would fragment, or raise hackles,” says Grossman. “It had a lot to do, I think, with the educational culture that says our job is not to antagonize anybody or to raise tough issues as part of education. Our job is to make everybody happy.”

The system's risk-averse tendencies were reinforced by the reaction to a 1970 documentary, *Banks and The Poor*, distributed by PBS. The hard-hitting piece of journalism suggested members of Congress were complicit with exploitative banks. Soon after it aired, an antagonized Nixon administration started reorganizing the Corporation for Public Broadcasting, which began channeling federal monies for production away from PBS and toward the local stations themselves.

Bill Moyers, speaking at the 2006 PBS annual meeting, made reference to that brouhaha as a way to explain public television's queasy attitude toward pursuing tough journalism, lest it jeopardize federal funding, which makes up about 15 percent of the system's budget.

“Far too many other unconventional programs never had a chance,” Moyers told the meeting. “Even when the strings are not tightly pulled, you knew they are there, and the worst thing that came out of that ugly episode was that we have never been able to completely shake out of our collective mind the fear that the chicken snake might prove to be a boa constrictor.”

Today, at times a deeply seated conflicted attitude toward news seems to ooze from every pixel. During President Obama's State of the Union speech in January, Washington's WETA-TV—the same station that produces the estimable *PBS NewsHour* and *Washington*

Week for PBS distribution—embarrassingly forgot to turn off automated station promos at the top of hour, interrupting the President. That said, WETA was one of a minority of public television stations carrying the speech live.

Most public television stations have chosen not to rock the boat and to stick with a decades-old formula of a little bit of something for everyone: daytime educational kids shows; the *PBS NewsHour* and *Nightly Business Report* in the evening; dramas, science, performances, and documentaries in primetime; and the Charlie Rose and Tavis Smiley talk shows to cap the day.

There are, of course, pockets of distinguished news coverage on PBS. Jim Lehrer in recent years has made sure that PBS alone among broadcasters has committed to full coverage of political conventions, and a much-needed overhaul of the *NewsHour*website has resulted in a 43 percent increase in pageviews in fifteen months. *Frontline*, produced by Boston's WGBH-TV for PBS distribution, is attempting to become more nimble by presenting occasional magazine-style shows featuring multiple stories as a break from its signature long-form documentaries. Both have partnered with each other and with other news organizations, such as the nonprofit ProPublica, to co-produce timely investigative pieces.

But PBS is shrinking its Friday night public affairs schedule this fall by a half-hour—to sixty minutes, or half what it was until April 2010 when *Bill Moyers Journal* and *Now on PBS* went off air—partly in response to stations that would prefer lighter entertainment fare. Michael Getler, the PBS ombudsman, says PBS is at a "serious disadvantage" by having no news on the weekends.

At the local level, the Federal Communication Commission's just-released "The Information Needs of Communities" study reported that 68 percent of noncommercial TV stations provided no local news in the course of three weeks. "Local commercial TV news has often been criticized for its insufficient coverage of serious issues—but the unfortunate reality is that local public TV has produced even less," the report found.

Public television's stance on news is a stark contrast to that of public radio stations, which over the past decade have doubled down on news and remade themselves into news and public affairs powerhouses. In May, San Diego's KPBS became the latest of thirty-three public radio stations to jettison its hybrid classical music/news format, and go all news, all the time. The switches have created a powerful cycle: the listening audience has soared, leading to increased listener donations, allowing money to be plowed back into news coverage, particularly focused on local and regional issues.

A Compartmentalized Approach

Like at NPR, a majority of PBS's board members come from local stations, which vary widely in size. The structure reinforces a compartmentalized approach that makes it difficult to achieve consensus on addressing programming challenges. Other elements of public television's structure also serve to weaken stations' ability to venture into news.

Unlike public radio, which made a key decision early on to allow member stations to interweave local news into the national reports, *PBS NewsHour* never allowed "cut-ins." That's a disappointment to Daniel Schmidt, the president and chief executive of Chicago's WTTW-TV, which has programmed the local newscast *Chicago Tonight* on weeknights since 1984. He says, "One of the reasons local stations haven't developed that ability is that they haven't had that opportunity."

Tom Karlo, general manager of KPBS in San Diego, which has both radio and television outlets, supports cut-ins as well. "What helped NPR really ascend was the fact that local stations were putting local content into *Morning Edition* and *All Things Considered*," he says. His TV station runs local news headlines sandwiched between PBS primetime programs.

NewsHour's Winslow isn't convinced. "There aren't enough stations that can justify doing it," she says. "There are a small number of stations asking for it and a large number of stations asking for something else. I never heard a groundswell and, as time went by, fewer and fewer stations were producing local programming."

Another force that undermines production of local news, some station managers say, is the PBS dues structure. Stations that successfully raise non-federal funds pay higher membership dues to PBS. In reality, most funds raised locally are restricted grants that can only be used for a particular local show and not for PBS dues, which support the national program schedule. Stations that produce national shows get a discount on their dues.

"We get punished for making local content by making our local dues go up," fumes WTTW's Schmidt, adding that PBS financial policies "force these Hobson's choices."

Paula Kerger, president and chief executive of PBS, counters that rewarding national production is appropriate because those stations are giving back to all the other stations. She adds that the federal grant system offsets some of the pain by rewarding local fundraising with increased CPB grants.

Al Jerome, president and chief executive of Los Angeles station KCET, the second-largest PBS member, got fed up with the dues structure. After successfully raising $50 million—$25 million from BP alone—to fund a bilingual daily program for childcare workers, KCET's PBS dues bill soared. After a bitter, eleven-month back-and-forth over what Jerome believes were demands for excessively high fees to stay in the system, KCET abruptly announced in October 2010 that it would quit PBS on January 1.

Jerome quickly replaced the PBS news programs with a 4-7 p.m. block of international news from the BBC, Al Jazeera English, Japan's NHK, and Israel's IBA. The shows have been a rare ratings bright spot for the station. He is now attempting to craft an independent schedule that will rely heavily on local production—but first he must raise the funds.

He hopes to expand KCET's *SoCal Connected*, a weekly news show, to daily production. A daily 10 p.m. in-depth interview show focused on Southern California newsmakers is also in development. "It will be reflective of public media, not oriented toward guests plugging their next movie or book," Jerome says. A third show, *Global Watch*, would be a weekly international affairs newsmagazine focused on regions of particular interest to Southern Californians.

The Biggest Obstacle

Those like Jerome who want to do more news share the same problem: money.

Although public broadcasting successfully beat back efforts to cut its federal funding this year, states have been rapidly trimming or eliminating public broadcasting subsidies. Florida Governor Rick Scott, a Republican, was the latest to zero out funds in May. According to the CPB, between 2008 and 2009, non-federal support of public television stations fell by $260 million nationwide. For 2010, public radio and TV stations surveyed by CPB projected a 14 percent drop in revenue, due to state cutbacks and declines in corporate and philanthropic support and viewer pledges.

Philadelphia's WHYY, licensed as a Delaware station, knows the problem well. In 2009, it ended the state's only nightly newscast, *Delaware Tonight*, as a budget-saving move, subbing in a weekly program. Even New York's WNET, a major station that wants to move more deeply into news and thinks it has found an inexpensive formula for doing so, has been stymied.

WNET's *Worldfocus* international newscast lasted eighteen months before money ran out in April 2010. Its Friday newsmagazine for PBS, *Need to Know*, has been on the air for just over a year, but with funding likewise dwindling, PBS announced that in the fall it will cut it in half to thirty minutes. The station's soon-to-launch *MetroFocus* was originally conceived of as a broadcast program, as well as an online and mobile venture. It will debut only as the cheaper digital effort, with tentative plans to start the broadcast component by the end of the year.

"If resources were available more stations would do more journalism," says PBS chief Kerger. "It's cheaper for them to acquire programs from us than to produce local journalism."

The irony is that localism is the go-to argument that Kerger and others pull out when touting public television's value in the media landscape. "We are the ultimate local organization," Kerger told an April symposium on the future of public broadcasting.

Chicago's Schmidt says of public television's claims to localism: "As a system, we have good rhetoric about that. We like to say we have deep relationships in the community, and that's what differentiates us from the cable channels. We talk a good game about all of our outreach and points of contact with our constituencies and Americans."

But the reality, Schmidt says, is, "We are missing an opportunity to address this idea of being locally relevant."

For some stations, there's also a reluctance to duplicate what they see as vibrant local news offerings from their commercial rivals.

John Boland, president and chief executive of San Francisco's KQED, wants his TV station to do more local news. But, he says, the format is an open question. "The knee-jerk reaction is we should have an evening news program on television, but I'm not convinced of it," he says. Tom Rosenstiel, director of the Project for Excellence in Journalism, notes that public radio stations that have bulked up on news are filling a void left by commercial radio. Just thirty commercial radio stations nationwide currently program full-time news, by his count.

There's been no such collapse of local television content. More stations are running local news than ever, and more of it. Stations in more than forty markets last year added a 4:30 a.m. newscast. "If you're a PBS television station and part of what you think you're doing is counter-programming, news is not as logical a thing to offer as news on radio," Rosenstiel says.

Those arguments run counter to the high hopes that the public interest community holds for public media.

Leonard Downie Jr. and Michael Schudson, in their 2009 "Reconstruction of American Journalism" report for the Columbia University Graduate School of Journalism, recommended that "Public radio and television should be substantially reoriented to provide significant local news reporting in every community served by public stations and their websites."

Likewise, New America Foundation President Steve Coll, writing in CJR's November/December 2010 issue, proposed channeling spectrum user fees collected from commercial broadcasters to a revamped CPB, to be used to beef up reporting operations, particularly the local capacity, of public television and radio.

And in a December 2010 Knight Commission white paper, "Rethinking Public Media: More Local, More Inclusive, More Interactive," Barbara Cochran, a former vice president of news at NPR, called on public broadcasters to move faster into localism and take bigger steps to reform infrastructure if they want to maintain their claim on government investment.

Radio, which is admittedly far cheaper than television, has been able to cobble together innovative projects attempting to address the need for more local content. NPR's new Impact of Government project, funded by a large initial grant from the Open Society Foundations, is attempting to place a total of one hundred journalists at NPR stations in all fifty states, to report on how state government actions play out over time. (NPR's then-Ombudsman Alicia Shepard raised ethical questions in May about that grant, given the foundation's well-known left-leaning funder, financier George Soros; his Open Society Institute has supported CJR.) The Argo Project, another NPR venture backed by the Knight Foundation, is training select local stations in how to expand local news programming in niche areas. CPB last year pledged $7.5 million for seven regional public radio and TV reporting collaborations.

PBS has been comparatively slow to offer help to stations. Instead, in 2009, on the advice of an outside consultant, it began developing pbsnews.org, a "news navigator" aggregation site which some saw as competition to the newly beefed up *NewsHour*website. But in March, PBS pulled the plug on the aggregation site. "I don't have the money right now to take it to the next step and I'm not going to half-launch something," Kerger says.

PBS is now moving some of the money and technology earmarked for the website into technical resources and staff training to help its stations move more deeply into local journalism.

Some Successes

Against this backdrop, a few public television stations are trying to break the mold. In St. Louis, KETC-TV offered housing to the St. Louis Beacon, an online investigative newsroom formed in 2008 after steep layoffs at the local *Post-Dispatch* newspaper; the two have since collaborated notably on reports on the home mortgage crisis.

In Chicago, WTTW and the *NewsHour* just received an innovative, one-year, $250,000 grant from the Joyce Foundation that seeks to bolster the local/national model. Equal sums of $75,000 will fund national arts coverage on the *NewsHour*, and local reporting on WTTW's *Chicago Tonight*, whose own ratings have soared in the past year. The remainder will pay for stories produced by the twelve-person *Chicago Tonight* news staff, which will air on the *NewsHour*, on issues of national importance from the Midwest.

San Francisco's KQED merged its television and radio news services into a single operation last summer and added an online site, KQEDnews.org. With an increase of $1 million to its $14 million annual news and public affairs budget—more than 25 percent of its annual spending—KQED increased its local news staff by more than 10 percent and tripled local radio newscasts.

The key to finding the money, KQED chief Boland says, is that "you've got to have a radio station; that really gives you critical mass. You've got to work across platforms and merge your resources. And then you need to partner outside the building."

In April, KQED partnered with California Watch, the Center for Investigative Reporting's online nonprofit news site, to produce an investigative report on seismic safety in California public schools. The project ran on KQED's website, for five days on radio, and, in a first for the station, as a half-hour television special. "That's a breakthrough for us, breaking out of the pattern of our regular weekly roundtable TV show, to put what's essentially a baby *Frontline* on the air here in the Bay Area," Boland says.

The most tantalizing success comes from San Diego, where station manager Karlo says, "We are growing because of our news."

In 2009, KPBS merged its public radio, television, and web newsgathering into a single content production center, based on the success of its radio news operations. In the May 2011 Arbitron ratings, KPBS-FM shared the lead among all San Diego radio stations in time spent listening.

"I felt that there was a void" in commercial media, says Karlo. "I thought, if we could be number one in radio news why can't we be number one in local TV news and online news?"

Audiences have grown with each incremental news addition, prompting the switch to all-news radio in May, and coming in September, the launch of a nightly TV newscast. The new ventures have been paid for by full-court fundraising, soliciting major donors to underwrite three-year commitments, at $80,000 a year, to fund individual reporting beats. The reporters work for all three outlets: radio, TV, and online.

Another prototype of the future newsroom may be coming together in Cleveland, where the television station WVIZ and radio station WCPN have combined into a public media center known as Ideastream. Also under the umbrella, among others, are the Ohio Statehouse News Bureau and the Ohio Channel, a digital broadcast and online streaming service with C-SPAN-like coverage of state government and public affairs shows from the state's other public stations.

Cochran, now a professor at the Missouri School of Journalism, says Ideastream is evidence that in the long run, it won't matter if public television isn't a player. "At some point this is all going to merge," in a single digital news stream or community information center, she says, and "the difference between television and radio stations is not going to be significant."

In late April, the *NewsHour* itself quietly began streaming its newscast online live, for free, on ustream.tv (it is also available after broadcast, on the PBS website). While the potential is there to cannibalize local stations' viewing numbers, Hari Sreenivasan, a correspondent and director of digital partnerships for the *NewsHour*, says he hopes stations will embed the feed on their websites, drawing viewers and potential donors, who might not watch on-air.

Sreenivasan, a former correspondent for CBS and ABC who joined the *NewsHour* in December 2009, has become somewhat of a one-man evangelist exhorting local stations to do more local news. "A handful of local stations have very good newsgathering infrastructures, and some are simply repeating national content," he says. He has begun offering local stations unused *NewsHour* footage on occasion.

He seeks out local content that can augment the *NewsHour*, which has a bare-bones correspondent corps and a minimal travel budget. Sreenivasan says part of what is driving his efforts is an attempt to replicate the correspondent pool reach of the commercial networks by tapping into talent at local public television stations. When news breaks out and there is no *NewsHour* reporter to go cover it, "it's very bizarre for me," Sreenivasan says.

He's already gotten past the skepticism of some stations that thought the *NewsHour* was simply trolling for free content; the *NewsHour*, unlike NPR, has never paid local stations even a nominal fee for content they contribute. That’s yet another tradition that might have to fall if public television hopes to become a serious player in the news business.

Government TRANSPARENCY

Six Strategies for More Open and Participatory Government

A WHITE PAPER BY JON GANT AND NICOL TURNER-LEE

THE ASPEN INSTITUTE
Communications and Society Program

John S. and James L.
Knight Foundation
Informed and engaged communities.

A project of the Aspen Institute Communications and Society Program
and the John S. and James L. Knight Foundation.

Government Transparency:

Six Strategies for More Open and Participatory Government

A White Paper on the Government Transparency Recommendation of the Knight Commission on the Information Needs of Communities in a Democracy

written by
Jon Gant and Nicol Turner-Lee

THE ASPEN INSTITUTE
Communications and Society Program
February 2011

The Aspen Institute and the John S. and James L. Knight Foundation invite you to join the public dialogue around the Knight Commission's recommendations at www.knightcomm.org or by using Twitter hashtag #knightcomm.

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From Report to Action

Implementing the Recommendations of the Knight Commission on the Information Needs of Communities in a Democracy

In October 2009, the Knight Commission on the Information Needs of Communities in a Democracy released its report *Informing Communities: Sustaining Democracy in the Digital Age* with 15 recommendations to better meet community information needs.

Immediately following the release of *Informing Communities*, the Aspen Institute Communications and Society Program and the John S. and James L. Knight Foundation partnered to explore ways to implement the Commission's recommendations.

As a result, the Aspen Institute commissioned a series of white papers with the purpose of moving the Knight Commission recommendations from report into action. The topics of the commissioned papers include the following:

- Universal Broadband
- Digital and Media Literacy
- Public Media
- Government Transparency
- Civic Engagement
- Online Hubs
- Local Journalism
- Assessing the Information Health of Communities

The following paper is one of these white papers.

This paper is written from the perspective of the individual authors. The ideas and proposals herein are those of the authors, and do not necessarily represent the views of the Aspen Institute, the John S. and James L. Knight Foundation, the members of the Knight Commission on the Information Needs of Communities in a Democracy, or any other institution. Unless attributed to a particular person, none of the comments or ideas contained in this report should be taken as embodying the views or carrying the endorsement of any person other than the authors.

Government Transparency: Six Strategies for More Open and Participatory Government

Executive Summary

Over the last several decades, local, state and federal government entities in the United States have steadily moved toward more openness and transparency. By definition, openness and transparency allow stakeholders to gather information that may be critical to their interests and offer channels of communication between stakeholders and elected officials. Aided by legislative mandates and public policy decisions, most government entities are now required to make a minimum amount of information available to citizens, operate in the "sunlight" and not behind closed doors, and actively engage citizens in the policy-making process.

These trends have been fundamentally enhanced by the emergence of an array of information and communication technologies (ICTs)—including broadband Internet access, smartphones, netbooks, and other devices capable of accessing data via the web—that make it much easier for citizens to access and consume government information. In addition, these tools are facilitating a revolution in how citizens interact with government generally and with government data specifically. As a growing number of entities and agencies at every level of government leverage the power and relative ubiquity of the Internet to engage citizens in a variety of functions, from informal rule-making proceedings to formal legislative initiatives, a number of innovative government entities are also tapping into the expertise and innovative spirit of the public by encouraging citizens to create new tools—many of which are enabled by broadband—that transform government data and information into practical tools for use by the general public.

On this point, the Knight Commission makes its Recommendation 4: "Require government at all levels to operate transparently, facilitate easy and low-cost access to public records, and make civic and social data available in standardized formats that support the productive public use of such data."

This paper examines how and why government at every level, particularly at the local level, should embrace emerging ICT technologies and Web 2.0 and 3.0 tools (e.g., social media and collaboration) to enhance their openness and engage citizens more fully. This paper offers several implementation strategies for Recommendation 4 that focus on enhancing government expertise and transparency, educating citizens regarding the availability and utility of government information and e-government tools, expanding efforts to support greater adoption of broadband Internet access services and devices, and forging public-private-citizen partnerships in order to enhance open government solutions. The purpose of these strategies is to provide a framework for facilitating these objectives and placing government entities on the proper pathway toward the full realization of the benefits of information transparency.

In the end, we offer six strategies for governments to best implement e-government and open-government technologies:

Strategy 1: Convene a national working group of chief information and technology officers to discuss and decide upon technical and operational procedures that mitigate changing environments and circumstances in the open government field. This strategy involves technology leaders from local governments collaborating with a larger association of government technology leaders to develop standards for design, operations, monitoring and performance, and procedures for information management in local governments.

Strategy 2: Create opportunities for developing public good applications that are sustainable through public-private partnerships or contests funded through philanthropic investments. This strategy involves partnerships between governments, citizens, foundations, and other stakeholders to develop applications that drive demand for government content and expand the talent pool available to government technology leaders.

Strategy 3: Establish flexible procurement procedures that allow for more off-the-shelf purchasing, easier contracting, and other application solutions for both computers and mobile devices to disseminate government information. This strategy involves the simplification of the current procurement processes for local government leaders, as well as the establishment of a more flexible checklist of products and services that support e-government innovations. This strategy also entails the increased allocation of spectrum to facilitate increased access to government content.

Strategy 4: Improve broadband access at community anchor institutions to ensure that citizens can tap into e-government resources. This strategy involves strengthening community institutions such as libraries, schools, community organizations and community colleges in order to provide Internet access, e-government accessibility and digital literacy training to underserved individuals. Government funding, including the reallocation of Universal Service Fund revenue, is a suggested approach in this strategy.

Strategy 5: Create government content that is relevant and accessible to all populations regardless of ability, language or literacy level. This strategy involves providing e-government data and services in a fashion that is accessible for all people. This includes providing text sizing, audio, language, multimedia options, and interactive tutorials to allow all citizens to use the content. These features should also be promoted by targeted campaigns and marketing activities.

Strategy 6: Promote public-private sector partnerships that enhance skill-building, technical expertise opportunities and forward-thinking processes. This strategy involves developing public-private sector partnerships to develop a national curriculum on Information Technology (IT) strategy for government, including research-based guidelines for developing open-government services and training on those guidelines, as well as direct government-private sector partnerships to create and disseminate consumer-oriented applications.

The strategies in this paper are all points that seek to improve the viability of our communities through greater democratic participation and civic engagement. As stewards of our democracy, government leaders must facilitate better access to and use of community information, as well as improve the means for interpretation to enhance the common good. Broadband Internet will continue to enhance these critical elements of our information democracy as more citizens become informed and equipped to participate more fully in the formation of public policy.

Government Transparency: Six Strategies for More Open and Participatory Government

Jon Gant and Nicol Turner-Lee

Government Transparency: Six Strategies for More Open and Participatory Government

"Require government at all levels to operate transparently, facilitate easy and low-cost access to public records, and make civic and social data available in standardized formats that support the productive public use of such data."

— Recommendation 4, *Informing Communities: Sustaining Democracy in the Digital Age*

The Knight Commission Recommendation

A core pillar of democratic society is the interaction between government and the governed. An informed and engaged citizenry facilitates effective governance at every level by providing a valuable counterbalance against the esoteric and oftentimes secretive machinations of government bureaucracy. Governments that are transparent, open and solicitous of public input tend to operate more efficiently and produce laws and policies that more accurately reflect real world conditions. Ultimately, all citizens want the opportunity to communicate with government to ensure that their interests are represented and that their elected officials are contributing to the public interest. Thus, the open and free flow of information regarding government activity is essential for communities to remain vibrant and democratic. Such an assertion was outlined in the Knight Commission report on the future of the nation's information democracy and embedded in the above recommendation.

Over the last several decades, local, state and federal government entities in the United States have steadily moved toward more openness and transparency. By definition, openness and transparency allow stakeholders to gather information that may be critical to their interests and offer channels of communication between stakeholders and elected officials. Aided by legislative mandates and public policy decisions, most government entities are now required to make a minimum amount of information available to citizens, operate in the "sunlight" and not behind closed doors and actively engage citizens in the policymaking process. As a result, government has become much more accountable to the people that it serves.

These trends have been fundamentally and positively enhanced by the emergence of an array of information and communication technologies (ICTs)—including broadband Internet access, smartphones, netbooks and other devices capable of accessing data via the web—that make it much easier for citizens to access and consume government information. In addition, these tools are facilitating a revolution in how citizens interact with government generally and with data specifically. The terms *digital government, electronic government* (e-government), and *electronic governance* (e-governance) are widely used to refer to the use of ICT in public-sector organizations.

As a growing number of entities and agencies at every level of government leverage the power and relative ubiquity of the Internet to engage citizens in a variety of functions, from informal rulemaking proceedings to formal legislative initiatives, a number of innovative government entities are also tapping into the expertise and innovative spirit of the public by encouraging citizens to create new tools—many of which are enabled by broadband—that transform government data and information into practical tools for use by the general public.

Despite these many promising trends, the majority of government entities at the local, state and federal levels are still operating in a one-way world in which government simply pushes data to the public. According to a 2008 study by Darrell West of over 1,500 state and federal government websites, while 88 percent of government websites provided email addresses for visitors to contact a person in the particular department other than the webmaster, just under half included other methods (comment sections, message boards, surveys or chat rooms) to facilitate more democratic conversations with the public (West, 2008). This myopic view of transparency and simplistic implementation of e-government processes severely limits the potential for more robust citizen engagement in a myriad of government processes.

This paper examines how and why government at every level, but particularly at the local level, should embrace emerging ICT and Web 2.0 and 3.0 tools (e.g., social media and collaboration) to enhance their openness and engage citizens more fully. This paper offers several implementation strategies for Recommendation 4 that focus on enhancing government expertise and transparency, educating citizens regarding the availability and utility of government information and e-government tools, expanding efforts to support greater adoption of broadband Internet access services and devices, and forging public-private-citizen partnerships in order to enhance open government solutions. The purpose of these strategies is to provide a framework for facilitating these activities and placing government entities on the proper pathway toward the full realization of the benefits of information transparency.

Open Government and Transparency in the Broadband Age

Openness and transparency of government are key pillars of democracy that pre-date the Internet. Data produced and collected by the government are the basic ingredients for governments to provide services, make policy, and be held accountable for their performance (Heeks, 1999, OMB, 2000). Efficiently managing this information is essential to effective governance, especially since most citizen interactions with government generate information. Each tax payment, license renewal, land purchase and birth, marriage, or death registration generates data that is collected, processed, stored, and analyzed by governmental entities. As a result of this deluge of data, many administrative reforms regarding transparency and openness have focused nearly exclusively on improving information management practices (e.g., processing and storing huge data sets). Since 2000, general access to publications and databases on government websites has improved (West, 2008). Table 1 offers data from West's 2008 study of government websites illustrating this progress.

Table 1. Percentage of Government Websites Offering Publications and Databases

	2000	2001	2002	2003	2004	2005	2006	2007	2008
Phone Contact Info	*91%*	*94%*	*96%*	--	--	--	--	--	--
Address Info	*88*	*93*	*95*	--	--	--	--	--	--
Links to Other Sites	*80*	*69*	*71*	--	--	--	--	--	--
Publications	*74*	*93*	*93*	*98%*	*98%*	*98%*	*98%*	*98%*	*98%*
Databases	*42*	*54*	*57*	*80*	*87*	*67*	*82*	*84*	*88*
Audio Clips	*5*	*6*	*6*	*8*	*17*	*12*	*10*	*24*	*41*
Video Clips	*4*	*9*	*8*	*10*	*21*	*18*	*28*	*35*	*48*

Source: West, Darrell M. (2008). *State and Federal Electronic Government in the United States,* 2008. Washington, D.C.: Brookings Institution.

Yet to focus exclusively on the one-way push of information by government to the public is to miss the promise of innovative e-government techniques designed to transform this dynamic into a mutually beneficial, two-way collaboration. Transparency remains an important component of open government, but new technologies allow government to do far more than merely promote citizens' passive consumption of government data. Broadband Internet access and the relatively wide diffusion of powerful computing devices allow citizens to become more active consumers, analysts and users of data.

Evolving Policies for Government Transparency and Openness

Laws and policies regulating how local, state and federal governments make information available to the public vary considerably, both in terms of the types of data that must be made available to the public and in how that data should be presented. To date, many state and local entities have adapted federal policies by mirroring them entirely or using them as a benchmark. Overall, the traditional transparency paradigm has long been a struggle between government secrecy and the right of the public to know, and has fluctuated based on the political strategies of the administration in power (Roberts, 2006).

In the United States, the transparency debate dates back to the late 19th century, a time when many Western democracies practiced making the process of lawmaking (e.g., decisions about taxing and spending) open to the public, but when many accepted the fact that much of government bureaucracy worked in secrecy. The federal government's expansion via the New Deal began a decades-long shift in the historical transparency paradigm. In 1946, Congress enacted the Administrative Procedure Act (APA), which, among many other things, created the Federal Register. The Federal Register represented one of the first affirmative attempts by the federal government to make certain types of information available to the public. Essentially, each federal department was required to publish basic information about "its organization, the rules it enforced, policy statements and procedures that guided its work, and its decisions" in the Federal Register. In 1994, the Federal Register was made available online, and its more modern look came in 2010.

In 1966, Congress enacted the Freedom of Information Act (FOIA), which gave the public access to the general records of federal agencies. In particular, FOIA provides citizens with the power to request that the government disclose a wide range of information to the public for any reason. However, the information and data covered by FOIA is incomplete, which means that access to the full universe of government information remains limited.

Subsequently, the federal government has passed several additional transparency laws. These include the following:

- The Paperwork Reduction Act of 1995, which sought to "maximize the utility of information created, collected, maintained, used, shared, and disseminated by the Federal Government" by requiring that certain types of data be posted online,
- The Electronic Freedom of Information Act of 1996 (EFOIA), which attempted to modernize FOIA at a time when the Internet was just beginning to emerge as a popular communications tool, and
- The E-Government Act of 2002, which attempted to improve the quality of federal rule making decisions by, among other things legislating the use of e-rulemaking in order to make agency rulemaking proceedings more inclusive.

All of these examples suggest that government transparency polices have evolved over three generations. The first generation encompassed a variety of *right-to-know policies*, which were designed to prevent arbitrary government action. The second generation provided more *targeted transparency policies*, including the APA, FOIA, and EFOIA. These laws, which have been adapted by state and local entities, mandate baseline levels of information disclosure by the government. Targeted transparency policies are purely one-way. And most recently, the federal government has enforced a series of *collaborative transparency policies* that include the E-Government Act as well as initiatives recently launched by the Obama administration. These policies build on right-to-know and targeted transparency policies by leveraging computer technology and the Internet to serve as a medium via which government may interact with stakeholders. This approach is two way and user-centered, with government playing a facilitating role to communicate information in real-time and in scalable formats (Fung et al, 2007, p. 25).

The Impact of New Technologies on Traditional Notions of Government Transparency

Using a variety of Web 2.0 and 3.0 tools, from social media to collaboration, government organizations are becoming more transparent and engaging the public in decision-making processes. On one level, transparency is being enhanced as governments utilize the web to integrate services across various agencies and departments, jurisdictions and levels of government. At another level, government entities are increasingly using readily available online tools, such as *IdeaScale* (http://www.ideascale.com/opengov/) to solicit public feedback and promote deliberation among citizens on discrete topics. This new multi-level form of transparency is often referred to as *open government*, a label that not only suggests transparency but also active collaboration with citizens in the policymaking process.

Lathrop and Ruma (2010) describe open government as:

> …government that co-innovates with everyone, especially citizens, shares resources that were previously closely guarded; harness[es] the power of mass collaboration, drives transparency throughout its operations, and behaves not as isolated department of jurisdiction, but as something new, a truly integrated and networked organization.

Here, the process of governing leverages new technologies to bring government practices out into the sunlight for closer public scrutiny. Unlike the pre-Internet days of transparency regulation, citizens can now easily act on the information they receive by actively contributing to a deliberative process by submitting comments to proposed rules or draft policy text.

This new approach rests on the premise that more information in the hands of the public will make government leaders more responsible and accountable. Participation also allows the public to contribute more of their ideas and expertise to public policies that in turn benefit their communities. This type of collaboration improves the effectiveness of government by encouraging partnerships and cooperation within the federal government, across levels of government, and between the government and private institutions. The Participatory Politics Foundation's *OpenCongress Blog* (http://www.opencongress.org) is an emerging example of this type of activity. The Participatory Politics Foundation's OpenCongress Blog (federal) and OpenGovernment website (state/local) are emerging examples of this type of activity. These sites track bills, votes, and elected representatives, and allow citizens to learn, share and comment on the activities and decisions of their elected officials. Other examples of websites that promote this type of transparency are included in the Appendix.

Beyond Mere Transparency: How Broadband Technologies Impact Openness and E-Governance at the Local, State and Federal Levels

As government entities at every level—local, state and federal—increasingly support and embrace the use of ICTs and information platforms to move beyond analog era notions of transparency, innovators in the public and private sectors are seizing the opportunity to have a stake in the outcomes of once hidden government processes. This next section provides an overview of some of the most innovative approaches to inform future initiatives in this space.

The Open Government Directive

At the federal level, the Obama administration has developed the *Open Government Directive* to implement a bold vision for Internet technologies to both enhance transparency and move beyond it. This initiative has two principal parts: an *inward-facing* component meant to use technology to enhance the business of government and an *outward-facing* component that uses technology to more actively engage citizens. The latter began with an appeal for public input during the drafting of an open government plan. The open government team outlined a process whereby the public, through various stages of drafting and editing, could suggest ideas, concepts, and specific language for inclusion in the White House's official open government policy. In a progress report issued in December 2009, President Obama noted that this approach to openness was helping his administration "mov[e] forward with broad measures to translate the values of openness into lasting improvements in the way government makes decisions, solves problems, and addresses national challenges" (White House, 2009). Several other outward-facing initiatives have been launched since, including an *IT Dashboard* that allows the public to monitor technology expenditures and an *Innovations Gallery* that invites the public to submit innovative approaches that use new Internet technologies to enhance the openness of government (see Appendix for URLs).

The inward-facing component of the Open Government Directive requires executive agencies and departments to meet deadlines for publishing government information online, improving the quality of the information, creating a culture of open government and creating a policy framework to support open government (OMB, 2009). The results to date have been decidedly mixed. A study of 29 federal agencies' open government plans revealed that agencies with a strong public-facing mission (e.g., the U.S. Department of Housing and Urban Development and the Environmental Protection Agency) have created purposeful open government plans, while other agencies, including the Department of Justice and the Office of Management and Budget, are struggling to develop a suitable plan (OpenTheGovernment.org, 2010, & Vijayan, 2010).

The federal government also targets initiatives that facilitate richer public participation. NASA has numerous plans underway to permit the public to participate in the exploration of Mars and to develop new technologies. The U.S. Patent and Trademark Office has a separate initiative, in collaboration with the New York Law School, to expand its Peer-to-Patent system, which has crowdsourced the patent-review process by allowing citizen experts to review specific types of patent applications, all in an effort to clear the massive backlog of un-reviewed submissions (Noveck, 2009). Finally, the Federal Communications Commission (FCC) embraced the concept of openness during the development of the National Broadband Plan. Over the course of about a year, the FCC connected with some 335,000 citizens through YouTube, Facebook and Twitter; simulcasts of workshops in Second Life; online participation in public workshops; and online public feedback forums (Cohen, 2010). The final report reflected not only the formal written input of tens of thousands of commentators, but also of the many thousands of other citizens who submitted comments to the FCC broadband blog, who edited portions of draft text via *IdeaScale* (http://broadband.ideascale.com) and submitted questions and comments during web-casted public hearings and workshops.

While the use of such collaborative tools can have implications on accessibility, privacy and cost, what we are seeing are new ways to promote information access, garner greater citizen participation and support collaboration. However, three concerns emerge in these efforts. First, federal agencies need to do a better job of making data available in formats that are easier to retrieve and search. Indeed, this is a key step in moving beyond transparency at the federal level. While the U.S. Department of the Census for example, has long been the standard bearer for publishing raw data sets, several other agencies have taken the Obama administration's open government challenge to heart. The FCC, for example, has begun to publish an array of new data sets and make existing data much more user-friendly. *The Spectrum Dashboard* (http://reboot.fcc.gov/reform/systems/spectrum-dashboard) is one such data set that allows the public to more easily identify who owns various portions of the airwaves and how those owners are using the spectrum (OBI, 2010). Of concern is the assurance that transparency does not result in the degradation in the quality of that information, for example, by rendering it too technical, out of date, inaccurate, or incompatible with other data sets. If government also ensures that the data is properly tagged with meaning and produced in raw, structured, machine-readable form, the data will be capable of being ported into a wide variety of current and future analytical tools (Berners-Lee, 2010).

The second concern is that next generation transparency in open government initiatives relies on the public being able to access structured data through readily available software programs. This permits the public to know and understand the data, its logic and code structure (Brito, 2009). In many cases, data is often too difficult to search, especially when content is embedded. Some private firms have become conduits through which esoteric or hard-to-use data are filtered and made more useful to the public. For example, sites such as *GovTrack* (http://www.govtrack.us) use methods to do screen-scrapes.[1] *GovTrack* reports how members of Congress voted and the sources of campaign contributions that they have received.

1 For definitional purposes, "screen scraping is programming that translates between legacy application programs (written to communicate with now generally obsolete input/output devices and user interfaces) and new user interfaces so that the logic and data associated with the legacy programs can continue to be used. Screen scraping is sometimes called "*advanced terminal emulation.*" See http://searchdatacenter.techtarget.com/sDefinition/0,,sid80_gci213654,00.html for more information on this process.

The data is available electronically, but not in structured formats that permit easy use by the public. Teams of programmers essentially copy the data from a website and reformat into XML, a data structure format. While the data can be used by anyone once in this format, the process itself is very labor and time intensive, and it does not guarantee complete capture of the data. As previously stated, spending the time to properly tag the data and produce it in a machine-readable form might be an easier solution to data transfer and interpretation.

Lastly, federal agencies must be creative in soliciting more feedback from citizens on the data that should be made available in the Open Government Directive. Assuming that citizens know how to identify the problems affecting them, open government initiatives should be a catalyst for civic engagement. At the federal level, citizens must not only be able to assess the productivity of government agencies but also make them more accountable. The public should also contribute ideas to enhance or resolve national issues such as the economy, the state of education or employment. This type of civic engagement and participation fosters a new level of transparency that promotes more involvement at the grassroots level. Federal agencies can also bridge their information needs with those of state and local governments to potentially drive traffic and interest in their content. *Recovery.gov*, the website whose mission is to track and publish activities from the American Recovery and Reinvestment Act of 2009, is an effort to avoid potential fraud, waste and abuse, promote contracting opportunities and jobs across the country, and connect federal efforts with state and local governments. While federal sites like *Recovery.gov* have links to popular social network sites such as Facebook and Twitter, the information is still pushed down to local citizens and does not encourage the public to offer suggestions and strategies for solving some of the nation's critical problems.

State and Local Government Efforts

Not surprisingly, citizens are more likely to be more engaged with government portals at the state and local levels. Local governments have made data available to the public via the Internet since the mid-1990s. For example, it has long been commonplace to get local tax information, crime statistics, economic development plans and traffic information from local and state government websites, much in the way that citizens could access basic federal data via the web several years ago. Today, more local governments are also broadcasting council meetings, distributing speeches and press releases, and sharing outcomes on legislation.

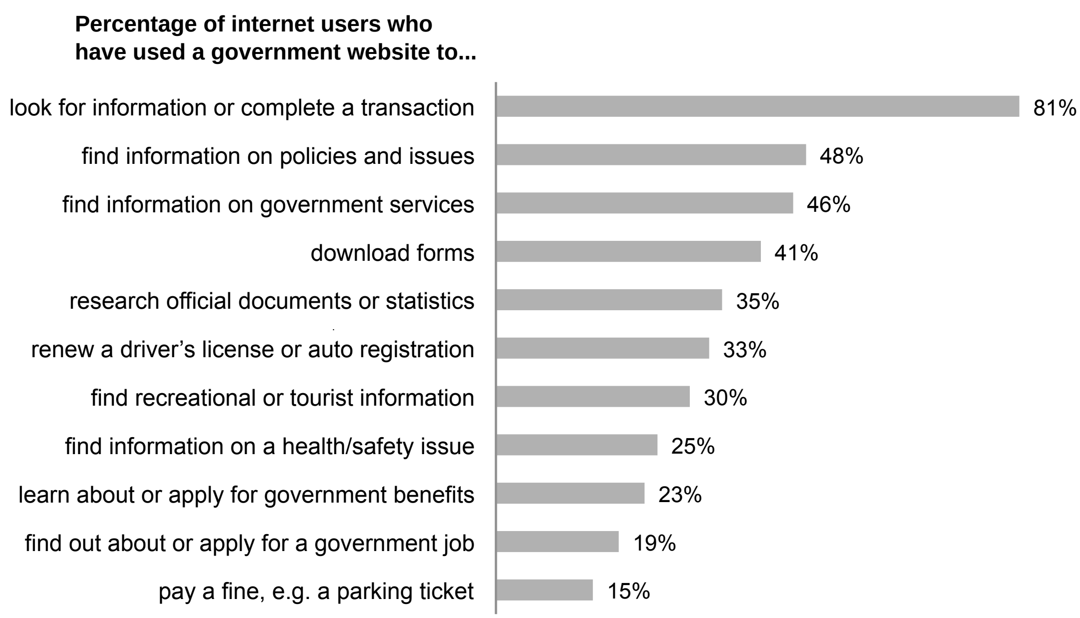
In his paper addressing the Knight Commission's recommendation to create online local hubs or community portals, Adam Thierer shares research from the Center for Digital Government (Center for Digital Government, 2010) that suggests that local governments should do even more to improve their digital records of

- Pending and enacted legislation
- Government projects and spending

- Video (live and archived) of all legislative activities and public meetings
- Court developments and records, as well as crime data
- Public health and safety information
- Information about other government benefits and services, licenses, registrations, forms, fines, events, activities, etc.

On the consumer side, Pew American and Internet Life Project's Government Online survey supports this view in its finding that 81 percent of Internet users have looked for this information or completed a transaction on a government website in the past year, as Exhibit I shows (Smith, 2010). And according to Pew, 51 percent of Internet users completed their intended transaction on a government web site. These data are illustrative examples of how government can facilitate key partnerships with its citizenry, especially when so many individuals look for information or complete transactions on a government web site.

Exhibit 1: Americans' Online Transactions with Government Entities



Source: *Pew Internet and American Life Project*, Smith, 2010.

Whereas the early analog/Web 1.0 days of open government depended on one-way communications to the public, Web 2.0 and 3.0 versions of open government at the local and state levels parallel federal efforts. Increasingly, state and local governments are engaging the public as viable stakeholders and partners, opening the technological barriers to the data and services and making government a platform for change.

From coast to coast, there are examples in cities large and small where open data websites permit users ready access to a large and growing portfolio of data.

- The **Massachusetts Department of Transportation** (http://www.massdot.state.ma.us/Transit) and the **Chicago Transit Authority** (http://www.transitchicago.com) have made their transit data public in order to permit real-time sharing of data about arrival times of buses and trains. Both transit agencies are also crowdsourcing the development of web and smartphone applications to permit the public to get information about the arrival times, routes and other service information. Developers use the data feeds to mashup with Google Maps and develop additional applications for the public.
- **Capitol Hill Seattle** (http://www.capitolhillseattle.com), an online news source, connects to a public city data set on designated heritage trees ("the oldest, largest, or most unique tree of that species in the city or neighborhood in which it resides"), and has created a map of historically significant trees in the Capitol Hill neighborhood of Seattle, Washington (Durkin, J., Glaisyer, T. & Hadge, K., 2010).

On-the-ground partnerships are also being established at the local level. The organization Code for America (CFA) is an emerging example of collaboration between governments and the private sector. Piloting its program in five cities, CFA's mission is to "help city governments become more transparent, connected and efficient by connecting the talents of cutting-edge web developers with people who deliver city services and want to embrace the transformative power of the web to achieve more impact with less money" (http://codeforamerica.org/). Mirroring the service model of Teach for America, the organization matches city officials with web developers to create more robust city applications.

Citizen Application Contests

Among the most widely noted approaches for using new technologies for open government purposes at the local government level are application development contests. In New York, the city's **Big Apps Contest** has helped launch innovative government applications. Washington, D.C.'s **Apps for Democracy** contest has been at the forefront of this movement.

The Apps for Democracy Contest (http://www.appsfordemocracy.org) was launched in 2008 to invite residents from Washington, D.C., to design and build applications using government information from its open data feeds. The goal of the contest was "to engage the populace of Washington, D.C., to ask for their input into the problems and ideas they have that can be addressed with technology and then to build the best community platform for submitting urgent city service requests such as snow plowing, potholes, etc.." In its first year, the contest generated 47 web, iPhone, and Facebook applications.

When asked about the program, Vivek Kundra, the former Chief Technology Officer for Washington, D.C., said, “by making government data easy for everyone to access and use, the District hopes to foster citizen participation in government, drive private-sector technology innovation and growth, and build a new model for government-private sector collaboration that can help all governments address the technology challenges of today and tomorrow” (OCTO, 2008).

Submissions were built by leveraging data from the Washington, D.C. government data catalog (http://data.octo.dc.gov/) and mashing it up with new technologies and Internet tools. The D.C. Data Catalog currently offers 435 data sets from multiple agencies in open data formats. Users access the data through an Internet subscription to a live data feed in these formats. The data feeds provide content describing a range of services, including 311 service requests, crime data for youth and adults, current construction projects, and public space permits. The winning applications in the first year of the contest included: DC Historic Tour (http://www.appsfordemocracy.org/dc-historic-tours/), and iLive.at (http://www.appsfordemocracy.org/iliveat).

The following were the top three contest winners in the second round:

- **vacantDC** (http://www.vacantdc.com/), which mapped all vacant buildings in the city

- An **iPhone application** using DC 311 API to permit users to submit services to fix broken street lights, report abandoned vehicles and get more information about trash collections

- **SeeClickFix** (http://www.seeclickfix.com/citizens), an honorable-mention application that permits anyone to report and track non-emergency issues such as a pothole, graffiti and parking meters through the local government.

Peter Corbett, the head of iStrategy Labs, the organization that helped develop and administer Apps for Democracy, reported that the $50,000 contest in D.C. returned some $2,300,000 in value to the city.

But not all of these approaches are a panacea. While the applications created via Apps for Democracy initially generated a lot of buzz for getting the public engaged with local government, several concerns remain. First, some worry about the sustainability of these efforts, especially for small and mid-sized cities. What happens once the prize money is gone? Second, the usefulness of some of these applications has been questioned. What is cool or cutting-edge might not be of practical use to citizens. These concerns have forced Washington, D.C., to discontinue its Apps for Democracy contest and rethink its approach to engaging the expertise of the public (Nichols, 2010).

Barriers to Realizing the Full Value of Open Government

Despite these promising trends in transparency and e-government, several barriers remain to the full realization of true open government at the local, state and federal levels.

Design Flaws that Discourage Public Utilization and Engagement

Modern e-government and open government tools and services can only be useful if they are properly designed to (1) effectively engage the public and (2) produce outcomes that are beneficial to the relevant government agency. A key component of many current design problems is guaranteeing that an online tool or service fully leverages the collective power of the public and that the tools or service are ultimately useful to both citizens and government agencies. Indeed, public administrators have long struggled with designing and building analog and digital services that meet the needs and skills of the general public and that truly foster democratic participation.

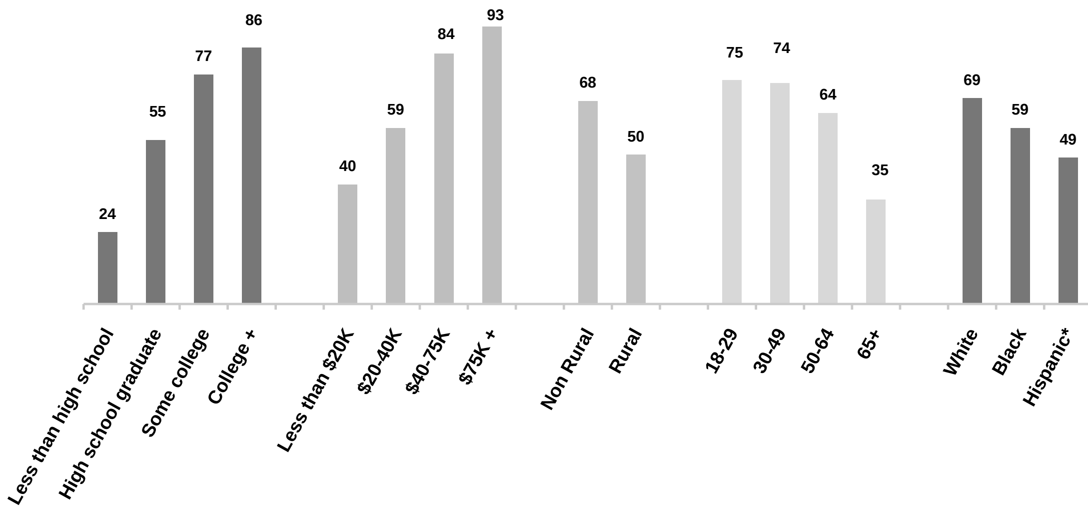
Identification of the Key Customer Base

Clearly and accurately identifying whom to serve has been a huge roadblock for government leaders. Online transparency systems ultimately serve a broad customer base that includes citizens, businesses, visitors, other governments, civil society organizations, the donor community, stakeholders from across government and the media. Government leaders face numerous key questions and barriers when developing an online presence: *What are the typical behaviors of citizens online? Who is likely to go online to use government services? What types of barriers and obstacles turn people away from accessing services? What factors encourage users to feel comfortable within this environment? What drives an individual to return to the website? How will others be encouraged to use the site?* Answering these questions is exceedingly difficult for government administrators who are trained to work exclusively in the analog world. Online feedback loops that can offer insight into the customer base and their needs are often absent in government websites.

Lack of Adequate Broadband Access and Adoption Among the Public

Recent research argues that the existence of a digital divide in e-government use is highly correlated with people's access to the Internet and a person's level of digital literacy. Several demographic groups, including African Americans, Latinos, senior citizens, people with disabilities, the urban poor and rural residents, have broadband adoption rates significantly below the national average, which was 65 percent at the beginning of 2010 (OBI, 2010). Exhibit 2 shows the disparities between these groups for broadband access and adoption.

Exhibit 2. Broadband Adoption by American Adults by Socio-Economic and Demographic Factors



Source: John B. Horrigan. *Broadband Adoption and Use in America OBI Working Series Paper No. 1: 3*, Federal Communications Commission, Feb. 23, 2010, p. 13. Note: *Hispanics includes both English and Spanish-speaking Hispanics. Chart represents percentages of American adults.

A recent report by the Joint Center for Political and Economic Studies also found that among the millions of Americans who do not have broadband at home, there are significant demographic differences based on age, gender, education, level of Internet experience and income that potentially influence their acceptance and use of the Internet. While more African Americans and Hispanics are getting online, those that do use broadband tend to be more affluent and better educated than others in their demographic group (Gant et al, 2010). And unfortunately, those Americans who stand to gain the most from the Internet are unable to use it to break the trajectories of social isolation, poverty, and illiteracy. This segment of the American population—one that is wrought with economic and social hardship—is largely not reaping the benefits of digital access. While the Federal Communications Commission (FCC) has stated its commitment to bolstering broadband access and adoption among these under-adopting groups (OBI, 2010), it appears to be utilizing much of its resources on the regulatory paradigm rather than on adoption and use issues.

A refocusing on broadband adoption and use is critical from a public policy perspective. Since many of these user groups are significant consumers of government services, bringing them to broadband could be facilitated by education campaigns dedicated to raising awareness of how a computer and Internet connection can streamline how a senior interacts with Medicare or how a low-income user navigates Medicaid. The outcomes of open government will be the most relevant when they not only reduce the digital disparities that maintain a degraded quality of life for many Americans, but also offer a road to opportunity for these vulnerable groups. In the end, cities can begin to see healthier, safer and more viable communities as a result of deeper engagement from all citizens.

Public Demand for these Services and Accessibility Constraints

Actors in the public and private sectors should avoid losing sight of the citizen in the pursuit of technological innovation, particularly in the face of digital divide issues. To date, technology has been viewed in a very deterministic fashion in the public space: build it and they will come. Deploying new technology before earnestly identifying what, if anything, the public needs or is demanding might limit full citizen participation. Indeed, several studies have found that, although participation in e-government and open government processes has increased over the years, participation is often tied to higher income and education levels. Thus, only a portion of the entire public appears to be represented in the majority of online interactions with government. Without representation of lower-income citizens and other key demographics, this could result in the creation of open government services that cater to a narrow set of needs or certain demographics. Moreover, designing websites that are not accessible to people with disabilities or non-English speaking populations stifles the full use of online government services and limits access to vital information.

Legal Constraints that Restrict Better User Experiences

A number of legal constraints limit the ability of innovators to create open government tools and services that are useful to the public. For example, limits on how some government entities can collect information about the user experience at government websites have impeded some progress. The federal Paperwork Reduction Act, for example, has curbed the ability of government agencies to capture data about the user experience of visitors. As reported in the National Broadband Plan, the Paperwork Reduction Act has been a barrier to implementing many best practices because it has precluded surveying web users to improve an agency's online presence (OBI, 2010). This is problematic because, as mentioned earlier, an online feedback loop enhances the user experience and contributes to the continuous improvement of government websites. On April 7, 2010, Cass Sunstein, Administrator of the Office of Information and Regulatory Affairs at the Office of Management and Budget, issued a memo updating the way the law applies to certain online and social media in order to remove that barrier going forward.

To address these barriers, a key goal for open government initiatives is to consider the value to both governments and citizens. From the supply side, governments need to share information with the public that increases trust, improves efficiency and raises the standard of accountability. On the demand side, citizens need to be privy to the plethora of information that enhances their ability to make informed choices about the state of their nation. If the design of online services is biased towards the function and bureaucracy of government, it will therefore fail to meet the values, desires, and abilities of individuals. And citizens who are ill advised on what their government has to offer and can make available to them do not bolster a more participatory democracy that potentially improves the quality of future policy decisions.

Call to Governments: Six Strategies for Enhancing Transparency and Community Information

How then can governments design websites that meet the information needs of communities? What can be learned from federal transparency efforts in the creation and promotion of local government websites? This section offers six strategies to facilitate the realization of Knight Commission Recommendation 4.

Strategy 1: Convene a national working group of chief information and technology officers to discuss and decide upon technical and operational procedures that mitigate changing environments and circumstances in the open government field.

Chief information and technology leaders face the trying task of developing the right strategic approaches for organizing and assembling tangible resources, such as computers and networks, and managing intangible resources that include employee skill, knowledge and organizational processes.

Uncertain or unorganized technological environments also constrain their choices and resources to support building and operating e-government services. This problem can be exacerbated rather than aided when the government wades into the marketplace and attempts to pick a format or technology to support. Governments must focus on the characteristics of the solutions they seek from the market rather than the particular technologies that market actors must employ. To be effective, governments must be equipped with the knowledge and subsequent capabilities to respond to the technical challenges associated with deploying new transparency and e-government-related tools, while at the same time having the ability and resources to deal with ongoing issues in the environment.

Organizations such as the National Association of State Chief Information Officers (NASCIO), whose mission is to foster government excellence through quality business practices, information management and technology policy, can play a vital role in solutions around suitable IT infrastructure, data standards, privacy processes and long-term open government investments.

Having this conversation through groups like NASCIO can also help technology leaders become conversant in how to provide data in normalized data formats and as metadata and enhance the data search process through portals or clearinghouses. These leaders can also advise upon the types of information that should be available to the general public. Finally, technology leaders should discuss issues related to cost based upon the time it takes to produce useful data feeds for the public, privacy issues that are raised by certain data sets and formats for public consumption of the data.

When problems arise among these stakeholders, an entity such as the World Wide Web Consortium (W3C) could be called upon to mediate gridlocks. Ultimately, the partnership of national CIOs and CTOs could result in more realistic and feasible standards of design, operation, monitoring and performance to assist in the public technology sector.

This specific strategy calls for action within a formidable existing structure, and therefore requires very little investment. Sponsorship of conference participation for smaller cities and states or the development of a more formal working group within NASCIO can take on the task of developing operational standards.

Strategy 2: Create opportunities for developing public good applications that are sustainable through public-private partnerships or contests funded through philanthropic investments.

As discussed in the paper, governments can be slow in developing customer-facing applications that attempt to enhance their interactions with the public. While the citizen apps contests proved to be innovative ways to engage the public, the model is dependent on developers maintaining the application beyond the parameters of the contest. And developers often do not have an incentive to keep the sites up-to-date with no direct financial incentive after the award (Nichols, 2010). One interesting model for sustainable investment has been the Knight Foundation's *News Challenge Contest* that awards as much as $5 million per year for innovative ideas that develop platforms, tools and services to inform and transform community news, conversations and information distribution and visualization. One thought is to deploy a similar model to seed and sustain contests for public good applications, such as employment, educational, community development, environment and health care applications, through philanthropic investments, and perhaps public-private partnerships. Additional philanthropic investments in organizations like Code for America that regularly recruit and place web development professionals with city governments can facilitate their growth and bring more talent to local governments desiring to become more responsive to community information needs.

National and community foundations are natural philanthropic partners. Private corporations can also be a source of additional revenue for these types of projects, especially if they have a vested interest in the city, state or region. One can imagine a public-private partnership that develops an application to address environmental, telecommunications, retail, and other concerns that affect where these industries are based, and their employees live. Finally, local citizens—especially those that are using nominal resources to solve community problems, can be a part of the solution. From the block clubs that report public safety issues to the resident leader that regularly calls public works to report potholes, public-private-citizen partnerships can generate ideas for meaningful public purpose applications that can improve the quality of life within communities. Directing some investments to local residents rather than web developers and engineers can produce solutions that have a greater chance of having an impact because they are generated from within.

Strategy 3: Establish flexible procurement procedures that allow for more off-the-shelf purchasing, easier contracting, and other application solutions for both computers and mobile devices to disseminate government information.

There is an urgent need to update procurement laws and procedures around local technology spending. In the Washington, D.C. Apps for Democracy program, the funded apps were developed outside of the normal procurement process, and the contest was aimed at developers creating applications that mashup data and software. The developers were not working for the government; rather they were using the data that government made available to the public. Easing the burden of endless paperwork and bureaucratic approvals can strengthen innovation for local governments interested in improving their transparency and availability of community information. Moreover, local governments must be able to share data over both wired and wireless platforms. With the proliferation of mobile devices, especially cell and smartphones, governments can gain easy and immediate access to consumers, especially those that do not own a computer, and widen their distribution of significant data.

And current constraints on devices should not limit the explosion of applications in the e-government space. Opportunities exist for the re-engineering of mobile devices with larger screens for the visually impaired or embedded two-way radios for connection to emergency response vehicles to accommodate the evolution of government applications.

Increased allocation of spectrum, especially in unserved and underserved broadband communities, can also facilitate improved linkages to government information and ensure more ubiquitous access for citizens. The ability to leverage text messaging services, along with scheduled email reminders about important matters such as parking tickets, meter readings and health updates, can yield positive results for local governments desiring to increase transparency.

Consideration to redistribute the line items within local technology budgets should be a priority for state and city governments. Governments might also explore industry partnerships, philanthropy or government grants to help fund and implement new mobile, e-government applications, or perhaps integrate a nominal cost into local transactions (e.g., property tax, drivers license renewal) to support mobile feeds and applications.

Strategy 4: Improve broadband access at community anchor institutions to ensure that citizens can tap into e-government resources.

There is great need to let the public know what is available from the government, and address issues of digital literacy so that more people will use and benefit from these services. ICT and "broadband-centric" open government solutions create opportunities to reduce the costs of providing information and services to the public. The obvious return on investment is when citizens actively use open government tools to conduct their lives and engage in robust conversations with their elected and appointed officials. While maximizing public demand for these tools reduces the average cost per online transaction, access to these services has to be increased. While residential broadband is an ideal condition, government leaders must actively market and promote their content to citizens at public access locations, especially in libraries, schools, community-based organizations, community colleges and other community anchor institutions.

These community anchor institutions can solve one of the major barriers to e-government adoption—access to the Internet. This is one of the stated goals of the National Broadband Plan where access to high-speed broadband is believed to *"increase civic engagement by making government more open and transparent, creating a robust public media ecosystem, and modernizing the democratic process"*(OBI, 2010). Currently, seniors, the poor, less educated, low-income and digitally illiterate are heavily dependent upon these public access institutions to access the web. Finding ways to strengthen the institutional base and promote open government as the norm in these locations will be critical to building consumer demand for local governments. And positioning government websites as home pages at these locations can also promote available resources and information. Where possible, patrons should also be connected to digital literacy training programs at these locations to help them use these assets more effectively.

One way to drive this level of e-government adoption is through the existing Broadband Technology Opportunity Program (BTOP) managed by the U.S. Department of Commerce's National Telecommunications and Information Administration (NTIA). A portion of BTOP's $7 billion in American Recovery and Reinvestment Act (ARRA) funding is committed to community anchor institutions. Local governments should ensure that funded projects that meet these criteria integrate e-government resources into their projects and promote transparency about the effectiveness of their projects. The same strategy should also be undertaken by the U.S. Department of Agriculture where the Rural Utility Service (RUS) is charged with distributing grants and loans to under-served rural communities.

Current efforts to reform the Universal Service Fund (USF) to subsidize or discount broadband services will address affordability issues for anchor institutions and have a positive impact on the use of government services. In his paper on universal broadband for the Knight Commission, Blair Levin (2010) suggests the following steps to accelerate access to anchor institutions:

- Remove barriers to government funding of broadband networks.
- Facilitate demand aggregation for public sector broadband facilities, including health care facilities.
- Facilitate partnerships to enable more effective purchasing and design of complex connectivity needs.

In his paper, Levin suggests that USF reforms that touch these issues will not only drive demand, but also lay the groundwork for further upgrades in the mass market.

As mentioned, programs such as the Broadband Technology Opportunities Program (BTOP), Rural Utility Service (RUS) and Universal Service Fund (USF) are relatively easy opportunities to spur broadband adoption and use among disconnected populations. Bridging these funding mechanisms with the needs of local governments can be a crucial step in driving the demand and use of e-government services.

Strategy 5: Create government content that is relevant and accessible to all populations regardless of ability, language and literacy level.

Government content can become the killer application for constituents, especially if it enables two-way communication between citizens and their elected and appointed officials or promotes resources that enhance quality of life—educational, employment, health care—for citizens via the web or mobile devices. The key here is to remove the distance between governments and citizens through immediate online feedback, webcasting, podcasting, and other new media tools.

Government content must also be accessible and available on platforms that engage the visually and physically impaired. People with disabilities and seniors have a great need to be connected to government resources. Standards should be in place to ensure that online public information—whether data sets or services—are available with text sizing, audio and multimedia options, as well as interactive tutorials. These efforts must be promoted through targeted campaigns and perhaps segmented marketing activities, such as fairs and targeted workshops for these populations.

Content must also be multilingual and disseminated at an appropriate literacy level. One of the key findings from West's 2008 study was that "64 percent of government websites are written at the 12th grade reading level or higher, which is much higher than that of the average American" (West, 2008). Local governments can follow the lead of One Economy Corporation, a global nonprofit that has directed programs to accelerate broadband access for the poor.

One Economy's Beehive web site (http://www.thebeehive.org) is an example of an intermediary site that has aggregated government resources into a multilingual web portal that is written at a sixth grade reading level. With over 15 million visitors since its inception in 2001, the Beehive web portal has launched in cities across the country and essentially aggregated information about education, health care, transportation, housing, employment, and family supports. One Economy markets the Beehive via its *Make It Easy* campaign that lets consumers feel more comfortable interfacing, finding and connecting to online resources.

Marketing efforts must also go beyond just announcing what types of services are available. Government-backed marketing efforts should include building campaigns that include community anchor institutions to educate the public about how to use specific services and make requests of government for public data.

Strategy 6: Promote public-private sector partnerships that enhance skill-building, technical expertise opportunities and forward thinking processes.

In this last strategy, government organizations should develop educational opportunities to train their leaders about approaches to manage IT-enabled services in this environment where data does matter. The move to the web brings difficulty to many government leaders in understanding how traditional brick-and-mortar services translate to the online environment. Developing partnerships among leading professional organizations for government leaders, schools of public administration and information, as well as private sector and advocacy organizations can facilitate the creation of a national curriculum on IT strategy for government. The curriculum could include content about a new customer service strategy in an online environment that understands the user experience and the fundamentals of transparency in government. The partners in the collaboration could co-develop the curriculum and deliver the content through various offline and online learning platforms. An institutional fund could be established through a foundation or university to vet and support research proposals and evaluate activities.

Unlike the technical working group, this partnership can develop research-based guidelines for designing open government services. As part of an interdisciplinary collaborative effort, a collection of resources from the technology and social science fields can be gathered to promote best practices for designing online services for the public. Information might include the aggregation and interpretation of community data sets, methods for engaging the diverse universe of consumers—from citizens to journalists, and market data highlighting strategies for involving underserved populations. As an example, the U.S. Department of Health and Human Services and General Services Administration sponsored the publication of "Research-Based Web Design & Usability" (http://usability.gov/guidelines/guidelines_book.pdf). This handbook offers specific guidelines that "help move us in [this] direction by providing practical, yet authoritative, guidance on a broad range of web design and communication issues. Having access to the best available research helps to ensure we make the right decisions the first time around and reduces the possibility of errors and costly mistakes" (HHS, 2009). A similar publication can be developed that specifically targets the needs of local governments and helps them understand the user experience.

Finally, government organizations can partner with the private sector to learn how to create and disseminate consumer-oriented applications. Partnerships with companies that focus on applications, telecommunications infrastructure and devices can be helpful to technology leaders who are often trying to keep archaic systems and process current instead of thinking about the power of next generation technology to usher their city or state into the digital age. Partnerships that grow intellectual expertise, process improvements and create robust applications can be promising opportunities for government leaders.

Who Should Do What

The Executive Branch

The executive branch can continue to set the tone for federal open government initiatives and increase their influence on the implementation of these platforms and standards with state and city governments. The Office of Science and Technology Policy (OSTP), whose mission is to advise the President and others within the administration on domestic and international science and technology issues, can drive these efforts. As structured by Congress, OSTP also has the ability to lead federal interagency efforts that advance science and technology policies, budgets and strategic partnerships. With the current Open Government Directive housed within OSTP, their role is vital in promoting both an ecosystem and echo chamber where open government platforms become more of the norm for how citizens, irrespective of where they live, interact with public information. One suggestion is that OSTP develop the Local Open Government Initiative that extends their reach to smaller localities, especially in sharing best practices and potential pitfalls in this area. OSTP can also provide an international perspective to this debate and offer insight into how other countries are addressing information transparency needs and how they are addressing privacy, accessibility and costs associated with open government applications. OSTP might lead the interdisciplinary collaboration that drafts guidelines for developing and managing open government platforms and work with the Federal Communications Commission on the allocation of spectrum to locations and projects that advance public good.

Congress

Since much of the federal legislation around information transparency has not been updated to reflect the growth of the Internet and the Web 2.0 and 3.0 computing environments, Congress can revisit and update existing transparency laws.

Recommendations can be made to extend the type of data being made available to the general public and the forms in which it can be accessed. Updates to the Paperwork Reduction Law and the Freedom of Information Act can make data collection and compilation less prohibitive and improve the ability of governments, especially federal agencies, to gather feedback from consumers about their user experience. Congress can also earmark support for local governments to migrate their vital services online. As cities like Chicago and New York can afford to deploy e-government platforms, federal grants from OSTP's Open Government Directive or tiered support from federal agencies can ensure that localities with limited resources are not disadvantaged in serving community information needs.

The Federal Communications Commission

Many of the points around disparities in broadband access fall under the leadership and jurisdiction of the Federal Communications Commission (FCC). The FCC needs to play an active role in reforming the Universal Service Fund, and targeting resources to underserved and unserved communities. The FCC can lead the charge on developing digital literacy standards that can be promoted at community anchor institutions. It can also work to establish guidelines for content accessibility by literacy, language or physical abilities. The FCC can work in tandem with the U.S. Department of Commerce and the Rural Utility Service to ensure that funded programs direct people to government websites and other citizen-focused tools. Finally, the FCC can work with OSTP who is administering the President's executive order to release unused and unlicensed spectrum to guarantee some provision to national purposes. The ability of government to make applications and communications available in the largest city and the smallest rural town will drive demand for these platforms. The FCC can play a significant role, as outlined in the National Broadband Plan, to ensure that engagement with government is not restricted to individuals with adequate access to a PC and broadband connection.

State and Local Governments

Through their chief information and technology leaders, state and city government leaders can help define the agenda for the current and future state of open government platforms. Chief information and technology leaders can work with their purchasing agents to simplify the procurement processes and develop a more flexible checklist for the types of products and services that support e-government services and platforms. Moreover, state and local governments can be more actively engaged in the national dialogue around spectrum allocation to guarantee their communities are prepared for the future expansion of mobile content.

Local governments can partner with national and community foundations to support citizen application contests and other types of innovative partnerships. Colleges and universities, including small and mid-size public colleges, community colleges and historically black colleges and universities (HBCUs), can also be engaged by local governments to generate new content and implement partnerships similar to Code for America. Local students, for example, can gather feedback from community residents on the type of social problems affecting their quality of life, assist in application development and implement widespread communications strategies to market and promote the collaboration. Or they can work within local agencies or non-profits to engineer the next public purpose application that improves how local people find jobs, health care and family and educational supports.

State and local governments can also establish multi-agency task forces that coordinate the expertise of leaders that interface with people with disabilities and seniors. A Chief Technology Accessibility Officer (CTA) can be added to the roster of technical specialists to ensure that standards around language, literacy and accessibility are integrated into all platform designs.

Community Anchor Institutions and Nonprofits

Schools, libraries, community colleges, and other community-based organizations play a significant role in offering high-speed Internet access and digital literacy training. These organizations drive demand for online government content and resources simply because they make the Internet accessible to people. Whereas many individuals are limited in their use of online government resources due to their lack of computer and Internet training, community anchor institutions, along with nonprofits, can accelerate individuals' understanding of what is available, provide some rules of the road on what they have access to, and serve as a conduit to local governments on what other types of data need to be made available to the public. Community anchor institutions can also play a role in helping citizens learn how to develop public purpose applications that advance community interests through "citizen idea incubators" and other workshops that increase civic participation.

Universities

Universities play a vital role in aggregating thought leaders in this area to engineer new processes and tools for open government platforms. Through the design of research-based standards or in the pooling of resources to build the next killer application, university partnerships can provide the research and development needed to move both technical systems, especially legacy systems, and content development into its next evolution. Universities can also encourage citizens to get more engaged in content creation and sponsor apps contests like the ones described in this paper.

The Private Sector

The private sector plays a critical role in the success of open government platforms. The private sector continues to innovate applications and resources in this space, even when governments trail behind.

Moving forward, the private sector can be helpful to government entities by sharing their own best practices, creating strategic networks and partnerships and being agnostic to technical formats that limit data imports and exports.

Local Citizens

People are the major consumers of government content and platforms. From local journalists to average citizens, the need for community information is even more critical to their quality of life. As stated in the Knight Commission report, "local information systems should support widespread knowledge of and participation in the community's day-to-day life by all segments of the community." This statement rings true when government is open and transparent, and people are actively participating in this democracy—one that is not only shaped by the opinions at the top, but also the experiences of people that strive for better communities. Local citizens are vital to driving open government platforms because it will be their approaches to solving community problems that advance robust applications for civic engagement.

Conclusion

The Knight Commission report makes some forceful recommendations about the need for informed communities, especially as the Internet and mobile applications transform how people receive and react to life-changing information. As stated in the report, "*public information belongs to the public.*" And, "*the public's business should be done in public.*" Relevant, timely, and accurate information is a critical element of this movement and essential to a well-functioning democracy. The strategies in this paper are all points that seek to improve the viability of our communities through greater democratic participation and civic engagement. As stewards of our democracy, government leaders must facilitate better access and use of community information and the means for interpretation to enhance the common good. As suggested in this paper, open government initiatives offer an exciting step forward to making it easier for the public to know what governments are doing, participate in the decision-making process and fully engage in the civic life of their communities. ICT and broadband Internet will continue to enhance these critical elements of our information democracy as more citizens become informed and equipped to participate more fully in the formation of public policy.

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APPENDIX

Websites Promoting Government Transparency

Federal Government Sponsored Sites

Federal Communications Commission – Spectrum Dashboard	http://reboot.fcc.gov/reform/systems/spectrum-dashboard
IT Dashboard	http://it.usaspending.gov
Library of Congress – THOMAS	http://thomas.loc.gov
Recovery.gov	http://www.recovery.gov
Regulations.gov	http://www.regulations.gov
United States Courts – Public Access to Court Electronic Records	http://www.pacer.gov
U.S. Securities and Exchange Commission – EDGAR	http://www.sec.gov/edgar.shtml
USA Spending	http://www.usaspending.gov
The White House – Innovations Gallery	http://www.whitehouse.gov/open/innovations

Private Sector and Nonprofit Sites

Center for Responsive Politics – Open Secrets	http://www.opensecrets.org
GovTrack	http://www.govtrack.us
MAPLight	http://www.maplight.org
OMB Watch – Fed Spending	http://www.fedspending.org
Open Congress	http://www.opencongress.org
Open Regs	http://www.openregs.com
Open the Government	http://www.openthegovernment.org
OpenGovernment - state and local	http://opengovernment.org
RECAP	http://www.recapthelaw.org
Stimulus Watch	http://www.stimuluswatch.org
Sunlight Foundation – Real Time Congress	http://www.realtimecongress.org
Sunlight Foundation – Transparency Data	http://www.transparencydata.com
Washington Watch	http://www.washingtonwatch.com

State and Local Government Sites

Chicago Transit Authority	http://www.transitchicago.com
City of Chandler, Arizona	http://www.chandleraz.gov
City of Fort Wayne, Indiana	http://www.cityoffortwayne.org
City of Manor, Texas	http://cityofmanor.org
City of Richmond, Virginia	http://www.richmondgov.com
City of Sunnyvale, California	http://www.sunnyvale.ca.gov
City of Winston-Salem, North Carolina	http://www.cityofws.org
District of Columbia – Data Catalog	http://data.octo.dc.gov
Massachusetts Department of Transportation	http://www.massdot.state.ma.us
New York State Senate	http://www.nysenate.gov
State of California – Data.CA.Gov	http://data.ca.gov
State of Utah	http://www.utah.gov

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Dr. Turner-Lee serves on the board of the Center for Economic Progress, most recently as its chairperson. She is a member of the board for the Community Renewal Society, TPRC and a former member of the Chicago Wireless Task Force. In 2007, *Broadband Properties* magazine named her to its list of the "Top 10 National Broadband Promoters." She is a former research fellow with Northwestern University's Asset-Based Community Development Institute, a Ford Foundation Rockwood Leadership Fellow and has served as adjunct faculty at Northwestern and North Park Universities. She has published countless articles on broadband adoption in minority communities and regularly keynotes national conferences focused on these issues. Dr. Turner-Lee graduated with honors from Colgate University, has a doctorate in sociology from Northwestern University and a Certificate in Nonprofit Management from the University of Illinois-Chicago.

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The Program's executive director is Charles M. Firestone, who has served in that capacity since 1989, and has also served as executive vice president of the Aspen Institute for three years. He is a communications attorney and law professor, formerly director of the UCLA Communications Law Program, first president of the Los Angeles Board of Telecommunications Commissioners, and an appellate attorney for the U.S. Federal Communications Commission.

Creating Local ONLINE HUBS

Three Models for Action

A WHITE PAPER BY ADAM THIERER

THE ASPEN INSTITUTE
Communications and Society Program

John S. and James L.
Knight Foundation
Informed and engaged communities.

A project of the Aspen Institute Communications and Society Program and the John S. and James L. Knight Foundation.

Creating Local Online Hubs:

Three Models for Action

A White Paper on Recommendation 15
of the Knight Commission on the Information Needs of
Communities in a Democracy

written by
Adam Thierer

THE ASPEN INSTITUTE
Communications and Society Program
2011

The Aspen Institute and the John S. and James L. Knight Foundation invite you to join the public dialogue around the Knight Commission's recommendations at www.knightcomm.org or by using Twitter hashtag #knightcomm.

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From Report to Action

Implementing the Recommendations of the Knight Commission on the Information Needs of Communities in a Democracy

In October 2009, the Knight Commission on the Information Needs of Communities in a Democracy released its report, *Informing Communities: Sustaining Democracy in the Digital Age*, with 15 recommendations to better meet community information needs.

Immediately following the release of *Informing Communities*, the Aspen Institute Communications and Society Program and the John S. and James L. Knight Foundation partnered to explore ways to implement the Commission's recommendations.

As a result, the Aspen Institute commissioned a series of white papers with the purpose of moving the Knight Commission recommendations from report into action. The topics of the commissioned papers include:

- Universal Broadband
- Digital and Media Literacy
- Public Media
- Government Transparency
- Online Hubs
- Civic Engagement
- Local Journalism
- Assessing the Information Health of Communities

The following paper is one of those white papers.

This paper is written from the perspective of the author individually. The ideas and proposals herein are those of the author, and do not necessarily represent the views of the Aspen Institute, the John S. and James L. Knight Foundation, the members of the Knight Commission on the Information Needs of Communities in a Democracy, or any other institution. Unless attributed to a particular person, none of the comments or ideas contained in this report should be taken as embodying the views or carrying the endorsement of any person other than the author.

Creating Local Online Hubs: Three Models for Action

Executive Summary

The Knight Commission on the Information Needs of Communities in a Democracy (Knight Commission) recommended that every local community have at least one high-quality online hub to help meet community information needs. While the Commission recognized that "it is not possible for any one Web site to aggregate all of the online information local residents want and need," it believed that "communities should have at least one well-publicized portal that points to the full array of local information resources." This paper outlines how local online hubs currently work, what their core ingredients are, and what it will take to bring more of them to communities across America.

This analysis makes three simplifying assumptions. First, while newer developments have supplanted the "portal" concept—namely, online search and social media—there is still something to be said for websites that can help to aggregate attention, highlight important civic information and activities and map public information resources. Second, it continues to make sense to focus on geographic communities for the reasons the *Informing Communities* report made clear: they are the physical places where people live and work and also elect their leaders. Third, the government's role in creating high-quality online hubs will likely be quite limited and primarily focused on (a) opening up its own data and processes and (b) some limited funding at the margins for other local initiatives.

Luckily, there are many excellent, high-quality online hubs already in place in many communities. Unsurprisingly, however, those hubs tend to be found mostly in large and mid-sized cities. They can serve as models for online hubs in other communities; the question is how to get them built.

As we look to do so, we should keep in mind the great diversity of local communities and realize that there is no one-size-fits-all, best approach to designing high-quality local online hubs. We should not assume that a hub model that works well in one community will automatically work for another. The more experimentation, the better at this point. Some communities may be served by multiple hubs that specialize in serving various informational needs, while other communities might get all those needs served by one site.

The primary concern going forward should be underserved communities. More thought needs to be put into how to deal with those communities who have nothing in place today. That can be facilitated by the close collaboration of various players. Building effective local hubs will require coordination among local governments and universities, libraries and other community organizations, local businesses, local media outlets and other patrons and supporters. It is particularly important to find community champions who can help lead these efforts. Many of the examples discussed in this paper began with the efforts of a small handful of inspired, active, civic-minded citizens who were looking to make a difference in their communities using digital technologies.

It is important, however, that we do not set the benchmark for success too high. The effectiveness of online community hubs should not necessarily be measured solely by the number of people visiting those sites on a regular basis. Availability and usability should trump actual site time in terms of effectiveness measures.

To advance the goal of a high-quality online hub in every community, there are certain tasks that various stakeholders will need to undertake. Among these are the following:

- Governments at all levels should ensure that these hubs are given access to all relevant data about the government and other community affairs organized by it.
- Local libraries and other community organizations can help to develop content and resources for local hubs. In fact, local libraries may be one of the best places to start discussions about local information needs and identify stakeholders who can help facilitate local hub creation or improvement.
- Local businesses can support online hubs through direct financial sponsorship; in-kind donations of services, support and technology; or advertising support (in much the same way as they do for local newspapers and broadcast outlets.)
- Local media outlets could partner with one another or others in the community to foster or assist local hubs, or to improve the local information resources offered on their own websites.
- Colleges and universities offer a wealth of capital, human and other resources to map and develop local information resources. Higher education stakeholders could develop a toolbox of technologies and templates for ready-made hubs or a "code toolbox" to make local hub creation easier, incubate successful models or host local hubs.
- Foundations and venture capitalists should support best-of-class programs and applications through matching grants, support efforts such as the Knight News Challenge or directly invest in innovative local community online hubs and programs.
- Governments can provide seed money, targeted grants and access to public facilities to spur the creation of local online hubs where they do not currently exist, taking care not to impose a particular hub vision from outside the community receiving support.

Creating Local Online Hubs: Three Models for Action

Adam Thierer

Creating Local Online Hubs: Three Models for Action

"Ensure that every local community has at least one high-quality online hub."

— Recommendation 15, *Informing Communities: Sustaining Democracy in the Digital Age*

The Knight Commission Recommendation

This white paper will explore scenarios for implementing Recommendation 15 from the report of the Knight Commission on the Information Needs of Communities in a Democracy, *Informing Communities: Sustaining Democracy in the Digital Age*, which calls for "every local community [to have] at least one high-quality online hub." The entirety of Recommendation 15 can be seen in Exhibit 1.

Exhibit 1. Recommendation 15:
Ensure that every local community has at least one high-quality online hub.

Given the volume of information on the Internet and the infinite diversity of user interests, it is not possible for any one website to aggregate all of the online information local residents want and need. Just as communities depend on maps of physical space, they should create maps of information flow that enable members of the public to connect to the data and information they want.

Communities should have at least one well-publicized portal that points to the full array of local information resources. These include government data feeds, local forums, community e-mail listservs, local blogs, local media, events calendars, and civic information. The best of these hubs would go beyond the mere aggregation of links and act as an online guidebook. They would enable citizens to map an effective research journey by letting people know what is available and where. The site should leverage the power of new forms of social media to support users in gathering and understanding local information.

Where private initiative is not creating community online hubs, a locally trusted anchor institution might undertake such a project with the assistance of government or foundation funding, or support from those who also support public media.

Although the primary focus will be on how Recommendation 15 might be implemented, the paper will also reference Recommendation 4 from the *Informing Communities* report and suggest how it might be linked to Recommendation 15. Recommendation 4 reads as follows: "Require government at all levels to operate transparently, facilitate easy and low-cost access to public records, and make civic and social data available in standardized formats that support the productive public use of such data."

While other recommendations in the Knight Commission report will engender some controversy, I believe these two can find more widespread support among various political constituencies. A "high-quality online hub" for every community makes a great deal of sense in that it can help ensure citizens have access to information about their government(s) and local communities.

What may remain controversial, however, is the scope of this online hub (in terms of how much it seeks to accomplish or include) as well as how this hub is funded. There are several considerations left unanswered by the Knight Commission report that complicate this analysis. Indeed, while conducting research for this paper, the many experts I consulted kept coming back to three common questions about this local hub recommendation and how to implement it:

1) **What is a portal, and is the very concept itself passé?** As I'll note below, the very term portal has a dated feel to it. Clearly, the old walled garden models of hierarchical web services have given way to a flatter structure, one dominated by search and social networking, not portals or hubs. The fall of the old AOL and Yahoo models is indicative of the death of the old order in this regard.

2) **What is a community?** Is it geographic or interest-based? The *Informing Communities* report generally sticks to a geographic conception of community because, as it points out, "American democracy is organized largely by geography." But many experts and site developers stressed the increasing importance of interest-based communities that cut across geographic borders.

3) **What is the role of government?** While the *Informing Communities* report suggests a potential government role in the absence of sufficient private initiative, most experts I spoke with did not envision that government's role would be extensive. It is also worth noting that most of the local hubs that are already underway are not significantly funded or influenced by governments.

While these issues will continue to be debated, I will make matters simpler here by making the three following assumptions:

1) While newer developments have supplanted the portal concept, there is still something to be said for sites that can help to aggregate attention, highlight important civic information and activities and map public information resources.

2) It continues to make sense to focus on geographic communities for the reasons the *Informing Communities* report made clear: They are "the physical places where people live and work" and also elect their leaders (Knight Commission, 2009). Moreover, it seems there is no shortage of interest-based communities online today, although one could always find exceptions. On the other hand, some geographic communities still lack a credible online hub.

3) The government's role in creating high-quality online hubs will likely be quite limited and primarily focused on (a) opening up its own data and processes and (b) providing some limited funding at the margins for other local initiatives.

To borrow science fiction writer William Gibson's much-repeated aphorism, "The future is already here. It's just not very evenly distributed." That is, there are many excellent, high-quality online hubs already in place in many communities across America. Unsurprisingly, those hubs tend to be found mostly in large- and mid-sized cities. They can serve as models for online hubs in other communities; the question is how to get them built. In thinking about how to do so, I raise as many questions as I answer, but I hope to at least help focus attention on the key issues that communities and various stakeholder must consider as they look to create online hubs. Toward that end, Exhibit 2 offers a list of possible evaluation criteria or metrics that should be considered as part of this process. These questions help to guide the narrative that follows.

Exhibit 2. Possible Evaluation Criteria / Metrics for Online Hubs

- What are the primary informational needs of the community?
- How can community interests and needs be gauged?
- Who should be involved in hub creation? Who are the other local stakeholders who can help?
- How can we connect with potential stakeholders? Or, what has their response been so far?
- Who is primarily responsible for building/managing the site?
- What is the funding mechanism? Is it sustainable?
- How can the site be made more accessible to more constituencies?
- How can the community be made aware of the hub? What sort of marketing and awareness-building efforts might be helpful

Tempering Expectations: If You Build It, They *Might* Come

I believe it is essential to realize that the success of efforts to create high-quality online hubs is by no means guaranteed since it is impossible to force people to consume information or content they might not want. Indeed, discussions about informing communities often fail to recognize that the key problem we face today is not a lack of informational inputs but a profusion of them. Although the Knight Commission report did not suffer from this illusion, many media policy discussions today—both in policymaking and academic circles—continue to rest on scarcity-era assumptions even though we now live in an age of information abundance.

Complicating matters is the fact that determining how much information or interaction is required for a citizenry to be reasonably informed about their communities or governments is not an exact science. As James T. Hamilton of Duke University has aptly noted, "The social sciences currently do not provide good answers on how much news is enough to make democracy's delegated decision making work well" (Hamilton, 2003). No one can know with any degree of certainty what the information needs of citizens and communities are. Nor can we scientifically determine how much civic engagement and community interaction are needed to ensure deliberative democracy thrives.

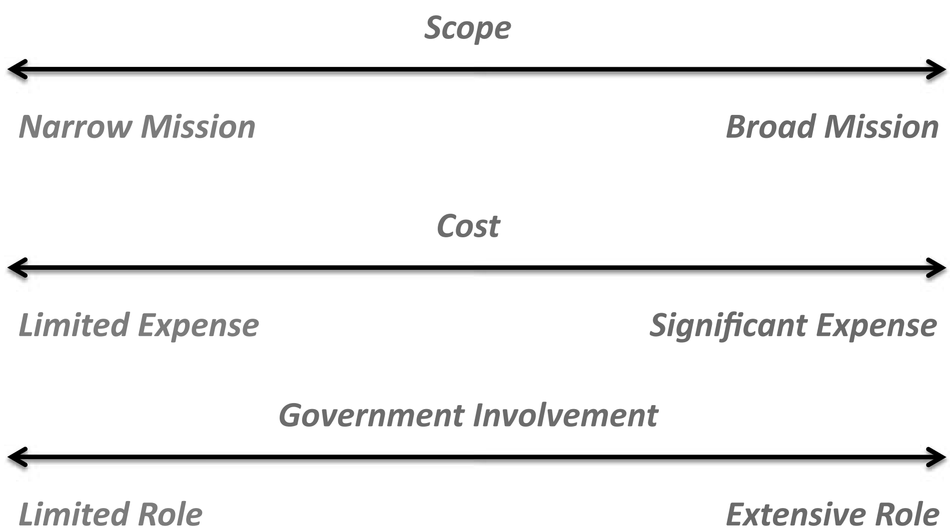
Some will retort that citizens still do not spend enough time absorbed in contemplation about civic affairs, but that is a long-standing lament, and there is no reason to believe this situation has ever been different or will ever change. Writing in 1922, for example, famed journalist Walter Lippmann noted "it is possible to make a rough estimate only of the amount of attention people give each day to informing themselves about public affairs," and he went on to add "the time each day is small when any of us is directly exposed to information from our unseen environment" (Lippmann, 1922). Similar debates have persisted over the extent of civic engagement during various periods of our nation's history. Some say there is less engagement in civic and political matters today, while others worry that debate has become *too vibrant* (at least in terms of the nature and tone of the dialogue).

I recognize these issues are very contentious and well beyond the scope of this paper, but it is of great importance when establishing baseline expectations regarding what constitutes success when designing and implementing high-quality online community hubs. What I am suggesting here is that the *Informing Communities* report may have set the bar a bit too high. We can likely get by with less than some might suggest is needed in terms of how big, or how visible, these hubs are or how much we hope they will accomplish. We should temper our expectations accordingly.

Scope Considerations for Local Online Hubs

How ambitious should these local community hubs be in practice? As illustrated in Exhibit 3, we might consider this question along a number of dimensions, including scope, cost and potential government involvement.

Exhibit 3. Considerations Regarding Possible Breadth of Local Online Hub Concept



Like other recommendations found in the Informing Communities report, Recommendation 15 is quite aspirational in character and does not provide many details about the scope, cost or potential government role associated with creating local hubs. However, in terms of the "full array of local information resources" discussed in Recommendation 15, the report listed seven potential ingredients for any local online hub. In Exhibit 4, I have grouped those items according to the primary function they each serve and also reordered them from what I regard as the least to the most controversial (if local governments were looking to subsidize or incentivize these ingredients of a local online hub, that is).

Exhibit 4. List of Possible Local Information Resources That Might Be Part of Local Online Hubs

1) government data feeds
2) civic information
3) events calendars

Community Government Info

4) local forums
5) community e-mail listservs

Community Connections

6) local media
7) local blogs

Community News / Commentary

Exhibit 5 offers another way to visualize the potential ingredients of a local hub and categorizes the array of possible local information resources into three types of community information: Community Government Information, Community Connections and Community News and Commentary.

Exhibit 5. Visualization of Possible Local Information Resources That Might Be Part of Online Hubs

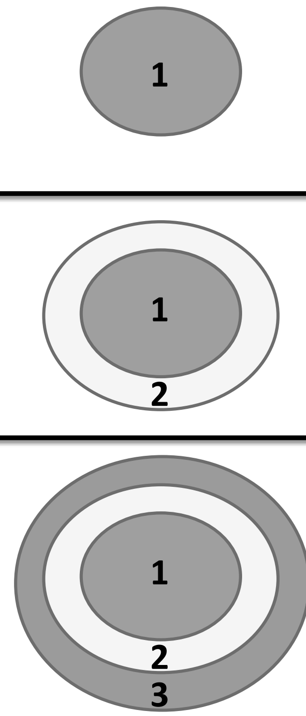
In the following sections, I will discuss the feasibility of including each of these three types of community information as part of any local online hub or portal. Throughout this report, I will refer to three models for local online hubs and use the rough parameters seen in Exhibit 6.

Exhibit 6. Three General Models for Online Hubs

Model 1 = Hub Focused on <u>Community Government Information</u>
- Government Data Feeds
- Civic Info
- Events Calendars

Model 2 = Model 1 + <u>Community Connections</u>
- Local Forums
- Community e-Mail Listservs

Model 3 = Models 1 + 2 + <u>Community News / Commentary</u>
- Local Media
- Local Blogs



As noted many times below, however, the world is changing rapidly and it is exceedingly difficult to pigeonhole existing portals into such analytical models. If there is one over arching takeaway from the time I have spent studying these local portals it is *that there is no one best model for any given community.* A thousand flowers are currently blooming, and ongoing experimentation will help us determine the benefits and drawbacks of various approaches.

For example, Michele McLellan, a fellow at the Reynolds Journalism Institute at the University of Missouri School of Journalism, and her colleagues have done terrific work in creating a taxonomy of new local news sites. As seen in Exhibit 7, “Michele’s List” documents myriad examples of high-quality online hubs across America.

To be clear, online news sites are not necessarily synonymous with online hubs, but her seven-part taxonomy also makes it clear that there is a great deal of diversity even within the realm of local news portals. These models can vary widely in terms of focus and financing. And it may be the case that some of them will serve as models for online local hubs since they might facilitate community connections that support civic engagement. Again, the boundaries of the hub or portal notion can be amorphous.

Exhibit 7. Michele's List: Taxonomy of Local News Sites

1. **NEW TRADITIONALS:** These sites are dominated by original content produced by professional journalists. These sites tend to have more journalists on staff than community or micro-local sites. Many embrace digital connectivity with their users, but traditional journalism is their bread and butter. Most sites are powered with grant funding and searching for viable revenue models, perhaps one that mixes grants, donations, sponsorships, syndication and advertising.
2. **COMMUNITY:** These sites often rely on professional journalists but they tend to be bootstrappers [self-funded entrepreneurs] who also focus on community building—actively seeking user feedback and content, writing in a conversational tone and fostering civic engagement with practices such as voting, calls to action and partnerships with local organizations and activists.
3. **MICRO LOCAL:** Sometimes called "hyper local," these sites provide highly granular news of a defined neighborhood or town. They may have a tiny staff—one or two people plus interns or citizen contributors—usually supported by highly local advertising.
4. **NICHE:** These sites focus tightly on specific topics—restaurants and entertainment, health and medical news, environmental or political coverage, consumer and shopping information. Revenue may come from advertising, subscriptions or syndicating content.
5. **MINI SITES:** These sites typically are run by one or two people. They tend to be idiosyncratic in the selection of stories they cover and not highly aggressive in finding revenue.
6. **LOCAL NEWS SYSTEMS:** These are highly local, low cost sites created with a regional or national template, often by a corporation. In taking the temperature of the news ecosystem, it is important to note that corporations are interested in micro local news and the local advertising they may draw.
7. **AGGREGATORS:** These sites curate links and headlines from other sources.

Source: Michele McLellan, Reynolds Journalism Institute, University of Missouri School of Journalism, http://www.rjionline.org/projects/mcellan/stories/community-news-sites/index.php

Nonetheless, in this paper, I will stick to the three broad models for local online hubs that I outlined above. A discussion of each follows.

Three Models for Online Hubs

Model 1. Hubs Focused on Community Government Information (Government Data Feeds, Civic Information and Events Calendars)

The first three categories of local information that the Informing Communities report identified (government data feeds, civic information and events calendars) relate mostly to government information and activities. These are relatively non-controversial and should represent the core goal of any effort to create local online portals, especially if government itself is looking to create or subsidize the portal or an official city or county website.

This is where Recommendation 4 from the *Informing Communities* report becomes relevant. We absolutely should "require government at all levels to operate transparently, facilitate easy and low-cost access to public records, and make civic and social data available in standardized formats that support the productive public use of such data." Transparency is an essential part of keeping local communities informed and enables them to better understand—and hold accountable—their governments and representatives. As Jerry Brito of the Mercatus Center at George Mason University has rightly noted:

> To hold government accountable for its actions, citizens must know what those actions are. To that end, they must insist that government act openly and transparently to the greatest extent possible. In the twenty-first century, this entails making its data available online and easy to access. If government data is made available online in useful and flexible formats, citizens will be able to utilize modern Internet tools to shed light on government activities (Brito, 2008).

Indeed, in an age of digital empowerment, citizens have new tools at their disposal to do interesting and important things with the data governments make available. That is perhaps most dramatically illustrated by the District of Columbia's "Apps for Democracy" program (http://appsfordemocracy.org), which has allowed D.C. residents to construct a variety of useful community tools thanks to the city's release of a rich data catalog (http://data.octo.dc.gov). "The magic of open data," says Tim O'Reilly, founder and CEO of O-Reilly Media, "is that the same openness that enables transparency also enables innovation, as developers build applications that reuse government data in unexpected ways" (O'Reilly, 2009). This explains why David G. Robinson, Harlan Yu and Edward W. Felten, of the Center for Information Technology Policy at Princeton University, speak of "a new baseline assumption about the public response to government data: when government puts data online, someone, somewhere will do something valuable and innovative with it" (Robinson, Yu, Felten, 2009).

Exhibit 8. Examples of Sites and Services Made Possible by Access to Government Data

Regulation
- Regulations.gov (public)
- OpenRegs.com (private)

General Spending
- USASpending.gov (public)
- FedSpending.org (private)

Stimulus Spending
- Recovery.gov (public)
- StimulusWatch.org (private)

Legislation/Govt. Activity
- THOMAS (public)
- GovTrack.us (private)
- WashingtonWatch.com (private)
- RealTimeCongress.org (private)

Campaign Spending
- OpenSecrets.org (private)
- MapLight.org (private)
- TransparencyData.com (private)

Court Records
- PACER (public)
- RECAP (private)

Corporate Financial Information
- EDGAR (now public; was private)

City Affairs
- EveryBlock.com (private)

Exhibit 8 illustrates just a few of the many sites and projects (both public and private) that have been developed thanks to government data becoming more accessible in recent years. For example, Alex Howard and other writers for the *O'Reilly Radar* website offer a regular accounting of the most exciting things happening in this space. Howard's "Gov 2.0 Week in Review" series of weekly essays (http://radar.oreilly.com/gov2) provides an endless stream of updates about how better transparency and data availability are revolutionizing how government does business and government and citizens interact. The Sunlight Foundation maintains a useful listing of such sites and services (*Our Tools and Web Sites* at http://sunlightfoundation.com/resources). Jon Gant and Nicol Turner-Lee's white paper, *Government Transparency: Six Strategies for More Open and Participatory Government*, includes a list of government and privately-sponsored websites promoting government transparency (Gant and Turner-Lee, 2011).

There are real benefits for government, too. "Agencies that increase transparency and accountability find that their efforts result in increased effectiveness, decreased costs, and broader public engagement, making these efforts a win-win for everyone involved," notes the Center for Digital Government (Center for Digital Government, 2010). Thus, the first order of business for a local government looking to create or improve local online community hubs is to make more information about itself available and allow citizens to interact with it. That information should include digital records of the following:

- Pending and enacted legislation
- Government projects and spending
- Video (live and archived) of all legislative activities and public meetings

- Court developments and records as well as crime data
- Public health and safety information
- Information about other government benefits and services, licenses and registrations, forms and fines, events and activities, etc.

Americans are already taking advantage of existing government websites and portals to access such information. According to the Pew Internet and American Life Project's recent "Government Online" survey, 81 percent of Internet users have looked for information or completed a transaction on a government website in the past year (Smith, 2010).

California, Utah, and New York offer three good examples of how state governments can create online hubs that provide citizens the sort of information specified above. The state of California's Data.CA.gov website offers an impressive array of data sets and online applications, and it invites ideas about how existing data sets might be mashed-up with other information or services. The state of Utah also has done some interesting things with its Utah.gov portal, which now provides an estimated 870 online services to citizens and businesses (Fletcher, 2009).

Similarly, New York's State Senate portal (http://nysenate.gov) offers live video of floor deliberations, a constantly updated Twitter feed (http://twitter.com/nysenate) and a variety of other real-time updates, useful informational inputs and multiple sharing methods. Many city portals already offer an extensive array of community informational resources. Some of the best existing mid-sized city online portals include Richmond, Virginia (http://richmondgov.com); Sunnyvale, California (http://sunnyvale.ca.gov); Chandler, Arizona (http://chandleraz.gov); and Winston-Salem, North Carolina (http://cityofws.org). Most of them also offer RSS feeds, Twitter accounts, e-mail, and video feeds (some even hosted on YouTube) offering local citizens timely and easily accessible information about city affairs and developments. Thus, in many ways, these local government sites are already meeting the Knight Commission's charge to "leverage the power of new forms of social media to support users in gathering and understanding local information."

Even small towns are getting in on the act. One example is the local online hub for Manor, Texas, a small community just east of Austin with a population of approximately 6,500. Although it only has a staff of 35 and an IT budget of just more than $100,000 a year, the town's impressive online efforts (http://www.manorlabs.org) garnered praise from *The Wall Street Journal* as "a hotbed of tech innovation" (Valentino-DeVries, 2010) and earned a Visionary Award from the Center for Digital Government (Opsahl, 2010). More impressively, Manor partnered with Stanford University's Persuasive Technology Lab to design Manor Labs. Jennifer Valentino-DeVries of *The Wall Street Journal* has summarized what makes the Manor Labs site so unique:

> [Manor Labs is] a site that uses games and rewards to spur residents to participate in improving government. People who sign up for Manor Labs submit ideas that are voted and commented on by other users.

> Participants get points for contributing ideas, voting, having ideas implemented and so forth—and the points can be used in Manor's online store to get prizes such as T-shirts, a framed flag and the opportunity to be mayor for a day. Since the site launched in October, Manor has gotten 68 ideas and implemented five of them, including posting recycling and trash schedules online and allowing automatic debits for utility bills. Manor also uses SeeClickFix to help residents report street and water problems in their neighborhood. Through the program, people can open tickets online and send photos to illustrate the problem (Valentino-DeVries, 2010).

Manor's innovative model provides a model for what other small communities could accomplish with local community online portals.

Model 2. Community Connections: Local Forums and Community e-Mail Listservs

Efforts aimed at ensuring greater access to "the raw data of democracy"—government data and civic information—are fairly uncontroversial and should constitute a core element of any local online hub effort, especially if we are talking about government-run websites. More expansive local hubs are likely to include local forums and community e-mail listservs. I group these Model 2 objectives together under the banner "Community Connections" since local forums and community e-mail listservs relate primarily to methods local citizens might use to connect with each other or learn about various programs, events or services in their community.

While some of these forums and listservs may be included as part of a government online hub, it is rare to find many city or county government websites today that include such forums and listservs, or even link out to them. It certainly does not mean those forums and listservs do not exist. For example, virtually every community has online forums and listservs devoted to local schools and related activities. A quick search for virtually any random school name in America quickly reveals community discussion groups or listservs, usually created and maintained by parents of children who attend those schools.

The likely reason local governments do not host much Model 2 content or functionality comes down to the hassle and liability associated with doing so. After all, judgment calls often have to be made about who is allowed to use such sites or what is allowed to be said on them. Should the local government portal include private or religious schools in addition to public ones? Similarly, should every local hobbyist group have its own corner of the local government hub? What about a local forum devoted to issue advocacy (ex: animal rights advocates on one hand, hunters on the other)? Contentious disputes would no doubt arise and the local government might be expected to mediate. "Such services often require a human moderator to erase off-topic and spam messages and to enforce civility," note Robinson, Yu and Felten. "The First Amendment may make it difficult for government to perform this moderation function, but private sites face no such problem, and competition among sites can deter biased moderation," they correctly argue (Robinson, Yu, Felten, 2009). Most governments would not want to assume responsibility (legal or otherwise) for maintaining or moderating such groups.

It does not mean local governments should entirely rule out running such forums or listservs themselves, it is just to say that (a) there may be legitimate reasons they would not want to do so, and (b) someone else may already be doing a fine job of providing such civic resources. For example, Knight News Challenge winner Front Porch Forum (http://frontporchforum.com) helps communities create a "virtual town hall space" to share and discuss local information and increase community engagement. The site currently serves 25 Vermont towns but plans to expand to 250 more. There are several other examples discussed in the next section. Localocracy (http://www.localocracy.org) is a similar model that currently operates in several Massachusetts communities.

Model 3. Community News and Commentary

Efforts to further expand the local community hub concept to include local blogs or local media will be even more controversial if the hubs are government-owned and subsidized. Yet, the final sentence of Recommendation 15 from the *Informing Communities* report suggests that the contributors believed such a move might be necessary. "Where private initiative is not creating community online hubs, a locally trusted anchor institution might undertake such a project with the assistance of government or foundation funding, or support from those who also support public media," the report states. Of course, all the same concerns and caveats discussed above regarding Model 2 apply here as well for Model 3. Government's role in assisting more expansive hubs will likely need to be more limited and targeted for a variety of reasons.

Moreover, as was the case with community forums and listservs discussed above, other private community online hubs might already offer these services, meaning there is less need for the local government to do so. Consider the situation in Fort Wayne, Indiana, a community of roughly 250,000 people. The privately-owned FortWayne.com web portal is a project of two competing local newspapers, a local broadcast station, the local Chamber of Commerce, the local Convention and Visitors Bureau, and two local sports teams. It provides a great deal of local news and information. The government of Fort Wayne also has its own local portal (http://CityofFortWayne.org), but it focuses on the core Model 1 functions described above. The two Fort Wayne sites complement each other very nicely and serve as an example of how many communities will likely have at least two major portals—one public, one private or community-run—in the future.

Instead of attempting to create new media portals on their own, a more practical and cost-effective strategy would be for local governments to work with foundations and other organizations to provide a small amount of seed money and basic informational inputs to community portals and wikis. For example, in announcing the winners of its 2010 Knight News Challenge, the John S. and James L. Knight Foundation awarded $350,000 to the Local Wiki project (http://localwiki.org), which aims to "create community-owned, living information repositories that will provide much-needed context behind the people, places, and events that shape our communities." The Knight Foundation, in its June 16, 2010 news release, expressed its hope that this grant will help Local Wiki:

> …create enhanced tools for local wikis, a new form of media that makes it easy for people to learn—and share—their own unique community knowledge. Members will be able to post articles about anything they like, edit others and upload photos and files. This grant will help create the specialized open-source software that makes the wiki possible and help communities develop, launch and sustain local wiki projects.

The Local Wiki team already has a model in place in Davis, California, called the Davis Wiki (http://daviswiki.org), which, as the name implies, is essentially Wikipedia for the city of Davis. It is an amazing compendium of useful, user-generated information about the community's history, culture, government, schools, activities and much more. The Davis Wiki site offers almost everything the authors of the *Informing Communities* report hoped for when they drew up the seven key ingredients for any local online hub listed in Recommendation 15. As Davis Wiki co-founder Philip Neustrom told the Government Technology Digital Communities website:

> We're trying to create a new type of local media built around the idea of mass collaboration…. The way local blogs entered the mainstream a few years ago was a novel concept, and this is kind of the next logical step—having everyone in the community add to one cohesive resource about the community (Wilkinson, 2010).

The Davis Wiki's page for the 2010 City Council elections offered a taste of how exciting this model can be. Thanks to extensive community collaboration, the page offered details about the candidates running for office, their campaign platforms, local ballot measures and statewide propositions, the vote breakdown for candidates and ballot measures, and community commentary on the races. Importantly, the page also linked out to local and regional "professional" media outlets that reported on the local races or endorsed candidates.

In a personal interview, Neustrom told me that partnering with local institutions (libraries, media outlets, universities) can really facilitate this process. However, when the sites are new and unproven, a certain initial distrust is possible, he says. It takes time for some local institutions to warm up to sites and begin using or assisting them. But Neustrom is confident that will improve over time as more and more hubs are developed and show proof of concept.

The other Knight News Challenge awardees are creating equally innovative programs and services for local communities. As part of its News Challenge, the Knight Foundation awarded $2.74 million to 12 grantees who will impact the future of news in local communities.

Other local portal models are developing rapidly. For example, the growing Gothamist empire might be a model for local community portals. The popular New York City portal includes community news, blogging, video, culture and nightlife, and much more. The "-ist" portal model is now also being used to offer comparable information services to nine other big cities in the United States (Austinist.com, Bostonist.com, Chicagoist.com, DCist.com, Houstonist.com, LAist.com, Seattlest.com, Phillyist.com, and SFist.com). Alltop.com also offers useful aggregation sites for local news and information for some cities. AOL's "Patch" network (http://patch.com) of hyper-local portals is also generating a great deal of interest, and 500 more of local Patch sites are apparently on the way (Saba, 2010). Thus, while many of these portals serve only larger markets today, that could be changing.

Similarly, TBD.com is a portal that serves the Washington, D.C. area and features the best of local professional media alongside an extensive network of community blogs and citizen-journalist reports. According to *Broadcasting & Cable,* "TBD.com [has] about 50 staffers, including waves of one-man-band reporters, who will cover the market with a mix of original reporting and aggregated content" (Malone, 2010). TBD.com is funded by Allbritton Communications and is led by a team of experienced journalists. It faces stiff competition from existing portals such as DCist.com and WeLoveDC.com. And there are many other new forms of networked journalism and "community-powered reporting" taking place today. However, these case studies serve as prime examples of what the authors of the *Informing Communities* report were referring to when they spoke of networked journalism and noted that "a next stage is emerging with new forms of collaboration between full-time journalists and the general citizenry." It should be noted that networked journalism is just one part—not the totality—of the sort of local online hub the Knight Commission report called for.

Again, the future is already upon us, it just isn't evenly distributed. Currently, most of these portals only cover the largest U.S. cities, but they serve as potential models for mid-size and small city portals in other cities and communities in that they (a) include the basic ingredients of a community hub that the Knight Commission report was shooting for, and (b) offer a variety of useful templates that other communities could use as a starting point for their own efforts.

Of course, community wikis should not be thought of as a complete substitute for local government websites. Nor is it likely that these community wikis and portals could act as a complete substitute for "professional" local media outlets, which employ full-time staff to cover local affairs of importance. At their best, however, these emerging community hubs can help aggregate the best of government, civic, community, and private media websites. We should encourage continued experimentation of this sort to see what new models arise since, as Leonard Downie and Michael Schudson rightly note, "There is unlikely to be any single new economic model for supporting news reporting," in our new mediasphere (Downie and Schudson, 2009).

Linking Hubs to Increase Visibility and Usability

For those local online hubs created by governments, I believe it would be quite useful for hub creators at all levels (local, state and federal) to work together to better coordinate and cross-link their hubs. That would also encourage standardized disclosure policies and potentially create a beneficial 'race-to-the-top' among government portals. It may be the case that the federal government can facilitate this process—especially through the new Open Government initiative—by working with state and local governments to link existing portals (potentially through USA.gov) and then working to make them more user-friendly.

Of course, whether we are talking about public or private portals, it may not make a difference how well linked they are since we live in an era in which search is the dominant information retrieval paradigm, not portals. The Pew survey cited above also found that "search engines are the most common starting point for obtaining online government information among all major demographic groups," with 44 percent of respondents saying they found government websites via generic search (Smith, 2010). That percentage will likely increase in coming years. Nonetheless, it would not hurt for governments at all levels to work more closely together to make their websites more accessible to the citizenry by linking them in some fashion.

Social networking sites and capabilities also challenge the portal model, since bottom-up, user-generated sites can appear spontaneously and fill demands. For example, Facebook is filled with local community fan pages that often provide better information than some highly-planned community portals. Of course, community hubs that develop through social networking sites are not necessarily going to be developed with an eye toward the full range of local community needs in mind. Moreover, it is unclear whether or how they will be sustained over time. Their development is likely to be haphazard and because of that it is unlikely such sites would fully achieve the vision set forth by the Knight Commission.

Some Thoughts on Financing Online Hubs

The cost of local online hubs will obviously be proportional to the scope of their ambitions. More ambitious plans for online portals—especially those that opt to fund and integrate public media into the mix along the lines of Model 3 described above—will be significantly more expensive than online hubs that focus strictly on Model 1 content and services.

Some Model 3 proposals to have governments create public interest portals rely upon taxes on private media operators so that the government could finance what would become competing public media initiatives. That is a mistake. Forcing struggling private media providers to fund their public sector competitors raises fundamental fairness issues and potentially skews media markets in favor of public media operators. The *Informing Communities* report got it exactly right when it said, "Governments should avoid regulations that distort incentives. Rules should not make investments in traditional media artificially more attractive than new ventures, or vice versa" (Knight Commission, 2009). General treasury funds could be used to support some local hub schemes without unjustly burdening private media operators with new levies (although it could still skew markets or crowd-out some private investment).

Of course, many local hubs would not require any government funding at all since the basic digital infrastructure could be very affordable and many of the needed resources—including human resources—could be donated. Philip Neustrom of the Local Wiki project estimates that to replicate in other communities a hub model similar to that which they developed for Davis, California with the Davis Wiki would likely only cost $2,000 to $10,000 (Neustrom, 2010). Those resources would be needed mostly to cover the hardware expenses (computers, servers, Internet access, etc.) and other back-office costs. Again, this assumes that volunteers donate time to these projects and that other resources are donated by others in the community. Some communities might need to spend much more to hire people to develop the hub and keep it current.

Who Should Do What

To keep this transition going in communities across America and advance the ideas explored in this paper, various stakeholders will need to undertake certain tasks. Below is a plan of action that details the roles of these stakeholders in creating local online hubs.

Local Governments

What local governments do in response to these challenges will vary by community but, generally speaking, the *Informing Communities* report's sage advice to them is worth reiterating: "Government's first role should be to let experimentation thrive," and "governments should be careful not to pose barriers to innovation" (Knight Commission, 2009). To the extent local hubs already exist in their communities, local governments should ensure that these hubs are given access to all relevant data about the government and other community affairs organized by it. If the community lacks a vibrant local online hub, however, the government could take steps along the lines suggested above to create, or provide seed money for, such a hub.

State and Federal Governments

Greater transparency and access to vital public data should be the first charge of state governments or federal agencies looking to assist in the creation of local hubs. Targeted grants for some local hubs may be another option, although care should be taken to avoid imposing a particular hub vision from outside the community receiving support. Access to various public facilities might also be useful if hub creators or managers need space to convene meetings or house equipment.

Local Libraries and Other Community Organizations

Local libraries and other community organizations can help gauge community interests and develop content and resources for local hubs. Local libraries with well-trained staff may be one of the best places to start discussions about local informational needs and identify other stakeholders who can help facilitate local hub creation or improvement.

Local Businesses and Advertisers

To the extent local hubs depend on advertising support, local advertisers could help provide economic sustenance in much the same way they do for local newspapers and broadcast outlets. Local businesses could also offer varying degrees of assistance—either through direct financial sponsorship and support or through in-kind donations of services, support or needed technology.

Local Media Outlets

Creative partnerships could be brokered among local media outlets (newspapers, broadcast radio and television operators, community access television providers, cable or telecom operators) to foster or assist local hubs. Some local media operators might already have excellent local hubs in operation, but they still might be able to partner with other stakeholders to improve those hubs. While it is true that many traditional local media and information media providers are struggling, as the *Informing Communities* report correctly noted, "there is a transition underway requiring fresh thinking and new approaches to the gathering and sharing of news and information" (Knight Commission, 2009).

Local Universities

Local universities can provide many different resources and benefits to local online hubs. First, they can provide talent. In particular, if local universities have journalism or computer science programs, students or professors from those programs could be tapped to help develop sophisticated local hubs. Second, universities could host the online site themselves or cross-subsidize various hub activities. Third, universities could offer direct funding for the venture.

State Universities

Universities outside local communities might be able to develop special programs or tracks within journalism or computer science programs to help train students who can go out in the field and help develop local hubs. Those programs might also be able to develop a toolbox of technologies and templates for ready-made hubs. Some respected university programs and scholars are currently studying emerging models and identifying best practices for other local hubs to imitate. Some computer science programs are also working to provide the "code toolbox" necessary to make local hub creation easier. To the extent university programs such as these can help their own local communities first, it can help them incubate successful models elsewhere.

Foundations and Venture Capitalists

We need to encourage other foundations, non-profits and individual benefactors to support efforts such as the Knight News Challenge or directly invest in innovative local community online hubs and programs. While the Knight News Challenge represents one way to incubate innovative new local hub models, we need more partners in this endeavor. Identifying them and convincing them to support local community informational portals and services should be a top priority. Foundations should consider a matching program in which partners would agree to match gifts to certain best-of-class programs and applications. If a half-dozen other foundations were willing to follow Knight's lead and match grants, we could significantly expand the number and increase the quality of community online hubs. Instead of tens or hundreds of thousands of dollars for awardees, we would be looking at millions.

Community Champions and Volunteers

Last, but certainly not least, high-quality hubs need committed community leaders and contributors. Finding champions in the community who will help lead these efforts is obviously essential. Many of the case studies discussed in this paper began with the efforts of a small handful of inspired, active, civic-minded citizens who were looking to make a difference in their communities using digital technologies.

Conclusion

Recommendation 15 of the *Informing Communities* report operates at such a high level of abstraction that it is difficult to know what the contributors envisioned for these high-quality local hubs. The good news, however, is that incredible things are happening on this front in communities across America. "Countless civic groups already use new communication and information-sharing tools to promote political action, operate an opposition movement, or mobilize community activism," noted Beth Simone Noveck, who served from 2009 to 2011 as the U.S. deputy chief technology officer for open government (Noveck, 2009). The Benton Foundation has observed, "Communities across the country are taking control of media, adapting new technologies to the social, economic, educational, cultural, and information needs of their residents" (Johnson and Menichelli, 2007).

This paper has attempted to show, using evidence culled from real-world experiments, that government websites, community wikis and local media portals are evolving rapidly and offering citizens a wealth of informational inputs about their local communities. Indeed, there is reason for optimism here. The future of informed local communities has never looked brighter.

With this optimism in mind, I offer the final general conclusions on the creation of online community hubs:

There is no one-size-fits-all, best approach to designing high-quality local online hubs. A thousand flowers are blooming in today's information marketplace and that is a wonderful thing. The more experimentation, the better at this point. But we should not assume that a hub model that works well in one community will automatically work for another. Models that catch on in some communities may flounder in others. Some communities may be served by multiple hubs that specialize in serving various informational needs, while other communities might get all those needs served by one portal.

Our primary concern should be underserved communities. Unsurprisingly, local online hubs tend to flower in large and mid-sized communities before smaller ones. Thus, we need to put a lot more thought into how to deal with those communities who have nothing in place today. That can be facilitated by the next few steps.

- ***Create a "toolbox" that could help underserved communities.*** While there is no one best model for each community, a "toolbox" approach should be developed to help underserved communities. It should include a variety of tools and useful advice to help residents access information about their government and local communities. For example, universities [see discussion above], foundations, and others could help package some of the tools and models discussed throughout this report and find ways to get them out to other communities. This is partly what the Knight Foundation has sought to achieve with its Knight News Challenge, although not specifically aimed at underserved communities.

- ***Create metrics and measure demands and needs.*** A needs assessment should be conducted within each community to determine what its informational needs are and what kind of hub(s) can address them. We need to think about how to accomplish that, who is in the best position to conduct such a survey and what questions to ask. The Knight Foundation, working in collaboration with Monitor Institute, is developing a Community Information Toolkit designed to address this need. The Toolkit will include a Community Information Scorecard to help a community assess its information ecology and use this information to guide action to strengthen the community's information ecosystem. Additionally, the Harwood Institute is preparing a white paper (part of the same Aspen/Knight series as this paper) that will lay out a process for community leaders and members of the community at large to assess their local information ecology.

- ***Do not set the benchmark for success too high.*** Regardless of the metrics we choose, we should be careful when establishing baseline expectations about what constitutes success. The effectiveness of online community hubs should *not* necessarily be measured solely by the number of people visiting those sites on a regular basis. Availability and usability should trump actual site time in terms of effectiveness measures.

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APPENDIX

About the Author

Adam Thierer is a senior research fellow at the Mercatus Center at George Mason University where he works with the Technology Policy Program. Thierer's work covers technology, media, Internet and free speech policy issues with a particular focus in online child safety and digital privacy policy issues.

Thierer has spent almost two decades in the public policy research community. He previously served as the president of The Progress & Freedom Foundation, the director of Telecommunications Studies at the Cato Institute, a senior fellow at The Heritage Foundation as a fellow in Economic Policy and a researcher at the Adam Smith Institute in London.

Thierer is the author or editor of seven books on diverse topics such as media regulation and child safety issues, mass media regulation, Internet governance and jurisdiction, intellectual property, regulation of network industries and the role of federalism within high-technology markets. He earned his B.A. in journalism and political science at Indiana University and received his M.A. in international business management and trade theory at the University of Maryland.

Thierer has served on several distinguished online safety task forces including Harvard Law School's Internet Safety Technical Task Force, a Blue Ribbon Working Group on child safety organized by Common Sense Media, the iKeepSafe Coalition, and the National Cable and Telecommunications Association and the National Telecommunications and Information Administration's Online Safety and Technology Working Group. He is also an advisor to the American Legislative Exchange Council's Telecommunications and Information Technology Task Force. In 2008, Thierer received the Family Online Safety Institute's Award for Outstanding Achievement.

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The Communications and Society Program is an active venue for global leaders and experts to exchange new insights on the societal impact of digital technology and network communications. The Program also creates a multi-disciplinary space in the communications policy-making world where veteran and emerging decision-makers can explore new concepts, find personal growth, and develop new networks for the betterment of society.

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The Program's executive director is Charles M. Firestone, who has served in that capacity since 1989, and has also served as executive vice president of the Aspen Institute for three years. He is a communications attorney and law professor, formerly director of the UCLA Communications Law Program, first president of the Los Angeles Board of Telecommunications Commissioners, and an appellate attorney for the U.S. Federal Communications Commission.

Universal BROADBAND

Targeting Investments to Deliver Broadband Services to All Americans

BY BLAIR LEVIN

THE ASPEN INSTITUTE
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John S. and James L. Knight Foundation
Informed and engaged communities.

A project of the Aspen Institute Communications and Society Program and the John S. and James L. Knight Foundation.

Universal Broadband

Targeting Investments to Deliver Broadband Services to All Americans

A White Paper on the Universal Service Recommendations of the Knight Commission on the Information Needs of Communities in a Democracy

written by
Blair Levin

THE ASPEN INSTITUTE
Communications and Society Program
2010

The Aspen Institute and the John S. and James L. Knight Foundation invite you to join the public dialogue around the Knight Commission's recommendations at www.knightcomm.org or by using Twitter hashtag #knightcomm.

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From Report to Action
Implementing the Recommendations of the Knight Commission on the Information Needs of Communities in a Democracy

In October 2009, the Knight Commission on the Information Needs of Communities in a Democracy released its report, *Informing Communities: Sustaining Democracy in the Digital Age*, with 15 recommendations to better meet community information needs.

Immediately following the release of *Informing Communities*, the Aspen Institute Communications and Society Program and the John S. and James L. Knight Foundation partnered to explore ways to implement the Commission's recommendations.

As a result, the Aspen Institute commissioned a series of white papers with the purpose of moving the Knight Commission recommendations from report into action. The topics of the commissioned papers include:

- Universal Broadband
- Civic Engagement
- Government Transparency
- Online Hubs
- Digital and Media Literacy
- Local Journalism
- Public Media
- Assessing the Information Health of Communities

The following paper is one of those white papers.

This paper is written from the perspective of the author individually. The ideas and proposals herein are those of the author, and do not necessarily represent the views of the Aspen Institute, the John S. and James L. Knight Foundation, the members of the Knight Commission on the Information Needs of Communities in a Democracy, or any other institution. Unless attributed to a particular person, none of the comments or ideas contained in this report should be taken as embodying the views or carrying the endorsement of any person other than the author.

Executive Summary

The Knight Commission recognized that for there to be healthy news communities, all Americans need access to diverse sources of news and information. In the future, that means that all Americans will need access to broadband networks, and public policy should encourage broadband adoption. Yet current government programs to assure communication networks are available to all Americans will neither ensure that such networks are available nor encourage adoption.

This paper proposes a number of steps to achieve these goals. First, the paper outlines the steps necessary to make basic broadband available to all Americans, regardless of location. As an initial matter, the paper proposes setting a target of assuring that all Americans have access to a network capable of delivering 4 Mbps actual download speed and 1 Mbps actual upload speed. To do so requires a fund of approximately $10 billion over 10 years. This money can be obtained by repurposing existing money from the Universal Service Fund, which is no longer efficiently serving the goal of connecting Americans to the universal communications medium.

One step that could be taken is reducing or freezing funds currently utilized for eligible telecommunications carriers (ETCs), Interstate Access Support and Interstate Common Line Support. Once the funds are identified, the government needs to determine a mechanism to distribute funds. The paper proposes that the funds be distributed through a transparent, market-based approach; that funds be provided only to areas where, without such funding, there is no private sector case to provide broadband; and that funds are provided to one provider per area. The criteria should be company and technology agnostic, and the recipients should be accountable for achieving universal broadband access in the relevant geographic areas. As the government rolls out the funding, it should do so in a manner that solves the least expensive access problems first. Ultimately, it will be too expensive to provide service to the last .2 percent of homes, so those homes should be served by satellite broadband.

To further assure deployment and operation of broadband networks everywhere, the government should create a broadband mobility fund to assure coverage in areas for which mobile costs are significantly greater (generally due to geographic issues such as mountainous terrain), provide middle mile support where operating costs are significantly greater due to the high cost of middle mile transit, and remove barriers to government funding of broadband networks.

The second major policy initiative would be to support the adoption of broadband by low-income Americans and other non-adopter communities. Numerous surveys show that low-income Americans adopt broadband at less than half the rate of wealthier Americans. Cost is the biggest factor, but it is not the only factor. Digital literacy and relevance also loom large as factors affecting adoption.

The paper makes a number of recommendations to increase adoption. The government should expand, and eventually transform, the current Lifeline and Link-Up programs from subsidizing voice services to making broadband affordable to low-income individuals. Government agencies and non-profits should form partnerships to address relevance barriers with targeted programs. Similarly, governments and non-profits should address digital literacy through a Digital Literacy Corps and an Online Digital Literacy Portal. The government should convene a working group to address adoption by persons with disabilities, a key non-adopter community. The government should also experiment, through a competition, to try new techniques to drive adoption.

In addition, the paper suggests that to drive both deployment and adoption, the country needs to improve broadband-related funding to community anchor institutions. This can be done by facilitating demand aggregation for public sector broadband facilities, such as health care facilities, and by enabling partnerships that focus on serving the needs of institutions that require more complex networks. The paper also recommends a number of steps to improve the use of broadband for economic development efforts.

Universal Broadband:
Targeting Investments to Deliver Broadband Services to All Americans

Blair Levin

Universal Broadband
Targeting Investments to Deliver Broadband Services to All Americans

"Set ambitious standards for nationwide broadband availability and adopt public policies for encouraging consumer demand for broadband services."

— Recommendation 8, *Informing Communities: Sustaining Democracy in the Digital Age*

The Knight Commission Recommendation

The Knight Commission proposed that all Americans should have access to high-speed Internet services wherever and whenever they need it. This includes mobile access everywhere and affordable home service that provides access to an Internet service capable of receiving and transmitting high-definition programming comparable to that received over multichannel video services. As the Commission notes, however, current government policies, even the $7.2 billion provided through the American Recovery Act and Reinvestment Act of 2009, will not be sufficient to ensure that all people in the United States have access to and can enjoy the benefits of universal digital citizenship. To remedy this gap, the Commission endorsed the use of government funds to spur deployment of broadband where networks do not exist and to develop applications and services that will make broadband more attractive to non-adopters.

This paper proposes a plan for achieving the goals set out by the Commission, primarily through the restructuring of the current federal Universal Service Fund. Over time, that fund, which currently outlays over $8 billion per year, might be sufficient to achieve the Commission's goals. As currently structured, however, it will not do so, as it neither efficiently targets the funds for universal deployment and adoption of broadband, nor does it incorporate an ability to experiment with ways to improve the return on the money it spends. The plan discussed below relies primarily on private investment to drive towards the Commission goals but seeks to target government investments in ways that will stimulate additional private funds to complete the job of connecting all America.

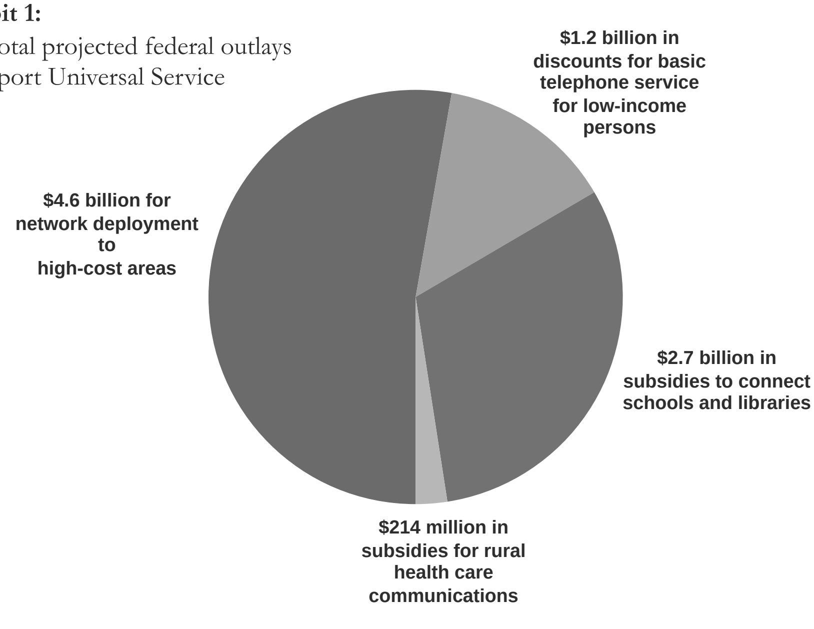
The Current Universal Service System

Universal service has been a national objective since the enactment of the Communications Act of 1934. The policy, now realized primarily though an assessment on interstate and international "end user" telecommunications charges, has been successful in achieving nationwide access and adoption of voice communications services. It is not yet designed, however, to achieve a similar end for broadband.

In 2010, the federal fund is projected to make total outlays of $8.7 billion in the following categories:

- $4.6 billion to support deployment of networks to high-cost areas, where population density or other factors would cause the price of services to consumers to be at a level that would not reasonably compare to urban areas (this is in addition to the 21 states that have similar high-cost funds that distribute a total of over $1.5 billion)
- $1.2 billion to provide discounts to make basic telephone service available and affordable to low-income consumers (in addition, 33 states have similar programs)
- $2.7 billion to subsidize telecommunications services, Internet access and internal connections to enable schools and libraries to connect to the Internet (in addition, nine states have similar programs)
- $214 million to subsidize rates for rural health care providers for communications services (in addition, at least 27 states support such services)

Exhibit 1:
2010 total projected federal outlays to support Universal Service



Source: Federal Communications Commission

The Plan for Universal Broadband

The existing funding mechanisms target three particular gaps: first, the high cost of network deployment and operation in rural areas; second, low-income Americans unable to afford the cost of connectivity; and third, schools, libraries and health care facilities unable to afford connectivity.

These gaps must be addressed, but reform of each current mechanism is necessary to achieve the goals set out by the Knight Commission. Such reforms include targeting the funds to current gaps instead of previous gaps, targeting new deployment gaps, enabling institutions to collaborate more effectively and utilizing competitive mechanisms for distribution. In addition, there are new areas for which funding would be appropriate, such as addressing digital literacy, and new opportunities for specific, immediate economic development.

Funding could come from four areas:

1. existing funding
2. existing funding plus an increase in the assessment on the existing revenue base (known as the contribution factor)
3. funding from a new revenue base
4. funding from a congressional appropriation

Making better use of existing funding should be the first priority in any reform effort. The universal service contribution factor—an assessment on interstate and international charges that usually appears as a surcharge on consumers' phone bills—is already at about 15 percent (having risen dramatically in the last decade). Further increases would create both political and policy problems. Creating a new funding base, while probably inevitable in the long run, would add both political and policy complexity to the task of reforming universal service. Further, it is not necessary to achieve the goals of the Knight Commission. Funding from Congress for any large or permanent program is highly unlikely at this time and should, at most, only be considered for short-term, targeted actions. Moreover, there are significant funds in the current system that are not effectively serving public policy goals and should be repurposed to achieve the current communications imperatives for our country.

Specific Actions

A. Make Basic Broadband Available to All Americans, Regardless of Location

In order to design a plan to bring broadband to all Americans, one must make two initial determinations. First, one must determine the basic level of broadband service that deserves public support. Second, one must determine the gap between what the private sector would be willing to pay to deploy and operate the necessary networks and the amount it would actually cost to deploy and operate those networks.

As to the first determination, an appropriate target would be 4 Mbps of actual download speed and 1 Mpbs of actual upload speed (hereafter called the Availability Target). This represents a speed comparable to what the typical broadband subscriber in the United States receives today. It would enable the uses that are common today, including a variety of educational, health care, news and information, communications (such as Voice over Internet Protocol and e-mail) and entertainment uses, such as over-the-top video. It is likely that the speed requirements for the most common applications will grow over time, but it is also possible that compression technology or shifts in customer usage patterns will slow the growth of bandwidth needs. Thus, for purposes of this paper, actions will be designed to support the 4 down/1 up actual offering, but the Federal Communications Commission (FCC) should review and reset the target for universal service support every four years. While the nation should aspire to, and will achieve, far higher speeds for most of the country, the speeds supported in this plan will assure that all citizens can participate in essential community functions. Any types of networks that facilitate such functions and require public investment should be able to receive support.

Country	"Universal" availability target (download)	Type of speed	Date
United States	4 Mbps	Actual	2020
Rep. of Korea	1 Mbps (99%)	Actual	2008
Finland	1 Mbps	Actual	2009
Australia	0.5 Mbps	Unspecified	2010
Denmark	.5 Mbps	Unspecified	2010
Ireland	1 Mbps	Unspecified	2010
France	0.5 Mbps	Unspecified	2010
Germany	1 Mbps	Unspecified	2010
United Kingdom	2 Mbps	Unspecified	2012
Australia	12 Mbps	Unspecified	2018

Critics may suggest that the 4/1 offering is not sufficiently ambitious. This is a debate worth having as the goals represent a policy judgment in which reasonable minds can differ. It should be remembered, however, that this is not a broadband goal for most of the country but rather a minimum technical requirement for being able to receive public support for the build-out and operation of private networks in markets where market forces will not otherwise provide broadband networks.

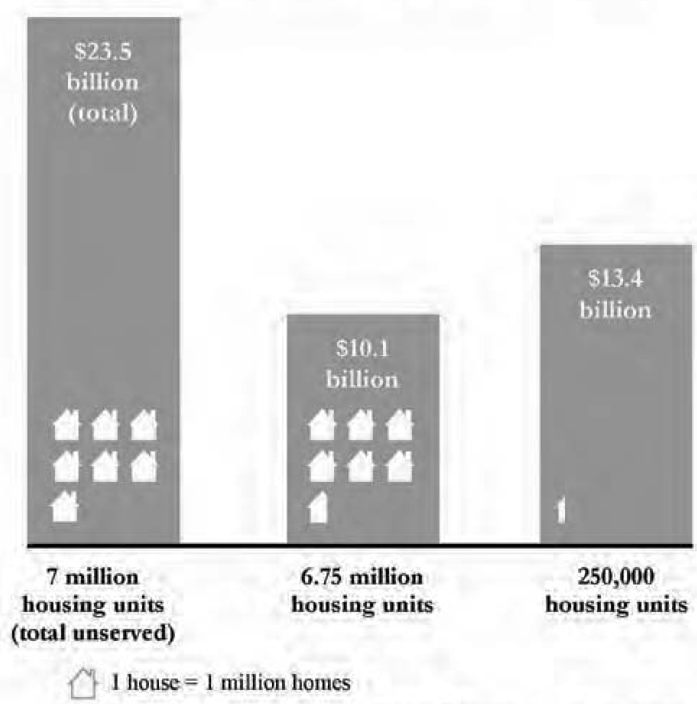
Second, this goal, in fact, is one of the highest universal targets anywhere in the world.

Third, the goal will have to be reevaluated in terms of actual use by most Americans, but more ambitious goals in terms of network speeds, at this time, would cause such an increase in the assessment on the current system that it could backfire in terms of driving America's use of broadband. For example, the FCC calculates that going from 4 Mbps to 6 Mbps would increase the investment gap by more than 100 percent, but it is not clear that the benefits to the currently unserved would be material. Above all, the real ambition ought to be demonstrated in how the public uses the network. That is obviously related to speed, but speed is only one component of how we should think about America's ambition to use broadband to drive economic growth and improve society. While this target should be reevaluated every five years, the current 4/1 target should be the initial goal.

With that goal in mind, the most recent FCC study concludes that there are 7-million housing units (about 5 percent of all American housing units) without access to a terrestrial broadband infrastructure capable of meeting the Availability Target. The FCC further concluded that the cost of building and operating networks to reach these homes would be about $32.4 billion dollars (which represents both capital expenditures and operating expenditures over 10 years). The expected revenue from these homes would be about $8.9 billion, leaving an investment gap of $23.5 billion over a 10-year period. The majority of this gap is caused by just 250,000 homes, which by themselves account for $13.4 billion. Those homes, which are less than .2 percent of all housing units, could be served by satellite broadband. As such, this plan will focus on connecting 97 percent of the currently unserved. To meet this gap requires approximately $10 billion over a 10-year period.

Exhibit 2: The Broadband Investment Gap

Number of U.S. homes without access to terrestrial broadband and projected 10-year investment gap to connect them to terrestrial broadband. Majority of gap ($13.4 billion) is caused by final 250,000 homes.



Source: Federal Communications Commission

1. Repurpose existing funds for broadband

There are a number of problems with the current Universal Service Fund. Among these are that the fund is targeted to support analog voice requirements, rather than data networks; that the fund does not target unserved areas but rather funds particular kinds of companies; that the fund provides incentives for inefficient build outs; that there is no accountability for actually using the funds for their intended purposes; and that the support programs are not coordinated to leverage the funds to maximize broader policy objectives.

It is beyond the scope of this paper to outline all the policy steps necessary to reform the Universal Service Fund. It is, however, appropriate to focus on those reforms that would directly achieve the recommendations of the Knight Commission. In this regard, it is noteworthy that there are a number of current disbursements from the Universal Service Fund that do not effectively provide broadband universal service. These can and should be repurposed to fund networks that meet the Availability Target in unserved areas. Potential savings from these current disbursements include:

- Verizon and Sprint have already agreed to a reduction in funds provided under the programs that support competitive eligible telecommunications carriers (ETCs), pursuant to merger conditions, but the FCC has not yet acted to reduce these payments. Doing so will result in about $4 billion in savings over 10 years.
- Interstate Access Support (IAS) payments were supposed to be reevaluated in 2005 but never were. The funds for this program, which supports legacy voice services, could be retargeted for broadband, creating approximately $4 billion in savings over 10 years.
- Freezing Interstate Common Line Support (ICLS) would limit the growth of the existing high-cost fund and result in savings of about $1.8 billion over 10 years. To accomplish this, the FCC would have to require that rate-of-return carriers move to incentive regulation. Rate-of-return regulation was designed for a monopoly provider of voice services. It does not work well in today's market, when companies have ways to monetize their investment beyond simply selling voice services. Requiring a change to incentive regulation would be consistent with current market structures, as broadband services are more competitive than voice services were when rate-of-return rules were adopted. This would also be consistent with existing FCC policy, which recognizes that rate-of-return regulation does not provide sufficient incentives for developing innovations in the way the firms do business.
- Phasing out remaining legacy high-cost support for competitive ETCs would yield up to an additional $5.8 billion over the coming decade. This program, while well intentioned, has not led to incremental universaliza-

tion of voice services and has not helped to drive new broadband services. Rather, the program has created situations where, in some areas, the ETC program supports more than a dozen competitive ETCs for voice services. What's more, in many instances, companies receive support for multiple handsets on a single family plan.

Together these actions would result in between $15 and 16 billion in savings from the existing High-Cost program. This number should be sufficient to fill the investment gap, though some funds would be needed for some of the programs other than the high-cost fund, as discussed further below.

Closing the Broadband Investment Gap

Universal Service Fund disbursements that can be retargeted to universal broadband

Implement merger conditions for eligible telecommunications carriers (Verizon, Sprint)	**$4 billion**
Phase out Interstate Access Support (IAS) subsidy	**$4 billion**
Freeze Interstate Common Line Support (ICLS)	**$1.8 billion**
Phase out remaining legacy High-Cost support for competitive eligible telecommunications carriers (ETCs)	**$5.8 billion**
Total saved over 10-year period	**$15.6 billion**

In addition, it is important that the FCC adopt a long-term framework for intercarrier compensation reform that creates a glide path to eliminate per-minute charges while providing carriers an opportunity for adequate cost recovery. In addition, the FCC must establish interim solutions to address access charge arbitrage. While the policy goal here is not directly related to achieving universal broadband access (and therefore this paper will not go into detail on the subject), the economics are linked; many recipients of current High-Cost funds are also net recipients for the current intercarrier compensation system. Changing both systems at the same time without understanding the impact on current communications providers could result in loss of service in some areas. It is likely that several billion dollars of the savings from the High-Cost fund will have to be put into a fund for revenue replacement resulting from intercarrier compensation reform.

Similarly, as the FCC moves the goal of universal service from supporting voice to supporting broadband, it will have to redefine the obligations of carriers of last resort. Like intercarrier compensation, it is beyond the scope of this paper to delve into those issues, but the terms will have to be redefined for the proposed reforms to assure that broadband is offered everywhere.

2. Create a distribution mechanism for broadband connectivity

None of the existing universal service funds are directly targeted at supporting the shortfall in capital expenditures or operating expenditures that would keep a private entity from being willing to invest in building and operating a broadband network in a rural area. The FCC should create such a Connect America Fund according to the following principles:

- The fund should only provide support in geographic areas where, without such funding, there is no private-sector business case to provide broadband.
- The geographic areas to be funded should be based on neutral geographic areas rather than areas associated with specific industry segments (such as geographies defined by wire centers).
- There should be only one subsidized provider of broadband per geographic area. (This is a significant change from current policy. While there are negative consequences of not having multiple providers, adding a second wired network would add more than $50 billion to the investment gap. Funding for just one additional wireless network would add about $10 billion. Adding assessments on the current fund to pay for additional support would significantly reduce the affordability of broadband for millions of Americans.)
- The criteria for being eligible for support should be company and technology agnostic, as long as the recipient is able to provide the service that meets the specifications of the FCC.
- Recipients of the funds should be accountable for their use, subject to enforceable time lines for achieving universal broadband access, and subject to other broadband provider of last resort obligations.

In addition, the funds should be distributed according to criteria that are transparent and, where feasible, subject to market mechanisms. The most attractive of these utilizes a reverse auction in which the government specifies the broadband characteristics it seeks in the unserved area (such as the Availability Target) and asks firms to bid for the right to meet those objectives. This technique has the advantage of avoiding a government beauty contest in which the government chooses on the basis of subjective criteria, a technique that history suggests is time consuming and difficult—as it is hard to compare one project with another. It also has the advantage of having the market set the appropriate level of subsidy, rather than having the government guess at the appropriate level, which history also suggests is difficult to do and which creates incentives on the part of private parties to create a record that would increase the level of subsidy required. There are difficulties in utilizing reverse auctions, such as defining the geographic area and the broadband characteristics, but those problems exist no matter what technique the FCC chooses. Reverse auctions also need to be designed to take into account the different business strategies firms may employ (such as differences in building in options to upgrade) to assure the greatest long-term return for the public.

In addition, as the FCC rolls out the fund, it should do so in a manner in which it solves the least expensive access problems first. For example, once the broadband mapping is completed in February 2011, the FCC should determine the geographic units where there is no broadband availability. It should then hold a reverse auction in which providers bid down to the amount they need to build and operate a broadband network in that area. Only a percentage of the geographic areas would be funded in the first auction, but the competitive dynamic would cause providers to compete with other providers from around the country for subsidies. This mechanism would therefore ensure that the cost to the government of providing service in that area reflects market costs and that the provider who will serve the area at the lowest cost will receive the subsidy. In doing so, the government should target funding capital expenditure shortfalls, rather than ongoing operating expenditure shortfalls, which are the bulk of the shortfalls and which also drive the greatest immediate job creation.

In addition, as the government is largely funding capital expenditures, it should do so in an efficient manner. As universal service funds represent a secure revenue stream, the government should award the funds in a lump sum by capitalizing the universal service revenues, rather than awarding smaller sums every year. This would encourage a faster deployment by the companies.

3. Create a Broadband Mobility Fund

Unlike wireline voice networks, wireless voice networks did not require explicit government subsidies to build out networks to nearly all Americans. Even today's advanced wireless networks, generally referred to as 3G networks, already cover 98 percent of the country's population. Some areas, however, are not covered due to the particular characteristics of building wireless networks. For example, 3G networks cover a mere 71 percent of West Virginia's population due to the mountainous terrain that characterizes so much of the state. This lack of coverage is even more significant because the foundations of the 3G networks will also serve as the foundations of the 4G networks being built out across America. Assuring a nationwide 3G build out would also lower the price of building out a nationwide public safety network. As such, the FCC should create a Broadband Mobility Fund to provide sufficient funding (which a preliminary estimate suggests would be approximately $300 million) to bring all states to a minimum level of 3G (or better) mobile service availability.

4. Examine middle mile costs and pricing, and provide funding, where appropriate, for middle mile support

Numerous studies have demonstrated that the cost of middle mile transport (which refers generally to the transport and transmission of data communications from the central office, cable head end or wireless switching station to an Internet point of presence or gateway) and the cost of second mile (transport from the remote terminal, cable node or base transceiver station to the central office, head end or mobile switching station) often make it uneconomical for business to offer broadband in rural areas. For the most part, this does not appear to be a deployment gap—approximately 95 percent of telecom central offices and nearly all cable nodes are served by fiber. Rather, it appears that the pricing for these services often makes it difficult for ISPs to offer an affordable service. Low density and demand in rural areas, coupled with the volume dependent middle mile cost structure, means that rural broadband operators do not benefit from the same economies of scale that service providers in denser areas enjoy. But in some cases, the high costs may also be caused by the FCC's policies regarding the rates, terms and conditions of providing access to these services, generally referred to as special access services.

In light of this, the FCC should conduct an examination of middle mile and second mile costs and pricing and determine the extent to which it should help subsidize such costs as part of the Connect America Fund and to what extent it should reform its rules regarding special access.

5. Improve access to, and lower access costs of, rights of ways

Broadband networks, whether wired or wireless, rely on cables and conduits attached to public roads, bridges, poles and tunnels. Securing rights to this infrastructure can be a time-consuming process that discourages private investment. Government, through permitting, zoning and other practices, affects the costs and ease of access to such rights of way. Governments should do a number of things to improve the business case for deploying and upgrading broadband networks. The FCC should establish low, uniform rates for pole attachments; reform the process for resolving rights-of-way disputes; and, working with state and local governments, should improve the collection and dissemination of information about public rights of way. The Department of Transportation should attach conditions to federal financing of projects to facilitate the placement of conduits. Congress should adopt "dig once" legislation to enable conduit placement along all federally funded projects and the executive branch should develop a master contract to expedite the placement of wireless towers on federal government property and buildings.

6. Remove barriers to government funding of broadband networks

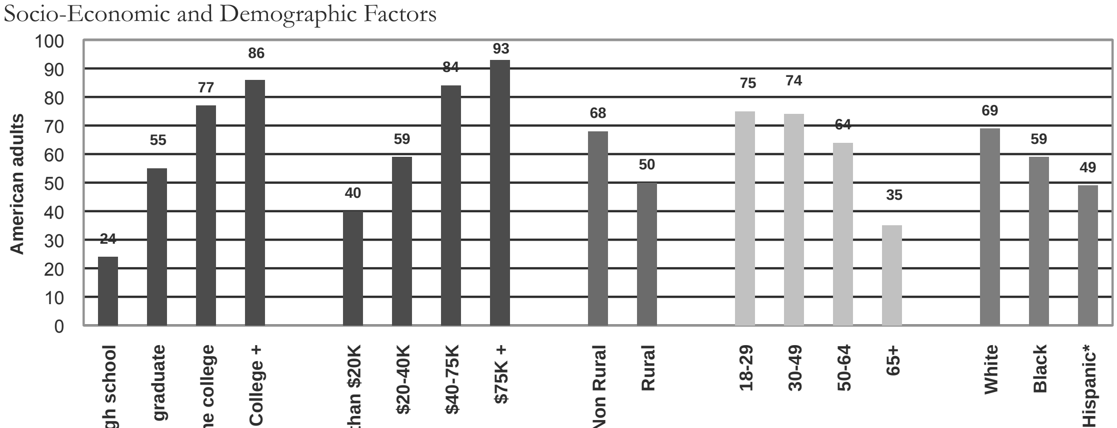
It is unusual for local governments to build and operate their own broadband networks. But some, after being frustrated by unsuccessful efforts to work with established carriers to meet local needs, have done so. This is similar to how, in the early part of the 20th century, public and cooperative-owned power utilities were created to fill the gap resulting from investor-owned power companies focusing on more profitable urban areas. And just as before, local governments seek to meet what they think are the needs of their constituents by investing in their own efforts.

These efforts carry significant financial risks and may discourage private sector investment. But those risks and the impact on investment in a particular area are best left to those in the local area to determine. In the absence of sufficient private investment in networks, local governments should have the right to build networks that serve their constituents as they deem appropriate. A number of states, however, have passed laws that make such municipal efforts illegal or, in other cases, extremely difficult. Congress should clarify the current federal law to make it clear that local governments should have the right to engage in local deployment efforts.

B. Support the Adoption of Broadband by Low-Income Americans and Other Current Non-Adopter Communities

Forty percent of adults in households where the income is less than $20,000 per year have broadband at home compared to 93 percent where the household income is greater than $75,000. The FCC's recent study of non-adopters confirmed what other studies have suggested—that cost is the single largest reason, cited by over one-third of the respondents, non-adopters do not adopt. To achieve universal adoption of broadband, there will have to be government support for low-income persons, as there has been with telephone service.

Exhibit 3:
Broadband Adoption by American Adults by Socio-Economic and Demographic Factors



*Hispanic includes both English and Spanish-speaking Hispanics

Source: Federal Communications Commission, Connecting America: The National Broadband Plan

But money is not the only issue. Eighty percent of the households with incomes of less than $20,000 subscribe to premium television services whose monthly fees are comparable to, and often exceed, the cost of broadband. This might surprise some who view broadband as more essential than premium television, but it should come as no surprise for a variety of reasons.

First, while television brings value to the individual, broadband's value depends to a significant degree on how many people in one's social circle are also using it and how they are using it. Second, there is a large gap between the tools necessary to watch television and those necessary to use the Internet. Television requires very little. Broadband requires device literacy and a basic understanding of how

Exhibit 4:
Demographic and socio-economic overview of non-adopters by selected barriers
(% of those facing barrier, by demographic)

	Cost	Digital Literacy	Relevance	Lack of Availability
Male	40	45	43	49
Female	60	55	57	51
Parents with minor children at home	32	17	15	33
Those who report they have a disability	41	46	37	21
18-29	24	6	10	18
30-49	29	22	21	30
50-64	26	28	22	35
65+	19	44	44	16
White (not Hispanic)	54	65	71	78
Black (not Hispanic)	16	13	9	11
Hispanic (English or Spanish speaking)	27	16	14	5
Less than high school	34	29	27	10
High school graduate	42	51	47	38
Some college	14	12	15	33
College+	9	8	11	20
Under $20K	38	24	24	22
$20-30K	15	15	14	15
$30-40K	10	10	7	10
$40-50K	7	9	10	7
$50-75K	5	8	11	5
$75-100K	3	4	2	3
Over $100K	2	2	3	2
Don't know/refused	21	28	30	21
Urban	37	28	24	8
Suburban	38	44	47	42
Rural	21	26	25	46

Source: Federal Communications Commission survey, October-November 2009 to find and locate trustworthy, substantive content; how to safely interact online; and how to protect personal information. Moreover, using the Internet requires its users to be literate. Fourteen percent of the adult population in the United States, or 30 million people, read at below basic literacy levels, while another 63 million read at just the basic level. Literacy levels do not interfere with television usage, but without sufficient content geared towards those with lower reading levels, the utility of the Internet for those Americans drops dramatically. In short, there is no digital literacy without basic literacy. But in the future, given the adoption of broadband among young people, it is likely that the path to basic literacy will pass through the desire to be literate on broadband.

The FCC's data confirm how these factors play into the decision not to adopt. Twenty-two percent of non-adopters cite digital literacy-related factors as their primary reason for non-adoption, while 19 percent of non-adopters cite lack of relevant online content.

What this means is that any program to achieve universal broadband must address a variety of factors beyond those required to achieve universal telephony or universal broadcast adoption. While cost is a primary factor, there must be programs to address the variety of factors that affect adoption. The Knight Commission Report recognized this need and recommends integrating "digital and media literacy as critical elements for education at all levels through collaboration among federal, state and local education officials." That recommendation will be considered in a separate paper on digital and media literacy by Renee Hobbs, but this paper will also explore those issues in the context of current or expanded universal service policies.

Among the specific steps the FCC and other parts of the government should take to increase adoption are the following:

1. Expand and eventually transform the current Lifeline and Link-Up programs from subsidizing voice services to making broadband affordable to low-income individuals

In the mid-1980s, the FCC created Lifeline Assistance and Link-Up America to ensure that low-income Americans could afford local telephone service. Lifeline subsidizes the cost of the service by directly paying service providers on behalf of a qualified consumer. Link-Up provides a one-time discount on the initial installation of telephone service.

Over time, these programs should be transformed to provide support for broadband connectivity. As an initial matter, the FCC and the states, many of which provide similar assistance, should require service providers to permit Lifeline customers to apply the subsidy payment to any service or package that includes basic voice service, including packages with broadband that meet the standards established by the FCC. As Voice over Internet Protocol is often less expensive than traditional voice services, this would enable low-income Americans to enjoy the benefits of bundling already enjoyed by wealthier Americans and, in doing so, would make broadband more affordable. Further, the FCC should expand service provider eligibility to include any broadband provider selected by the consumer so long as it meets the standard set by the FCC.

Less than 30 percent of households eligible for Lifeline participate, with the difficult enrollment process cited as one of the main reasons for limited participation. To address this issue, the FCC should integrate the Lifeline and Link-Up efforts with state and local government e-government efforts, including coordination with other low-income support programs to streamline enrollment for benefits. As evidenced by the experience of the state of Florida, an automatic enrollment process for low-income assistance programs will likely lead to increased enrollment in the Lifeline and Link-Up programs.

In addition, the FCC needs to run pilot projects to develop the design elements of the long-term program. These pilots should determine which parameters can most efficiently improve low-income adoption by studying the different effects of different levels of service subsidy, device subsidy, installation subsidy, minimum payment requirements, and alternative strategies such as integrating the subsidy programs with various educational opportunities, including job training or digital literacy training.

2. Address relevance barriers for specific groups through targeted partnerships

Certain demographic groups have below-average adoption rates. For example, the adoption rate for Americans over age 65 is 35 percent, for those who speak Spanish as their primary language the adoption rate is about 20 percent, and for persons with disabilities the adoption rate is 42 percent.

It is likely that the path to adoption for members of these groups is quite different. For each, the most effective strategy is likely to be focused on the specific barriers to adoption they face. For example, for seniors, the barriers are more likely to be related to learning how to use the technology; for Hispanics, language related; and for those with disabilities, equipment related. As there are many private and non-profit entities with an interest in increasing the adoption rates of these and other discrete groups, the right approach is likely to be targeted partnerships that understand both the needs of and the distribution channels relied on by the persons in these groups.

These partnerships are already developing. For example a number of private entities, including leading Internet Service Providers (ISPs), and software and applications companies have joined together with leading non-profit groups for seniors to form The Project to Get Older Americans onLine (Project GOAL), which will work with seniors to encourage greater broadband adoption and use. All public entities, particularly those whose mission is to service the targeted groups, should encourage such efforts. For example, the FCC should work with the National Institute on Aging to conduct a survey of older Americans to identify barriers they face to adoption and should work with the Department of Health and Human Services and the Social Security Administration to develop online materials to improve health care and customer service for Social Security.

3. Address digital literacy through a Digital Literacy Corps and an Online Digital Literacy Portal

As previously noted, Renee Hobbs' paper detailing action steps for implementing the Knight Commission recommendations will explicitly address how to incorporate digital literacy into the curriculum throughout educational institutions in the United States. This is clearly an important long-term effort.

In addition to that effort, there are two efforts that overlap with traditional universal service efforts that should be utilized to further digital literacy and therefore, universal adoption. First, Congress should consider funding the creation of a Digital Literacy Corps. There are many examples of in-person, digital training provided in local communities through community-based resources. The lessons of these programs, in addition to those of AmeriCorps, Senior Corps, and Learn and Serve America, should be used to create a model that builds national scale and operational capabilities (such as recruitment and training) to support locally based efforts. The Digital Literacy Corps should both target and recruit from population segments that are non-adopting populations. The training Corps members receive will not only benefit the community through greater adoption but will also provide the Corps members jobs and professional skills that would enhance future career prospects.

Second, every American should have access to free, age-appropriate content that teaches digital skills. Utilizing libraries, many of which have connectivity because of support from the E-rate program, such a program would serve as a gateway for those who first need to develop digital skills before purchasing broadband for the home. This Online Digital Literacy Portal, which should be launched through the collaborative effort of the FCC, the Department of Education, and the National Telecommunications and Information Administration (NTIA), should offer high-quality online lessons that users can access and complete at their own pace. This is similar to the successful effort that produced online safety programs available through OnGuardOnline.gov. It is also similar to the collaborative models that the Department of Housing and Urban Development and institutions of higher education have developed to utilize educational resources to revitalize communities. The portal's programs should be constantly evaluated and improved and can serve as a valuable resource for similar efforts to integrate digital literacy into the classroom.

4. Convene a working group to address adoption by persons with disabilities

Broadband creates great opportunities for persons with disabilities to enjoy new access to information, entertainment, goods and services, as well as jobs. For these opportunities to be realized, however, hardware, software, services and digital content must be accessible and assistive technologies must be affordable. While there are examples of improvements, such as closed captioning of certain Internet delivered video offerings, our country is still far from where we need to be in terms of assuring that persons with disabilities have effective access to broadband. A significant percentage of those persons without broadband service describe themselves as having a disability, suggesting disability still serves as a barrier to adoption.

The federal government must be a leader in making itself a model of accessibility. To do so, the Chief Technology Officer should convene an executive branch working group that would, among other efforts, ensure that the federal government complies with Section 508 of the Rehabilitation Act. Section 508 requires federal agencies to develop and utilize accessible electronic technologies unless doing so would cause an undue burden. The working group should also coordinate policies across all federal agencies to facilitate funding of more efficient assistive technologies and publish a report on the state of broadband accessibility in the United States. As part of these efforts, the FCC should establish an Accessibility and Innovation Forum that would convene manufacturers, service providers, applications developers and others to share best practices and demonstrate new products, applications and assistive technologies. The forum should have a web presence that would enable an ongoing dialogue between consumers and providers to continually drive innovation and problem solving for the needs of specific disability communities.

5. Create a fund to stimulate competition to improve adoption efforts

Adoption policy should utilize competitive mechanisms to innovate new, measurable techniques. The FCC should use some part of the savings realized with the changes to the current High-Cost program, discussed above, to create a competition for increasing adoption in identified areas. For example, the FCC could set aside $100 million to be provided to the provider in five areas who guarantees the greatest increase in adoption. This would take the form of a reverse auction in which a number of areas, far greater than five, are identified as eligible for the program. The winners of the grants will be those who guarantee the greatest increase in users for the least amount of money. Through such a market-based program, the country will learn which tactics are the most cost-effective for increasing broadband adoption.

Either as part of that effort, or as a separate competition, the FCC should encourage local governments to experiment in delivering services to low-adoption communities. There is some anecdotal evidence suggesting that, eventually, governments will find it cheaper to pay non-adopters to adopt, as it allows the elimination of duplicative means of providing certain services. The FCC should encourage experimentation as it could be useful to all local governments, as well as to adoption efforts.

6. Monitor affordability

A goal of the Knight Commission, and an essential foundation for a universal access policy, is that broadband be affordable. Affordability is a difficult metric as it is subject to subjective judgments about what price point is "affordable" and because the price point must also be considered with the value created. For example, broadband at $40 a month when offered with a premium video package offered at $80 might not be affordable, but more expensive broadband offered at $60 might be more affordable if a person were to be able to satisfy their video needs through Internet-delivered video that only costs an incremental $30 a month. Broadband for a fixed-income, older American at $50 a month might not seem affordable, but if there were health care applications that could save significant amounts of time, travel and money, broadband at $100 a month might seem like the deal of the century.

While the task involves complexity, it is nonetheless critical that the government collect and analyze relevant information so as to be able to determine whether affordability is becoming less of a problem or more of a problem. At a minimum, the FCC and the U.S. Bureau of Labor Statistics should collect data on actual availability, penetration, prices, churn, and bundles offered by broadband service providers to consumers and businesses and should publish the data and analyses of these data, except where the publication would reveal competitively sensitive or copyrighted material. The information collected should include information related to switching barriers, such as early termination fees and contract lengths.

Further, the data collection effort should be mindful of significant developments in the market that could affect affordability. The FCC's National Broadband Plan pointed to two major efforts over the next several years that could affect the market structure for broadband services. First, based on current deployment announcements, it appears that 75 percent of the population may have access to only one service provider (cable companies with DOCSIS 3.0 enabled infrastructure) that can offer very high download speeds. Second, the development of 4G wireless networks will enable wireless, with the added functionality of mobile, to compete on a performance basis more effectively with current fixed providers of low-end DSL. The first development might negatively affect affordability, depending on consumer need for higher performance, while the second development might improve affordability, by forcing low-end providers to either lower rates or improve their offerings (thereby providing more competition to the high-end cable offerings). The FCC should monitor the impact of such developments by, for example, analyzing the impact on prices of emerging 4G offerings and analyzing the different pricing strategies where cable faces a high-end competitor (such as where it faces a Verizon FiOS offering) and where it faces a lower-quality DSL offering.

C. Improve Funding to Anchor Institutions

The primary way to judge the success of a universal service program will be through its adoption in the mass market. As the Knight Commission correctly notes, however, part of doing so requires "public policies encouraging consumer demand for broadband services." While entertainment is a primary driver of demand, and one that the government need not be involved in stimulating, there are other demand drivers that the government is directly involved in, such as applications that improve education, health care, public safety, job training and government performance generally.

To drive demand, the government itself has to have appropriate levels of broadband connectivity, and those would require institutional levels far beyond those available in the mass market. Connecting public anchor institutions such as schools, libraries, health care facilities and government buildings to such higher levels of connectivity would help drive demand and would lay the physical and economic groundwork for further upgrades in the mass market. To a significant extend the government has started doing this with the E-rate and Rural Health programs that were established in the 1996 Telecommunications Reform Act. As connectivity needs increase along with the opportunities for new services to be made available over broadband, these programs' needs increase. These funds have traditionally been capped, which provides a valuable check on potential inefficiencies. The FCC should consider increasing these caps in light of new needs, but at the same time the FCC should consider imposing new caps on all the USF programs to ensure some discipline on expenditures.

To ensure that the public sector has access to the appropriate levels of connectivity, a number of steps should be taken:

1. Remove barriers to government funding of broadband networks

As noted above (section A.5), in the absence of local private sector deployments, local governments should have the right to build out networks to their constituents. Congress should make it clear that states should not be able to deprive local governments of that right. Similarly, local governments should be able to fund the build out or upgrade of existing networks to public sector anchor institutions. State laws should not put up barriers to such public investment.

2. Facilitate demand aggregation for public sector broadband facilities, including health care facilities

Various government policies, including those of grant-making agencies, frequently drive institutions to use dedicated, single-purpose networks that are not available for broader community use, limiting the effectiveness of embedded broadband networks. The problem is particularly acute in rural areas where limited broadband is available. Because broadband networks—particularly fiber optic networks—have large economies of scale, bulk purchasing agreements can drive down the per megabit cost of access by a significant amount. At least 30 states have networks that enable various public institutions to aggregate demand to reduce costs. Various federal and state policies limit the benefits of such sharing, however, by precluding or limiting networks that serve one category of institution from serving other institutions and the community as a whole. For example, rather than maintain current policies that prohibit sharing, as it currently does, the FCC's E-rate and Rural Health programs should encourage the shared use of state and local networks by schools, libraries and health care providers when such networks provide the most cost efficient choice for meeting broadband needs. Further, the FCC should consider funding a competition to develop a set of demonstration projects and best practices for aggregating demand.

3. Facilitate partnerships to enable more effective purchasing and design of complex connectivity needs

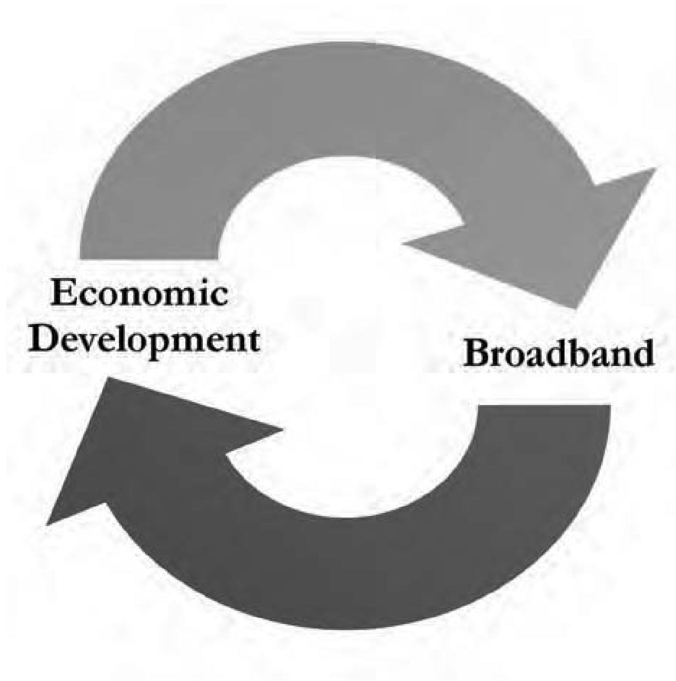
In addition to making sure that E-rate and Rural Health money is used effectively, governments should encourage the development of non-profit partnerships with the mission and capability of serving the broadband needs of public institutions. This model is based on the highly successful non-profits that have served the connectivity needs of research institutions. Expanding this model to other public institutions would have many benefits. Many community institutions lack the experience and resources necessary to maximize their utilization of broadband. Collaboration with others, including experts, on network design and how best to utilize applications to meet public needs, could result in lower costs and far more efficient and effective utilization.

A starting point would be to establish state coordinators and a consortium of anchor institutions. The coordinator would help on a variety of fronts, such as negotiating bulk equipment and connectivity purchase agreements. An additional lever would be to create flexibility in the E-rate and Rural Health funding rules to encourage joint grant applications, where educational and health facilities can combine forces to improve their broadband operations at a lower cost.

D. Create a Fund to Stimulate Competition to Improve Using Broadband for Economic Development Efforts

As noted above, government has historically provided subsidies for three recognized gaps: last mile deployment in high-cost areas, service for low-income persons, and connectivity for schools, libraries and rural health clinics. There is one new area for which USF funding should be considered, at least on an experimental basis: economic development.

There is significant anecdotal evidence that communities have been able to attract new businesses due to broadband connectivity and that other communities



have lost out on new opportunities due to not having broadband connectivity. Certainly local economic developers should view broadband as an essential component of local infrastructure development and should incorporate it into local economic development strategies.

But economic development efforts that depend on infrastructure often offer a chicken-and-egg dilemma: the development will not come without the infrastructure, but without the development it will be difficult to pay for the infrastructure. With water, power, roads and other infrastructure projects, there are a variety of long-standing techniques, such as various government bond mechanisms, that help close the gap—enabling financing for the infrastructure with sufficient certainty that the potential new employers can commit to the location. Broadband is a different kind of infrastructure, but communities would benefit from a spirit of experimentation to determine ways in which broadband can be used in specific cases to drive job creation and regional economic development. To accomplish that the government should do the following:

1. Provide support for state and regional economic development efforts to map broadband availability suitable for institutional purposes

There are numerous federal government programs that support state and local economic development efforts. For example, the Department of Housing and Urban Development runs Empowerment Zones, Enterprise Community and Renewal Community programs, while the Department of Agriculture and the

Department of Commerce run a number of programs related to economic development. All should integrate broadband infrastructure and technological assessments into their programs. To make this job easier, the Economic Development Administration should create an online information center that gives regional planners access to information about broadband infrastructure and potential grants to assist with infrastructure. The center could also serve a match-making function by enabling communities to see what the needs of surrounding communities are so they can band together to aggregate needs and help stimulate greater private sector interest in deploying new or upgraded networks. As this effort would likely provide new incentives to drive deployment in areas that are unserved or underserved, it would also have the effect of increasing overall deployment and adoption in the United States.

2. **Create a fund (Race to the Broadband Technology Opportunities Program), to be distributed on a competitive basis, to serve as a stimulus to broadband deployment or upgrades where such deployment would have a significant, immediate economic development impact**

To further determine how broadband can be used to drive economic development, the FCC should take some funds—for example, $100 million—from the restructuring of the current High-Cost program to create a competitive program for sustainable economic development. The fund would combine the best of the Department of Education's Race to the Top Program with lessons learned from NTIA's BTOP program. The money would be awarded on a competitive basis, with grant applicants providing information on how many jobs the grant would create and the grants being awarded on the basis of the most jobs created per grant. The competition, similar in structure to the Race to the Top program developed by the Department of Education, would be to provide a financial incentive to develop creative ways to utilize broadband to drive economic development. As with all such experiments, there are a number of questions about program design but the availability of such funds is likely to spark new community efforts.

E. Utilize Incentives for Creating Model Communities for Ultra-High Levels of Broadband Connectivity to Provide a Test-Bed for Next Generation Broadband

While the Knight Commission recommendation aims to assure universal adoption, and the primary focus is on meeting the most basic broadband needs, the Commission understood that success is not just base-level connectivity.

There is also a need to have networks that allow for the development and testing of ultra-high speed applications here in the United States. Not only is this important for long-term economic leadership, the development of such applications will have ripple effects throughout the entire broadband ecosystem. This will improve the business case for the deployment of faster networks not just in wealthier communities but also throughout the country. Such high-speed test beds are also essential for driving the market to meet the ambitious goals that the Knight Commission recommended. To help drive the market for broadband networks to increasing speeds, the government should take the following steps:

1. Provide ultra-high speed connectivity to military bases

American military bases are communities that house, train, educate, and support tens of thousands of service personnel and their families. They are ideal communities for ultra-high speed broadband services due to their scale and the variety of services they need to offer their residents, including advanced medical applications, all kinds of education and training offerings, and advanced video communications. The facilities, as heavy users of energy, are also ideal settings for deploying new smart-grid applications. Many bases have high-speed networks for national security operations, so the cost of expanding the networks to all facilities on the base likely would be less than upgrading other kinds of communities to ultra-high speed networks.

To explore this idea, the Department of Defense should, in consultation with the Office of Science and Technology Policy, form a task force to make recommendations on installation selection, network configurations, and an initial list of next generation applications to be utilized through these networks. Particular attention should be paid to bases where the surrounding areas are lacking in broadband, so that the investment can help improve the economics of reaching those underserved communities. The task force should assure, of course, nothing in these plans compromises the level of force readiness.

2. Provide support for private efforts to create ultra-high speed communities through targeted actions similar to those used for economic development zones

There will be private efforts to deploy ultra-high speed networks to communities to accelerate the development of applications that can utilize such speeds. In other circumstances, the United States has utilized various tools to stimulate investment in targeted areas, such as tax incentives or regulatory relief to enter enterprise zones. Policies should use these kinds of levers to help develop a critical mass of such ultra-high speed communities through tax and regulatory incentives for making and maintaining such investments.

Who Should Do What

In this paper, we have recommended a number of different actions by various stakeholders. In this section of the paper, we summarize what each of the different stakeholders should do.

The Federal Communications Commission

The Federal Communications Commissions is responsible for the bulk of the recommendations in this paper. It needs to reform the existing universal service program by transitioning it to a more efficient, broadband-focused program, including transitioning both the High-Cost fund and the Lifeline-Link-Up funds to address broadband rather than voice services. It also needs to create special funds for support of mobility and extraordinary middle mile costs. It needs to reevaluate the caps on support for schools and rural health facilities and the lack of caps on other universal service programs. Also, it needs to reform the rules regarding rights of way and work with others to provide better information about such access. The FCC also has to monitor affordability of broadband.

The Executive Branch

The executive branch can play a key role in forming partnerships with non-profits to develop targeted programs to drive adoption in low adoption communities. It should develop both the Digital Literacy Corps, as part of the community service initiative, and the Digital Online Portal, in conjunction with the non-profit and educational community. The executive branch can also play a role in improving access to rights of way to federally funded projects and federal buildings. The Bureau of Labor Statistics should assist the FCC in collecting data on broadband affordability. The Defense Department should take the lead in bringing ultra-high speed connectivity to military bases. The Economic Development Administration should create an online information center for regional planners and assist the FCC in establishing a broadband economic development competition. The Chief Technology Officer should oversee the executive branch initiative on assuring broadband access to persons with disabilities. NTIA should assist the FCC in developing the Race to the BTOP program.

Congress

Congress does not need to fund significant new programs but may need to approve small amounts for improvements to libraries as part of the Digital Online Portal initiative and for the Digital Literacy Corps. Congress should pass "dig once" legislation and may be called upon to pass targeted legislation assuring that the FCC has authority to take the steps necessary to transition the current universal service and intercarrier compensation framework to support broadband services instead of voice services.

State Governments

State governments need to remove the barriers to municipalities, work with others to help ease and lower the cost of access to rights of way, and work with local partners to assure that state facilities are part of efforts to aggregate broadband demand for community anchor institutions.

Local Governments

Local governments need to reform access to rights of way to provide more transparency and efficiency for private companies seeking to deploy or upgrade networks. Local governments will also play a key role in working with local groups to develop targeted programs for low-adopter communities. Local governments should also work with local partners to assure that local government facilities are part of efforts to aggregate broadband demand for community anchor institutions.

Non-Profits

The non-profit sector has a key role to play in funding some of the experiments that need to be done in terms of transitioning programs for low-income persons from voice to broadband. The sector also should fund specific operational non-profits to address specific target groups, such as seniors. The sector can also play a key bridge-building role in bringing together a number of community anchor institutions to drive more efficient and higher levels of connectivity in every community.

Telecommunications Companies

The private sector should assist the government in reforming rights of way by providing input into the kind of information that would most assist in deploying or upgrading networks. It can also assist in supporting the transition of low-income programs to supporting broadband.

Conclusion

Americans have benefited from government policies designed to assure that the communications and electronic media platforms of their time, telephone and broadcast networks respectively, were universally available and affordable. As we move into an era in which broadband networks become the dominant means of transmitting all manner of voice, video and data communications, a similar commitment to universal availability and affordability is just as important, if not more so. This paper sets out the actions needed to provide that universality by making basic broadband available to all Americans, regardless of location; supporting the provision of broadband to low-income Americans and other current non-adopter communities; and improving funding to anchor institutions. In addition, to fulfill the recommendations of the Knight Commission, it would also be beneficial to create a fund to stimulate competition to improve using broadband for economic development efforts and to utilize incentives for creating model communities for ultra-high levels of broadband connectivity to provide a test-bed for next-generation broadband applications.

APPENDIX

About the Author

Blair Levin became Communications & Society Fellow with the Aspen Institute Communications and Society Program on May 10, 2010, following his departure from the Federal Communications Commission, where he served as the Executive Director of the Omnibus Broadband Initiative. In his role at the Federal Communications Commission, Mr. Levin oversaw the development of a National Broadband Plan, a project mandated by Congress in the America Recovery and Reinvestment Act. Mr. Levin rejoined the Commission in June 2009 after eight years as an analyst at Legg Mason and Stifel Nicolaus. As *Barron's* magazine noted, Levin "has always been on top of developing trends and policy shifts in media and telecommunications…and has proved visionary in getting out in front of many of today's headline making events."

Previously, Mr. Levin served as Chief of Staff to FCC Chairman Reed Hundt from December 1993 through October 1997. Mr. Levin oversaw, among other matters, the implementation of the historic 1996 Telecommunications Reform Act, the first spectrum auctions, the development of digital television standards, and the Commission's Internet initiative.

Prior to his position with the FCC, Mr. Levin was a partner in the North Carolina law firm of Parker, Poe, Adams and Bernstein, where he represented new communications ventures, as well as numerous local governments on public financing issues. He is a summa cum laude graduate of Yale College and Yale Law School.

The Aspen Institute
Communications and Society Program

www.aspeninstitute.org/c&s

The Communications and Society Program is an active venue for global leaders and experts to exchange new insights on the societal impact of digital technology and network communications. The Program also creates a multi-disciplinary space in the communications policy-making world where veteran and emerging decision-makers can explore new concepts, find personal growth, and develop new networks for the betterment of society.

The Program's projects fall into one or more of three categories: communications and media policy, digital technologies and democratic values, and network technology and social change. Ongoing activities of the Communications and Society Program include annual roundtables on journalism and society (e.g., journalism and national security), communications policy in a converged world (e.g., the future of international digital economy), the impact of advances in information technology (e.g., "when push comes to pull"), and serving the information needs of communities. For the past three years, the Program has taken a deeper look at community information needs through the work of the Knight Commission on the Information Needs of Communities in a Democracy, a project of the Aspen Institute and the John S. and James L. Knight Foundation. The Program also convenes the Aspen Institute Forum on Communications and Society, in which chief executive-level leaders of business, government and the non-profit sector examine issues relating to the changing media and technology environment.

Most conferences utilize the signature Aspen Institute seminar format: approximately 25 leaders from a variety of disciplines and perspectives engaged in roundtable dialogue, moderated with the objective of driving the agenda to specific conclusions and recommendations.

Conference reports and other materials are distributed to key policymakers and opinion leaders within the United States and around the world. They are also available to the public at large through the World Wide Web, www.aspeninstitute.org/c&s.

The Program's Executive Director is Charles M. Firestone, who has served in that capacity since 1989, and has also served as Executive Vice President of the Aspen Institute for three years. He is a communications attorney and law professor, formerly director of the UCLA Communications Law Program, first president of the Los Angeles Board of Telecommunications Commissioners, and an appellate attorney for the U.S. Federal Communications Commission.

STATION RESOURCE GROUP

The Mobile Internet: A Replacement for Radio?

A briefing memo for executives and board members of the Station Resource Group

By Skip Pizzi
Media Technology Consultant
June, 2010

In a mixed delivery environment that will be with us for years to come, listeners will seek the content that is important to them on the best available device in a given situation. Public radio will do best by offering multiple services on multiple platforms, each service crafted to patterns of use for the respective method of delivery.

Public radio should aim for a portfolio of delivery strategies – a continuing place for broadcast, an expanding role for wired and wireless Internet radio, and emerging technologies that synchronize multiple paths to create a more robust user experience.

And just ahead: the need to offer compelling visual content to complement your primary audio service.

There has been considerable and passionate discussion of late over the potential for streaming media on the Internet – particularly in its wireless form – to overtake and replace the existing technology of AM and FM radio broadcasting as a method of presenting audio content to consumers.

Such forecasts have rightly caused many public radio broadcasters concern over how they should prioritize their current and near-future investment priorities. These concerns can be summarized in the question, "Is the wireless Internet a replacement technology for radio broadcasting? "

Unfortunately the answer is not straightforward today, but it appears to be closer to "no" than to "yes" from our best, current vantage points. The environment remains quite dynamic even as this is written, but there are some touchstones that seem relatively unassailable to support the conclusion that the wireless Internet will not truly replace radio broadcasting.

Nevertheless, there is also substantial evidence that the mobile Internet's impact on radio broadcasting will be significant, and that it should by no means be ignored by broadcasters.

The best current understanding of the question can therefore be gained by examining the broader context of the environment that engenders it. The following analysis considers the salient points of that space, then draws certain conclusions on the fundamental issues of what public radio should be thinking and doing about its future delivery systems today.

Wired (or "Fixed") Internet Radio

For the better part of the past decade, Internet radio has slowly grown its services and audience, with most listening during that period taking place on wired PCs. The increasing deployments of consumer broadband connectivity, flat-rate service plans, and WiFi technology[1] over that same timeframe have enhanced the popularity of Internet radio, to the point where today over 60 million Americans listen to some form of Internet radio in a typical week. [2]

Appliances

A more recent phenomenon has brought Internet radio closer to being directly competitive with radio in the wired Internet environment. It is the emergence and quiet growth in popularity of Internet radio "appliances" – devices that look and act like tabletop or clock radios, but include wired and/or WiFi Internet access that is used exclusively to present Internet radio streams. Importantly, some of these devices include AM and/or FM broadcast radio receivers, and some do not.

Wireless (or "Mobile/Portable") Internet Radio

A substantially different environment from the above is now emerging, in which Internet radio streams are available via fully wireless means. This puts Internet radio much closer to parity with broadcast radio, at least in terms of the locations in which it is available.

It is expected that such broader access will increase the growth rate of Internet radio usage, although such trends are countered by the cost of service, availability and cost of devices, and complexity of usage for Internet radio listening.

At present, it is too early to extrapolate with much precision what kind of uptick in Internet radio listening such mobile broadband usage will bring. (It is important here to avoid the practice of some analysts to overestimate the short-term and underestimate the long-term impacts of popular new technologies.) It does seem safe to conclude that Internet radio usage will continue to grow as a result of these products' and services' relatively rapid deployments, although the real impact on

[1] Although WiFi is a wireless distribution method, it is essentially a short-distance (LAN) extension of a wired Internet connection, and is thus, for purposes of this discussion, considered part of the wired (or "fixed") Internet radio environment. This is in contrast to the longer distance (WAN) wireless broadband Internet connections more recently provided by telcos, giving direct service to handheld devices via 3G and other connectivity. The distinction is important in this context because the latter are far more similar to radio broadcast services due to their fully "un-tethered" nature.

[2] Bridge Ratings LLC, *Streaming Listener Trends*, February 2010.

listening behavior may not be felt for some time.

There are also a number of less understood and unsettled variables within this nascent environment that make prediction even more complex, as discussed below.

Handhelds

The first form factor or device class to emerge as a wireless Internet radio listening platform was the handheld broadband terminal. Products like the iPhone and various Android-based devices have proven hugely popular, and these trends show no signs of abatement (as the recent iPhone 4 introduction has indicated).

Importantly, while these products are multi-featured, almost none include broadcast radio reception capability.[3] Therefore the *only* radio services available on most of these devices today are Internet-delivered.

Apps vs. Web streams (HTML5)

Complicating matters is the fact that most Internet radio services require a specialized application ("app") to be properly or easily received on these handheld devices. Such applications must be individually developed for each operating system (e.g., iOS, Android, Blackberry, Palm, Windows Mobile, etc.), which is a labor-intensive and expensive requirement.

It also requires users to download (for free or by purchase, depending on the app) and continually update these apps, for each separate service they wish to listen to on their devices.[4]

This obstacle may soon dissipate, however, as the gradual release of HTML5 support in browsers and devices continues. Among HTML5's highly anticipated features is native audio support by browsers, which may eliminate the need for streaming media apps in mobile devices (and for that matter, eliminate the need for browser "plug-ins" or media players on PCs for streaming media playback).

Just when this development will occur is a complex question, since it varies by browser and by streaming media codec supported.[5] But there is at least hope on the horizon that the requirement for development of platform-specific apps for mobile Internet radio listening is not a permanent prerequisite.[6]

Automotive receivers

Most recently, new interest and initial development have emerged for in-dash mobile Internet radio. The ultimate trajectory for this trend is, of course, even more difficult to

[3] This is true even though some devices (such as the iPhone 3GS and 4) actually include an FM receiver chip, but it is not activated. It is likely that this is a purposeful decision mandated by the wireless service provider with which the device is associated.

[4] Most public radio services have the advantage of being made available in aggregation on one or more mobile apps that have been developed by third parties to provide access to almost the entire U.S. public radio system's set of Internet radio streams.

[5] For example, Safari 4 already provides HTML5 native support for MP3 and WAVE audio formats; Firefox 3.5 already supports Ogg Vorbis and WAVE; Chrome 3 supports MP3 and Ogg Vorbis; IE8 provides no HTML5 native audio support.

[6] On the other hand, there are some advanced features provided by apps that would not be possible in native browser audio streaming, such as the search capabilities on the Public Radio Tuner. Nevertheless, these non-streaming enhancements can still be provided to mobile platforms by apps, while listening takes place natively on an HTML5 audio enabled browser.

predict at such an early time, but one important difference has already been noted: Unlike the handheld environment, it is far more likely that the in-dash Internet radio receiver will also include an AM/FM radio receiver. Thus while such technology, if broadly accepted, will likely contribute to the growth of Internet radio listening, it may not have the same negative impact on broadcast radio listening as the handheld device class has wrought.

Consider also, however, that most of the automotive Internet radio listening to date has come from radio-less handhelds plugged into vehicles' audio systems, via an iPod dock or similar interface (in some cases, ironically, feeding via the car's FM radio). This trend will also continue and likely grow, but it is still expected that most cars will continue to provide (either separate or integrated) AM/FM reception capability as baseline functionality.

Finally here, it will be interesting to observe whether and how automotive broadband platforms deal with downloadable apps, and therefore whether the issues noted in the handheld environment above regarding platform-specific apps vs. native browser audio support will eventually also apply to the automotive space.

Enhancements

Other key trends worth observing in this context are how new services and usage are influencing the design of devices used for online radio listening. This is redefining our understanding of how to answer the question, "What is a radio?"

Screens

Many, if not most new devices that include radio reception capability – whether broadcast on online (or both) – include the capability for graphical display, up to and including full-motion video in some cases. For radio services to not appear as "second-class" or otherwise deficient on these receivers, some content must be provided (ostensibly by broadcasters) for display on the devices' screens while the radio function is in use.

This is a fundamental change for radio broadcasting, and requires a deep rethinking of its content-production ecosystem. The presentation of secondary visual content alongside primary audio service may soon become an essential component of any radio broadcast that expects to remain competitive in the media marketplace.

Broadcast +/- Online

Another key trend likely to emerge soon may bring to the marketplace an increasing number of devices that include *both* broadcast radio reception and Internet access capability. While both services are massively deployed, the ability to access them both rarely appears on the same device today. This omission is unlikely to last much longer in the age of broadly converged multi-function personal devices.

Given this prediction, it is worth considering ways in which broadcast- and Internet-delivered services might work *together* to bring a rich media experience to the user. This is another fundamental change, in that up to the present we have thought about broadcast and the Internet in an "either/or" position for delivery methods. The most obvious reaction is a reduction in duplication of services by broadcasters. If local listeners can largely receive both broadcast and online services, it is inefficient to provide identical content on both platforms.

A more nuanced impact of this trend presents an option where the two mediums would operate in parallel, for simultaneous delivery of different, but coordinated, content elements to the same device (e.g., audio over FM, with dynamically synchronized visual enhancement via wireless Internet). Ideally the user will not know or care what content is arriving via which delivery path, but will simply select and consume a holistic, multimedia experience delivered in real time to such a converged device.

To enable this functionality, a method of connecting the two mediums is required. The first proposal for such a method has also recently emerged. It is called *RadioDNS*, and it is a simple technique that leverages existing elements of both broadcast and Internet technologies to allow a receiver with access to both services to connect to the corresponding web content stream when tuned to a given radio station.[7]

Development in this space is something public radio operators should closely observe. Core listeners are likely to be early adopters of systems that enable such multimedia extensions of services from their existing favorite providers.

Obstacles to a Complete Transition

While the above discussion indicates just how competitive Internet radio has become to broadcast radio, the two services remain widely divergent. One is a broadcast service and the other is a telecommunications service. This is akin to positing that a radio and a telephone are equivalent because they both produce audio.

[7] See http://radiodns.org for further details.

The two services are regulated differently, pay performance royalties under separate schedules, and have wholly differing delivery architectures (broadcast being a one-way, point-to-multipoint service, and the Internet being a two-way, point-to-point connection). Regardless of their movement toward parity from the radio listener's perspective, each service offers broadcasters a different value proposition, cost-per-listener calculation and monetization model.

While such similarities to the user may allow broadcasters to apply some of their tried and true experience with broadcast radio to the provision of online service, there are many unique elements to Internet radio service, which traditional radio service providers will need to fully understand if they are to succeed equally in the online space.

Technical differences

The primary distinction between broadcast and Internet radio is one of potential audience reach. Within a given service area, broadcast radio's potential audience is unlimited. On the other hand, while Internet radio's service area is essentially unlimited, its ability to serve individual users is always finite. Regardless of how much infrastructure is developed, it is impossible for Internet radio service to reach the truly infinite scalability that broadcast radio inherently provides within its service area.

Therefore some constraint will always exist regarding audience members' access to Internet-streamed services, and this could be seen as particularly inappropriate for services produced by publicly funded broadcasting entities. Retaining at least a baseline of broadcast-delivered channels precludes such potential denial of service.

That said, the bandwidth requirements of audio-only service are relatively small, and ongoing codec development continues to reduce these requirements. Thus, in contrast to theoretical constraints, the *practical* limits of available Internet bandwidth may indeed be adequate to service all the users a given Internet radio service attracts in the wired environment described above.

In the *wireless* domain, however, additional constraints apply. Even though a given Internet radio channel's server architecture and Internet backbone requirements may be adequate to respond to all users, the users in a particular area served at "the last mile" by a given wireless service provider may at some time overwhelm that provider's capacity at that location ("maxxing out the cell site"). Therefore wireless Internet radio remains particularly vulnerable to occasional service outages due to scalability problems.

Economic issues

Beyond technical scalability concerns, there are often even tighter restrictions on access to Internet radio streams due to cost considerations. Because each user's request for a stream adds to the bandwidth bill of the streaming service, artificial caps are often placed on the number of simultaneous streams that can be served by the host, for purposes of cost containment. This stands in stark contrast to broadcasting, where service-delivery costs are fixed regardless of usage levels.

Given all of these obstacles, it should be obvious that Internet radio can never provide a true and complete replacement for broadcast radio. Conversely, broadcast radio will never provide all of the features or geographic reach that Internet radio can provide.

Public broadcasters shouldn't really want such replacement, anyway. Enhancement and expansion of service have long been a goal of the industry, so "on-air *plus* online" seems an appropriate mantra going forward. The challenge then becomes deciding what content works best on which service.

Measurement

One other key difference between broadcast and online radio is the enumeration of listeners. Broadcasting necessarily uses statistical processes to estimate audience size, whereas online usage can be measured directly, thanks to its two-way connectivity. This difference can also be leveraged to a broadcaster's advantage.

AT&T's new wireless data rate structure

A potentially critical new market variable has entered the picture, with the recent AT&T Wireless announcement that new customers will no longer be offered unlimited flat-rate data service.

Although early analysis of the specifics of the new AT&T rate structure shows that most Internet radio users would still fall within the flat-rate zone, the move by AT&T crosses a virtual Rubicon. It is now conceivable that the current rate structure is simply the first step in a gradual throttling down of flat-rate service thresholds, and that if one provider has done so, others may follow.[8] This movement could affect the uptake of wireless Internet radio by future consumers.

[8] Witness the still increasing "foreign" ATM charges that nearly all banks now levy after years of offering such service for free. During those years, strong consumer usage patterns were established, and once such behavior was created, the institution of small but incrementally growing fees for continued usage was grudgingly but broadly accepted by consumers.

STATION RESOURCE GROUP

Broadcast and Internet Radio: Looking Ahead

1) Growth of online radio listening will continue, but at a moderate pace. Some but not all of this will come at the expense of broadcast radio. A relatively slow transition is now in evidence among nearly all demographic groups, and within all radio listening venues (home, work, car, and personal devices).

2) This gradual cross-fade will continue between broadcast and online radio listening, but the transition will never be complete. A permanent baseline of broadcast listenership will remain, regardless of the ultimate growth of Internet radio. It is unlikely that a typical station will ever see its online listening audience greatly exceed its broadcast cume (or afford the bandwidth costs, if it did), although a broadcaster's online TSL may surpass that of its over-the-air services (the latter has already been observed).

3) An increasing number of new devices – fixed, mobile and handheld – will include both broadcast and online radio listening capabilities, but some will remain limited to one or the other. Many legacy devices that also allow either one method or the other will also remain in use for some time to come. In this "mixed" environment, listeners will take up a "best available device" approach to seeking out the content (not the channel) they desire in their current situation. Podcasts of broadcast content also play an increasingly important secondary role here.

4) Broadcasters should respond to these trends not by trying to choose any single delivery approach (i.e., trading transmitters for servers), but by using an "all of the above" platform methodology, with minimal duplication of content and careful programming of each service appropriate to the usage behaviors observed for the respective delivery methods.

5) Rather than being preoccupied by the question of Internet vs. Broadcast service, the key process that broadcasters should consider today for planning and future investment is the development of compelling visual content to enhance their radio services, along with examination of the currently emerging methods proposed for synchronous delivery of such content to enabled devices.

Skip Pizzi
Media Technology Consultant
June, 2010

Public Radio in the New Network Age

Wider Use, Deeper Value, Compelling Change

Report and Recommendations of the Public Radio Audience Growth Task Force

grow the **audience**

for public radio

cpb

Corporation for Public Broadcasting

grow the **audience**
Public Radio in the New Network Age

PUBLIC RADIO IN THE NEW NETWORK AGE presents findings and recommendations from GROW THE AUDIENCE, a broad-based effort to shape shared strategies, compelling goals, and results-oriented plans that will deepen the value and widen the use of public radio.

GROW THE AUDIENCE was initiated and funded by the Corporation for Public Broadcasting.

The Station Resource Group provides ongoing leadership for the GROW THE AUDIENCE initiative. SRG assembled and supported the Public Radio Audience Growth Task Force, prepared this report, and will work to turn the recommendations into action.

George Bailey, of Walrus Research, served as research director for GROW THE AUDIENCE and prepared in-depth quantitative and statistical analyses that informed the Task Force and others in drafting the recommendations presented here.

Professionals and lay leaders throughout public media have contributed their views – in working groups and advisory teams, personal interviews, correspondence, and at conferences and board meetings of public radio's national organizations. The project also sought views from academia, philanthropy, and public policy advocates. These many contributors are acknowledged at the end of the report.

Research reports, essays, and other project materials can be found at the GROW THE AUDIENCE website:

www.srg.org/GTA

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Station Resource Group is a membership organization of leading public media organizations. SRG's focus is strategy, analysis, policy, and innovation.

grow the **audience**

Public Radio in the New Network Age

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Introduction

Public radio has a shared mission to help individuals live better lives, to nurture the health of the communities in which we live, and to support the American democracy from small towns to great cities to the nation as a whole.

Public radio's fundamental public service is to make programming of quality and value available to audiences of significant size. Public radio has enormous assets, a prominent position, and important opportunities:

- To create and present stronger programming in traditional areas and through new offerings.
- To capture audiences that greatly extend today's already significant reach, use, and diversity.
- To forge deeper, more engaged connections with individuals and communities.

The Public Radio Audience Growth Task Force has created an ambitious plan to capture these opportunities in an unfolding network age. We address both national and local activities. We speak to stations that present different formats and serve different kinds of communities. We include the range of channels and platforms through which public radio engages with its audience. Our report and recommendations reflect themes we heard from most every corner of our field: pride in public radio's long-term accomplishments and current work and confident ambitions for a larger role in the broader media environment.

We propose challenging goals for public radio's growth over the coming decade – goals that are framed within a larger vision of service. Our strategic direction reflects the changing character of our communities and the changing technology of communications. Wider use and deeper value for public radio, at the scale we recommend, requires transformational change – in the capacities of public radio's organizations, in conceptions of meaningful public service, and in notions of who fits in an expanded public radio audience. Success requires welcoming new players into the field as both creators and presenters and making careful choices among competing options with exciting prospects but uncertain outcomes.

We of the Task Force share with our colleagues across the country a strong, almost impatient sense that public radio is ready, <u>now</u>, to move to a new level of service and impact.

Summary of Recommendations

Public radio has a shared mission of public service to individuals, communities, and the nation. Working together, public radio stations, networks, producers, and partner organizations:

> Help people lead a better life – more thoughtful, joyful, and useful; more fulfilled in the pursuit of understanding and personal growth; empowered to find solutions for themselves and their families; and inspired and comforted by moments of beauty, humor, and reflection.
>
> Nurture healthy communities which we seek to understand and care for across many dimensions – education, arts and culture, business and economics, the environment, health care, the sense of connection to values and social responsibility, and more.
>
> Strengthen the vitality of our democracy – the free flow of ideas and debate, accountability for those who govern, and information that helps citizens make good decisions.

Public radio will realize this mission more fully by achieving ambitious, collective goals to increase its use, reach, and inclusiveness by significant measures. We propose that over the coming decade public radio:

> Increase the average audience – the number of people using public radio at any given moment – to half again as large as it is today.
>
> Double the number of people who use public radio every week – on-air, online, and on other platforms.
>
> Triple the amount of listening by people of color.

We recommend seven broad measures for public radio to achieve deeper value and wider use:

> Commit to a more inclusive public service.
>
> Become the most-trusted, most-used daily journalism in America.
>
> Create a 21st century public radio music service.
>
> Embrace the networked environment as a primary platform.
>
> Strengthen core competencies throughout public radio.
>
> Develop market-by-market strategies for audience growth.
>
> Support follow-up and accountability for addressing these recommendations.

1 Commit to a more inclusive public service

Deepen the value of public radio for all its audiences by strengthening the diversity of voices and views in public radio's mainstream news and music programming, by encouraging multiple, differentiated services that reach a wider range of listeners, and by making continued investments in stations and programming developed and controlled by people of color.

Public radio will deepen its value to current listeners and increase its accessibility to millions of listeners now at the edge of its audience by increasing the inclusiveness of its work and the authenticity of the voices, views, and cultures it presents.

We challenge public radio to commit to a greater inclusiveness of people of color in every dimension – the governance of stations and national organizations, the hiring of management and programming staff, and the voices, views, stories, and music of day-to-day programming. We propose four complementary efforts, each with a special emphasis.

Diversity at the core. We recommend a focused and collaborative initiative to increase the accessibility of public radio's major formats to people of color through institution-changing, appeal-shifting efforts by committed and ready stations with the largest audiences in markets with the largest populations of African-Americans and Latinos and similar efforts by national producers to increase their service and value to people of color. This initiative should include managed, multi-year projects that involve learning, change, and mutual accountability.

Program innovation. We recommend investments in program innovation at both the local and national level – prototyping, testing, and developing programs and formats that explore different styles and sensibilities with the aim of greater appeal to audiences of color. This effort must be mindful that race and ethnicity, alone, are limited tools in programming development and give close attention to the values, lifestyles, and interests that will define the programming and those who respond to it.

Differentiated services. We recommend wider availability of public radio's current principal formats of news, classical music, jazz, and AAA – each with its distinctive audience appeal – and experimentation with other formats and services that might hold a greater appeal for people of color or other new audiences. By pursuing multiple public radio services in as many markets as can support them – and meaningful differentiation of the services offered by each of them – public radio will increase the diversity of the audience it reaches.

Diversity of control. We recommend continued strong support for public radio stations that are developed and controlled by people of color, including pursuing opportunities to increase the number of such stations. It is important to develop clearer expectations of audience performance for public radio's stations controlled by people of color, based on format, market factors, and sustainable resources.

2 Become the most-trusted, most-used daily journalism in America

Make public radio America's most trusted and most widely-used source of daily journalism. Strengthen the power and scope of public radio's most listened-to national news programs, invest in program innovation that will lead to more choice and service for listeners, support significant growth in the scale, quality, and impact of local journalism, and develop an integrated online news presence.

Claiming a significantly larger role in American journalism requires a dramatically more robust news gathering capacity – more "feet on the street" with notebooks, recorders, and cameras and more editors and producers to shape their work. The distance between current reality and the role we imagine – and that others urge upon public radio – is large. Public radio must also think carefully and collectively about the character of the journalistic franchise it seeks: it cannot simply take up roles, beats, and topics as they are left behind by others, but must think considerably beyond current work. We should proceed in an audience-centered fashion, beginning with the interests and needs of those who already respond strongly to public radio news and information programming and building to a larger audience of news users.

2.1 Strengthen signature national programs

Strengthen public radio's signature national news programs that generate the largest amount of listening for the system as a whole, the most listening for the stations that carry them, and a greater listener loyalty.

A short list of news and information programs has a dramatic impact on the number of listeners and amount of listening to public radio. NPR's *Morning Edition* and *All Things Considered* top this list, which also includes *Fresh Air*, *Talk of the Nation*, *Weekend Edition, Marketplace, The Diane Rehm Show,* and *The World*. Key steps to strengthen these and other signature national news programs include:

- Assure continuing management focus and budget priority, both nationally and locally, on the core programming assets of the public radio news franchise.
- Monitor the changing information environment in which public radio's signature news programming competes for attention and the changing information needs of the listeners they seek to serve.
- Commit to much more communication and coordination on an ongoing basis between senior national program executives and station leaders in programming and news.

We recommend increasing reporting from across the nation within national programs, beginning with careful consideration of contending views on how to achieve this goal.

We recommend increasing public radio's now-limited investment in enterprise and investigative reporting, building on efforts already in place at NPR News and American Public Media and eventually extending to other national producers and leading local news stations.

We recommend investing in new national news and information programming that will give stations meaningful choices for differentiating their news services and give more listeners a news choice that meets their interests and needs on-air and online.

2.2 Build the impact and significance of local journalism

Public radio must develop greater scale and higher quality in local and regional reporting to realize the impact and significance to which many stations aspire.

Local journalism centers. We recommend increasing local broadcast and online reporting at a dozen or more stations with high audience service potential through significant investments that increase the number of news staff, enhance on-air and online news production capacity, develop skills for reporting and content management in a digital age, and foster innovative approaches to community connections.

Build capacity across the field. In addition to these highly-targeted investments, we recommend initiatives for other stations that have made substantial local reporting commitments in order to increase their capacity to create and present regular, high-quality journalism at a level consistent with the scale and resources of their organizations and communities.

Collaboration. We recommend support for collaborative projects that advance shared use of local station reporting on a regional and topical basis and investments in shared resources such as editors for broadcast and online content that support work at more than one station. Such efforts should have a clear focus on wider use of content, cost reduction, or both.

Partner beyond the field. We recommend partnerships and collaborations that look outside public radio to other content-creating organizations and community resources, and development of recommendations for an editorial framework that will preserve the trusted position and integrity of public radio in this more inclusive and multi-dimensional environment.

2.3 Integrate online news

Create an integrated online news presence for diverse public media sources – international, national and local – that extends current capacities and brands, leverages current editorial assets and adds or creates new ones, and that might include the distinctive strengths and separate assets of public television and online public service media organizations.

We recommend that public radio and other public media partners move as quickly and as far as possible through a sequence of non-mutually-exclusive steps to build public media's capacity in this territory.

Behind the curtain. Enhance the productivity and impact of public media's online journalism through collaborative measures such as coordinated backend systems, APIs, standards, tools and shared investments in activities such as federated search and search engine optimization.

Aggregation of public media journalism. Much as NBC and Fox created Hulu as a single online vehicle to distribute their respective sitcoms and related material, public media should create an online public media journalism destination that presents work from multiple sources, showcasing collective efforts in a way that both stands on its own and leads back to the original reporting and producing entities.

This function could be advanced through a single, high visibility site that would give the online user an integrated yet varied experience, much as the many local versions of *Morning Edition* are perceived by radio listeners. Or material could be organized in content verticals that would match broad, well-known areas of audience interest.

Aggregation plus curation. Hulu now includes content from dozens of sources beyond its two founders. Similarly, an integrated public media journalism effort could grow to include curated content from other sources, ranging from conventional journalism partners to online-only journalism initiatives to various citizen journalists and other kinds of user-generated content.

Content collaboration. Public broadcasters have periodically collaborated on content creation with limited success. Improve the impact by working toward larger scale, stronger commitment of reporting resources to the collaborative endeavor, and greater investment in the "collaborative tissue" that organizes and focuses the work.

A web-first entity. Public media should consider a new or expanded journalistic entity whose mission would be web-first but would feed to broadcast platforms. This entity would be organized and focused principally on online content: creating text, images, audio, and video in a fashion that draws on the values, strengths, and brands of public broadcasting but works to a tone and sensibility that is "native" to the networked space. In a turn-about of current practice in which broadcast material is often "exported" to the web, this entity would feed its online work back into the on-air realm.

The output of the entity could take several forms, from a single destination or portal-type site to multiple, content-focused sites. Similarly, the focus could be principally on a national identity or on integration with local efforts that would give users a geographically-customized experience.

3 Create a 21st century public radio music service

Create a renewed vision for public radio music – on multiple platforms, in multiple genres. Capture the broadcast franchise for public radio's strongest music formats in as many markets as possible, move to new platforms with both core genres and new services, work to higher standards and greater value for listeners, and explore new approaches in content and presentation.

Music is a critical part of public radio's audience service equation – about one out of every three hours of listening – and warrants a higher profile in public radio's vision and goals.

Capture the broadcast franchise. We recommend a concerted effort to increase the number of markets in which public radio stations offer public radio's strongest music franchises – classical music, jazz, and AAA – on a consistent basis. This can be achieved through a combination of self-directed change and focusing at current public radio stations and adding stations through acquisitions, mergers, and management agreements.

Move to new platforms. We recommend continued development of public radio music services – both core genres and special niches – in the networked environment of online and mobile devices and the development of an organized approach to music rights issues in this space.

Higher standards. Public radio's music stations must aspire to higher standards of presentation and greater value for the listener – compelling, trusted personalities, a sense of connection with audience and community, and excellence in production values.

New content, new approach. We recommend that stations and producers experiment with how public radio organizes and presents music within its current genres and think outside the familiar genres to other music possibilities that might fit within the broader public radio domain.

4 Embrace the networked environment as a primary platform

Follow current public radio listeners in their changing patterns of media use, which increasingly include online and mobile platforms, cultivate new users by providing more channels and platforms on which to find and use public radio content, and make public radio more flexible, participatory, and engaging.

We challenge public radio to move with and ahead of its audience to the unfolding platforms of the networked environment, offering current listeners new choices in how to listen to public radio, and finding new listeners and creating new services by exploiting the multiple channels and participatory capacities the lie beyond broadcasting.

In the near term these changes will mostly be about new pathways of distribution for both national producers and local stations. But we encourage public radio at all levels to commit now to a longer-term paradigm shift in how public radio creates and organizes its content, moving toward new models of engagement and participation that leverage and extend public radio's mission and brands.

Online strategies for stations. We recommend organized and ongoing support for stations in developing strategic clarity about their roles and expectations in the online and mobile networked environment – at the different levels of resources and operations and different phases of development found across the station community.

Baseline capacity. We recommend development of a baseline capacity and fluency in the networked environment throughout public radio, with particular emphasis on organizations committed to content that will extend the inclusiveness of public radio. This baseline should include mastering website basics, adoption of appropriate "new media" capabilities, promotion strategies, techniques to increase the "findability" of content in the network space, and attention to the opportunities to extend the range of views and voices public radio presents online.

"Web native" content and delivery. We recommend aggressive experimentation and development of public service content and delivery methods explicitly designed for a digital, networked environment. This includes:

- Investments in content that is "native" to the network space
- Reorganizing content for networked use.
- "Distribute everywhere" techniques that make public radio content available in new ways.
- Exploration of new mobile platforms
- Development of a rights framework that supports these new approaches to public service.

The natural networks of our audiences. We recommend investments in pilots and demonstrations that exploit the community-building potential of the network to strengthen public radio's content, engage listeners and users around issues and interests in communities, and leverage the resources of knowledge, experience, and perspectives that surround public radio stations, producers, and audiences.

5 Strengthen core competencies throughout public radio

Advance public radio's ability to achieve the goals of this plan by sharpening the skills and focus of public radio professionals, strengthening the capacities of public media organizations across the country, and continually updating the field's strategic intelligence and tactical knowledge with audience research and marketing.

Thinking audience. Public radio must continually renew and reinforce its commitment to the effectiveness of its audience service – the details of execution in production, scheduling, and promotion; the audience experience of content and service; and the application of research and experience to daily operations. This work should include:

- Initiatives by public radio's principal professional organizations, networks, and other national organizations to advance skills of the public radio workforce directly connected with audience growth.
- Continuing investments in program research and audience use metrics that build our current knowledge base, explore areas we have targeted for innovation, and foster integrated, cross-platform measurements that track behavior in a changing media environment.

Organizational development. We recommend multiple initiatives to strengthen public radio's organizations as effective and responsive institutions that collectively contribute to a public media service of the highest quality and impact. These initiatives should include:

- Stronger governance and leadership in all licensee types
- A strategic sensibility in key decisions
- Inclusiveness throughout the organization
- Community engagement
- Advanced fundraising that includes major giving and philanthropy
- Stronger, more effective Inter-organizational relationships

Public radio must also confront long-term structural issues – too little aggregation and scale, many licensees with agendas other than public radio, and no plan for how to incorporate emerging public media enterprises with shared values but no base in broadcasting. These issues are beyond the scope of this project but are critical to public radio's long-term audience success.

Marketing – the missing piece. We recommend creating a better alignment of public radio's services with listeners' needs and interests and a greater awareness of public radio's services and benefits through a multi-organizational, multi-year effort to build public radio's marketing expertise and activities.

Public radio must build its marketing skills almost from scratch. The work should begin with development of a shared sensibility regarding marketing principles, definitions, and purposes. The development of public radio's marketing capacity should extend across all professional disciplines and encompass work by all national organizations serving public radio. Key tasks include:

- Connecting with top-level marketing expertise and experience beyond the public radio field.
- Developing tactical ideas and best practices that can be implemented at the station level.
- Helping stations engage with outside marketing expertise in their local efforts.

6 Develop market-by-market strategies for audience growth

Launch a market-by-market audience growth initiative for a new generation of service – a broad-based, collective effort by stations, networks, and funders – making targeted investments and crafting station-specific solutions in communities where the current level of public radio performance indicates significant opportunities for audience growth.

In any given market public radio is most successful at aggregating audiences of both significant size and significant diversity when it presents multiple, focused, and differentiated services delivered at a high level of performance. There are three key elements in this equation:

- Enough channels committed to public radio on which to offer different services.
- Strategic alignment of the services – focused, differentiated, complementary.
- Superior performance of each of the services within the context of the specific market.

Market analysis. We recommend additional market-by-market analysis that extends GROW THE AUDIENCE's market- and format-specific work, incorporating additional variables, particularly values and lifestyle indicators such as SRI's VALS system, to sharpen the understanding of which markets present the most important opportunities for audience growth.

Options in the top markets. We recommend a concentrated effort to improve existing stations and develop new services in the top 50 markets designed to increase the availability of multiple, focused, and differentiated high-performing public radio services:

- **Strengthen service at underperforming stations.** Simply bringing news and classical stations that are below the predicted level of service, given the character of their market, up to the norm would have a measurable impact on public radio's national reach.
- **"Align" service at existing stations.** Target markets in which public radio's formats are not available in a consistent and focused manner.

- **Develop new services on existing stations.** These new services, by definition, are unproven, but format innovation is a critical step toward new listeners for public radio.
- **Create opportunities for new services** by gaining control of additional stations through acquisitions or operating agreements and by upgrading limited coverage signals.
- **Add stations with full market coverage through upgrades or acquisitions** in communities that currently benefit from only 1 or 2 full coverage public stations.

These measures require substantial investments in **acquisitions, careful negotiation of operating agreements, or other arrangements** that reorganize station control – all with close attention to costs and risk factors. We observe that these kinds of station transactions are responsible for as much as 20 percent or more of all growth in public radio listening since 2001.

7 Support follow-up and accountability for this plan

Establish responsibility and accountability, nationally and locally, for this audience growth plan through an annual review of system progress in addressing the recommendations in this report. The assessment should include perspectives of multiple constituencies, organizations, and individuals and result in a progress report to the public radio system.

We recommend a multi-year follow-up effort that includes:

- Broad endorsement of the goals and recommendations presented here.
- Public radio's national producers, networks, and professional organizations should consider and report to their respective members and affiliates how they intend to integrate elements of GROW THE AUDIENCE recommendations into their priorities, programming, conferences, research activities, and other initiatives.
- Every public radio station should be encouraged to establish an audience service goal and a method for monitoring its own progress on an annual basis. This information should be reported in brief fashion to CPB, either through a special survey or as part of the Annual Activities Report.
- Ask CPB, foundations, and agencies that provide significant support to public radio to address how recommendations in this plan will be reflected in their funding priorities and policies.
- Conduct an annual review of progress on the initiatives outlined above using goals and metrics appropriate to the particular activity.
- Report results and updated goals and recommendations to the system on an annual basis.

1. Diversity

Deepen the value of public radio for all its audiences by strengthening the diversity of voices and views in public radio's news and music programming, by encouraging multiple, differentiated services that reach a wider range of listeners, and by making continued investments in stations and programming developed and controlled by people of color.

The founding visions of public radio – from antecedents in educational broadcasting and the Pacifica Foundation to the 1967 Public Broadcasting Act and the initial mission statement of National Public Radio – all spoke to pluralism, diversity, and inclusiveness.

Public radio will deepen its value to current listeners and increase its accessibility to millions of listeners now at the edge of its audience by increasing the inclusiveness of its work and the authenticity of the voices, views, and cultures it presents.

While there are many dimensions to America's diversity and pluralism, this section of PUBLIC RADIO IN THE NEW NETWORK AGE focuses on race and ethnicity. We challenge public radio to commit to a greater inclusiveness of people of color in every dimension – the governance of stations and national organizations, the hiring of management and programming staff, and the voices, views, stories, and music of day-to-pay programming.

Inclusiveness is an expression of public radio core values, such as reflecting our world and our communities, providing authentic voices and lifelong learning, and offering a spirit of idealism. We and our listeners should expect inclusiveness in all our work, especially our most important, most listened-to services.

One direction of momentum is toward an inclusiveness of views, voices, and perspectives in all that public radio presents. The Latino Public Radio Consortium's *Brown Paper* calls for

> ". . . a public media system that includes Latino voices, services and perspectives at every level. The public radio system needs to be bold in creating initiatives that establish opportunities for Latino managers, producers and youth." *Florence Hernández-Ramos, Project Director, Latino Public Radio Consortium*

Loris Taylor of Native Public Media writes:

> "These are exciting times to repurpose our role as media architects for a new America and to redesign our Public Service Media in a way that sounds and looks more like you and me."

Hernández-Ramos and Taylor speak to inclusion, at least in part, from a perspective of empowerment, and self-realization. Increasingly, though, inclusion is an expectation of the broader audience – it is the reality of how we live our lives.

Veteran public radio news executive Bill Buzenberg, who now heads the Center for Public Integrity, asserts:

> "The best way to make sure the audience is as diverse as our nation as a whole is to build that diversity into everything public radio does: into every drive-time program, every program staff, and every story topic; in short, every input and every output. Getting that coverage right—from diverse angles with a diverse on-air and off-air staff—is the best approach. My view is that this can only strengthen the nation and public radio."

A strategy for diversity *and* audience growth requires close attention to audience needs, behavior, and values, creative use of multiple services and formats, and a willingness to experiment and learn.

A more inclusive and diverse sound to public radio's programming will lead to a different audience – perhaps in small ways, perhaps in larger ones. But different, that's pretty much a sure thing. Whether the audience will also grow is a gamble that most of the system leaders with whom we have spoken are prepared to take – although most seem convinced that growth will be a result as well.

Relative to the proportion of African-Americans in the general population, African-Americans are only about 80 percent as likely to be found in public radio's weekly audience. The comparable number for Hispanics is 42 percent. (Source: *Profile 2008*, NPR Audience Insight and Research). Asians are more likely to be in the public radio audience, 11 percent more than their presence in the general population. Data for Native Americans in this study are too limited for reliable statistics.

When GROW THE AUDIENCE drilled down to look more closely at the **amount of listening** by different groups and the performance of different formats, the disparities are more significant and the story gets more complicated.

As we look to create a public radio audience that "looks more like America," it is important to consider the advice we heard from numerous researchers and analysts: that race and ethnicity are limited tools in programming development and that public radio should give close attention to values, lifestyles, and interests as it pursues goals of inclusiveness and diversity.

Sustain current investments in station operations and programming owned and controlled by people of color. Increase the number of stations controlled by people of color.

Public radio has made significant ongoing investments in station ownership and control by people of color as one strategy to assure a diverse overall service. Loris Taylor of Native Public Media writes passionately in support of "the self determination of our own media destiny as a people." The *Brown Paper* envisions a public media system "that includes and supports a strong Latino-controlled public media."

Many of the public radio stations controlled by people of color have limited visibility in the public radio industry. Yet these stations play a larger role than many realize in achieving public radio's current overall level of diversity. Going forward, leaders from these stations can bring the knowledge and needs of their respective communities to a broader system discussion.

Our recommendations follow the lines of the three broad strategies outlined above:

- Inclusiveness and accessibility in public radio's news
- Multiple stations with focused and differentiated service
- Ownership and control by people of color

Inclusiveness in Public Radio News

Public radio's pursuit of greater inclusion must extend to the core of public radio's identity – beginning with the most successful programs and stations in communities with the largest numbers of people of color. This requires a careful shift in the character and appeal of public radio's most listened-to national programming, parallel change at stations (especially those with the largest audiences), and investments in innovative programming efforts.

The potential impact of realizing greater inclusiveness and diversity at our most successful stations in those markets with the largest communities of color is easy to grasp. Major news stations like WAMU (Washington), WNYC (New York), WBUR (Boston), KPCC (Los Angeles), WLRN (Miami), and KQED (San Francisco) already reach large numbers of African-American and Latino listeners, the only two racial/ethnic groups measured by Arbitron.

These stations have large overall audiences and are located in markets with large numbers of African-Americans, Latinos, and other racial and ethnic groups of significant size. If the appeal of their respective services tilted even modestly more in the direction of these constituencies, the collective results would be significant.

This is a bold direction for public radio and not without risk. It is our clear sense, however, that it is where the leaders of these stations and many others are ready to go.

> "It's not just reporting *on* the story, it's how we define what the story is and who we reference for a perspective. Even if our audience was the same tomorrow as it is today, we have to create these

> connections with our community to execute good journalism." *Dean Cappello, Chief Creative Officer, WNYC, New York*

> "We need more serious resolve and effort to recruit new voices to our organizations, to bring different views and skills into the station and onto the air. We have to diversify staff, especially on air, to better reflect our community and incorporate new perspectives on life." *Robert Peterson, Administrative Manager, KWMU, St. Louis*

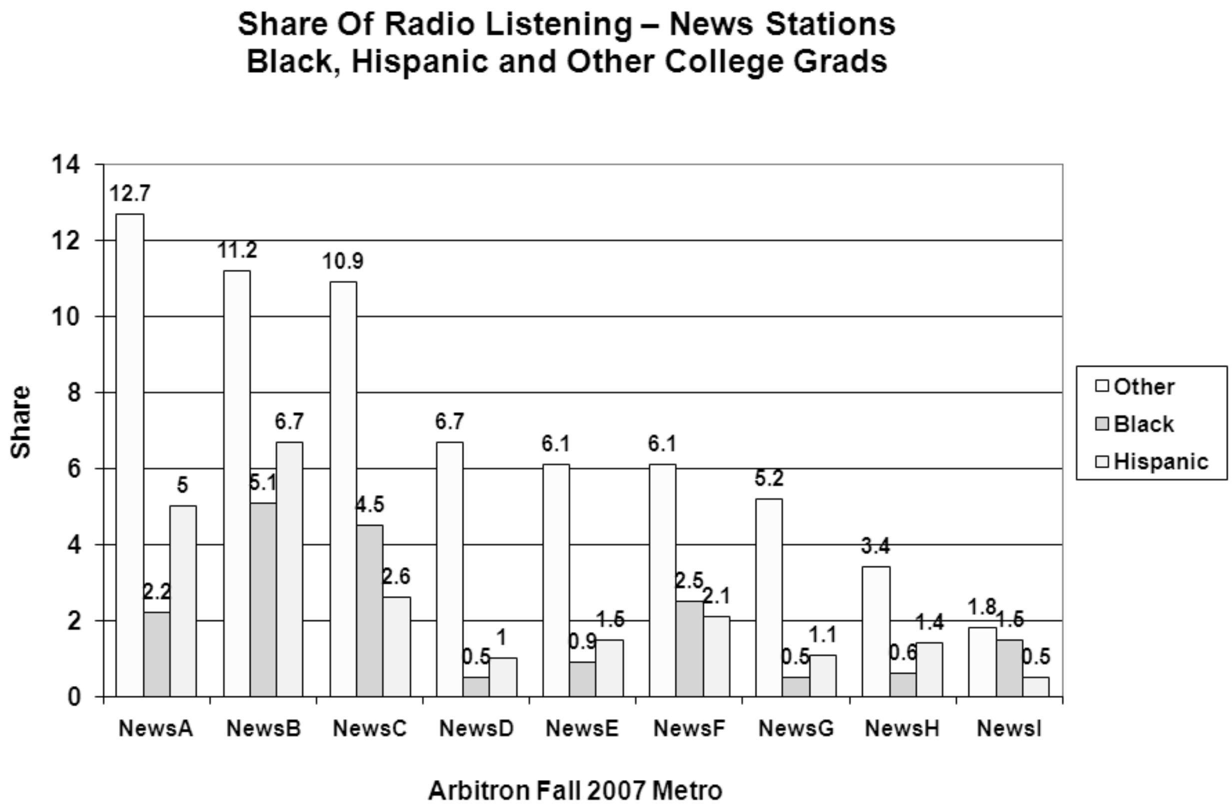
How does this change happen? The themes that surface repeatedly in GROW THE AUDIENCE conversations center on community connection, tone, and sensibility – the composite effect of how we tell a story and the stories we choose to tell; who we pick as experts and the reference points in our analogies and metaphors; announcing style, pacing, and vocabulary; the artists and songs we choose for interstitial music – all the things that make some people feel "this is me" and others feel "this is someone else."

Loretta Rucker, of the African-American Public Radio Consortium, parsed the point this way:

> "First and foremost is the issue of presentation. Second, even those educated African-American opinion-leaders who listen to public radio's primary news programs feel that there are not enough stories and voices that reflect their communities in the mix. And third, there is the issue of perspective. People of color in general make a distinction between a generic host or guest (who may or may not be of color) and those with the express purpose of expressing the perspectives of their communities. Both are appreciated, but the distinction is clear."

Beyond Tone and Sensibility. Henry Cisneros, former Secretary of Housing and Urban Development, recently spoke to Public Radio in Mid-America (PRIMA) about the critical role public radio can and should play in actively breaking down and through media representations of different racial and ethnic groups that contribute to persistent negative stereotyping in our culture. Native Public Media's Loris Taylor writes, "In the absence of alternative representations and broadened news coverage, one-sided portrayals easily become the reality in the minds of our audiences. Public media is a medium of trust and a solid foundation upon which to expand a communications and information network that lifts up and educates audiences across the board of our rich diversity."

Understanding Current Patterns. To understand where we begin, GROW THE AUDIENCE examined the pattern of listening across Arbitron's three measured racial/ethnic categories – Blacks, Hispanics, and Others. Knowing that the strongest predictor of public radio listening is education, and that educational attainment differs by race and ethnicity, we "held constant" for education and examined listening by college graduates.



This chart shows the share of listening by college graduates to nine public radio **news stations** in the nation's largest markets. For example, station "News A" at the left captured 12.7 percent of all radio listening by college-educated Other listeners in their market, 2.2 percent of the total listening by Black college grads, and 5 percent of the listening by Hispanic grads. There is a clear overall pattern: the share of listening among "Other" listeners (mostly White) exceeds the shares of listening among Black and Hispanic listeners by very large margins.

Within the broad pattern there are also important station-to-station differences. The share-of-listening chart above is based on a single survey period and we recommend further exploration and analysis before drawing conclusions about individual station performance. With more data and scrutiny of both the stations and the markets, it should be possible to identify key factors and successful tactics for inclusion and diversity that could then be shared.

Signature National Programs. The programming success and the audience appeal of public radio's news stations and news-and-music stations reflect a partnership of local and national efforts. For most of these stations, a handful of national programs accounts for a huge portion of listening and profoundly shapes the stations' appeal. In Los Angeles, for example, about half the total listening to both KPCC (news) and KCRW (news and music) is to NPR's weekday and weekend news magazines. For public radio's news stations to realize a shift in their appeal to more people of color, it will take changes in the national programming they present in their most important hours of the day.

Public radio's signature national programs not only generate a large percentage of overall listening for news and news-and-music stations, they also are the beneficiaries of perhaps 10 percent of public radio's total economy, with numbers approaching $100 million flowing on an annual basis from stations, business sponsors, foundations, and individual donors.

New Programming. Different programming causes different listeners to listen. We recommend investments in program innovation at both the local and national level – prototyping, testing, and developing programs and formats that explore different styles and sensibilities with the aim of greater appeal to audiences of color. This effort must be mindful that race and ethnicity are limited tools in programming development and give close attention to the values, lifestyles, and interests that will define the programming and those who respond to it.

In designing and developing such programming, it is important to take aim at the most important times on stations' schedules as well as the more common strategy of offering options for off-peak hours. As discussed in more detail in the following section, "The News," public radio has opportunities to pursue meaningful differentiation of audience appeal *within* the broader news franchise. That will happen in the most meaningful ways as stations have strong, compelling programming with which to anchor their service in prime times.

New People. GROW THE AUDIENCE has heard time and again that success in achieving inclusiveness goals in public radio's programming turns on greater inclusiveness among those who create the programming. In New York, Maxie Jackson, WNYC's Senior Director for Program Development, designed an aggressive approach to match mission and the people in assembling the production team for the new program *The Takeaway*. WNYC advertised with organizations that included the Asian American Journalist Association, Spelman College, Native American Journalist Association, National Association of Black Journalists, National Association of Hispanic Journalists, South Asian Journalist Association, and WNYC.org. Hires were made based on criteria that included journalistic expertise, work ethic, intellectual curiosity, and openness to new media. The result is one of the most diverse production teams in public radio.

"Coalitions of the Committed." We recommend a focused and collaborative initiative to increase the accessibility of public radio's major formats to people of color through institution-changing, appeal-shifting efforts by committed and ready stations with the largest audiences in markets with the largest populations of African-Americans and Latinos and similar efforts by national producers to increase their service and value to people of color. This initiative should include managed, multi-year projects that involve learning, change, and mutual accountability.

Such efforts might be similar to the Station Resource Group's Leaders' Partnership that created public radio's first collective efforts in major gifts fundraising. Or the Public Radio Internet Station Alliance (PRISA), through which a half dozen stations worked together exploring early online activities. In these examples, the participating stations shaped their agenda as the project unfolded, drew resources from both in the field and outside experts, committed to sharing what they learned, and presented their progress, problems, and results to each other in an atmosphere of mutual accountability.

Effective "inclusiveness coalitions" will require support for:

- Audience research to explore such issues as the current patterns of information consumption among target African-American and Latino listeners, broader patterns of media use, and responses to programming changes over time.
- Advisors from outside public media who can help with planning and implementing change in governance and workforce development, drawing on successful efforts elsewhere in the nonprofit sector and in business.
- Program innovations both at individual stations in their local efforts and for larger initiatives that could be used nationally.
- Managing the connections among those participating in the initiatives to realize efficiencies in finding outside knowledge and advisors and to foster a shared sense of work and accountability.

Multiple Stations, Differentiated Services

Increase the number of markets in which public radio presents its strongest formats over different stations, each with a focused and differentiated service.

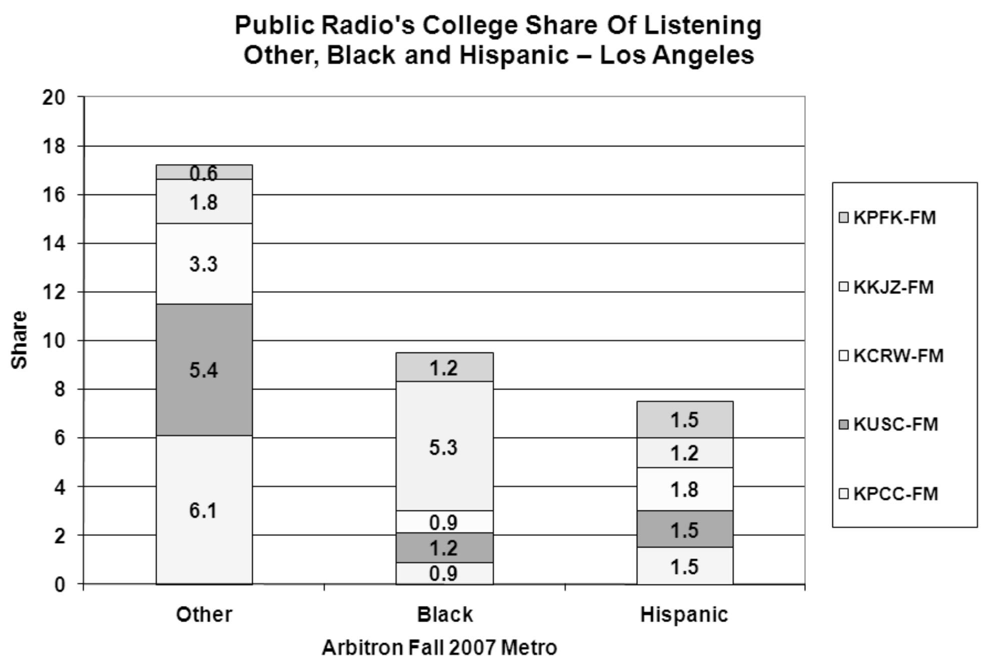
Achieving changes in the inclusiveness and diversity of public radio's large-market news stations would have an important impact on the overall field. But public radio has other strong options as well. GROW THE AUDIENCE also examined the patterns of listening by Blacks, Hispanics, and Others to public radio's classical stations and jazz stations. These analyses produced significant differences in the response of the different racial/ethnic groups, but in different patterns than we saw for news.

- Among seven large-market **classical stations** we examined, the pattern is that the classical format, whether public or commercial, can attract Hispanic college grads along with Others – in some cases with near-equal shares – but its appeal to Black listeners who are college graduates is limited.
- Among seven large-market **jazz stations**, the pattern is much higher shares among Black college grads than are found among Hispanic and Other college-educated listeners, with most stations claiming about equal shares of listening from the latter two groups.

Other music services, such as AAA, have their own distinctive patterns of audience appeal as well.

The classical and jazz findings point toward a second key element in an overall strategy for audience diversity – the **importance of multiple stations with different formats in realizing audience diversity goals**. Different programming causes different listeners to listen. Encouraging multiple public radio services in as many markets as can support them, and, equally important, encouraging meaningful differentiation of the services offered by each of them, will increase audience diversity.

This principle is illustrated in the following example from Los Angeles, one of the most diverse major markets in the country. It is important to note that this chart shows a single survey period, Fall 2007. Individual station data might look different if several surveys were combined and as more recent changes in the market are reflected. The important information is the broad pattern.



This chart shows the pattern of public radio's service to college graduates in Los Angeles through multiple stations and multiple formats in Fall 2007.

- Listening by college-educated Other listeners is driven by news KPCC, classical KUSC, and news-and-music KCRW.
- Over half of all public radio listening by college-educated Black listeners in LA is to jazz station KKJZ.
- Listening by college-educated Hispanics is spread across all five public radio stations, with no one of them achieving a real breakthrough to this audience.

Another lesson from Los Angeles is that even with its different stations and different formats, and even focusing just on college-educated listeners, where we would expect public radio's performance to be strongest, shares of listening by African-American listeners and by Hispanic listeners are dramatically less than shares of listening by Others.

Public radio should also look beyond news, classical, and jazz to other formats that might hold a greater appeal for African-Americans, Latinos, and/or younger listeners. In Los Angeles CPB is currently supporting a project that aims to create a new sound and media resource that will appeal to a younger, urban, English-language and majority Latino demographic that itself is highly diverse in terms of education, class, home culture, and language. In Chicago, WBEZ's *Vocalo.com* is letting the listening community both define and produce the news. In Milwaukee, WYMS continues to refine a contemporary-music-based service under the banner "diverse music for a diverse city." These and other efforts at innovation are all at the edges of the current system and there are, as yet, no "breakthroughs" in audience service to report.

Diversity of Ownership and Control

Continue investments in operations and programming of stations owned and controlled by people of color, increase their number, and strengthen their programming performance.

A central, long-standing theme in public radio's collective work to shape a diverse service has been a commitment to station ownership and control by people of color. Over the years CPB and others have fostered development of 75 CPB-supported stations at which the majority of those governing the licensee organization and a majority of the staff are African Americans (31), Latinos (11), Native Americans (29), or a combination of the foregoing (4). With broad support from the public radio system, CPB provides these stations with larger basic annual grants than other stations and matches their local support at a higher rate, recognizing the particular economic challenges they face.

CPB has also made multiple investments in national programs *t*hat have been developed by and that are principally used by these stations, such as *Linea Abierta, Noticiero Latino, National Native News,* and *Native America Calling*. CPB has also funded several program initiatives developed by NPR and the African-American Public Radio Consortium that have been widely used by African-American stations as well as others, such as the *Tavis Smiley Show, News and Notes*, and *Tell Me More*. The Public Radio Satellite System provides, at no charge, a full-time distribution channel for both *Satélite Radio Bilingüe* and *Native Voice One*.

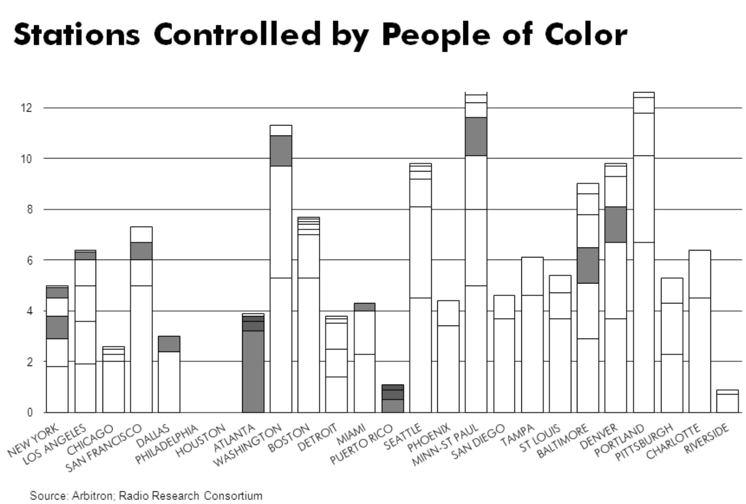
These investments have produced measurable results.

- Seven of the ten public radio stations that generate the most African-American listening are controlled by African-Americans: WBGO (New York), KCEP (Las Vegas), WPFW (Washington), KMOJ (Minneapolis-St. Paul), KKJZ (Los Angeles), WBAI (New York), and WEAA (Baltimore). The other three stations in the top ten are WAMU (Washington), WNYC-AM (New York), and WBUR (Boston). Source: Arbitron as processed by AudiGraphics, average of Fall 07 and Spring 08.

- Three of the ten stations with the most Latino listening are controlled by Latinos: KNAI (Phoenix), KANW (Albuquerque), and KUFW (Woodlake, CA). The other seven stations in the top ten for Latino listening are KUSC (Los Angeles), KPCC (Los Angeles), KKJZ (Los Angeles), WNYC-FM (New York). WLRN (Miami), KCRW (Los Angeles), and KQED (San Francisco).

- While Arbitron does not break out listening by Native Americans, virtually all of the stations that present an hour or more per day of programming targeted at Native listeners are Native-controlled.

We recommend continued strong support for public radio stations that are developed and controlled by people of color. When opportunities arise to increase the number of such stations through applications for new stations, potential acquisitions, or public service management agreements, aggressive efforts should be made to pursue them. Similarly, the success of some 33 Native American groups in gaining station construction permits through the FCC's recent noncommercial filing window (and the prospect of still more to be granted) needs strong follow-up to get these stations on the air as sustainable operations.



This chart shows the share of listening in the top 25 markets that goes to public radio stations (Metro share, Spring 2008, Arbitron diary markets only). Each segment of a bar is a different station.

The 17 stations highlighted in red are controlled by people of color, as are two stations in Houston (a PPM market not shown) and two other stations with audiences too small to report.

We recommend the development of clearer quantitative and qualitative expectations of audience performance for public radio's stations controlled by people of color based on format, sustainable resources, and the characteristics of the different markets they serve. In the largest markets, there are several stations with full service signals that currently garner relatively small shares of listening. In some of the smallest markets of the country, such as those served by many of the Native stations, public service expectations may be quite different.

2. Journalism

Make public radio America's most trusted and most widely-used source of daily journalism. Strengthen the power and scope of its most listened-to national news programs, invest in program innovation that will lead to more choice and service for listeners, support significant growth in the scale, quality, and impact of local journalism, and develop an integrated online news presence.

Public radio's largest near-term opportunity for audience growth and new public service is in news – national programs, local journalism, and aggressive expansion of online service.

2.0 Public Radio and Journalism

"All news" is the most-listened-to public radio format in all but a handful of the markets in which it is offered and news stations account for four out of every ten hours of listening to public radio nationwide. Public radio's most successful news stations are anchored by NPR's powerful news magazines *Morning Edition* and *All Things Considered,* are most readily identified through the salience of the NPR brand, and typically feature programs from other producers as well, such as APM's *Marketplace*, the BBC's *World Service*, WHYY's *Fresh Air,* WAMU's *Diane Rehm Show,* and *The World,* which is co-produced by WGBH, PRI, and the BBC. At the public radio stations and websites that garner the largest audiences, local reporting within *Morning Edition* and other local news and talk programming play important roles.

News stations led public radio's last major surge in listening, from 2000 through 2003. After a couple of years in which their audiences sagged along with stations presenting other formats, news stations are again growing – and at a faster pace than the rest of public radio. From Spring 2005 through Spring 2008, during which overall listening (AQH) to public radio grew by 2.3 percent (Arbitron Nationwide), news stations grew by 6 percent (Audience Research Analysis AudiGraphics, 99 news stations, diary markets only).

News is usually the strongest programming at the many public radio stations that offer a mixed format of news and music, attracting more listeners and more listening than other programming.

Even as public radio's news and information programming stands in a position of great strength, the largest practitioners of daily journalism, America's newspapers, are in deep distress and shedding thousands of jobs. Their plight follows the general abandonment of most serious reporting in commercial radio and dramatic curtailments in broadcast television news. Further large changes in the organization, business models, and availability of journalism in America are imminent.

There is both responsibility and opportunity for public radio in these developments. At the same time, we need to be realistic about public radio's current capacities, at both the national and local levels, and we need to be focused in our aspirations to be something more.

Public radio's journalism enjoys remarkable trust by the American public – year after year, poll after poll. At the national level NPR is our strongest journalistic brand, along with individual programs such as *Marketplace* and *The World*. Locally there are perhaps ten public radio stations with a significant local news capacity – 20 or more reporters, producers, editors, and anchors – and another dozen with about half that.

Public radio has other journalistic assets: independent producers and freelancers, international broadcasters (most notably the BBC), a few partnerships with newspapers at both the national and local level, and several loose relationships with emerging stand-alone online news operations. But these assets are generally disaggregated and more at the edge of the field than the center.

Claiming a significantly larger role in American journalism will require a much more robust news-gathering capacity – more "feet on the street" with notebooks, recorders, and cameras and more editors and producers to shape their work. The distance between current reality and the role we imagine – and that others urge upon us – is large.

Public radio must also think carefully and collectively about the character of the journalistic franchise to which it aspires. Public radio organizations cannot simply take up roles, beats, and topics as they are left behind by others. Rather, we should proceed in an audience-centered fashion, beginning with the interests and needs of those who already respond strongly to public radio news and information programming and building to a larger service and a larger audience of news users.

2.1 Journalism: National Programs

Strengthen public radio's most listened-to national news programs with a renewed focus on these programs by senior network executives, stronger reporting from across the nation, a greater commitment to enterprise reporting, more diverse views and voices, and exploration of new approaches to the availability and organization of national content.

Renewed focus on key assets. A short list of signature national news programs generates a huge amount of listening for public radio as a whole, as much as half or more of all listening to the stations that carry them, and greater listener loyalty than most other programming on stations' schedules. NPR's *Morning Edition* and *All Things Considered* top this list, which also includes *Fresh Air*, *Talk of the Nation*, *Weekend Edition, The Diane Rehm Show, Marketplace,* and *The World*.

Many in public radio believe that in recent years NPR's top management "took their eyes off the ball" with respect to the broadcast performance of key national programs. It takes nothing away from revitalization efforts already underway inside NPR and station-focused efforts such as Morning Edition Graduate School to assert that more needs to be done to reinvigorate and renew these programs on a continuing basis. Key steps include:

- Assure continuing management focus and budget priority, both nationally and locally, on the core programming assets of the public radio news franchise.

- Invest in research to monitor the changing information environment in which public radio's signature news programming competes for attention and the changing information needs of the listeners they seek to serve.

- Commit to regular, ongoing editorial and operational communication and coordination between senior national program executives and station leaders in programming and news that centers on the performance of key national programs.

Reporting from across the nation. We recommend a significant increase in public radio's national reporting capacity from across the nation. Current national reporting is criticized as too often sounding like "parachute reporting" or "cockle-warming" features from the heartland. We have heard from station programmers and news executives that audiences would like to hear more reporting from outside the usual media centers (New York, Washington, Los Angeles, etc.), which they suggest often yields distinctive stories that "really stick" with listeners.

How to achieve such reporting, however, elicits some differences of opinion and warrants further exploration and discussion.

Some assert that national reporting is an area in which national news producers, especially NPR, could make better use of station talent, resources, and reporting. In this view, station-based reporters – especially at leading news stations with experienced reporters, editors, and producers – should be tapped regularly to report for a national audience. This requires commitments by both national producers and stations, creation of mechanisms for regular coordination of a shared editorial agenda, staff training, and development of systems for workflow management. NPR's Project Argo and discussions of the as-yet-undeveloped "News Network of the Future" may fall in this area.

Others counter that opportunities to advance national reporting through national producer/station partnerships may be more limited than at first appears to be the case and that it is difficult for even the most accomplished reporters to develop a story for both a national audience and a local audience. It is suggested that "from the field" national reporting requires an allocation of resources for reporters and editors based around the country who would be focused on reporting for their network. One scenario would be for NPR to create four to six regional reporting centers, staffed by several reporters, a producer, and a regional editor. The facilities might be co-located with stations, but perhaps not.

Enterprise and Investigative reporting. We recommend increasing public radio's now-limited investment in enterprise and investigative reporting. Those concerned about the current state of American journalism often mention the critical role of "accountability reporting" with respect to government, corporations, and large issues and interests in civic life.

At its best, investigative reporting produces high visibility, high impact coverage that both makes a difference on important matters and advances the credibility and authority of a news brand. Such work could align closely with public radio's public service mission.

At the same time, this is difficult and costly reporting and some believe the cost/benefit equation is not strong enough for public radio to consider this path until resources for the field have increased dramatically.

To mount a serious investigative effort, public radio should build on the efforts already in place within NPR news, which recently hired its first editor dedicated to investigative work, and APM's documentary unit, American RadioWorks. Initial efforts might focus on three or four enterprise/investigative teams that, together, would be expected to break about one major story per month.

Diverse views and voices. We reiterate here our recommendation in the preceding section that public radio's signature national news programs need more diverse voices and views across the range of daily stories, the people doing the news, and those presenting analysis. This will increase the accessibility and authenticity of programming in communities across the country. Emphasis on a wider range of views and voices should not be confined to "target" programs, but built into public radio's major news programs.

Programmers urge all national producers to avoid an oft-heard homogeneity in delivery tone, to create more settings in which people from different backgrounds speak the way they speak among themselves, with a sound that rings true and authentic both for those like them and for those not. In addition to the on-air hosts and reporters, national producers need more people of color as editors and editorial gate-keepers at all levels.

Explore new approaches to organization and availability of national content. GROW THE AUDIENCE's consultations with programmers surfaced several suggestions for changes in how national producers organize and make available to stations their national content, some very focused and others very broad.

Multiple uses of content. National producers should allow stations to use exceptional pieces outside the program in which they are originally presented. Some stations would like to "unbundle" pieces from the NPR news magazines and other national programs on their own so they can present them elsewhere in their schedules. Others envision national producers selecting several "top stories" each week that would be offered, on a stand-alone basis, perhaps through Content Depot or PRX. National producers might also consider replaying some pieces from their weekday programs in their weekend vehicles, perhaps with some add-on or follow-up reporting.

Exploration of a possible NPR news stream. Some programmers suggest that NPR move from distinct news programs toward a continuously available news and information stream that is unified editorially, designed and paced with sensitivity to changing listener needs and interests in different dayparts, but which listeners can enter at any time with a sense that they are immediately connecting to a service they know and trust. Those favoring such an approach believe it better aligns with how listeners use the radio and makes even more sense for how listeners use services offered online.

Others believe current public radio news programs and hosts have distinctive identities, personalities, and daypart sounds and sensibilities and that public radio listeners like and value these qualities. In this view the distinctive personalities of the programs give a unique flavor to public radio news and keep public radio apart from the sometimes drone-like qualities of cable news channels and other all-news-all-the-time services.

An NPR programming stream would have dramatic implications for how NPR invests its news resources, for carriage of programming from other national producers, and for branding of station services. How would NPR and stations finance hours of additional original programming at substantial additional cost? How would such a format interact with current NPR mid-day talk offerings that do not flow into the magazine format, such as *The Diane Rehm Show* and *Talk of the Nation*, as well as offerings from other networks, such as *Marketplace, The World*, and *The Takeaway*? Given the likelihood that any such stream would be offered on the Internet by NPR itself, would this accelerate changes in the fundamental dynamics between stations and the network? These are not easy questions, but there appears to be enough interest in the "programming not programs" approach by a number of program directors to warrant further serious discussion.

Support the development of new national news programming that will give stations meaningful choices for differentiating their news services and give more listeners a news choice that meets their interests and needs on-air and online.

For all the power and success of public radio's signature national news programs and the importance of close attention to their continued strength, long-term and large-scale growth in public radio's news franchise also requires investment in innovation and differentiation.

Several years ago George Bailey of Walrus Research, in an SRG Discussion Paper, urged public radio to "Attack Yourself." Bailey wrote:

> "Here's what marketing strategists recommend when your product or service is so successful that it becomes a prime target—attack yourself. MTV attacked itself with VH1. General Motors

> attacked itself with Saturn. PBS did nothing and was attacked by Discovery, which attacked itself by launching TLC, Animal Planet, Discovery Kids, Discovery Wings, even Discovery Español."
>
> "Going forward, we think that public radio could serve more listeners, raise more revenue and block the competition by establishing at least two NPR news stations per market, a winning strategy so long as each NPR news station takes a distinct position, clearly differentiated from the other."

More recently PRI President (and Audience Task Force member) Alisa Miller made this case for multiple, differentiated news services both on-air and online:

> "The BBC has retained its domestic reach in news on radio and grown through other platforms by offering more choices through different formats on radio and a variety of different applications on other media platforms. If BBC had just focused on strengthening Radio 4 (its premiere radio news channel), it's unlikely they would have been able to retain and grow their radio audience to the extent they have.
>
> "This need for more dynamism in franchises . . . to meet Americans' needs becomes even more pronounced due to the growing space available on digital platforms, even as it is important to broadcast too. Competition will require public media to be prepared to offer more options in an infinite channel world."

The decentralized character of public radio requires a collective effort if the differentiation that Bailey and Miller encourage is to be achieved. Stations will be hard pressed to succeed in pursuing a different news audience without the power and leverage of network program assets. National program producers that aspire to creating content for a different audience will not succeed unless there are sufficient stations that will commit to carrying such programming at times that matter.

Three key steps are necessary for a broad effort at innovative differentiation:

- Agree on approach. Resource constraints demand focus on a short list of possibilities. Public radio often defaults to the demography of age or race in talking about a different appeal. But both marketers and audience researchers who have worked with public radio counsel a more nuanced approach which, while it may include demography, would be based more on such factors as values, lifestyles, information needs, and patterns of media consumption. These are difficult choices and require careful consideration and consultation between station organizations genuinely interested in differentiation of news services and national producers.

- Assess and sort current programming. With a differentiation plan or segmentation scheme in mind, it may be possible to assess and sort the character of existing national programming along these lines as an initial foundation of two distinct services.

- Invest in new, signature content. This will involve significant investment – but with the prospect of major gains in audience service and audience support.

2.2 Journalism: Local Reporting

Create a dozen high profile, station-based reporting centers around the country whose signature is superior local reporting, increase the capacity and performance of other stations that have made substantial commitments to local news reporting, and support journalistic collaborations that save money, incorporate broader perspectives, and achieve a larger impact.

Bill Buzenberg summarized the case for local excellence in "Five Tenets for Public Radio's Future," a GROW THE AUDIENCE essay.

> "In every market, public radio is a critical, primary news source . . . Investing in local hard-news, fact-based, reporter-driven coverage has never been more essential as so many local newspapers continue to soften and contract, while local TV stations continue to go their merry ratings-driven, hyper ventilating, irrelevant way. Yes, quality counts, and good editing, fact-checking, and careful news selection are vital. But if public radio is to create the highest value that it can provide—and thus attract an audience that does not have to go elsewhere—it must make news sparkle at the local/regional level, as it so often does nationally and internationally."

If public radio intends to take up some of the space in local and regional journalism now being abandoned by newspapers, it must achieve a local/regional scale considerably beyond that now enjoyed by even the largest public radio news stations. Where "failing" newspapers still employ dozens of reporters to cover their communities, most of public radio's larger local news operations are fielding 10 or fewer regular reporters. Total newsroom headcounts – news directors, reporters, editors, hosts, producers – exceed two dozen people in fewer than 10 locations outside NPR.

There are three complementary paths toward the scale and effectiveness public radio needs if it is to make a major leap in the impact and significance of its local reporting.

We recommend increasing local broadcast and online reporting at a dozen stations with high audience service potential through significant investments that increase the number of news staff, enhance on-air and online news production capacity, develop skills for reporting and content management in a digital age, and foster innovative approaches to community connections.

Ten to fifteen stations (or state/regional networks) have already embarked on efforts to build substantial daily reporting capacity. They are in communities in which we can envision long-term, sustainable funding that will grow as their efforts grow. Public radio, as a system, should invest in accelerating their development – much as was done at earlier stages of public radio development with "production center" and "major market improvement" grants – because of the immediate value these operations can deliver to the large audiences they reach, their role model for other stations that may follow this path, and the "talent magnet" such high impact, high visibility operations provide for both new and veteran reporters.

We have emphasized the importance of assuring a range of views and voices throughout the news reporting process at national producers. This is also true for these emerging "first tier" local news organizations and should be a feature of investments in building increased local capacity.

A ramp-up of targeted major, station-based newsrooms warrants a sustained, multi-year effort in which national funds from CPB and elsewhere would stimulate and match growing local investments.

In addition to these targeted investments, we recommend initiatives for other stations that have made substantial local reporting commitments in order to increase their capacity to create and present regular, high-quality journalism at a level consistent with the scale and resources of their organizations and communities.

Public radio needs to increase the reporting and editing capacities of stations with a substantial commitment to news and information programming. The key to success in such a broad-based effort is to recognize that expectations must be different in large markets, mid-sized markets, and rural communities, but to set a goal that all of public radio's news stations can move forward toward higher quality in both on-air and online reporting.

Most of these investments will be made by individual stations as they develop and allocate resources toward news gathering and presentation. However shared efforts, such as NPR's Morning Edition Grad School (MEGS), Public Radio News Directors (PRNDI) workshops, and other such projects can leverage existing research and practical knowledge to inform local strategies and practices.

The most critical station needs are in basic broadcast journalism. Marcia Alvar, Director of NPR's Local News Initiative, places a strong emphasis on the need for quality in local news:

> "PRPD's 'Sense of Place' research reported widespread listener disappointment with the quality and consistency of local news programming. This finding was consistent with those of three earlier studies including PRPD's 2001 "Core Values of Local News/Information Programming" and both Local News Project I and LNP II studies for PRNDI done by Market Trends Research. Covering

> a period of seven years and built on different methodologies, all four studies point to the same inescapable conclusion: we are paying more attention to quantity than quality."

Given the steadily increasing importance of the public radio news franchise and the still largely under-developed capacities at stations working within this franchise, we recommend an annual investment in professional development for local news programming personnel.

We recommend support for collaborative projects that advance shared use of local station reporting on a regional and topical basis and investments in shared resources such as editors for broadcast and online content that will serve more than one station. Such efforts should have a clear focus on cost reduction, wider use of content, or both.

Public radio can achieve local/regional scale through collaborations among public radio organizations. While there are numerous small-scale examples around the country, mostly in the form of shared state-house reporters and FTP news exchange sites, examples that involve multiple reporters, significant investments, and a regular on-air presence are rare. One example in recent years has been the Northwest News Network, involving a number of stations in the Pacific Northwest. Participating stations have invested in a shared editing and reporting function, as well as contributing stories coming out of their own newsrooms.

Station collaborations do not need to be exclusively geographic in their focus. Another approach is to organize around shared editorial themes such as economics, education, the environment, health, and other such issues that often receive priority in public radio newsrooms. Participating stations would share their content "horizontally" across the public radio system. PRX is a vehicle for such collaboration. A variation on the "News Network of the Future" mentioned previously might do the same.

Investments in this approach would aim at overcoming the significant barriers to the start-up of such collaborations, helping collaborators demonstrate the value of shared efforts in order to attract future investments from the stations themselves and other funders and sponsors.

We recommend partnerships and collaborations that look outside public radio to other content-creating organizations and community resources. We recommend development of suggested editorial principles, policies, and practices that will preserve the trusted position and integrity of public radio in this more inclusive and multi-dimensional environment.

Scale is also achievable through partnerships and collaborations that look outside public radio. The proliferation of accessible media tools has multiplied the number of groups and individuals that create and collect information about our communities. While many of these individuals and organizations have their own direct pathways to audiences online, few have the visibility and reach of our stations. Online-only news organizations (often staffed with newspaper refugees), arts and cultural organizations, and blogs and listserv forums on community issues such as education, health, the environment, and local politics are a few examples.

Stations will need to give careful thought to the principles, policies, and practices that shape which organizations and individuals they choose to work with and how they distinguish their own work from that of their community partners. But there are significant content opportunities both for broadcast and online presentation in this space.

Two kinds of investments would advance such outward looking partnerships. One would be to encourage and support a few demonstration projects that show what a “full bore” partnership model might look like. The other would be to formulate the editorial framework needed to preserve the trusted position of public radio in this new, more inclusive and multi-dimensional environment.

2.3 Journalism: Integrated Online News

Create an integrated online news presence for diverse public media sources – international, national, and local – that extends current capacities and brands, leverages current editorial assets and adds or creates new ones, and that might include the distinctive strengths and separate assets of public television and online public service media organizations.

GROW THE AUDIENCE’s New Media Working Group envisioned a world-class, collaboratively-managed public service media news site that would provide an online presence comparable to the BBC, the *New York Times*, *The Washington Post,* or CNN. The site would integrate content from multiple sources and brands – international, national, regional, and local. By matching IP addresses to locations and opt-in preferences, users could be presented a localized version of the site, in some ways replicating the listener experience of *Morning Edition*, which might move from an NPR foreign bureau to a *Marketplace Morning Report* to a local update from City Hall.

The Working Group surfaced several ideas for how best to integrate local and national elements, but there was broad agreement that such seamless technical integration was essential. There is substantial divergence on how to name and brand the site, however, as well as how to structure and monetize it. Also worth considering would be partnerships with local newspapers, combined public radio and public television efforts, and special emphasis on reaching audiences currently outside the principal public radio constituencies.

This would be a huge and complex undertaking, surpassing in scale other coordinated digital initiatives such as the now-under-development *American Archive*. But it is probably public radio’s best bet for a presence in online services that would be comparable to the role and impact it has achieved in broadcasting.

Many of public radio's programming and new technology leaders have participated in one or more discussions about a shared backbone or infrastructure for digital distribution of public radio content – without meaningful fruition. An observation about those efforts is that they centered more on technology and structure than on content.

More recently, an *ad hoc* group of public radio and television leaders opened a discussion about possibilities for aggregation and collaboration in online public media journalism. The group mapped out several different possibilities for such an integrated effort that speak equally well to both integration and collaboration among multiple parties within public radio or to efforts across public radio and public television.

We recommend that public radio and other public media partners move as quickly and as far as possible through a sequence of non-mutually-exclusive steps to build public media's online news capacity.

Collaboration behind the curtain. Threshold opportunities to enhance the productivity and impact of public radio and public television's online journalism can be realized with no change in public-facing identities of the respective producing and distributing organizations. Frequently cited collaborative measures include coordinated backend systems, APIs, standards, tools and shared investments in activities such as federated search and search engine optimization.

Aggregation of public media journalism. Public television and public radio's online journalism is currently presented on sites that align with separate networks, producers, shows, and stations. There is no integrated public media journalism presence, scant cross-linking or promotion of other public media content, little unified branding, and weak search optimization. This makes it harder for users to find our content than it should be and fails to capture natural affinities that cut across our work.

Much as NBC and Fox created Hulu as a single online vehicle to distribute their respective sitcoms and related material, public media could create a public media journalism destination that presents work from multiple sources – international, national, and local – showcasing collective efforts in a way that both stands on its own and leads back to the original reporting.

In one view this function could be advanced through a single, high visibility site that would give the online user an integrated yet varied experience, much as the many local versions of *Morning Edition* are perceived by radio listeners. Others suggest users will increasingly seek content that is organized in content verticals and that we should not confuse our desire for aggregation from multiple sources with an audience desire for focused presentation. This point extends through the following steps as well.

Aggregation plus curation. Hulu has grown to include content from dozens of sources beyond its two founders. Similarly, an integrated public media journalism effort could also include curated content from other sources, ranging from conventional journalism partners to online-only journalism initiatives to various citizen journalists and other kinds of user-generated content.

Such steps toward partnership and participation currently play only a small role in most public media journalism but will grow over time as our organizations learn how to manage such relationships and as users, supporters, and major funders increasingly expect it.

Content collaboration. Public broadcasters have periodically collaborated on content creation. Minnesota Public Radio organized several rounds of an annual Public Radio Collaboration in which national networks and stations collectively focused on a single topic for a week's worth of programming, which also included several program-specific partnerships. This past year CPB sponsored an Election Collaboration that spanned public television and public radio and is following with a new collaboration focused on the economy.

Most observers have considered these efforts modest successes at best. They have often been more "parallel play" than true collaboration. Suggestions to improve the impact include the need for larger scale, stronger commitment of original reporting resources to the collaborative endeavor, and greater investment in the "collaborative tissue" that organizes and focuses the work – not just expecting partners to carve out time from their current roles, but rather a strong central capacity that is accountable to the overall collaboration.

A new or expanded journalistic entity whose mission would be web-first but would feed to broadcast platforms. This vision for online public media journalism calls for an entity that would be organized and focused principally on online content, creating text, images, audio, and video in a fashion that draws on the values, strengths, and brands of public broadcasting but works to a tone and sensibility that is "native" to the networked space. In a turn-about of current practice in which radio and television material is often "exported" to the web, this entity would feed its online work back into the radio and television realms.

The entity might be embedded within an existing organization or created in a new and neutral "third space" outside existing networks and between public radio and public television. It would need sufficient scale to create a distinctive and competitive presence on a daily basis, perhaps aiming for a staff of 200 or more – about two-and-a-half times the current size of NPR Digital Media.

The output of the entity could take several forms, from a single destination or portal-type site to multiple, content-focused sites. Similarly, the focus could be principally on a national identity or on integration with local efforts that would give users a geographically-customized experience.

3. Music

Create a 21st century public radio music service – on multiple platforms, in multiple genres. Capture the broadcast franchise for public radio's strongest music formats in as many markets as possible, move to new platforms with both core genres and new services, work to higher standards and greater value for listeners, and explore new approaches in content and presentation.

"If news is the brain of public radio, music is the soul. But, somehow, music has less status. It's not as much on public radio's radar as it used to be. For a lot of our listeners, though, it's why they come to public radio. And I think we risk losing people who want to be part of our public radio family."

Davia Nelson of the Kitchen Sisters, GROW THE AUDIENCE Session, Third Coast Festival, Chicago

Public Radio and Music

Music is a critical part of public radio's audience service equation. It accounts for a significant number of the listeners who tune to public radio each week, a major share of total public radio listening, and a principal point of connection with many of public radio's African-American, Latino, and Native listeners. Public radio's music services have a growing presence beyond the broadcast through streaming and mobile applications. Many music stations are deeply engaged with their communities, with long-standing connections to local cultural institutions, performers, and the avid devotees of their music.

Public radio's largest audiences and highest listening levels occur in markets where public radio offers its best-performing formats, both news and music, over multiple stations that are differentiated from each other. The most powerfully performing combination is a news station featuring NPR and other network news programs and a classical music station – as seen from Washington to Cincinnati to Portland and 18 other top-50 markets.

Still, some question the future prospects for public radio's music stations and music programming. "Public radio" has become increasingly synonymous with the NPR News brand. The broadcast audiences for many music stations have been essentially flat for years. Public radio's music services are not fully integrated into system strategies and plans.

We believe that music, arts, and culture are a fundamental part of public radio's mission to serve individuals, communities, and the nation, and are important elements of a comprehensive strategy to achieve dramatic growth in the use, reach, and diversity of public radio's audience.

The State of Play

"All music" stations that present public radio's three dominant music formats – most of which are in major markets – account for one out of every four hours of public radio listening. In Spring 2008

- 46 classical stations attracted 15 percent of all listening to public radio
- 25 jazz stations attracted 6 percent of all listening
- A dozen AAA stations attracted 4 percent of all listening

Listening to music on public radio's scores of news-and-music stations adds to the total, as do those stations presenting music other than classical, jazz, and AAA. In all, music accounts for about one-third of all listening to public radio in America.

Music stations play important roles in the racial and ethnic diversity of public radio's audience. Half of the top ten stations for African-American listening feature jazz. Classical stations like KUSC (Los Angeles) and WETA (Washington) reach significant Latino audiences. Public radio's Native stations are predominately music-based.

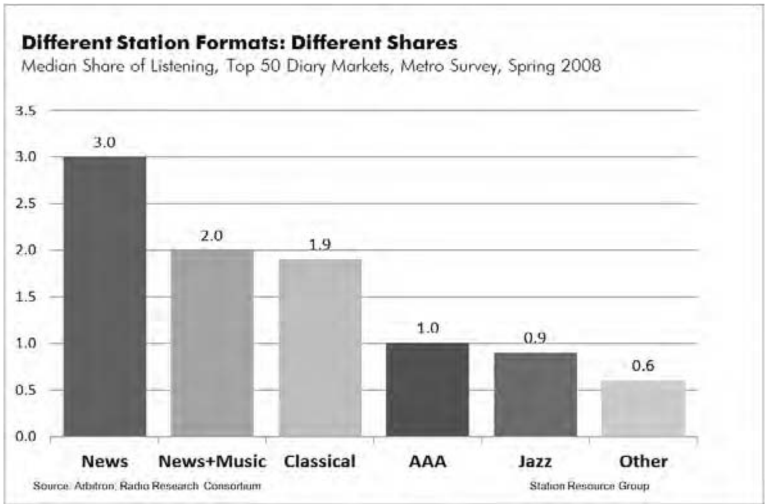
Most of public radio's most successful online services are music – 15 of public radio's top 20 streaming stations (measured in terms of "average tuning hours") feature one or more music streams. Public radio's leading classical, jazz, and AAA stations hold similar positions online. Stations like KCRW (Los Angeles) and WWOZ (New Orleans) have established national online brands for themselves. WKSU (Kent, OH), with *Folk Alley*, and WAMU (Washington, DC), with *Bluegrass Country*, have established 24/7 music channels that are distinct from their primary broadcast service.

NPR Music, National Public Radio's steadily expanding online service, is morphing into its own full site with concerts, interviews, features, and links to music streams from a dozen NPR member stations. NPR Music tests the notion of an integrated portal of material from diverse sources – not unlike the notion proposed for news in the previous section – and the idea of a single pathway into multiple music genres.

The Public Radio Tuner iPhone application had become the top free music application on the iPhone, with over 1.5 million downloads by mid-2009.

Some public radio music stations are an important part of the cultural lives of their communities by virtue of their long-term engagement with organizations and individuals working within the music genres they present. These stations foster an awareness of events, venues, and organizations that encourages attendance and support. They create and present concerts, festivals, and other events of their own, showcase emerging artists, and build awareness of their community's culture.

In programming and listening, however, the long arc of change has turned in the direction of news. News and talk programs have replaced music on news-and-music stations' schedules, mixed-format stations have switched to all-news in several markets in each of the past few years, and most of the net growth in listening to public radio over the past decade has been to news and information programming rather than music.



The median share of listening to public radio news stations in the top 50 markets is a full share point above the median for news-and-music and all-classical stations and two share points above AAA and jazz stations. These are truly significant differences in performance.

But the different status of news and music within public radio is also political and cultural. Congress and the various political entities at the state and local levels that contribute significant sums to the public radio enterprise tend to focus on civic life and public affairs. The sensibility that lets music and art fade from public schools and marginalizes national investments in the arts and humanities also relegates public radio's music and cultural offerings to a lower level of respect, interest, and financial support.

There are also structural issues within the field. Public radio's music has few visible public champions. Senior network executives usually associate themselves more with their news and information efforts than their music services. There is no dominant music host or personality to match the best known names from public radio's news and entertainment programs. Many all-music stations – especially classical – are part of multiple-station operations where they are paired with a public television station or an all-news radio station with bigger audiences and larger claims on the leadership's attention.

Public radio has a significant choice to make going forward. It can allow its music services to drift in the direction of "maintenance mode" with, at best, steady-state long-term prospects or worse, progressive marginalization. Or it can re-imagine and re-invigorate the role of music in public service media.

Capture the Broadcast Franchise

We recommend a concerted effort to increase the number of markets in which public radio stations offer the field's strongest music franchises – classical music, AAA, and jazz – on a consistent basis through a combination of self-directed change and focusing at current public radio stations and adding stations through acquisitions, mergers, and management agreements.

The primary driver of audience growth for classical music stations over the past several years has been public radio's "capture" of the classical music franchise through market changes and station acquisitions. This has occurred through abandonment of the classical format by a commercial station – in Washington, DC, WGMS shuttered its classical service and WETA assumed the franchise with great success and in Los Angeles commercial K-Mozart closed shop and KUSC became the sole classical outlet. It has also happened through acquisition of a station or control of the service through a management agreement – American Public Media purchased WKCP in Miami and Detroit Public Television now manages WRCJ in Detroit. As this report was being finalized, WNYC acquired the WQXR classical franchise in New York and WGBH purchased classical WCRB in Boston.

Although less dramatic, growth of listening to AAA stations has been driven by similar developments in availability, including acquisition and a format change ("The Current" in Minneapolis-St. Paul), AAA stations entering the CPB-supported system (WTMD, Baltimore), and emergence of the AAA format from a previously eclectic schedule (KRCL, Salt Lake). Most recently, KERA acquired and launched a new AAA service in Dallas, KXT, to complement its existing news and information channel.

The availability of jazz stations has been going the other way, with a station in one large market leaving the format (Milwaukee) and three jazz stations failing to remain qualified for the CPB-supported system (St. Louis, Orlando, and Murfreesboro, TN).

The surest path to more listening to public radio music is more stations presenting music on a consistent, full-time basis in markets with significant audience opportunity.

[The chart on the following page shows CPB-supported "all music" public radio stations that present the three principal public radio music formats in the top 50 markets.]

	Classical	Jazz	AAA
New York	WQXR	WBGO	WFUV
Los Angeles	KUSC	KKJZ	
Chicago		WDCB	
San Francisco		KCSM	
Dallas			KXT
Philadelphia	WRTI		WXPN
Houston		KTSU	
Atlanta		WCLK	
Washington	WETA		
Boston	WCRB		
Detroit	WRCJ		
Miami	WKCP	WDNA	
Seattle			
Phoenix	KBAQ		
Minneapolis-St Paul	KSJN	KBEM	KCMP, KUOM
San Diego		KSDS	
Tampa			
St Louis			
Baltimore	WBJC		WTMD
Denver	KVOD	KUVO	
Portland	KQAC	KMHD	
Pittsburgh	WQED		WYEP
Charlotte	WDAV	WNSC	
Riverside			
Sacramento	KXPR		
Cleveland			
Cincinnati	WGUC		
San Antonio	KPAC		
Salt Lake City	KBYU		KRCL
Kansas City			KTBG
Las Vegas	KCNV	KUNV	
Orlando		WUCF	
Milwaukee			
Columbus			
Providence			
Indianapolis			
Norfolk	WHRO		
Austin	KMFA		
Raleigh-Durham		WNCU, WSHA	
Nashville			
Greensboro		WSNC	
West Palm Beach			
Jacksonville			
Oklahoma City	KCSC		
Memphis			
Hartford	WMNR		
Buffalo	WNED		
Rochester	WXXI		
Louisville	WUOL		WFPK

Move to Multiple Platforms

We recommend continued development of public radio music services – both core genres and special niches – in the networked environment of online and mobile devices and the development of an organized approach to music rights issues in this space.

A growing number of music stations are also offering second streams that differ from their main channel in ways both large and small, as well as podcasts, archives, concerts, community calendars, and other special features. These stations are using the networked environment to go deeper into their respective formats, to engage with listeners and events in their communities, and to experiment with and explore specialized niches, new approaches to presentation, and new music options.

Issues of long-term financial sustainability loom large for everyone working in this area. Adding services that go beyond the core on-air broadcast adds costs – but on the other side of the ledger it is difficult to track revenues that the new activities generate. As KCRW General Manager Ruth Seymour put it in an interview in *Fast Company,* "The fact is no one has come up with a feasible business plan and that's a major concern. How do you sustain this gorgeous blonde? How do you keep her in furs?"

A core concept for both seizing opportunities in the networked space and creating a plausible business plan is aggregation. For some years it has been clear that the broad direction in mass media is smaller audience shares for any given channel and the creation of market position through aggregation of audience across multiple networked and business platforms. This trend is accelerating for radio's music services faster than for news. In this regard it is instructive to consider the growth strategies at Philadelphia's WXPN, which is aggregating market share across every channel and platform it can find.

WXPN had a 1.7 share of radio listening in Fall 2008 – smaller than the other two public radio stations in Philadelphia, but a top performer in the AAA music franchise. WXPN also operates World Café, a venue for concerts, performances, and community-events, a restaurant, and general gathering spot. The station produces the nationally-distributed AAA World Café program, and makes four online streams available to users, three of which it produces in-house. The station has also aligned itself with NPR Music, has a second HD service, and a host of other ongoing activities.

Determining how to expand activity in the networked, new media space is critical for music stations in remaining accessible and relevant for their audiences, especially with respect to younger listeners. AAA stations, with the youngest-skewing audience of the major public radio music formats, know this most acutely, but it applies to all the music formats and for listeners of all ages.

Music rights issues pose different challenges for the different music formats, but across all music formats these issues have made aggressive moves into the new network age more difficult for music services than for their colleagues in news.

Public radio recently concluded negotiation of royalties for stations' online music services and was able to secure a comprehensive arrangement for the field and a single payment by CPB to cover the public radio system. The current contract for streaming rights and royalties, however, does not address numerous programmatic restrictions in copyright law that challenge music programmers and it covers only streaming services. Using music in podcasts, for cell-phones, and in other settings requires obtaining the rights for each of these uses. Some artists and recording companies are eager to partner up, but others have plans for exclusive domain in the networked space or are reluctant to give up rights that might be valuable in the future even absent specific plans. Rights issues have steered public radio away from the kind of innovation and experiments users associate with public radio.

Public radio needs a comprehensive rights strategy that will encourage the most robust development of its music services in the networked space.

Higher Standards

Public radio's music stations must aspire to higher standards of presentation and greater value for the listener – compelling, trusted personalities, a sense of connection with audience and community, and excellence in production values.

One music programmer expressed the problem this way:

> "We are protected by our niche and our 2 share. We are too small for the commercial guys to attack, but large enough to keep our nose above water financially. So why rock the boat, why try harder?"

Listeners in all genres have increasing options to find their favorite music. Radio stations must offer compelling value to the listener by presenting the music and something more. We have heard many suggestions to strengthen performance in public radio's core music franchise; they fall into three principal categories.

First, recruit, develop, and keep compelling personalities that build trust with listeners. The music is always the "star" of the show, but an engaging and trusted guide sets apart a top-performing service from the generic offerings available online, from satellite radio, cable companies, and elsewhere. Public radio listeners appreciate it when a knowledgeable host introduces them to new music or new performances or shares a little bit of information about the music, its composer, or the artist. Public radio music listeners like to learn – a little bit – and they enjoy the companionship of smart, familiar hosts.

Second, create a sense of timeliness, immediacy, and community connection. Music stations add value when there is some sense of purpose to the piece that pops up next on the playlist – a connection to a local performance or a soon-to-arrive touring artist or a link between the music or artist and something else the station has presented or featured. The service needs to be more than an endless soundtrack or an artful algorithm.

Third, production values for public radio's music programming should match or exceed those we expect and demand of news and information programming. Even in many of public radio's larger markets, there is a day-in, day-out lack of consistent quality to music presentation.

New Approaches

We recommend that stations and producers experiment with how public radio organizes and presents music within its current genres and think outside the familiar genres to other music possibilities that might fit within the broader public radio domain.

Nearly three years ago some 60 leaders in music performance, music presentation, and electronic media gathered at the invitation of leading public radio organizations to discuss the future of music and media. One of the group's emphatic conclusions was the need to understand and respond to a changing audience.

> "The audience for this music is evolving in tandem with the aging of the baby boomer population, the growing power of youth media habits, the integration of immigrant populations into a changing mainstream, and other huge cultural and demographic shifts. Young people, in particular, inhabit an omnivorous media and musical environment with many more choices, fueled by a global internet and an 'iPod culture' that allows them to find, sample, and experience a dizzying array of musical genres and cultures with much lower barriers than ever before. We must adapt the creation and presentation of 'ambitious music' to this pervasive, user-driven, self-defining musical culture." (*A Report on the Music & Media Forum*, Global Business Network)

There are really two provocations here. One is to rethink how public radio organizes and presents music within its current signature genres. A few stations are doing just that, mostly in fringe listening periods, on HD2 channels, or online. There needs to be more.

The second challenge is to think outside the familiar genres and consider other music possibilities that might fit within the broader public radio domain. The threshold of sustainability for a public radio music broadcast service is about a 1% market share, based on current formats. In the space between commercial viability on the one hand and lack of sustainability for a nonprofit on the other, what are the music genres that would generate at least a 1 share in the top 50 markets?

Younger listeners are going online for much of their music – what about an online music service designed exclusively for the network space and aimed at capturing this demographic? How about seriously considering some different music presentation techniques? Pandora is a personalized internet radio service that helps users find new music based on the individual's favorites – does this sound too algorithmic for public radio? How about a software version that builds on public radio's repertoire of music genres? PRX is exploring the possibilities for such a service for music stations' websites.

These are all speculations, of course. But public radio is currently stuck in a music box of its own making and the pathway out starts with ideas and experiments and a few risks until something sticks.

4. The Network

Follow current public radio listeners in their changing patterns of media use, which increasingly include online and mobile platforms, cultivate new users by providing more channels and platforms on which to find and use public radio content, and make public radio more flexible, participatory, and engaging.

We are developing plans for public radio audience growth in the midst of a global media transformation. Increases in the availability of computing power and storage, digitization of all forms of content, expanding telecommunications bandwidth, and the rise of a connect-nearly-anywhere Internet-protocol network accessible through an expanding number of devices will drive this change for years to come.

The transformation presents opportunities to increase public service – giving audiences greater, more convenient access to our work, enabling non-linear and ultra-niche offerings, and drawing audiences into the process of selecting, creating, commenting upon, and sharing content. It also disrupts and threatens core elements of the public radio enterprise – broadcasting, journalism, recorded music, and geographic exclusivity. This interplay of opportunity and disruption has uncertain consequences for both established public radio services and new initiatives.

But it is not as though we stand at the edge of these changes. We are already deeply into them. The Pew Research Center's Project for Excellence in Journalism, which tracks media use on a broad, long-term basis, makes this observation:

> “Radio is well on its way to becoming something altogether new — a medium called audio . . . To a greater degree than some other media, radio is unusually well suited to the digital transition. Voice and music are mobile and move easily among new platforms. And audio has done better as a medium of holding its audience than some other sectors.”

The opportunities of networked technologies are a continuing thread throughout most sections of this report – they are increasingly a “fact of life” in how public radio delivers its service. But the force of change is powerful enough – “something altogether new” as Pew puts it – that we believe it is worth reflecting upon the broad directions in which new technology is changing our field, guiding principles for the emerging environment, and recommendations for national and local actions.

Vectors of Change

There are four important vectors of change for public radio within the broader transformation, each with its own dynamic of opportunity and threat for public radio's audience growth.

Shift in delivery platforms. Much of public radio's traditional strategic position – creating, selecting, and presenting content of high quality and depth – readily shifts from broadcasting to the networked environment. With that shift has come the opportunity to offer multiple program services, to offer listeners the ability to shift the time and place of their listening, to unbundle content from the linear program flow, and to reach audiences far outside the local broadcast contour. Concurrently, as others seize the same opportunities, public radio's listeners are gaining expanding choices and public radio's stations, producers, and networks face increasing competition from hundreds of other entities, including each other. Public radio can advance its strategic position through the media transformation, but all public radio organizations must rethink the competitive landscape and their respective place(s) within it.

Shift in relationships with the audience. The networked environment encourages change in individual media behavior and relationships between individuals and media institutions. Search engines, news feeds, podcasts, and links and recommendations from friends and colleagues shape daily consumption. Individuals take on curating roles with rankings, critiques, playlists, and postings on social networks. User-generated content moves from letters and call-in talk shows to raw material for professional productions, photos and blogs on station sites, and crowd-sourcing on a wide range of topics. At some point on this path, the relationship shifts from presentation to conversation, from one-to-many to many-to-many – not in everything (far from it) but in important ways felt by the institution and the user.

These changes can advance public radio's aspirations to connect and convene individuals and communities on civic and cultural issues, add depth and perspective to public radio content, and strengthen stations' positions as genuine community institutions. But they can also diffuse the stature and clarity of a station's identity, pose complicated questions about editorial integrity, redefine concepts of authority and authenticity within public radio's core content franchises of news and music, and claim time and resources far out of proportion to actual gains in use and value.

Shifts in relationships within the field. Content creators of all sorts have increasing opportunities to connect directly with listeners and users, bypassing conventional distributors and stations. And within a decentralized system like public radio, content can move in new ways, horizontally from station to station and among *ad hoc* networks of interest, bypassing large centralized networks. These shifts strain relationships within the public radio field and put both national and local business models at risk. The audience service impact of this disintermediation is determined by the value added by the intermediaries at risk. Some believe a direct-to-end-user shift will reduce inefficiencies and wasteful infrastructure while expanding audience choice and satisfaction. Others argue that the "publisher" role of both networks and stations makes it possible for them to support important, but less viable content (*e.g.,* international bureaus, local reporting, and emerging talent) and provides needed coherence and focus in an increasingly chaotic media environment.

Shift in who is "us." The networked environment lowers barriers to entry and allows many new entrants to claim a role as public radio or, more likely, public service media. These emerging entities are staking claims to public attention, public policy support, and public funding. In some ways this is merely an extension of an issue that has been with public radio since its inception – sorting among the several thousand noncommercial radio stations to identify several hundred entities that qualify for public funding and participate in public radio's professional and collegial arrangements.

But it is also different. At the leading edge of the public service media organizations that work entirely in the non-broadcast, networked space are entities with greater use, visibility, and support than those at the trailing edge of the public radio system. A growing number of communities have nonprofit, online-only media groups that, through they may lag far behind the local public radio station in daily reach, are the equal or more with respect to community partnerships, number of journalists, or foundation support. Public radio has only just begun thinking about how it will relate to these online-only efforts – as competitors, as colleagues, as partners, or something else. These questions are likely to become steadily more important, both operationally and as matters of public policy.

Guiding Principles

Media technology consultant Skip Pizzi and the GROW THE AUDIENCE New Media Working Group offered a list of 10 important concepts that public radio professionals should keep as touchstones in charting their courses through this emerging media environment.

AGILITY Today's most important survival instinct for media professionals is the ability to shift among content creation and delivery models more readily than in the past. Public media management must gain such agility to adapt to new platforms and a changing marketplace, while maintaining a central focus on core content strengths.

BRAND This is the fundamental asset of public media. It includes a rare combination of integrity/credibility with hipness and high marketability to certain desirable demographics. In fact, it manages today to hold slightly *different* values for several different demographics, and this potential must be expanded (another form of agility – maintaining multiple variations of branding for various audience cohorts). It's critical, however, that a coherent focus be retained. Perhaps this is best expressed as "My Proxy," in which public radio serves as a primary filter for a certain worldview – both for news/info and arts/entertainment – and ideally one that "works" (*i.e.*, translates easily) for several distinct demographic targets.

MAINTAIN Keep the anchor of an *on-air* service sacrosanct. FM is still strong as a core. Without it, public media web audience would be much less. Audiences are shifting, but at best there is still a 10:1 advantage to on-air listenership, with typical station numbers at 50:1 or higher.

BALANCE Public media's greatest management challenge today and for the near future is driving a proper balance (with high temporal granularity) between currently shifting parameters:

- Local vs. National content
- Real-time vs. On-demand services
- Original vs. Acquired/shared content ("co-opetition")
- Mission vs. Monetization

Any "reinvention" of public radio should be done incrementally, with a careful weighing of institutional priorities against the advantages or disadvantages of each prospective new approach.

PROMOTE Aggressive promotion via traditional and new venues is increasingly important. Perhaps the best area to explore is partnerships with "best of field" organizations, where mutual benefits can flow (*e.g.*, Google, Starbucks; certain national magazines; local newspapers; large local employers).

ENGAGE Encourage and assess audience reactions; get representation from all demographics; learn, adapt and grow. Hire smartly (ex-print people are one opportunity – much of the NPR News brand was built this way, taking strong print journalists and teaching them the craft of aural storytelling). Invite listener feedback and participation through social networks and new venues of consumer access.

STUDY Keep abreast of all relevant and peripheral new technologies. Consider them both for the appropriateness of their inclusion within your services, and for their potential impacts if implemented by competitors. Develop stable metrics or benchmarks by which to evaluate new opportunities.

MEASURE Watch the changing audience numbers closely, with special attention to the Diary/PPM shift as it continues. Weight respective metrics (on-air and online), and establish credible analysis algorithms. Remember to account for behavioral shifts that may occur as audiences age: these may proceed differently or faster today than in the past, but they will occur.

FOLLOW FAST Public media does not have a mandate to be ahead of the curve. A "fast follower" position is preferable. Maintain good vision ahead to know what's coming. Always keep aspirational targets in sight. Be open to big new ideas, but don't rely on them for *deus ex machina* events. Scale well.

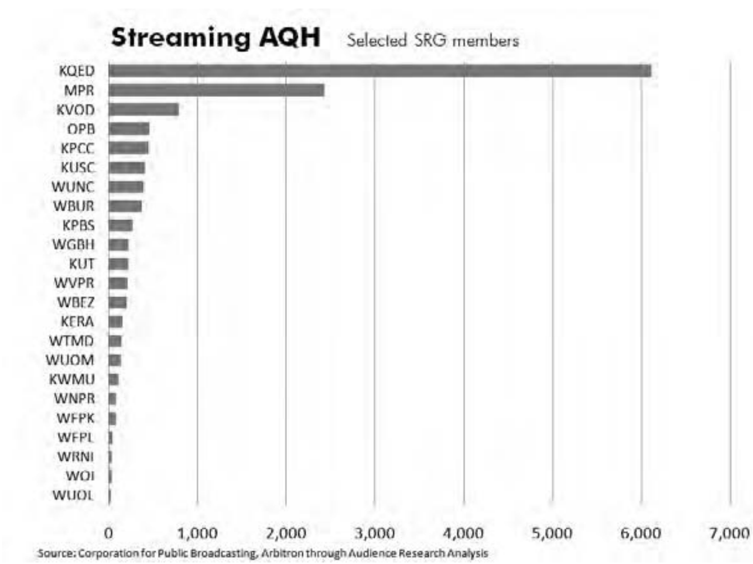
DEVELOP

Remember that compelling content always trumps delivery technology. If you provide something listeners want to hear, they will find their way to it, however cumbersome. Conversely, the most convenient and up-to-date media-access methods are of little value if they provide no interesting content. Thus the true goal in new media for public broadcasters is **great content made broadly and easily available**. Seek new talent, topics and presentation methods, while maintaining traditional programming. Extend and expand the core.

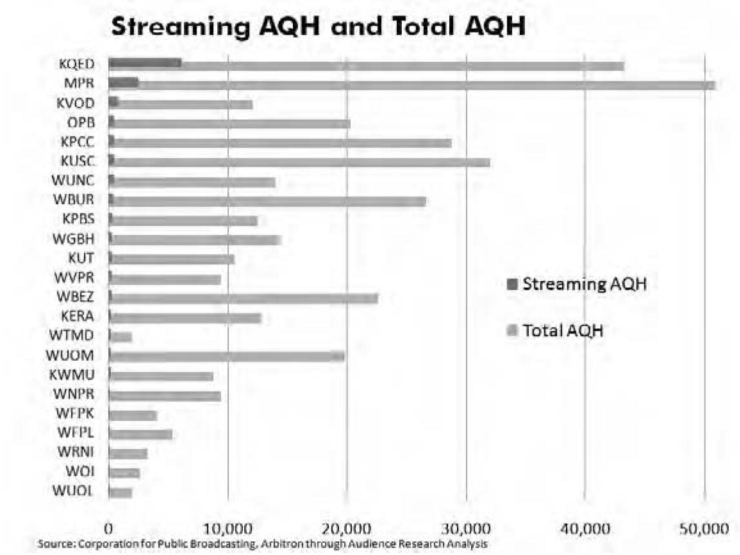
Reality Check

Public radio is now about 10 years along in the networked space. How are we doing? Evaluation of activity on the network is still a work in progress and much debate surrounds appropriate metrics, the strengths and flaws of different measurement vendors and their respective systems, and the "apples-to-apples" comparability (or lack thereof) of online indicators to broadcast measures.

One way to assess public radio's current performance is to look at the most broadcast-like web application, streaming, using a familiar broadcast metric – the average-quarter-hour audience (AQH)

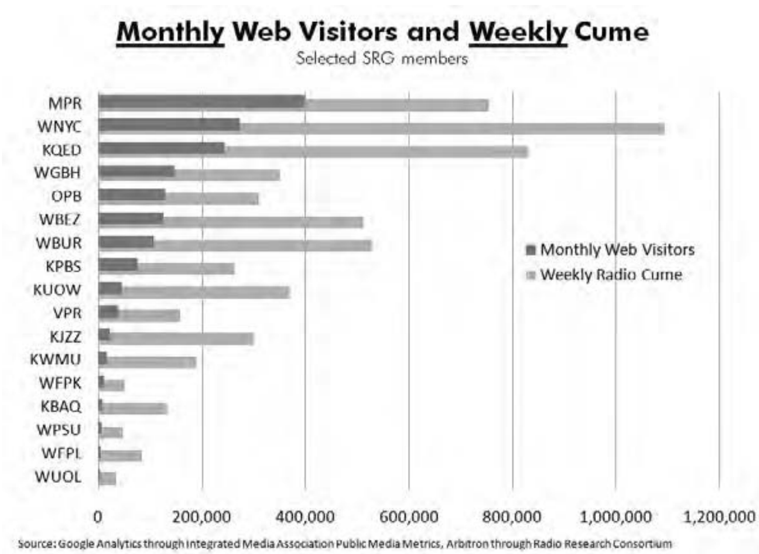


In this chart we see the average audience online for a number of SRG members who were willing to share their numbers. We can see a couple of stations – major players in our field like KQED and Minnesota Public Radio – to which a significant number of people are listening online. But we also see that there is a pattern of very quick fall off in the use of the web as an online audio delivery system. For most stations, the average online audience is very small.



We see this more clearly when we look at listening online in the context of total listening, both on the air and online. The online numbers are small fractions of the total for even the most successful public radio streamers.

When we shared this data with people knowledgeable about and working in the online space, they were quick to point out that the web is not just about replicating the broadcast listening experience. Streaming is currently the most-used content feature on public radio station websites. But it is just one of many possible public media applications online and there are many other ways in which people can use and benefit from what we do online, much of which may be based on text and images.



This chart looks at the *monthly* unique visitors to a number of stations' websites and their *weekly* broadcast cume – each is an indicator of the reach of the platform. We see that some stations are making significant progress in reaching people on the web relative to those they reach by broadcast. We should note that a number of the stations with the largest numbers of visitors are joint radio/television operations (KQED, WGBH, OPB, KPBS) that are using both of their broadcast platforms to drive traffic to their sites, and that we are comparing the web traffic to their radio audience only. We should also note that these data are from 2008 and some of these stations have seen significant increases in web traffic over the past year.

There are some important caveats in looking at this kind of data:

- Some studies suggest that most people who visit station websites are also station broadcast listeners. Some stations report a substantial number of visitors from outside their coverage areas. We do not have standardized data on this point across all stations and it is best to think of **monthly web visitors and people in the weekly radio cume as overlapping but different** populations.

- Public Media Metrics, which reported the data on which this chart is based, also reports that over **70 percent of the monthly visitors to public radio websites show up only once per month**. In contrast, people in a typical public radio station's weekly cume tune in about a half dozen times per week on average.

- Most **visits to public radio websites are very short** – 10 seconds or less.

On the national level National Public Radio's npr.org is the most successful public radio site, and claims over 8 million unique visitors per month. During the 2008 election, that number spiked to over 10 million.

None of these data really speak to the interactive, social networking capacities of the web with which both networks and stations are experimenting. NPR's still-new social networking, the growing number of station Facebook pages, PRX's highly interactive Public Radio Talent Quest, and other applications all produce interesting glimpses of changing dynamics with listeners. But we are a ways from understanding enduring consequences for overall audience use and value.

NPR, other national producers, and many stations believe that the web is central to their future and critical to their public service mission, but they are still searching for ways to translate high-level aspirations into workable strategies and implementation. It is clear that public radio has an enormous distance to travel in realizing its online potential and achieving an impact that begins to approach what has been achieved in broadcasting. In the remainder of this section we explore key steps to begin getting there.

Online Strategies for Stations

We recommend organized and ongoing support for stations in developing strategic clarity about their roles and expectations in the online and mobile networked environment – at the different levels of resources and operations and different phases of development found across the station community.

Many public radio stations began their online work with a website aimed at organizational presence, promotion, and contributions. That never goes away. In today's environment, every self-respecting nonprofit organization needs a companion website. It is basic customer service and outreach.

A second step shifts the focus to content and almost always begins with migration of the broadcast service onto the web – click here, listen now. Streaming is the most common content application that stations provide and the most popular content application for public radio website visitors. As stations develop more robust service in this phase they add more content choices, such as additional streams, playlists, archives, and podcasts.

At some point the content evolution becomes a paradigm shift, with the one-to-many model of broadcasting opening into a many-to-many dynamic with new models of user control, engagement, and participation. In all the public radio examples to date, broadcasting functionality and support remains central; there is, however, a growing presence of content specifically created for the web, curated content from other sources, interactive features, and utilities that enable users to shape their experience and manage the content they seek. This third phase sets the stage for what some envision as a fully realized, multi-platform public service media company of the future.

The public radio system includes stations at all three of these phases, with most somewhere in the middle. As we develop support, training, and shared plans for online development, it is important to be clear which stage of development is being addressed and which roles are being strengthened. Further, while those investing in public radio's online activities often wish to move to the "cutting edge" of the third phase, we must recognize that many stations, including those that have begun third phase explorations, still have much room for improvement in the quality, effectiveness, and use of the earlier dimensions of their online work.

Mark Fuerst, founder of the Integrated Media Association, urges setting realistic expectations about how many stations can move to more advanced and complex levels of online service. In a comment for GROW THE AUDIENCE, he writes:

> "All the talk about 'multi media publishing' and 'distribution through multiple platforms' obscures the reality that most public radio stations have a companion website, a stream and, in some cases, an archive of locally produced programs. That's it, and they will be very hard pressed to do more. Why? Because the vast majority of stations are too small to fund the level of staffing required.
>
> "This can no longer be viewed as a developmental issue, where large stations, funded by CPB, will lead the way and smaller stations can adopt the best practices discovered by their larger-station colleagues. Even the largest stations with staffs of six to sixteen people working the web are having trouble developing a 'web presence.' One person shops will never follow that model."

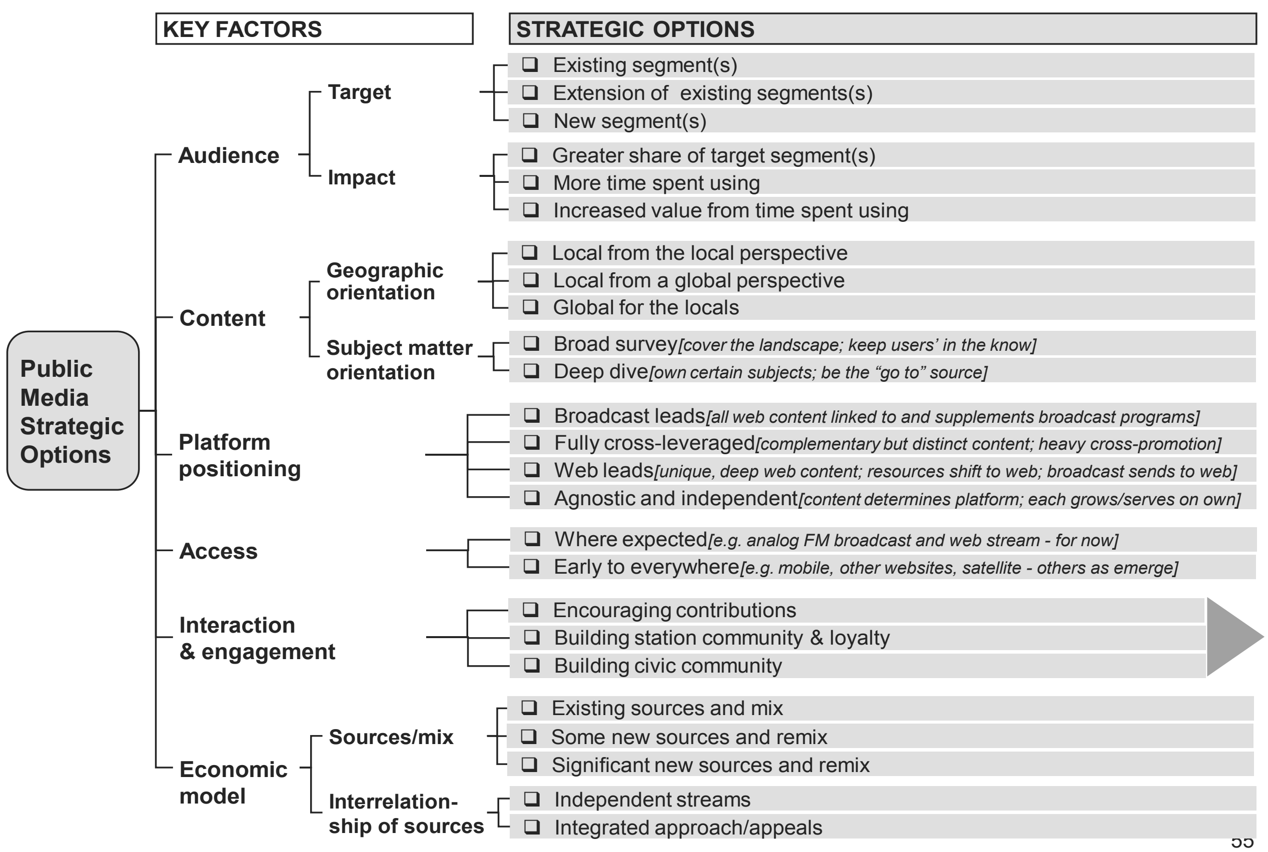
This past year PRX surveyed stations that many in the field would consider leaders in public radio web development. A cluster of **issues around strategic clarity surfaced with full force.** PRX observed:

- The “network” is still evolving territory, creating all the more need to take and set bearings. Stations need to be mindful of multiple risks, including chasing trends and picking up tools simply because they are there, taking an online direction misaligned with overall strategy for “institutional significance,” reacting, drifting, and dissipating their resources.

- Limited resources to invest and as-yet unclear ROI means there are potentially significant opportunity costs of mis-investing in the web. Limitations of scale and talent at the station level lead to risks of overreaching and poor execution for all to see.

- Stations face the dilemma of choice – nothing has choices like the web and too many choices can lead to poor choices.

PRX asked these leading stations **“What are your greatest needs for support and assistance over the next two years in developing and managing your online services?” The top answer, by a substantial margin, was strategy development.** Consultant Quentin Hope developed an example of a starting place in a strategic planning template. Here’s an excerpt:



Baseline Capacity

We recommend development of a baseline capacity and fluency in the networked environment throughout public radio, with particular emphasis on organizations committed to content that will extend the inclusiveness of public radio.

Whatever strategy an individual station adopts, public radio collectively needs fluency and agility in the online, networked environment. While some of this will happen naturally over time as online “natives” enter the public radio workforce in growing numbers, there is a clear need for significant organizational and professional development.

Get the basic elements right. Stations at all stages of development need to get their online basics in order: easy navigation throughout the site, streaming, search, program schedule, music playlists, and news archives as appropriate to the station’s format, community events, contact information, and accountability and transparency material such as a board member listing, financial reports, and announcements of public meetings.

Learn and use “new media” applications. Stations will strengthen their audience service as they learn and deploy such applications as customizable alerts, membership models, social networks and opt-in pushed content.

Promotion. Public radio has an enormous advantage in building its online services; it can drive traffic to websites with the powerful megaphone of its broadcasts. But just as stations need organized and effective techniques in promoting their broadcast programs on their own air, they need a promotion plan for their websites as well.

Findability. Most of us in public radio are amateurs at search and search optimization. Yet search is an increasingly important pathway for getting public radio content in front of users who may have an interest in it. As online content choices continue to explode, findability is a key competitive factor and there are many others working within or alongside public radio’s core content franchises who do a better job.

Diverse views and voices. The networked space provides potentially huge opportunities for constituencies that are not now well-served by public radio’s main broadcast channels. Problems such as competition for airtime in a single-channel schedule and geographically-dispersed communities fall away. But the opportunities will only be realized if these constituencies, whether defined by interests and tastes in information and culture or demographics such as age, race, or ethnicity, have the capacity to create an effective online public service presence. It will take a conscious, pro-active effort to assure such groups are included in shared capacity building.

"Web Native" Content and Delivery

We recommend aggressive experimentation and development of public service content and delivery methods explicitly designed for a digital, networked environment.

Most of the content public radio offers on its websites and other networked platforms is repurposed from broadcasting. This is a natural evolution for the field, leveraging existing content assets and considerable investments already made in them into new delivery channels. It speaks to oft-cited user demands for content "when I want it, where I want it, and on the device of my choosing."

Many of those with whom we consulted urge public radio to complement the "export to the web" approach with investments in **content that is "native" to the network space** into which we are moving. Such content could include text, images, and "web only" audio features that go deeper or further than broadcast material.

A second recommendation in this area is to rethink how we **organize our content for networked use**. Currently, much of the content public radio presents online is organized in ways that reflect its broadcast origins, by network, source, and show. Instead, it is suggested, public radio should organize content around topical themes, such as government, science, culture, health, and so on, integrating material from multiple sources and presenting it in a way that better aligns how users will be seeking it. These steps introduce potentially difficult issues around branding, identity, and relationships with content suppliers that will require careful deliberation.

A third theme might be summarized as **distribute everywhere.** NPR's Dennis Haarsager refers to "distributed distribution," as epitomized by NPR's API that makes it possible for both stations and others `to present content from npr.org on their own website. PRX's Rekha Murthy, in a GROW THE AUDIENCE essay "Distribution as Promotion," urges public radio to decouple content from its place of origin and push it out to reach people in many and surprising ways. And then let that content lead people back to stations and networks.

The exhortations to distribute everywhere increasingly include **new mobile platforms.** This seems a natural extension of radio's traditional strength in portable/mobile usage. The Public Radio Player, a collaborative effort that developed and supports an application on Apple's iPhone that plays public radio streams is one such example.

While all these possibilities are potentially important, many of them feel out of reach for a large number of stations and producers. To address that issue, national and station leaders have explored several possibilities for a **shared public radio digital distribution infrastructure.** Among the services proposed for such an initiative:

- Systems and tools for providing on-demand access to signature, local, and “long-tail” public media programming via station websites.

- Back-end support for stations integrating local and national underwriting and sponsor spots in audio, video, and on web pages.

- A packaging and curating service for surfacing, promoting and presenting relevant, timely, and diverse digital content.

- A critical mass of activities to drive the development of shared standards, best practices, and metrics across the system.

- A business development and licensing role on behalf of a broad range of content providers seeking presence on third-party sites and services (such as iTunes and mobile platforms).

To exploit the unfolding options of “web native” content and delivery, **public radio needs a rights framework that supports public service goals and purposes.** There are rights held by “outside” providers, such as the composers and performers of recorded music and the music labels, some of which have their own online aspirations. There are also rights issues within the field, such as the terms under which stations can present programming they have licensed for broadcast over other distribution platforms in ways other than a simulcast of their on-air service. For public radio to deliver on new platforms the same kinds of diverse and robust content that have been its signature over the air, it must have comparable rights, flexibility, and economic sustainability.

The Natural Networks of Our Audiences

We recommend investments in pilots and demonstrations that exploit the community-building potential of the network to strengthen public radio’s content, engage listeners and users around issues and interests in communities, and leverage the resources that surround public radio stations, producers, and audiences.

Public broadcasters used to talk about outreach; the current term of art is engagement. But neither quite gets it right in terms of public radio’s unfolding opportunities to build on the natural network of our audiences – the connections and affiliations that already form a web among those we serve.

The Berkman Center at Harvard talks about public participation in the media. The Center for Social Media at American University talks about public media “creating publics” around issues. Others talk about leveraging the communities and the resources that are all around us through social networking tools. These are all dynamic and evolving processes, bringing the audience – the public – into the creation of content and services, taking the creation process out into the community to engage with the audience in different ways, and connecting members of the audience to one another.

This is a change of roles for many in public radio who are used to working inside our organizations and behind the glass of the studio, broadcasting one-to-many. This territory is a many-to-many relationship. While there has been good early discussion around these issues, the realities of moving forward to a day-to-day operating reality across the whole system of public radio is an enormous challenge.

These emerging services and partnerships significantly engage multiple voices, include contributions and ideas from outside sources, and may bring a different set of editorial expectations than for programs which stations broadcast on their principal channels. Yet part of the power of these services and partnerships is that they carry forward public radio's brands and imprimatur. Stations need a more refined set of guidelines that will inform their staffs and their public and ensure a continuity of values, trust, and organizational clarity in these new and evolving applications.

The Long Term View

With each passing year the impact of the networked environment on public radio's audience service will increase. Public radio has the opportunity and responsibility to begin reimagining the role of stations and national producers, not with the certainty of prediction, but as a mapping of strategic intent and possibility.

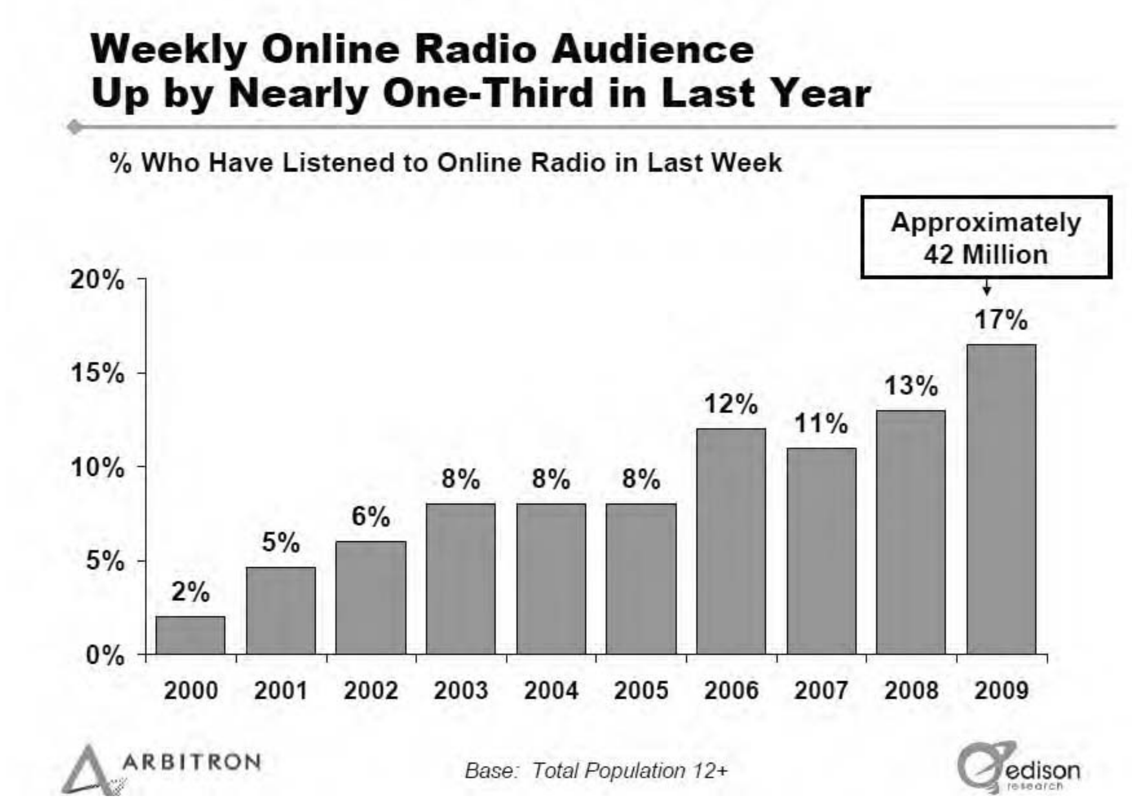
Task Force member Laura Walker, President of New York's WNYC, set out one such imagining as follows:

> "As stations, we need to have the courage to define ourselves not primarily as distributors of content and start more proactively conceiving of ourselves as creators of multiplatform content and conveners of a new kind of conversation in our communities. As national producers, we need to create radically new partnerships with stations, other nonprofits, newspapers, and internet sites, and do a much better job reflecting the American experience and driving a more full American conversation. Collectively, we need to be in the places that the audience is.
>
> "It is inevitable that the distribution part of our work will become less important every year—our radio antennas, satellite, distribution of programs to stations. While distribution will not disappear overnight, it will become increasingly less vital. It is of course impossible for any report to predict exactly how and when this will happen. However, I am certain that the audience on radio vs. web will look drastically different in five years than it does today. . . it is critical to our work to acknowledge that the digital audience is the audience of the future.
>
> "Once we acknowledge this, we stations realize that we need to radically redefine ourselves. Many stations define their most important public service as offering listeners access to the great

journalism and programs by NPR, APM and PRI—but that content will be available directly on the web, and more and more people will turn to it there.

"So stations need to transform from within if we don't want to end up like newspapers. I believe this is a great time to redefine the public radio community in a digital space as community content creators – conveners and journalists that not only chronicle our communities, but invite others to do the same. By putting content first, this will free us up to concentrate on the substance. But to do this, we will need to readjust our budgets, reallocate resources, and get better at raising money. We will need to create digital-only content and distribute and market on the web where the audience is. Let's organize, aggregate, curate and impact the American conversation. "

Walker's perspective is at once inspiring and challenging. It builds from the scale and location of WNYC as well as her own vision. More of us need to push our own long term views forward in a similar way, reflecting our own circumstances of mission, resources, and community.



From *The Infinite Dial 2009*, Arbitron, Inc. and Edison Media Research.

5. Core Competencies

Advance public radio's ability to achieve the goals of this plan by sharpening the skills and focus of public radio professionals, strengthening the capacities of public media organizations across the country, and continually updating the field's strategic intelligence and tactical knowledge with audience research and marketing.

In simple and blunt terms, public radio cannot reach our goals for audience growth or implement our plans for diversity, journalism, music, and the networked space with current skills, organizational capacity, and knowledge. Public radio must build itself as a field to make real the service to which we aspire.

Thinking Audience

Public radio must continually renew and reinforce its commitment to the effectiveness of its audience service – the details of execution in production, scheduling and promotion, the audience experience of content and service, and the application of research and experience to daily operations.

Marcia Alvar, former President of the Public Radio Program Directors Association (PRPD) and now Manager of Station-Based Projects for NPR's Local News initiative, is a strong advocate for putting public radio's shared experience and best thinking to work on a daily basis. Reporting from a planning session for the Local News Initiative, she wrote:

> "If a single mantra emerged from the discussion it was this: *Use what we already have. Do what we already know*."

Public radio already has many of the insights and programming models needed for great leaps in the use and value of its work, but they must be applied in a consistent and disciplined way among stations at all levels of operation, in all formats, in all kinds of communities. This is the territory of effectiveness, best practices, and performance benchmarks, at the heart of which is giving close attention to listener loyalty and the personal importance of public radio's service to those who use it. By focusing on operating effectiveness over many years – with use, reach, and value to listeners as central themes – public radio has moved from serving audiences of thousands to audiences of millions.

Programming and marketing consultants Deborah Blakeley and Israel Smith outlined key steps and best practices for audience growth in "Thinking Audience," a piece commissioned by GROW THE AUDIENCE. They assert that most public radio stations can realize significant audience gains by consistently focusing on the audience experience – "thinking audience" across all areas of operations – and putting to work existing knowledge and research. Blakeley and Smith wrote:

> "The most successful businesses and non-profits – large and small – grow and keep their audiences because they pay attention to how people experience their organizations. They are able to articulate how and why they are an essential service to the community, from the audience point of view. And they know the audience experience is the driving force of their success or failure."

Most of this work has to be implemented by individual organizations – at both stations and networks – and is a matter of leadership and focus by senior and mid-level management teams. But nobody needs to work alone. Many of public radio's advances in collective knowledge and shared best practices have come about through group learning experiences. GROW THE AUDIENCE interviews and conversations with successful public radio executives and programmers repeatedly surfaced examples of professional turning points that occurred in seminars and training sessions developed by the Radio Research Consortium, Audience Research Analysis, PRPD, and others. Many of these opportunities were at least partially underwritten by CPB.

We recommend initiatives by public radio's principal professional organizations, networks, and other national organizations to advance skills of the public radio workforce directly connected with audience growth.

Examples of such initiatives include:

- Professional organization conferences and meetings with audience growth as a major theme and sessions focused on areas central to the GROW THE AUDIENCE plan, including local journalism, innovation in music formats, strategies and skills for online services, and integration of marketing principles into public radio's work.

- Ongoing peer review of broadcast programming and Internet services, both within and across stations, bringing "fresh ears" and "fresh eyes" to day-to-day work.

- Projects that create opportunities for shared learning experiences focused on planning and execution within specific formats and dayparts, such as NPR's *Morning Edition Grad School* and PRPD's Midday *Classical Music Research*.

We recommend continuing investments in program research and audience use metrics that build our current knowledge base, explore areas we have targeted for innovation, and foster integrated, cross-platform measurements that track behavior in a changing media environment.

For decades, public radio's growth has been fueled and built upon an understanding of how people use and find value in our services. We will not recount the numerous research questions and topics highlighted throughout this report, but will observe that many of the topics are beyond the scope and capacity of individual stations and producing organizations and will require either collaborative investments or support from CPB or foundation funders. As we move forward, public media also needs reliable measurement tools that not only track use of broadcast services, but that follow our audiences as they use our content and services on different platforms and that support "apples to apples" examination of the strengths and vulnerabilities of the respective efforts.

Organizational Capacity

We recommend multiple initiatives to strengthen public radio's organizations as effective and responsive institutions that collectively contribute to a public media service of the highest quality and impact.

Public radio must examine its basic building blocks, a system of several hundred organizations that has grown organically for 40 years, shaped by a combination of national policy, local politics, nonprofit entrepreneurship, and historical accidents.

Leadership and governance. Public radio stations operate in many different organizational settings – a myriad of arrangements within public and private institutions of higher education, independent nonprofit corporations that include the very smallest and the very largest public radio operations, state agencies, tribal governments, school boards, and a miscellany of other entities. Some 72 public radio stations operate in conjunction with a public television station. Over 50 public radio organizations offer at least two distinct main channel program services.

When it comes to audience service it is possible to find examples of both excellence and mediocrity across all of these structures. As one commenter to the Task Force observed, "There is no correlation between licensee type and audience size." But as another public radio veteran, who has worked in several organizational settings, said, "We are unlikely to get to our ambitious audience goals, especially with respect to finding the considerable resources we need to get there, without doing something about the governance at many of our stations." Both are correct.

We believe public radio stations, regardless of their structure, benefit from governance that includes true leaders of the communities the organization serves, individuals experienced in nonprofit leadership, deeply committed to public radio's success, and who, collectively, signal the stature, confidence, and credibility that public radio seeks as significant community institutions. How to achieve this goal depends upon the organizational framework.

- For many independent community licensees, it is essential to raise the bar in board development, to get outside the inner circle of the station and find leadership in the larger community, and to set higher expectations for board performance in strategic planning, fundraising, and accountability.

- For some institutional licensees, the path may be to find closer links to the prestigious individuals who head their institutions as trustees or executives but who often give little attention to their station. For others, creating capable, committed, and engaged community councils or advisory boards has brought fresh perspectives to the station and opened doors elsewhere in the community.

With an understanding that governance is always a sensitive issue, we recommend further scrutiny of the ways in which civic leadership can contribute to the wider use, deeper value, and greater success of public radio's programming and services. Especially successful examples – within different kinds of structures and different kinds of communities – should be viewed as role models.

Best practices. There are many other important areas of organizational development that need attention in public radio and that will contribute to audience growth.

- A strategic sensibility that guides organizations toward audience-centered public service goals, sustainable competitive positions in the broader media landscape, and an understanding of the importance of making choices among competing possibilities

- Inclusiveness and diversity throughout organizations, from governance and staff to the underlying assumptions that guide fundraising, marketing, and programming.

- Engagement with the community that extends the impact of programs and services, informs the organization's planning, and builds connections to a broader domain of organizational and personal resources.

- Advanced fundraising that extends public radio's resources through major giving programs and development of philanthropic support and that explores new approaches aligned with new public radio services in the network environment.

- Inter-organizational relationships that support better communication, more efficient execution of activities designed to benefit more than one entity, collaborations that yield more than the sum of the parts, and more streamlined decision-making on important system issues.

Many of these dimensions of organizational strength are not unique to public media, which can benefit from experiences and support organizations elsewhere in the nonprofit sector.

Organization of the field as a whole. Many observers – both inside and outside public media – see too many public radio entities, too small a scale in many operations to achieve serious impact, and too little aggregation of resources. In this view, public radio must reconsider its arrangements in the interest of greater impact, whether through informal alliances and collaborations or more far-reaching structural reform. Either solution is difficult to achieve.

Public radio has largely rebuffed simplistic solutions to this issue, such as arbitrary limits on the number of CPB-supported stations in a market or freezes on new entrants to the public radio system. Eligibility criteria and performance standards that must be met to receive CPB funding have been key tools in this regard and are largely under-appreciated by those without close knowledge of funding policies that have built a system of stations that deliver multiple formats to the nation's population and which build audience and diversity.

The greatest challenge ahead is not the reduction of the number of organizations receiving support for radio services, but how to enlarge the circle of organizations that play a role in delivering public media services. Efforts that extend the benefits of CPB support to a larger circle of organizations (beyond those that receive Community Services Grants), such as the CPB/SoundExchange contract, contribute to widening the circle, but ultimately it will require a substantial increase in federal funding to fuel a more expansive and inclusive public media system of the future.

Marketing – The Missing Piece

Twenty years ago the watershed *Audience 88* study demonstrated that listeners who choose public radio are significantly different from those who do not. Listeners who make a public radio station their favorite are different from those who just sample its programming. These differences extend to the kinds of listeners who are attracted to each of public radio's distinctive formats and services. And all of these differences are reflected in the extent to which listeners consider public radio important and worthy of their financial support.

More recently, a series of "core values" studies by PRPD and SRG highlighted the ways in which the values, uses, and gratifications that listeners associate with public radio's major formats align in some ways and but differ significantly in others.

As public radio moves forward to new strategies, new platforms, and new audiences it must explore these same questions from a different perspective – not with the hindsight of assessing an established service, but with a prospective view to targets of opportunity.

Public radio must build its public service marketing skills almost from scratch. It is fundamental work for a more ambitious future.

Throughout GROW THE AUDIENCE consultations, marketing repeatedly surfaced as a collective blind spot. A growing number of leading public radio organizations (and many elsewhere in the nonprofit sector) believe that their long-term institutional success, including the ability to attract a more diverse audience, hinge upon an organization's marketing expertise and capacities. Most everyone in the field, especially our most advanced stations, agrees that marketing is a critical institutional skill-set.

Following a broad survey of stations, DEI concluded that few organizations define marketing the same way, that organizations use vastly different assumptions when developing job and department responsibilities, that public radio marketing is overwhelmingly tactical rather than strategic, that staff with marketing responsibilities often lack basic training, that marketing efforts are neither goal-driven nor measured, and that marketing activities are seriously under-resourced.

DEI convened a working group of its board and executive staff to explore the contributions to audience growth that could be made from within its professional disciplines and for which DEI might take particular responsibility. The group concluded that:

> "Public radio at all levels must emphasize overall strategy, and implement marketing principles and practices that stem from that strategic direction. The strategic direction, in turn, must be inclusive of the needs, wants, and attitudes of those demographic groups that are essential to growing the audience beyond current constituencies, such as African-Americans, Latinos and younger listeners."

The Public Radio Program Directors Association board also recently flagged marketing as "a core skill and essential ongoing activity at stations."

And PRX exhorted GROW THE AUDIENCE to be mindful of the particulars of marketing in the networked space: "Marketing ties to search and Google adwords. One simple recommendation is for stations and other public radio site owners to get the Google Award grants that PRX and many others have – a $120,000 per year value if used to its fullest extent."

We recommend creating a better alignment of public radio's services with listeners' needs and interests and a greater awareness of public radio's services and benefits through a multi-organizational, multi-year effort to build public radio's marketing expertise and activities that incorporate the following tactics:

- Support stations with strong tactical ideas and accessible, practical, scalable resources, training and tools. Encourage best practices and share success. It is important to meet the station community "where they are" with respect to resources and staffing for marketing.

- DEI is a natural leader in exploring partnerships with agencies, consultants, and organizations (*e.g.*, American Marketing Association) to expand the currency of marketing within public radio at the industry level. PRPD is a natural partner in this leadership given the perception of strong relationships among marketing, community engagement, and programming services. Public radio's national networks, with substantial marketing needs and investments of their own, may also play a role here.

- DEI, PRPD, and the networks should create tools to help stations assess their needs and effectively engage outside marketing expertise in their local efforts.

- Marketing in public radio needs to be informed by marketing expertise and experience beyond public radio. In the marketing arena, public radio's skills are limited and the expertise of others in the profit and nonprofit sector are great resources.

We further recommend two specific initiatives that follow on the DEI and PRPD recommendations:

- A collaborative project among DEI and PRPD to develop their respective organizational capacity to conduct training and/or support collaborative efforts at their member stations, and to increase their own understanding of how marketing is most effectively integrated into their station support activities.

- A sustained program track in the Public Radio Development and Marketing Conference devoted to the concepts, practices, and benchmarks of successful marketing with companion conference sessions conducted at the PRPD annual conference.

6. Market Strategies, Station Solutions

Launch a market-by-market audience growth initiative for a new generation of service – a broad-based, collective effort by stations, networks, and funders – making targeted investments and crafting station-specific solutions in communities where the current level of public radio performance indicates significant opportunities for audience growth.

In any given market public radio is most successful at aggregating audiences of both significant size and significant diversity when it presents multiple, focused, and differentiated services delivered at a high level of performance. There are three key elements in this equation:

- Enough channels committed to public radio on which to offer different services.
- Strategic alignment of the services – focused, differentiated, complementary.
- Superior performance of each of the services within the context of the specific market.

So how is public radio doing?

The first observation is that there are dramatic differences in the overall performance of public radio at the market level – in both in the percent of the population that tunes to public radio in a given week (cume rating) and the percent of all radio listening that goes to public stations (share).

Of the 50 largest radio markets – where over 75 percent of all current public radio listening occurs – some are served by 5 or 6 in-market public stations and some by just 1 or 2.

Seven of the top 50 markets do not have a full-time public radio news station, 16 have neither a public nor a commercial classical station, 31 have no full-time public radio jazz, and 40 do not have a full-time public AAA station. Several of these markets do have a station that combines two or more of these formats or other kinds of music.

Even where there are multiple stations and program differentiation, we see significant differences in public radio's audience success. Some differences are due to market characteristics that consistently influence public radio listening – education levels, values, and lifestyles principal among them. In other markets stations are simply underperforming relative to their peers.

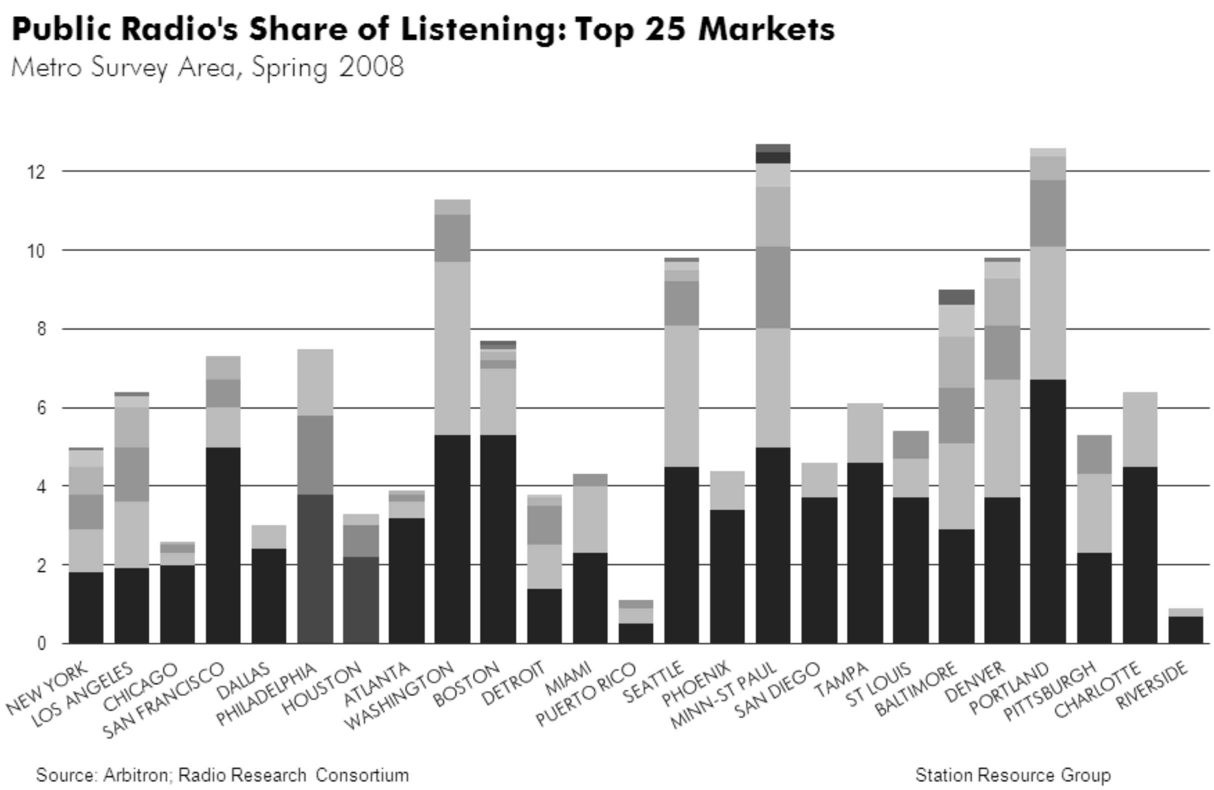
In the earliest years of developing the public radio system, CPB funded coverage expansion initiatives to encourage organizations to develop service in markets without a public radio station. In a second wave of expansion, CPB made special one-time grants of up to $1 million for capacity building at potential "flagship" stations. We believe it is time for another targeted investment in expansion, this time aiming for a new level of accomplishment in audience service.

In this section we explore the key inter-related issues. We start with broadcast channels, move to performance, think about options in the top markets, and finish with tactics and some thoughts about HD.

Basic Building Blocks – Broadcast Channels

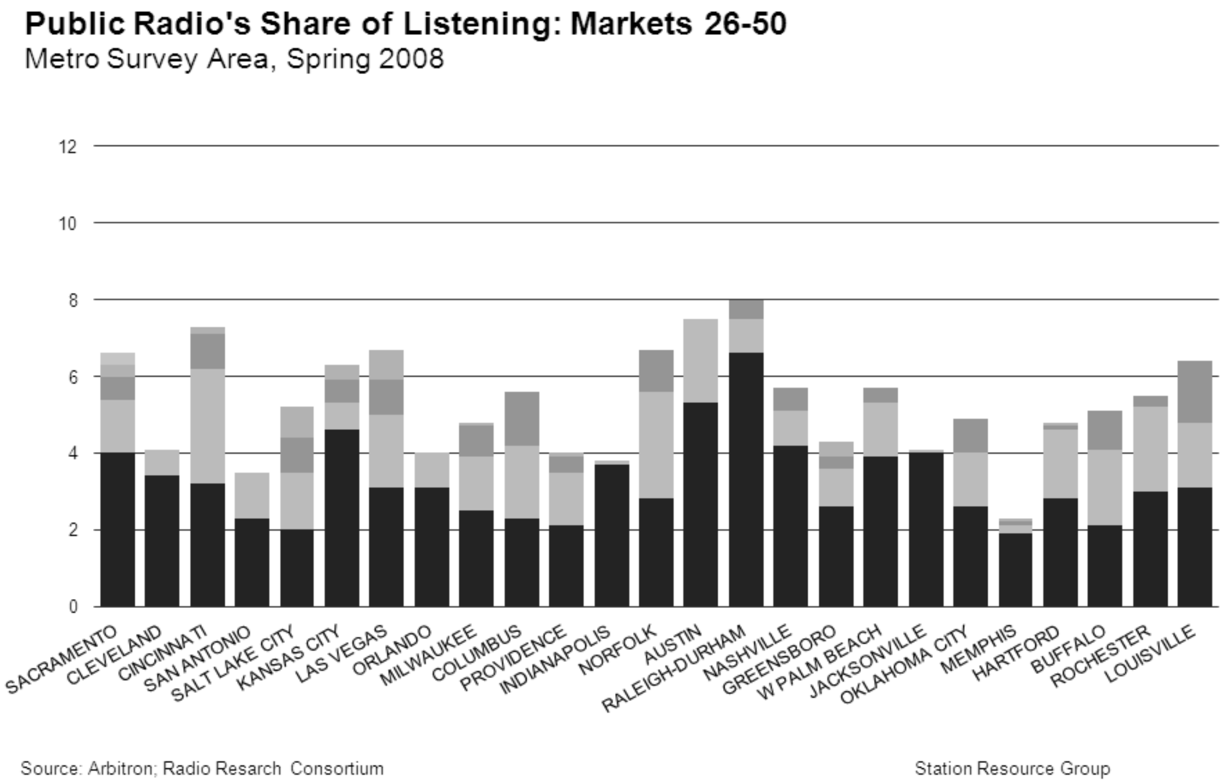
Broadcast channels are the building blocks of public radio's service. More channels usually means more service and some communities are clearly better endowed than others.

This chart shows the share of radio listening that goes to CPB-supported public radio stations in the top 25 markets. Each segment of a bar represents a different station.



Philadelphia and Houston estimates based on PPM.

The chart below presents the share of listening to public radio stations in markets 26 through 50.

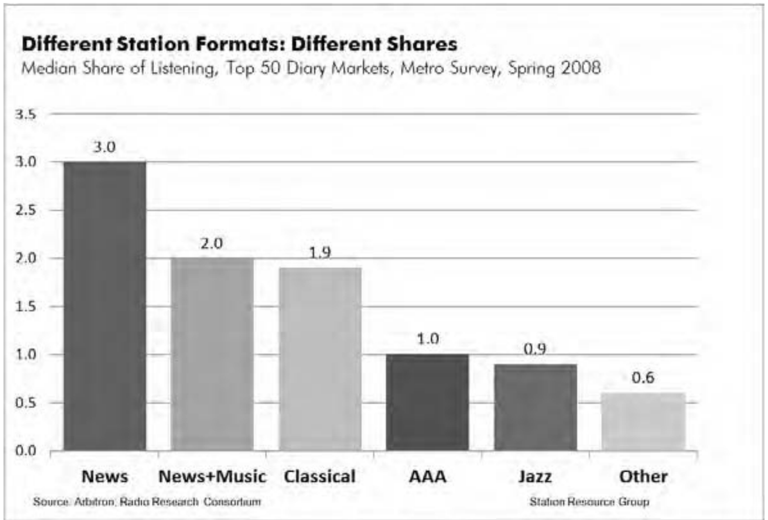


Not all of the stations that generate listening in a market are "home" to that market. Sometimes this is a matter of listening spilling over from an adjacent major market, as in the case of Washington, DC, where WBJC in neighboring Baltimore picks up a 0.4% share. In other cases the listening is to stations broadcasting from outside of or at the edge of the market, typically university campuses located at some distance from city centers. The latter is especially the case in third and fourth-ranked stations in markets 26-50.

The number of channels public radio has to work with in any market is clearly an important part of the story. But it is not the whole story.

Performance: Different Formats and Different Markets

In devising market strategies and station solutions it is essential to take account of the different performance of different public radio formats on almost every measure of listening and the interplay of formats and market characteristics.



This chart, presented earlier in the "Music" section of this report, displays the clear differences in the median share of listening to public radio's different formats in the top 50 markets.

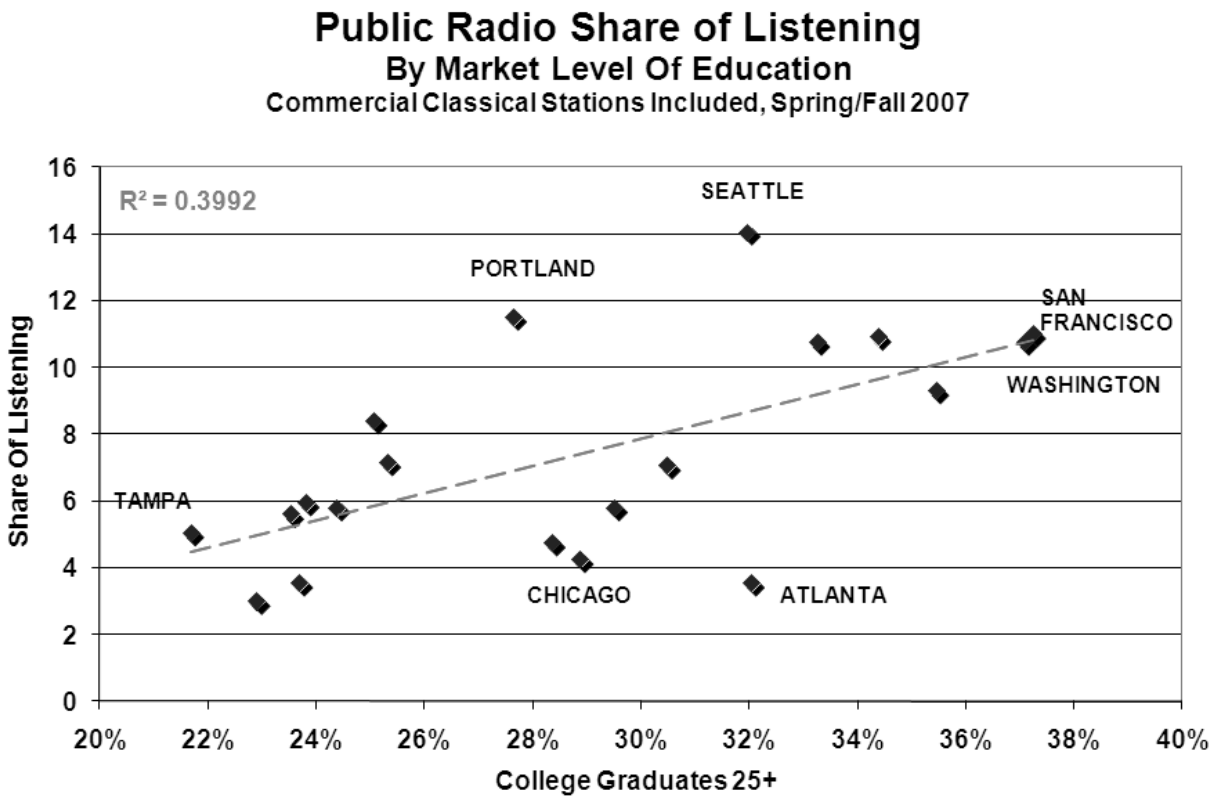
The overall audience service of public radio in different markets is partly a reflection of the different formats that the public stations in that market choose to present.

While there is a strong pattern here, it is important to report that there are also significant differences in the performance of individual stations within each of these formats.

In discussing the different audience performance among stations within a given format – those well above the median and those well below – it is not uncommon to hear the assertion that "my market is different." GROW THE AUDIENCE gave close attention to the notion of market differences and the answer is that markets matter – a lot!

Our first examination of market differences, presented in the GROW THE AUDIENCE *Situation Analysis* report, revealed that education levels in a market are crucial for public radio. Looking at only the percentage of adults 25+ with a college degree, it is possible to explain 40 percent of the differences among different markets in the overall share of listening for public radio.

The chart on the next page shows the pattern.



The percentage of people 25+ with a college degree comes from the 2000 US Census, using its definition of metropolitan areas – not exactly the same as Arbitron's metros. The share of listening combines all public radio stations in the market plus commercial classical stations – AQH persons 12+, Monday-Sunday, 6am-12m, averaged Spring and Fall 2007. Arbitron estimates and data are copyrighted by and proprietary to Arbitron, Inc.

We included commercial classical stations because public and commercial classical music stations occupy essentially the same market niche – listeners think of them in very similar terms and commercial classical stations serve highly educated listeners that match the public radio profile. In fact, two of the commercial classical stations reflected above are now public classical stations – WQXR in New York and WCRB in Boston.

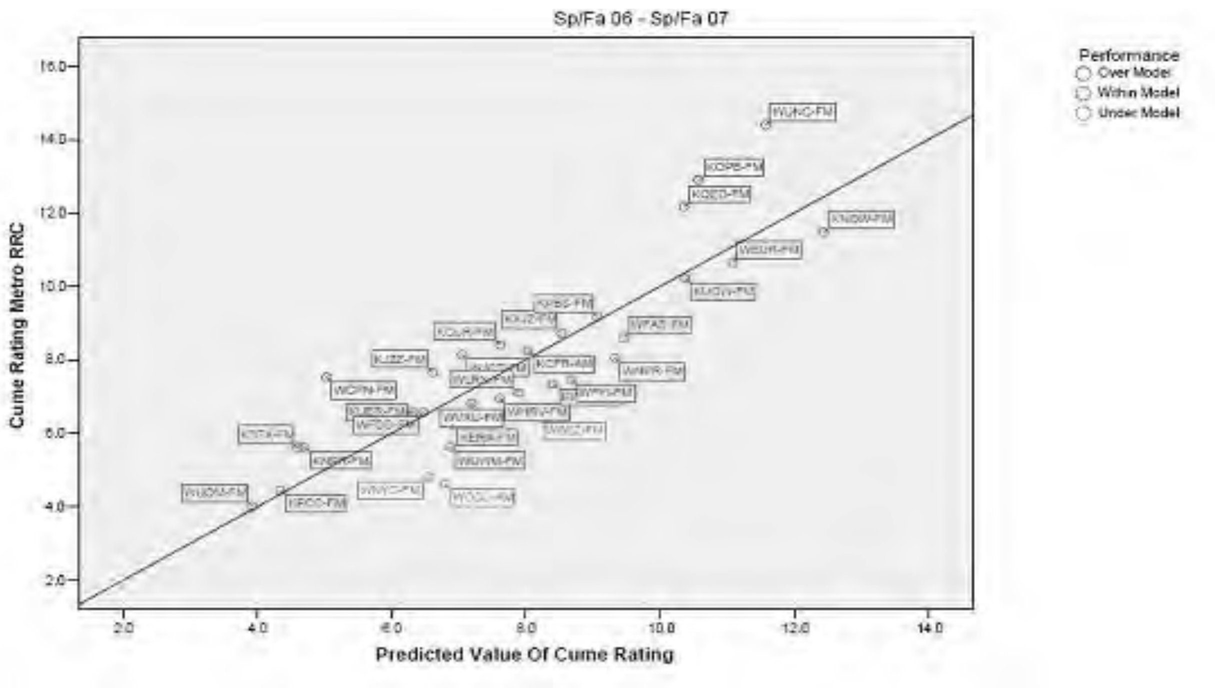
The red line is the predicted share of public radio listening in the market and many of the stations fall close to the predicted line. For example, Tampa had a low level of education and a low share for public radio. San Francisco and Washington also fell right on the line – each had a high education level and a strong public radio share. But there were also markets that were significantly over-performing the model, such as Portland and Seattle, and markets that were significantly below the predicted share, such as Chicago and Atlanta.

GROW THE AUDIENCE took this analysis a step further to examine the impact of market characteristics on individual formats.

The analysis for public radio news stations found that three market factors, together, explained much of the difference in the audience success of the stations within their respective markets. The three factors were education, the presence of another stations in the market also offering NPR news magazines, and a values-and-lifestyles factor based on the percentage of people in the market who fit in different categories of SRI's VALS system.

Predicted v. Actual Performance for 31 Public Radio News Stations

Stations on the right side of the chart have a higher predicted performance based on the character of their market; stations on the left have lower predicted performance. Stations on the diagonal line exactly fit the model. Those above the line perform better than predicted; those below the line perform worse. The model explains 75 percent of the variance among these stations.



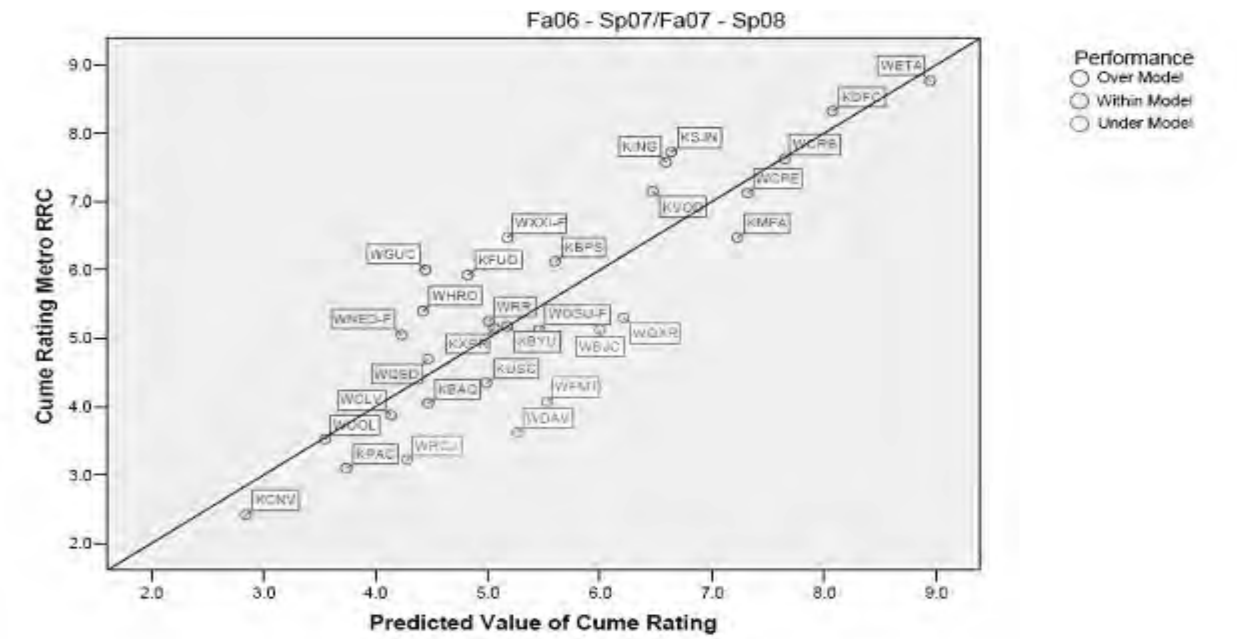
While most stations closely fit the model, some stations (in blue) do considerably better. Other stations (in green) fall below what is predicted based on market characteristics. There may be other market factors at work that are not reflected in this model. But at some point the differences are most likely attributable to the fact that some stations are doing a better job at executing the format than others.

This analysis is presented in full in the GROW THE AUDIENCE report *The Performance of NPR News Stations.*

GROW THE AUDIENCE also examined the impact of market characteristics on classical stations. In this case, only one factor, market education, explained 75 percent of the variance among stations. And after accounting for education, no other factor had a significant explanatory power.

Predicted v. Actual Performance for 30 Large Market Classical Stations

Stations on the right side of the chart have a higher predicted performance based on the character of their market; stations on the left have lower predicted performance. Stations on the diagonal line exactly fit the model. Those above the line perform better than predicted; those below the line perform worse.

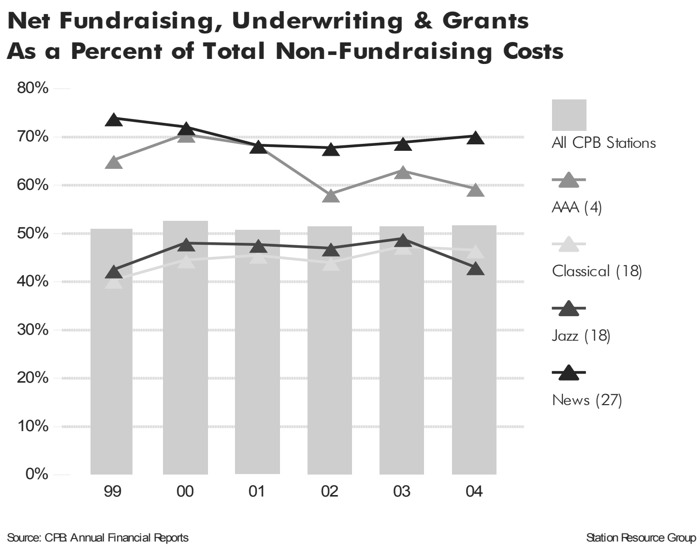


The predictive model for classical music dramatically underscores **the importance of crafting market-specific plans for audience service.** In the chart above, both WETA in Washington (upper right) and WUOL in Louisville (lower left) are right on the diagonal line – their actual performance is exactly as predicted. Yet the predicted cume rating for WETA, at 9.0, is more than twice that for WUOL, at 3.5 – Washington is a much more favorable market in which to present classical music than Louisville.

The classical chart also illustrates that market factors are not the whole story and that **we should not be satisfied with either the current level of performance or simple averages among stations.** Based on the character of their markets, the model predicts that that both WRCJ in Detroit (below the line in green) and WGUC in Cincinnati (above the line in blue) should have about the same cume rating of 4.3. But WRCJ's actual cume rating is just a little over 3 while WGUC's is twice a large at 6. A similar pairing can be seen between WDAV in Charlotte (below the line) and WXXI-FM in Rochester (above the line).

Another critical dimension in crafting market and station solutions for audience growth is sorting out how to pay the bills. Just as formats differ in their audience service, they also differ in the dynamics of financing them.

Across the public radio system, about half of stations' non-fundraising costs are covered by the net proceeds from listener and business contributions, underwriting sponsors, and competitive grants. The other half comes from universities, colleges, and state and local government – as both direct funding and indirect support – and from CPB's station grant program.



But there are important differences among formats. This chart from an earlier SRG study, *The Public Radio Format Study,* shows that news stations were able to cover 70 percent of their non-fundraising costs through net proceeds from their community-based development efforts. AAA stations covered 60 percent. In contrast, classical and jazz stations, as a group, depended on various institutional and governmental funders for over half their non-fundraising operating costs.

Both the audience performance and financial performance mapped above are relatively stable over time and are useful for planning. But they are also a reflection of current services as currently delivered. If public radio aggressively pursues different kinds of listeners with different kinds of programming, as recommended elsewhere in this report, it will be important to anticipate different results on these key metrics. Through public radio's first decade, as many as seven out of ten dollars supporting the service came from tax-based sources at the local, state, and federal level. It was only as services matured and focused, found their voice and developed their audience appeal, that stations were able to turn to their broader communities for significant levels of contributions and sponsorships. We should anticipate similar arcs of development for new services and plan accordingly.

We recommend additional market-by-market analysis that extends GROW THE AUDIENCE's market and format specific work, incorporating additional variables, particularly values and lifestyle indicators such as SRI's VALS system, to sharpen the understanding of which markets present the most important opportunities for audience growth.

Options in the Top Markets

Improve existing stations and develop new services in the top 50 markets designed to increase the availability of multiple, focused, and differentiated high-performing public radio services.

The nation's 50 largest radio markets account for over 75 percent of all current public radio listening. Looking forward, these markets also present the greatest opportunities for growth in the total number of people using public radio, for significantly increasing listening by people of color, and for developing new, self-sustaining services.

Markets 1-25. We recommend four key approaches in the top 25 markets that will increase public radio's audience service.

Strengthen service at underperforming stations. Simply bringing news and classical stations that are below the predicted level of service, given the character of their market, up to the norm would have a measurable impact on public radio's national reach. Our recommendations for needed steps are outlined in the preceding section on "Core Competencies" and earlier sections of the report.

"Align" service at existing stations. Target markets in which public radio's formats are not available in a consistent and focused manner. A positive example is the DC market where WAMU and WETA, after years of both providing a news- and-music service, moved to respectively offering all-news and all-classical formats – leading to growth in listening to both stations.

Develop new services on existing public radio stations. Examples include Los Angeles, where an initiative is underway to develop a new service targeting a younger, predominately Latino audience and Milwaukee, where jazz was replaced with a format aimed at younger listeners. These new services are unproven, but format innovation is a critical step toward new listeners for public radio.

Create opportunities for new services by gaining control of additional stations through acquisitions or operating agreements and by upgrading limited coverage signals. In Miami American Public Media purchased a religious station and brought the classical format to town. In the Seattle-Tacoma market Puget Sound Public Radio took over operations at KXOT after it was purchased and upgraded by Public Radio Capital.

Markets 26-50. We recommend approaches in markets 26-50 that, in addition to the above, center on differentiating services of existing stations and adding stations with full market coverage through upgrades or acquisitions.

The approaches we recommend for markets 1-25 all apply in the next tier of markets as well, In addition, a number of these markets have only 1 or 2 stations that provide full market coverage. Efforts to remedy this situation – through power increases, station relocations, or acquisitions – would have a major impact in several markets.

Acquisitions, Operating Agreements, and Mergers

Acquisitions, operating agreements, mergers and creative signal coverage solutions have played an important role in public radio expansion. By reinforcing these strategies, along with targeting new audiences, developing new formats based on market-driven approaches, and creating strong and complementary online services, public radio can extend this path to more service.

Acquisitions

Acquisition of noncommercial stations from established licensees – through outright purchase – once seemed a remote option for increasing (or preserving) audience service, especially in larger markets. Over the past 10 years, however, such transactions have played an important role in public radio's audience growth.

Early in public radio's development, a handful of organizations such as Minnesota Public Radio and Buffalo's WNED pioneered adding stations and delivery capacity through purchases. In the late 1990s, public radio's attention focused on a transaction going the other way – the prospective sale of a full-power public station in Washington, DC to a religious broadcaster. These and other transactions, both those realized and those missed, underscored the need for more organized and aggressive management of an emerging noncommercial station marketplace to both protect and increase public radio's assets and delivery capacity. The Station Resource Group, with support from CPB and others, developed and launched Public Radio Capital to take on this role.

Since its founding in 2001, Public Radio Capital (PRC) has emerged as public radio's most widely used resource for station transactions. Other parties have played a critical role in public radio acquisitions and management agreements over the past decade, but the PRC "story" offers a focused window on this activity because of the collection and aggregation of the associated audience data.

Over the past seven years, 31 PRC transactions involved signal expansion or services differentiation projects that involved acquisition of a non-public radio station. Spring 2008 Arbitron data indicate these service changes led to an increase in public radio's average audience (AQH) of 21,400 listeners. During the same period seven additional public radio stations worked with PRC to take over operations of stations that might otherwise been sold to operators outside the public radio system. Spring 2008 data showed an increase for these stations' average audience by 7,400 persons compared to prior operation.

The combined gain of 28,800 average listeners from these 38 projects represents 15 percent of the total growth in public radio's average audience from 2001 to 2008. If we add in audience growth attributable to acquisitions and management agreements brokered by other organizations during the same period, the role of acquisitions and management agreements in public radio's recent audience growth becomes even more significant – perhaps 20 percent or higher.

About the Financing

Station acquisitions are usually major transactions relative to the annual operating budgets of the purchasing station organizations. They require long-term financing and the assumption of financial risk. The scale, duration, and risk of these arrangements have often been both practical and conceptual barriers to public radio moving forward.

Some organizations have been able to manage acquisition financing on their own, using such techniques as "internal borrowing" from parent organizations such as universities, through commercial borrowing with local banks, or through community fundraising. Other organizations have accessed the Public Radio Fund (operated by PRC), which now has nearly $9 million in loan commitments from various foundations and individuals.

A look at ten PRC public radio projects gives context to the debt service associated with acquisitions. By the end of 2008, the cumulative debt serviced through these transactions is expected to reach $15 million. As an example of debt on an annual basis, six stations serviced $3.5 million in 2006 and $3.4 million in debt in 2007. In some cases the cash is generated from listener and underwriting revenues and in some cases it is financed with major gifts and capital contributions.

Acquisition transactions are rarely "slam dunk deals." Debt service can be a large continuing obligation in stations' budgets and can displace other strategic investments. Financial covenants with lenders can impose unaccustomed constraints on decision-making. Cash flow projections are tied to audience service projections that may not be fully realized. And changes in the larger economy, such as the current national recession, can upset the best-laid business plans.

But for those who can stomach the risk and mange the process, the rewards can be dramatic.

Operating Agreements

Operating agreements, in which one entity takes responsibility for managing a station licensed to another, are playing an increasing role in the evolution of public radio services. These relationships are attractive to the parties involved for several reasons:

- The organization holding the station license can divest itself of most operating responsibilities and financial obligations while preserving the asset of the broadcast license and assuring continued public service operations.
- The organization agreeing to operate a station gains control of a broadcast facility without incurring the capital costs of a full acquisition.
- Operating agreements for stations held by larger institutions can provide an opportunity for stations to “flex their wings,” developing a stronger, more independent identity, recruiting civic leadership, and pursuing new sources of funds.
- Operating agreements can be an intermediate step leading toward an eventual acquisition, providing an opportunity for the licensee and the operating entity to manage the transition in control over time and for the operating entity to assemble the resources needed for an outright purchase.

Looking forward, public radio now has a substantial track record of successful operating agreements in a variety of markets and with a variety of particular arrangements. Examples include: Public Broadcasting Atlanta operates the Atlanta School Board’s WABE; Southern California Public Radio operates Pasadena Community College’s KPCC; Prairie Public operates stations owned by the University of North Dakota and North Dakota State University; Puget Sound Public Radio operates the University of Washington’s KUOW; and WFCR, the University of Massachusetts station in Amherst, operates an AM station owned by commercial broadcaster Clear Channel.

Mergers and Consolidations
Public radio has seen relatively few outright mergers – two or more separate entities combining to form one new one. Cleveland’s IdeaStream, which knitted together a public radio station and a public television station, is a rare example. But there have been several circumstances in which a new entity has been created by several licensees to take responsibility for operation of their respective stations. Examples include Coast Alaska, Louisville Public Media, and Iowa Public Radio.

These kinds of consolidations are not without their bumps along the way. Different organizational cultures need to be integrated, personnel and facilities need to be reconfigured, and the consolidating parties often have some uncertainties as to whether their interests are being protected and their objectives are being realized. We believe there will be more such arrangements in the future, but it is difficult to predict where and when they will emerge. We encourage public radio’s national organizations and funders to take an opportunistic and supporting role in assisting organizations pursuing this challenging path.

Current Prospects
The current economic environment creates risks, opportunities, and challenges in the noncommercial station market. For many stations, all major sources of revenue are under stress; a few stations report

dire circumstances that threaten continuity of operations at current levels. Most public radio stations will be able to “hunker down” through this period but a few will not. Matters are particularly problematic for stations in difficult circumstances that are operated by entities with other activities and priorities, such as universities, colleges, and school boards.

At least a few public radio stations are likely to be divested by institutions seeking financial relief from the obligations of owning and operating a station or the cash infusion that would come with a station sale. Less likely, but also possible, would be independent organizations – community licensees – deciding to “throw in the towel.” In any of these circumstances, public radio must be alert and agile to preserve current coverage and services – and perhaps improve them – through acquisitions, operating agreements, consolidations, or other solutions.

Noncommercial stations outside the public radio system are also feeling the pressures of the economy – religious broadcasters, institutions and community groups operating non-CPB-supported stations, etc. This may create opportunities for public radio organizations in more robust financial health to acquire or operate stations on favorable terms. That will in turn lead to more public media service differentiation that will contribute to listener growth and loyalty.

Investment Requirements

To make a significant difference to long-term audience growth, public radio will need to galvanize short-term investments over the next three to five years for market solutions in a handful of top markets. To take full advantage of market acquisition and management agreement opportunities, public radio needs to be agile and quick. That will require access to financing in ways that will allow multiple deals across the public radio sector to happen simultaneously. Grants, loans, or other forms of investments of between $150-200 million would constitute a meaningful and sustainable investment towards audience growth. This investment could be financed in part out of existing station operations that are organized for maximum efficiency in maximizing service, managing costs, and generating revenue. The investments would need to be supplemented by grants from foundations, individual major gifts, and CPB support.

These figures may seem daunting at a time when stations and networks alike are cutting budgets, staff, and programs. However, the long-term vision of such an investment is to expand audiences for existing public media services and to drive the development of vital new network services that will affect the lives of hundreds of thousands of people in the years to come. Public radio companies that operate multiple channels with distinct formats also achieve greater recognition in the local marketplace – “community institutions” that deliver multiple services – and will have more channels from which to derive larger audience and subsequent support from those listeners.

HD Radio

Public radio has invested heavily in conversion to digital broadcasting. Of 908 public radio transmitters tracked by CPB, 516 have been converted to digital transmission and 143 projects were underway. There are 240 stations that have neither completed a digital conversion nor begun a project to do so.

One driver of that investment has been the desire to offer a high-quality digital signal that will compete with digital offerings from satellite radio and online services. Within public radio, much of the interest has been the prospect of offering second and third services on HD2 and HD3 channels. National Public Radio's NPR Labs has played a leading role in developing and promoting this multi-channel capacity.

Digital radio broadcasting technology is still being perfected as it is deployed in the field. While conversions have proceeded smoothly in some areas, a number of stations report significant degradation of coverage, compared to their analog service, at currently authorized digital power levels.

The FCC has been reviewing how to remedy these issues, weighing the possibility that solutions for digital reception will cause interference for stations continuing to broadcast in analog. A decision that will allow most stations to increase their digital power levels is expected at the end of 2009 or in early 2010.

Adoption of digital radio by consumers is lagging far behind projections touted only a few years ago. Prices have dropped recently but the receiver manufacturing industry has continued to position most digital receivers as a costly premium product. Current estimates are that receiver purchases to date total around 1.5 million.

If digital radio achieves success in the consumer marketplace, the availability of multiple channels from each station will change the radio landscape in dramatic ways, moving broadcast radio further in the direction of segmented, specialized channels. It will allow public radio to offer whole channels of services to which stations now devote only a portion of their time and to feature programming that currently struggles to break through onto station schedules. But we are some distance from such scenarios today.

For the near-term, HD2 and HD3 channels are not a viable choice for the presentation of multiple, differentiated services aimed at reaching measurable audiences. Some stations are using the channels in conjunction with online streams and for format experimentation. As receiver penetration increases, stations may look to "ultra-niche" services and innovative financial models to develop sustainable HD2 and HD3 service plans or may find that online digital options present more attractive and financially sustainable opportunities.

7. Follow-up and Accountability

Establish responsibility and accountability, nationally and locally, for these recommendations through an annual review of public radio's performance in audience service. The assessment should include perspectives of multiple constituencies, organizations, and individuals and result in a progress report to the public radio system.

Plans and recommendations such as those presented here face inherent challenges. The arc across which the plans play out is long. Success depends upon support and participation from many entities. No one group or person is truly in charge. Task Force member Frank Cruz, a former chair of the CPB Board of Directors, exhorted CPB to support "Someone to monitor the system's progress toward addressing the recommendations of the report so that it doesn't get read and then put on a shelf to gather dust . . . That would be a tragedy."

We recommend a multi-year follow-up effort.

- Public radio's national producers, networks, and professional organizations should consider and report to their respective members and affiliates how they intend to integrate elements of Grow the Audience recommendations into their priorities, programming, conferences, research activities, and other initiatives.

- Each public radio station should establish an audience service goal and a method for monitoring its own progress on an annual basis. This information should be reported in brief fashion to CPB as part of the Annual Activities Report.
- Ask CPB, foundations, and agencies that provide significant support to public radio to address how recommendations in this plan will be reflected in their funding priorities and policies.
- Conduct an annual review of progress on the initiatives outlined above using goals and metrics appropriate to the particular activity.
- Report results and updated goals and recommendations to the system on an annual basis.

The Audience Goals

We challenge public radio to pursue ambitious goals for the use, reach, and diversity of public radio's audience.

USE	Increase by half the average audience – the number of people using public radio at any given moment across the broadcast day. This means public radio will claim some 7.5 percent of all measured listening to radio.
REACH	Double the weekly cumulative audience – the number of people who use public radio each week on air, online, and through other networked services. This means public radio will reach about one in five Americans age 12 and older.
DIVERSITY	Triple the amount of listening by people of color to public radio, reflecting a sense of public radio as a trusted and inclusive source across racial and ethnic lines. This means a larger share of a larger audience for people of color.

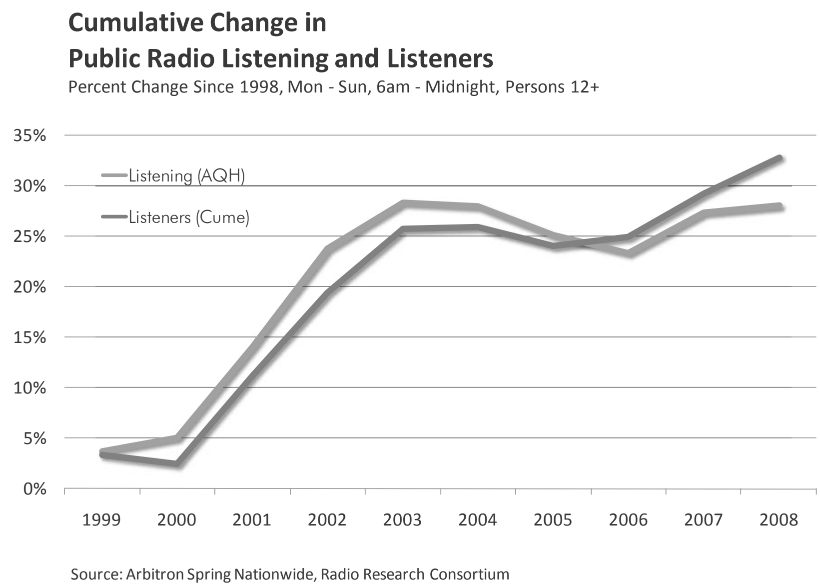
These are "aspirational" goals, points of focus and motivation that, if realized, will transform public radio's role in American life. They are not a calculated forecast based on predicted outcomes of the many measures we recommend. But neither are they a "hope and a prayer." Rather, they reflect a consideration of public radio's past growth, current circumstances, and many opportunities – along with patterns we see emerging as the radio industry changes its basic audience measurement tools.

In this section we will look back at public radio's audience performance and other key indicators, discuss changes in measurement tools, and review our thinking in framing the goals above.

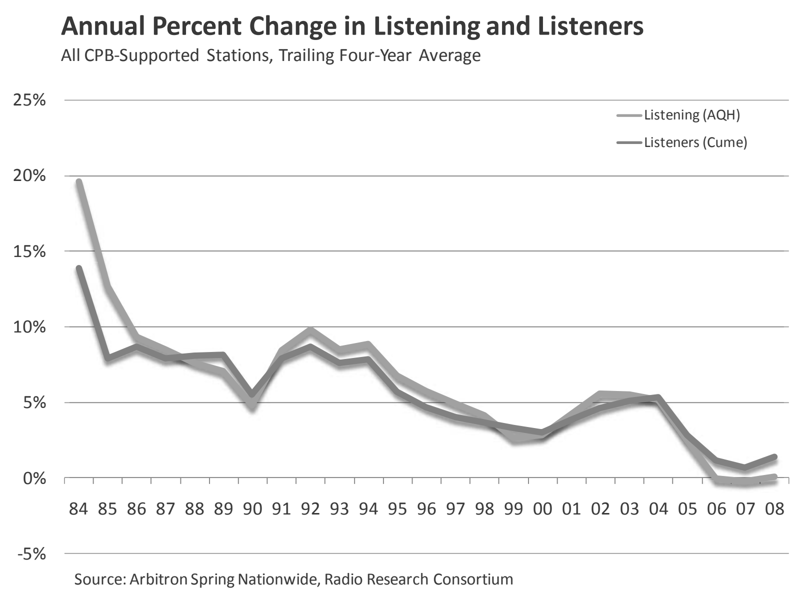
How Are We Doing Now?

Over the past year more people tuned in a public radio station, more people visited a public media website, and more people were accessing public radio content at any given moment – on an array of devices – than ever before. Listening to public radio by African Americans and Latinos was at an all-time high. By most any audience metric, public radio is currently doing quite well. How does this performance compare to earlier years?

If we go back a decade, matters start on a disappointing note. From 1999 to 2000 the cumulative audience for all CPB-supported stations declined – the first such drop ever – and the average audience grew by only 1.3%. But this was followed by a dramatic, three- year audience surge associated with an intense series of news events – the 2000 Bush v. Gore election, the September 11, 2001 attacks, and the beginning of wars in Afghanistan and Iraq.

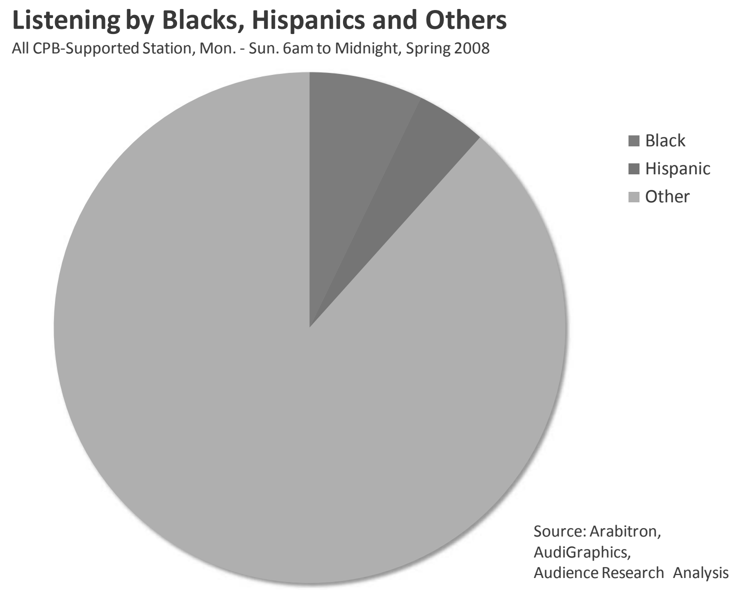


Then **public radio hit a plateau** in the level of listening and the number of listeners. Both indicators declined slightly in 2004 and more so in 2005 before rebounding in the last couple of years. While the number of listeners is now at an all-time high – and by a substantial margin – **the amount of listening in 2008 was essentially the same as it was five years ago.**

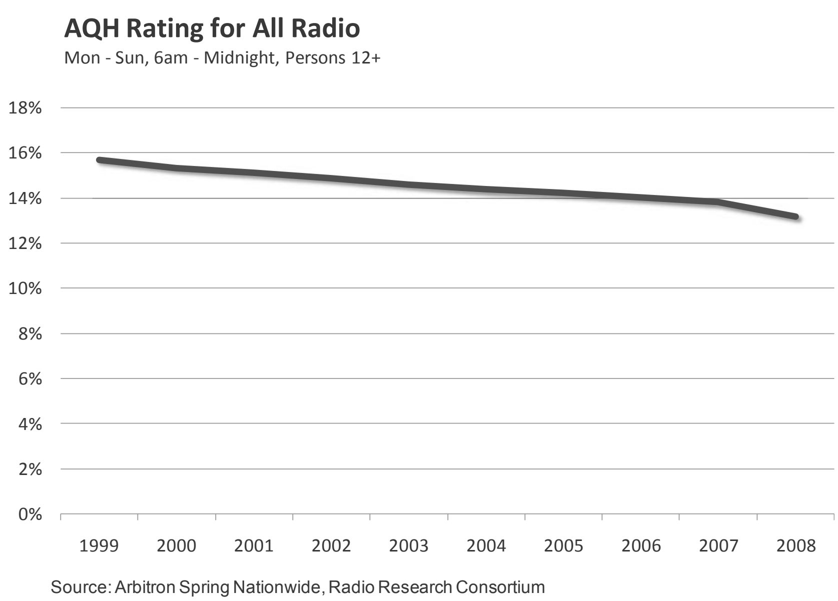


Looking over the broad sweep of the past twenty years we see the pattern of a **maturing field with declining year-to-year growth rates**. The five to ten percent year-to-year growth of the mid-1980s and early 1990s fell to three to five percent annual growth and then to marginal incremental change. It is important to remember, though, that as the audience grows, a percentage point of growth equals larger numbers of listeners.

Listening to public radio by Blacks and Hispanics, the two racial/ethnic groups tracked by Arbitron, also grew significantly over the past decade. Before looking at the data, it is important to note that listening estimates by race and ethnicity are not available for all markets. Of the 410 public radio organizations supported by CPB, only 219 stations have estimates of Black listening and only 150 have estimates for Hispanics. These are stations serving markets with the largest numbers of Blacks and Hispanics, of course, but some portion of Black and Hispanic listening simply goes unmeasured. Arbitron does not provide estimates for Asian or Native American listening at all.



In Spring 2008, there were an average of at least 125,700 Black listeners in public radio's average audience throughout the day. There were an average of at least 78,000 Hispanic listeners. We say "at least" because there was also litening by Black and hispanic listeners in markets where the populations are too small to track accurately. Together, measured listening by these two groups represented 11.6% of the overall average audience for public radio.



Growth in public radio listening is, to some degree, "swimming against the tide." While radio has proved to be the most resilient of "legacy" mass media, with each passing year the percentage of Americans listening to radio at any given moment has declined a small amount. At the same time, huge opportunities remain for public radio to increase its share of radio listening , 95 percent of which is currently to other stations.

At the same time, any erosion in listening to local AM/FM radio is offset by continued growth in the number and capacity of other platforms and devices on which Americans can find radio and other audio programming: online streaming, cell phones, podcasts, and satellite radio to name the most prevalent. These technologies present opportunities for public radio to extend the use of existing content and develop new public services for current and new user communities. It will be some time, however, before we have use and value metrics that we can readily set alongside those for broadcast radio.

New Measurement Systems and Platforms Require Dynamic Goals

In framing goals for public radio audience growth, we confront some important and complex measurement issues going forward.

> Arbitron, the principle source of public radio's audience information, is transitioning from audience estimates based on survey respondents' reports in a diary to estimates based on monitoring of survey respondents' exposure to radio with Personal People Meters (PPM). The conversion is being made in the largest 50 radio markets across the country.

The two systems produce different results, reshaping our understanding of how people use radio. Early results of metered listening compared to diary reporting of listening indicate that people listen to radio in different patterns than they reported in diaries. In general:

- Listening is more fragmented than people reported in their diaries.
- They listen to (or are exposed to) more stations than they wrote down.
- They listen for smaller amounts of time than they say they did.

These differences, while true across the radio dial, also vary in important ways by market, formats, and dayparts. We are setting goals for public radio performance informed by a diary-based history but progress toward those goals will be assessed using meter-based estimates for many stations.

For Spring 2009 Arbitron reported PPM-based audience estimates in 17 major markets. The impact of the new system on public radio was significant. We examined 46 public radio stations in these markets with diary-based estimates in Spring 2008 and PPM-based estimates in Spring 2009. 44 of the 46 stations saw a loss in their average audience; 2 small stations experienced no change. The combined AQH loss was 37% across all 46 stations. (Mon – Sun, 6am to midnight, persons 12+ in 2008, persons 6+ in 2009) These 46 stations accounted for over a third of public radio's total AQH in Spring 2008.

In contrast, the weekly cumulative audience grew for 36 of the 46 stations from the Spring 2008 diary estimates to the Spring 2009 PPM estimates.

The connecting variable between cumulative audience and AQH is the average time spent listening to the stations and it appears that two factors are at work to reduce this key measure:

- Arbitron's meters are capturing more occasions of listening to stations than people reported in their diaries. But a portion of this "new listening" is transient, incidental, or unintended, as evidenced in reports of one and only one brief occasion of listening to a station in the entire week.
- "Regular listeners," those who show up several days a week and make the station one of their top two or three choices, reported more listening in their diaries than is captured by the meters, as evidenced by listeners who may have reported that they listened to a station "all day," when in fact their listening was interrupted numerous times.

All together, the average weekly time spent listening for the 46 diary-to-meter public radio stations discussed above declined from 5:44 to 3:12, a 44% loss. The news was slightly better for the top-ranked public stations in each of the markets – the decline was 37%. The average loss in time spent listening, for both the top-ranked stations and for all the stations taken together was the same, about 2½ hours.

The character of these changes will continue to evolve. Diary-to-meter changes have varied among markets and Arbitron intends to convert at least another 23 markets to PPM. Further, Arbitron is continuing to refine its PPM methodology – to secure Media Ratings Council accreditation for its new system, to address complaints from its client base, and to respond to an array of inquiries from various public officials. These refinements, though, are unlikely to alter the broad directions of change that are now evident.

It is important to remember that a change in measurement system does not mean that the actual audience has changed, only how it is perceived. The people who are listening to public radio stations and public radio programs when Arbitron estimates their number through metering a sample are the same people who were listening when Arbitron estimated their number by asking a sample to write in diaries. The value of a radio service to those who come to rely on it is unchanged. And so on.

But we will clearly need to restate audience goals, locally and nationally, once we have a clearer sense of “the new normal” and a baseline from which to build. We will need to recast trend lines within the new framework. We will need to recalibrate relationships among key listening metrics – cume, AQH, time spent listening, loyalty.

Changing Platforms. If the changes at Arbitron are not perplexing enough, public radio must also incorporate the use of its programming and services on non-broadcast platforms into an overall assessment of audience service. Across the next five to ten years, a growing portion of the service public radio stations, producers, and networks offer will be delivered on platforms and devices other than AM and FM broadcasting – the Internet, mobile telephony, satellite broadcasting, and perhaps others. Many these services will be very radio-like in all but the mode of delivery; others will incorporate text and image and new forms of interaction with users.

The field needs reliable and uniform measurement systems to track use and performance across devices and platforms. This is a need public radio shares with the broader radio industry and electronic media providers generally. For the moment, however, technology change and audience behavior are evolving more rapidly than the capacities of those who measure listening and use. Measurement systems now used for different platforms and devices are as different – more so – than the meters and diaries in the broadcast space.

Dynamic Goals. All this suggests that audience service goals set for public radio in mid-2009 should be viewed as dynamic, marking a sense of direction, rate of growth and scale more than precise numbers. As changes in broadcast audience estimates settle to a new system and as measurement on new platforms and devices matures, public radio must regularly update its targets and benchmarks.

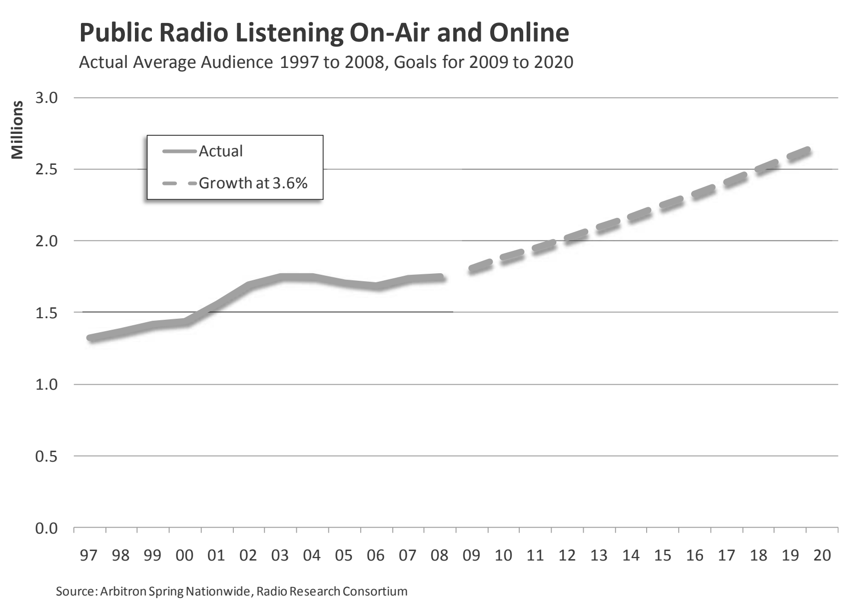
A Goal for Use

The amount of listening to public radio is indicated by the average quarter hour audience (AQH). It reflects a combination of how many people are listening (discussed below) and how much time, on average, those listeners tune in. Close attention to both these factors is important not only in public service terms, but also for the portion of public radio's business model that depends upon listener contributions. Listeners donate to public radio when it becomes a regular and important part of their lives. Programming strategies that build that relationship also build listener income.

In Spring 2008 public radio reached an average audience of 1.75 million listeners throughout the broadcast week (Monday through Sunday, 6am to midnight average quarter hour audience). This baseline may require a substantial "reset" as Arbitron completes the roll-out of PPM measurement. As noted above, stations in the largest markets have experienced a 37% drop in AQH associated entirely with the introduction of PPM-based estimates in Spring 2009 compared to Spring 2008.

Once public radio is past the measurement conversion, however, what should be the goal for a long-term pattern of growth in use? In the 12 years leading up to 2008, the average annual growth rate in AQH listening was 2.6 percent.

Our recommended goal is to increase the use of public radio by half. This goal includes listening to public radio programming on all platforms – on-air, online, on mobile devices, and other uses in the networked environment.



Public radio must achieve an average annual growth rate of about 3.6% to meet this mark by 2020.

The chart at left illustrates the pattern of growth we recommend relative to the pattern of actual change in AQH during the preceding years.

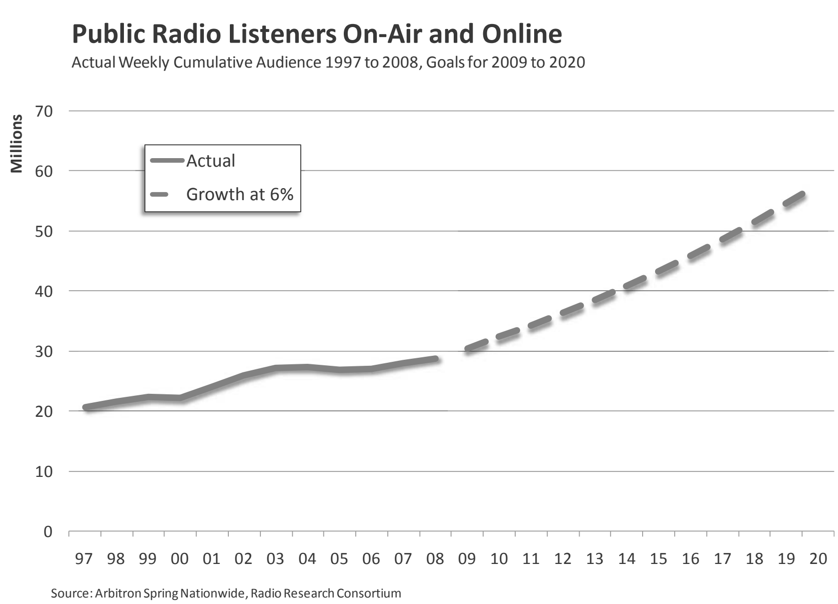
A Goal for Reach

In Spring 2008 public radio reached 28.7 million listeners who tuned to public radio at least once each week. In the 12 years leading up to 2008, public radio experienced both several years of dramatic growth (such as 2001 and 2002) and several years of flat or declining audience (such as 2004 and 2005). The average annual growth rate in cumulative audience was 3.2 percent.

The conversion to PPM-based estimates of audiences so far appears to lead to modest increases in the total number of people who listen to a public radio station at least once each week. While the numbers are moving in a different direction than with time spent listening and thus average audiences, it will be just as important to establish a new baseline for reach.

As public radio is increasingly able to track the reach of its programming and services on platforms and devices beyond on-air broadcasting, we anticipate such uses will accelerate the growth in public radio's reach

Our recommended goal is to double the reach of public radio. This goal includes listening to public radio programming on all platforms – on-air, online, on mobile devices, and other uses in the networked environment.



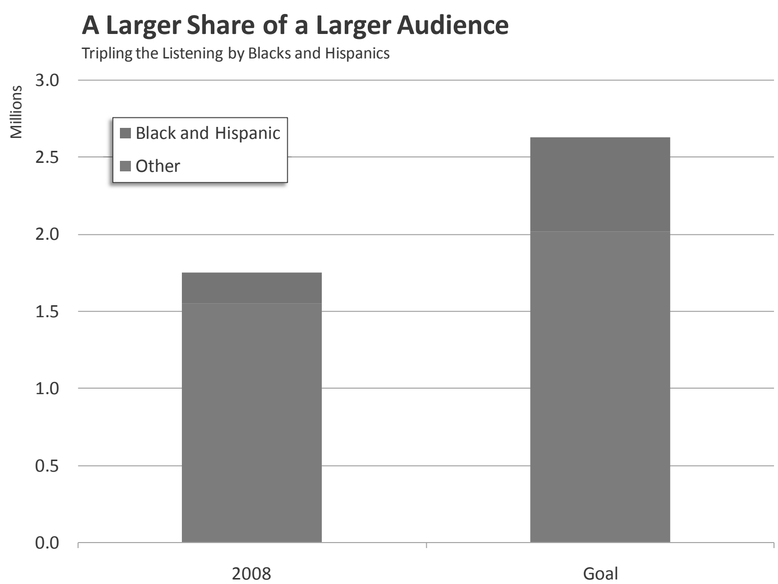
Public radio must achieve an average annual growth rate of about 6% to meet this mark by 2020.

The chart at left illustrates the pattern of growth we recommend relative to the pattern of actual change in cumulative audience during the preceding years.

A Goal for Diversity

In Spring 2008 the average audience for public radio included at least 203,700 Black and Hispanics listeners. Like all other measures, these figures may require some post-PPM-conversion fine tuning. We have yet to ascertain the character of any such changes.

Our recommendation is to triple the amount of listening by people of color to public radio. By five or ten years from now our ability to track listening by an array of racial and ethnic groups may have improved. But until then, our recommended goal implies reaching an average audience of at least 611,000 Black and Hispanic listeners.



In concert with our goal for increasing the overall listening to public radio by half, this suggest a larger role for people of color in a larger audience overall.

Black and Hispanic listening would rise from at least 11.6% of the average audience to 22.2% of the average audience.

Epilogue: Renewing the Vision

Our plan for audience growth rests on a strong sense of confidence within public radio – confidence that comes from the strength and continuity of core elements that define the field as a whole and the organizations within it. These elements are important to highlight and affirm as we move forward.

Public radio **shares a public service mission** that guides our work. Each of the hundreds of organizations across public radio has its distinctive character and purpose, but we also share many commitments. We are united by powerful, recurring themes that cut across our different stations and networks, our different producers and formats.

A better life. At the individual level we aim to help people lead a better life – more thoughtful, joyful, and useful; more fulfilled in the pursuit of understanding, challenge, and personal growth. We help people "connect the dots" in a complex world so they can work toward solutions in their lives and their communities. We provide moments of beauty, refuge, and reflection – along with humor and occasional just plain fun.

A healthy community. We are deeply invested in the health of our communities, which we seek to understand, serve, and care for across many dimensions of public life – education, arts and culture, economics, the environment, health care, the sense of connection to others, and more.

A strong democracy. We support the vitality of our democracy with the free flow of ideas that sustains a free society, accountability for those who govern, and information that helps citizens make good decisions as they participate in civic life.

Our plan for public radio also affirms the strength of public radio's **strategic position** – our unique place on the media landscape. This position is anchored in public radio's broadcast service but extends to other communications platforms and services.

Trusted content. The foundation of public radio's current success and future prospects is content of quality, depth, and authenticity. The public's deep trust of public radio, compared to other media sources and other public institutions, is confirmed in poll after poll, study after study.

Local connections. We have strong ties to local communities across the nation, over 400 stations controlled and managed at the community level, where they create a significant portion of the content they present.

> **National networks.** We multiply our impact through the leverage and scale of multiple networks – national and international reporting, homes for first-rank hosts, journalists, producers, artists, and technologists, and aggregated resources to launch ambitious and innovative projects.

Our plan for public radio is shaped by the **autonomy and independence** of the many entities that make up public radio, which we believe is an enduring dimension of the American system of public media. Public radio's local and national organizations are responsible for making their own decisions about programming and services and for finding the majority of the resources needed to sustain their operations. Broad goals, plans, and recommendations for public radio ultimately turn on priorities, decisions, and actions by many different players – collective action must be organized and willing; it cannot and should not be imposed.

Renewing the Vision of Service

Even as we affirm the strengths of public radio's shared mission, strategic position, and commitment to local autonomy, we also know that public radio must continually renew the vision that guides its service. This is a theme sounded throughout our inquiry.

> "We are in a radically changing media landscape. I want us to achieve higher impact and wider reach for public radio. That might be through doing a better job in our core services and it might be through new formats." Bruce Theriault, Senior Vice President for Radio, CPB.

> "We've done a good job of saying what we know, and these efforts must continue. The harder part is moving beyond what we know to achieve something bigger and better." Laura Walker, President and CEO, WNYC Radio.

> "What is the 'new missing' that we should speak to as we go forward? What are the new roles we can play even as we continue with our traditional strengths?" Vivian Schiller, President and CEO, National Public Radio.

We must address the continuing renewal of vision and strategy by putting those we serve – listeners to our stations, users of our broader services, and our communities as a whole – at the center of the exploration. We must engage with listeners and community leaders throughout the planning, design, development, and presentation of our programming and services.

Kit Jensen, Chief Operating Officer at Cleveland's ideastream®, in a GROW THE AUDIENCE interview, suggests that vision and strategy starts with local community leadership, their view of the community's needs, and their vision of how to serve those needs. From there, she says, the needed content focus and platforms of delivery can be determined.

> "This kind of goes back to the old-fashion ascertainment stuff. If you can get your customers or your audiences to tell you what they want and then you do it, then you're aligned. It is interesting, we say that we want to know a lot about our audiences and we want them to be interactive. But we – our journalists – actually resist and we infrequently ask what they're interested in and then act to be responsive."

Others frame the issue in terms of strategic marketing. A GROW THE AUDIENCE working group of executives and board members from DEI, public radio's fundraising and marketing service organization, recommended:

> "Public radio at all levels must emphasize overall strategy, and implement marketing principles and practices that stem from that strategic direction. The strategic direction, in turn, must be inclusive of the needs, wants, and attitudes of those demographic groups that are essential to growing the audience beyond current constituencies, such as African-Americans, Latinos and younger listeners."

Strategic marketing moves beyond "we have built it, let's get them to come" to focus on a match between individual and organizational goals. Jon Schwartz, General Manager of Wyoming Public Radio (and former NPR board chair), urges public radio to employ:

> "solid marketing approaches that identify unserved segments, develop understandings of the needs of each segment, assess what public radio might be able to offer each, prioritize which can best be served by public radio – and then develop formats to serve them."

Whether we call it ascertainment, alignment, strategic marketing, or something else, public radio, at the highest levels, must ask "What are the indispensable roles we can play in people's lives?" This requires shifting from an "inside-out" focus on current programs and formats to an "outside-in" focus on listener needs, uses, and behaviors. It means recalibrating the value of core franchises in a changing environment and looking for extensions of current strengths to new roles we might play.

The continuing renewal of vision and strategy must happen at both the national and local levels.

> The Corporation for Public Broadcasting, public radio's national networks, major philanthropies and public agencies, and other national organizations can provide both leadership in setting broad directions and support for efforts at the community level.

> Individual stations and their partner organizations must take up these questions, too – examining the needs and interests of their own community, identifying segments they might best serve based on past experience and future ambitions, and making the tough trade-offs of deciding not to do many things in order to do the most important things well.

This is important and complex work. The research and other explorations of needs, segments, and opportunities can be costly. But it is a critical next stage in moving from the territory we know to new and compelling service and moving from the broad recommendations we have developed and present in this report to the action steps that must come next.

Toward a Portfolio Strategy

Public radio is well into a new network age for electronic media. Content flows across multiple, interconnected platforms and channels. Regulatory and capital barriers to media technologies are shifting. Individuals assert their increasing ability to choose, control, engage with, and create their media experiences. The new network is the Internet, "new media," "mobile," and more. It is an attitude that leaps across traditional categories and pushes at boundaries between creators, presenters, and users.

Within this evolving electronic architecture it is clear that the dominant dimension of public radio's service and the greatest near-term opportunities to increase value and use are in broadcasting – terrestrially-based radio signals that are omnipresent and freely available to everyone. As we pursued this project, public radio was reaching the largest broadcast audiences in its history, some 30 million Americans using public radio each week, over 1.7 million listeners tuned in at an average moment through the day. Even incremental improvements in this performance will affect huge numbers of people; more substantive change built on this foundation is all the more powerful.

At the same time, public radio has extraordinary opportunities created by the tools of the new network age – to make its great content more broadly and easily accessible, to engage with people in new ways, and to enlarge its public service offerings to communities and the nation in ways that go beyond broadcasting. These efforts will, in turn, reshape the character and focus of the broadcast service.

Our plan recommends a path forward for public radio that exploits the enduring, powerful role of broadcasting well into the next decade, and the significant, still-unrealized broadcast opportunities that public radio can seize in so many communities. Just as surely, we recommend that public radio fully embrace the Internet and other networked communications as a primary means of distribution, connection with audiences, and broadening of content sources.

This public radio portfolio strategy of meaningful content through both broadcast and networked communications will reach millions more people, connect more deeply with their civic, cultural, and social lives, and enable them to connect more closely with one another as they make decisions about their families, their communities, and the nation.

We in public radio can do better and go farther with what we now do and with the listeners, and others just like them, we now serve. We need relentless attention to the experience of those who come to our stations and use our expanding services; more consistent execution of our signature programming, our websites, and other platforms; and more effective organization and use of our assets. Many of our recommendations point in just such directions. The returns in use and reach of public radio will be significant. We will deliver more value to our audiences and to our communities.

We must also do more, innovating in the form and content of our work to reflect a changing media environment, to exploit the tools of the new network age, and to go deeper into our mission than the resources of an earlier time would sustain. Similarly, we can look to people who are now at the edges of our audience, and beyond, and find ways to welcome them in through changes in both the character of our organizations and the cultural sensibilities we present. Many of our recommendations point to these kinds of changes, knowing full well they are potentially disruptive to current models.

Continuity, Change and Growth

Public radio's evolution to a new level of audience service will be led by stations, national organizations, and new public media partners that are both assured in their enduring strengths and values and committed to change, and growth. The individuals and organizations who will shape the next arc of audience growth are reaching toward a larger success, something more significant, legacy media and new media in a single package. They are ready to engage with their communities full on – to serve, to learn, and to capture the support that will fuel their plans.

Most of our recommendations turn on concrete and continuing action across an array of organizations, professional disciplines, and activities. We think of the work ahead as a campaign for change and growth that will have several key features:

- **Coalitions of the committed.** Action will center on those ready and willing to change in meaningful ways. While funders and regulators can offer "carrots and sticks" to shape behavior, the change public radio needs must come from within stations, networks, and producers. In public radio's highly decentralized structure, each of some 400 organizations sets its own strategy and makes its own choices. Not everyone will participate in a campaign.

- **Thoughtful segmentation**. Public radio spans a wide range of services, circumstances, and resources. Our broad goals embrace these diverse realities. The projects and solutions that flow from them must be "right sized" to communities, consistent with the character and values of different services, and appropriate to different stages of organizational development. A campaign for meaningful change in public radio will not have one-size-fits-all solutions.

- **Integrated efforts**. A successful campaign for change requires participation across the professional disciplines within our organizations. It requires effort and investment at both the local and national levels. There is no reason for anyone or any organization to be working alone on these critical issues and every reason to communicate, coordinate, and collaborate.

In both the service we provide and the audiences we serve, our plan for wider use and deeper value is a mix of continuity and evolution, enduring strength and bright vision forward.

We see an opening pathway toward change. We see enormous opportunity for growth.

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and over 150 program directors, producers, managers, and network staff who joined together for GROW THE AUDIENCE round table brainstorming at the 2008 PRPD annual conference

Public Radio 2.0 Grow the Audience New Media Working Group

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Introduction

The following report presents viewpoints on public radio investments in today's new media environment, as assessed by professionals in the field, both inside and outside of public broadcasting.

It begins with some high level guidance on how public radio professionals should inform their actions and decisions regarding new media going forward, and concludes with some specific recommendations for the most appropriate new-media directions to consider for next investments.

Guiding Principles

The following is a list of 10 important concepts that public radio professionals should keep as touchstones in charting their courses through the new media environment.

AGILITY Today's most important survival instinct for media professionals is the ability to shift among content creation and delivery models more readily than in the past. Public media management must gain such agility to adapt to new platforms and a changing marketplace, while maintaining a central focus on core content strengths.

BRAND This is the fundamental asset of public media. It includes a rare combination of integrity/credibility with hipness and high marketability to certain desirable demographics. In fact, it manages today to hold slightly *different* values for several different demographics, and this potential must be expanded (another form of agility – maintaining multiple variations of branding for various audience cohorts). It's critical, however that a coherent focus be retained. Perhaps this is best expressed as "My Proxy," in which public radio serves as a primary filter for a certain worldview – both for news/info and arts/entertainment – and ideally one that "works" (i.e., translates easily) for several distinct demographic targets.

MAINTAIN Keep the anchor of an *on-air* service sacrosanct. FM is still strong as a core. Without it, public media web audience would be much less. Audiences are shifting, but at best there is still a 10:1 advantage to on-air listenership, with typical station numbers at 50:1 or higher.

BALANCE

Public Media's greatest management challenge today and for the near future is driving a proper balance (with high temporal granularity) between currently shifting parameters:

- Local vs. National content
- Real-time vs. On-demand services
- Original vs. Acquired/shared content ("co-opetition")
- Mission vs. Monetization

Any reinvention of public radio into a 2.0 mode should be done incrementally, with a careful weighing of institutional priorities against the advantages or disadvantages of each prospective new approach.

PROMOTE

Aggressive promotion via traditional and new venues is increasingly important. Perhaps the best area to explore is partnerships with BoF organizations, where mutual benefits can flow (e.g., Google, Starbucks; certain national magazines; local newspapers; large local employers).

ENGAGE

Encourage and assess audience reactions; get representation from all demographics, and heed their counsel appropriately; learn, adapt and grow. Hire smartly (ex-print people are one opportunity – remember much of the NPR News brand was built this way, taking strong print journalists and teaching them the craft of aural storytelling). Include, invite listener feedback and participation through social networks and other new venues of consumer access/traffic.

STUDY

Keep abreast of all relevant and peripheral new technologies. Consider them both for the appropriateness of their inclusion within your services, and for their potential impacts if implemented by competitors. Develop stable metrics or benchmarks by which to evaluate new opportunities.

MEASURE

Watch the changing audience numbers closely, with special attention to the Diary/PPM shift as it continues. Weight respective metrics (on-air and online), and establish credible analysis algorithms. Remember to account for behavioral shifts that may occur as audiences age: These may proceed differently or faster today than in the past, but they will occur.

NO BLEEDING

Public media does not have a mandate to be ahead of the curve. A "fast follower" position is preferable. Maintain good vision ahead to know what's coming. Always keep aspirational targets in sight. Be open to big new ideas, but don't rely on them for *deus ex machina* event. Scale well.

DEVELOP

Remember that compelling content always trumps delivery technology. If you provide something listeners want to hear, they will find their way to it, however cumbersome. Conversely, the most convenient and up-to-date media-access methods are of little value if they provide no interesting content. Thus the true goal in new media for public broadcasters is **great content made broadly and easily available**. Seek new talent, topics and presentation methods, while maintaining traditional programming. Extend and expand the core.

Recommendations

A group of thoughtful and highly respected individuals was asked to comment on what they felt were the most likely areas within the new and emerging media landscape in which investment by public radio would provide reasonable returns.

As one might expect, opinions varied across the group, but there was considerable convergence of thinking in some areas. A summary of the most relevant highlights gathered from the group is presented below (including a few cogent verbatim quotations), followed by this author's conclusions from the process.

Key ideas

Use new media tools to create a stronger public radio community: Different respondents championed different platforms (e.g., SMS, Blogs, RSS feeds, various social networking sites), but there was wide agreement that these new technologies should be used to leverage the existing but inadequately exploited "natural network" of public radio audiences. Encouraging community-building aspects of these new platforms to a level of ubiquity was a common goal, but there was some disagreement as to which platforms to use, and the appropriate levels of investment. Responsiveness to user feedback was also frequently recommended. Traditional tools such as strong on-air promotion, encouraging word-of-mouth advertising, and sponsoring in-person events were also suggested as methods to empower and build usage of such new-media outreach.

"Our listeners are doing plenty of things online--they're just not doing things with us."

"We already have a network. We just need to activate it."

"(Audience) participation stops the minute people think no one's paying attention".

"Public media needs to be more aggressive…in engaging directly and meaningfully to help communities."

Develop a world-class news portal site: A number of respondents suggested that a world-class public radio news site should be developed, to provide a competitive presence along the lines of BBC.com, NYTimes.com, Washingtonpost.com or CNN.com. Several different ideas arose for how to best integrate local and national elements, but there was broad agreement that such seamless integration was essential. There was substantial divergence on how to best name and brand the site, however, as well as how to structure and monetize it. Other individual suggestions included the segregation of content by subject matter over a few separate sites and streams (e.g., national news, international news, business news, sports, etc.), partnerships with local newspapers, combined public radio and public television efforts, users' ability to personalize the site's display to their preferences, and special emphasis on minority/underserved audiences.

"In every city that I have examined, the public station site attracts levels of traffic and loyalty far below the level attracted to their local newspaper site…"

…No radio or television station site is ranked in the top 1,000 websites in the US, and no public radio or television station website is ranked in the top 15,000."

"Practice branding discipline—and deliver quality content to back it up."

Support and influence universal broadband policy: Entirely separate from considerations of content were recommendations of advocacy for expansion of broadband Internet access, particularly to minority and underserved audiences.

Develop online membership plans: Extending the on-air membership model to a separate online membership was also proposed as a mechanism for access to aggregated public radio content site(s). Among specific suggestions here were tiered service levels (free and paid), including a pledge-free service for paid memberships, centralized underwriting, and revenue-sharing among stations and content providers.

"There is no other scheme that is bold or comprehensive enough to benefit all stakeholders in the existing public radio community… that can produce as much new revenue… provide more public service… (or) take more courage, foresight and determination to accomplish."

Cross-promotion: Although a bit of a no-brainer, the continued or expanded use of public radio's on-air "push" services to drive traffic to its "pull" services provided on-line was strongly recommended.

"Promote online content on-air like crazy."

SEO/SEM: Greater facility in search-engine optimization and marketing was recommended as a method of increasing public radio's presence and profile as a leading online content provider.

"Public media content should top search results across thousands of topics."

Original vs. repurposed content for new platforms: There were several strong recommendations for development of new content and services optimized for online and other new platforms, rather than simple repurposing or curating of existing on-air content to these alternative delivery systems. Of particular interest were new mobile platforms, given radio's traditional strength in such environments due to its inherent legacy of portable/mobile usage. Applications of both on-demand/podcast and live-streaming content to these mobile platforms were suggested. Short-form video was also recommended as a content type, particularly targeting mobile devices. A serious commitment to customer focus in developing any new content was stressed.

"Move beyond companion websites to make (broadcaster) websites valuable in and of themselves, not as adjuncts to radio programs."

"We should ruthlessly prototype, test, and deploy until we get it right."

Create a current sense of urgency: There are new opportunities for public radio to establish a beachhead in the emerging Web 2.0 environment, but this will not happen by default – just as it did not in Web 1.0. Others are aware of these new opportunities, and they will likely invest early to capitalize upon them. Development of a coherent new media strategy sooner rather than later is essential.

"We don't have this field to ourselves."

Retain & build upon core assets: While developing new media investment strategies, keep focus on over-the-air radio as public radio's primary asset base. Consider this both from content and policy perspectives, focusing in the latter area on gaining additional spectrum and channels, dealing aggressively with interference issues, and extending influence to new over-the-air digital broadcast services (IBOC and its multicast/datacast extensions, ATSC M/H).

"(With) more wireless streams available… segment the content to super-serve different audiences."

Reduce polarization of new media capabilities across system: Current new media development in public radio has been disproportionately top-heavy, with networks and largest-market stations carrying most of the load, and reaping most of the benefits unilaterally. Before extending these existing leaders' footprint into next-generation technologies, additional system investment should be directed toward the currently disenfranchised smaller-market stations, to help them establish a *basic* online presence. Pull up the bottom before pushing out the top.

"In 2008 most stations still don't have integrated fulltime new media people on staff."

Focus on new media *content* (over technology) development: New media is ultimately not about the platform but the content it delivers. Public radio investment should be primarily directed at developing new content for new platforms, rather than investing in the delivery platforms themselves. Next-generation audiences will not be impressed by public radio's mere *presence* in these spaces – they expect that much intrinsically from any modern media source. They will only consume such services from public radio if its new media content is compelling to them.

"Play to our strengths."

Synthesis

The collective intelligence of the group consulted on this question is well focused on three major points, which are presented as the primary findings here:

1. An organized and coherent strategy should be developed and funded for public radio to advance its current position as a media provider through the use of currently un/under-utilized new media tools. This strategy should be designed to build and strengthen both national and local public radio audiences through focused applications of customizable alerts, membership models, social networks and other opt-in pushed content.

2. A comprehensive plan should be drawn for developing a world-class news portal operated by and for public media entities across the U.S. This plan should include strategies for content contribution from many entities, user subscription/customization and authentication, revenue generation and sharing, and collaborative site governance. The site should serve well as both a standalone on-line service, and a companion to legacy broadcast services.

3. Public media should pursue a policy of advocacy for provision of universal broadband access to minority and underserved audiences. Meanwhile, it should plan a systemwide effort to develop a baseline level of new-media fluency among all content creation and delivery nodes in the public media system, again with proactive emphasis on content relevant to minority and underserved audiences.

Acknowledgements

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The Street

Personal Finance

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#DigitalSkeptic: NPR Opens Pandora's Box on News Strategy

Jonathan Blum

10/10/13 - 08:00 AM EDT

NEW YORK (TheStreet) -- All things considered, **NPR** has opened a veritable Pandora's box factory with its new "Pandora of News" strategy.

In case you hadn't been listening, back on July 9, National Public Radio's then CEO, Gary E. Knell, began some serious media outreach. According to interviews at The Wall Street Journal and elsewhere, as part of a $201 million capital rebuilding plan, America's national public broadcaster would embark on a bold new Digital Age initiative.

According to this former head of the **Sesame Workshop** -- seriously, Knell really did tell Big Bird what to do -- it would no longer be enough for NPR to reach 27 million people a week serving a mix of Car Talk, Fresh Air and other programs via over-the-air radio, Web and mobile simulcasts.

Oh, no. Now it would seek to rip a page from private-sector streaming media services such as **Pandora** (P) and **Spotify** and use the latest in wonder tools to render up news and information feeds unique to each listener.

"What we're trying to work on is a Pandora for news," Knell told Melissa Korn at the Journal, "to allow listeners to customize a playlist, available through the cloud, live."

Considering I've watched many a good man and woman -- not to mention hundreds of billions of dollars -- go south chasing the exact same idea in music, publishing and financial services, I figured I better confirm with NPR what this "Pandora of News" actually is.

And so began a four-month odyssey to get NPR to comment officially on what were -- and how it expected to pay for -- those new Digital Age services. And to be fair, everybody tried. I had dozen conversations and emails with various NPR officials. But, trust me, not one single moment of any of those made enough sense to be quoted here.

And it turned out, in one of the marvels of full disclosure, it didn't matter.

We're talking about public radio here -- its records are, well, public. If investors ever wanted to hear how grim the challenge is of running a streaming media service a la Pandora or Spotify, all they need do is click on into NPR's Consolidated Statement of Activities and Supplementary Information Year Ended 2012, and something called a Form 990 -- which amounts to its tax return.

Wait wait ... don't tell me!

Listening for the grind-to-the-bottom narrative is not hard in NPR's disclosures. In fact, the corporation breaks out its Digital Services revenues clearly, and they dropped from $1.98 million to $1.69 million last year, for about a 15% decline. Of course, being the Web, during the same period, Digital Services expenses jumped from $3.2 million to $5.8 million, for an 81-ish percent increase.

That grosses up to a by-now-standard-for-the-era single-line jump in losses for Digital Services from about $1.3 million in 2011 to roughly $4.3 million last year, or about 230%.

And that's just Digital Services. Digital Media costs -- which is grouped as part of NPR's Program Services expenses -- rose from $17.8 million to $20.2 million during the same 12 months. That 13% increase is a full order of magnitude larger than the growth in Station Programming revenues, which nudged up from $67.7 million to $68.6 million for the year.

NPR makes it very easy to hear where all the money is going.

Attachment 1-2 of its Form 990 starts with a lengthy description of the full suite of costly digital services offered by NPR: content available free on the Web, mobile devices and other emerging digital platforms. There are on-demand downloads, a decade of archival audio, original feature stories, additional information on NPR programs, commentary and other "content exclusive to the Internet." All of which culminates with Attachment 8, where we learn that two of the top five highest-paid independent contractors at NPR are **Siteworx**, its Reston, Va., Web design firm, and Dallas' **Limelight Networks**, one of NPR's Web hosting service providers.

Only the producers of Car Talk and Fresh Air got more money out of NPR.

A dark, digital Lake Wobegon

Worse, NPR seems oblivious to the digital bloodletting ahead.

In June, it announced a deal with San Francisco-based **Swell**, which an NPR representative described to me as a classic Digital Age disruptor. Swell offers customized news content based on an algorithm's guess for free via an app. And -- in my opinion at least -- a familiar blurry digital road to profitability for its content provider vendors.

Making it all worse, as of Aug. 31, Knell -- remember, the guy who dreamed up this Pandora of News thing in the first place -- announced that he will leave NPR to run the National Geographic Society.

"The outgoing executive says he feels he's leaving NPR in better shape than when he arrived," wrote Mark Memmott, at The Two-Way, the NPR news blog, "Knell believes his successor will be able to pick up and continue that 'strategic trajectory.'"

Digital hipsters may call me what they will, but these tired ears have heard enough: Until it dawns on whoever replaces Knell that survival here in the digital slum is about limiting the exposure to the Web, not embracing it, NPR will become a perverse riff on Lake Wobegon: A wisp of a town shivering high up on the digital prairie, where everybody and everything is merely below average.

The Path to Significance

By Tom Thomas

Not long ago I had the opportunity to work with the board of Southern California Public Radio, the organization created to operate KPCC-FM under an agreement between Minnesota Public Radio and Pasadena Community College. Bill Davis, SCPR's President, asked me to reflect on the experience of public radio stations that had made a "transformative leap" in their organizational stature to attain genuine significance in the civic or cultural life of their communities.

Bill suggested four organizations to consider:

Minnesota Public Radio
Colorado Public Radio
Chicago Public Radio
WNYC

Different observers might create a different list and each of these organizations has its detractors as well as its many admirers. But most in our field would place these operations among those defining the higher levels of public radio accomplishment, service, and significance.

I set out to surface the common themes, if any, in the storylines that took each of these groups from their early days to their current performance. I have had occasion to work closely with all of them over the years, so I was able to dig out notes, reports, and various snippets of their histories, both official and less so.

It was soon apparent that there was a remarkable convergence – eight key steps repeated across each group's history that I have dubbed The Path to Significance.

1. Capacity for independent action

All four of these organizations began as part, sometimes a very small part, of another organization. Minnesota Public Radio was once KSJR, the radio station of St. John's University. Colorado Public Radio began as KCFR, Denver University's radio outlet. WBEZ/Chicago Public Radio was owned by the Chicago Board of Education. And WNYC was the broadcast voice of the City of New York.

In different ways, and for different reasons, each of these operations evolved into independent entities, self-governing and focused on their public service broadcast mission.

2. Compelling vision of service . . . that works in radio terms

The growth of these organizations has been driven by powerful visions of service that both inspired and informed their leaders, staff, and supporters. For Minnesota and Colorado, the key notion has been to extend, throughout their states, internally consistent programming streams that would come to be seen as the most trusted sources for information and classical music. Max Wycisk says that “once the Colorado Public Radio board embraced this basic idea, everything else became simply a matter of execution.” WBEZ and WNYC share ambitions that turn in a different direction: to be heard as an “authentic voice” of and for the cultural and intellectual riches of their respective cities and to be places of creative ferment.

3. Strong sense of place

Thousands of conversations, surveys, and listener diaries have told us that much of the value public radio delivers comes from our best national programs. Research into the core values that public radio listeners expect to hear within our programming reveals that many of these core values cut across format, genre, and community. These organizations understand those principles and deliver on them.

But they also capture, in ways both large and small, a sense of the place in which they work and the communities they serve. WBEZ talks about being a convener of community. Minnesota Public Radio delivers the nostalgia of Lake Wobegon that is one sense of place. It also pushes itself toward “interactive journalism,” bringing its listeners directly into the news making process with polls and tips and expertise. That delivers a sense of place, too.

All these stations are engaged in national production. But Laura Walker notes that her WNYC board is careful that the programming works in New York most of all. “It may be a little of that New-York-full-of-itself thing, but they feel New York is different, maybe with tougher standards, and they don’t want our reach for a national audience to weaken the power of what we do for our audience right here.”

4. Concrete focus of energies

Each of these organizations took on a defining and specific task that in some fashion symbolized their emergence as “something larger." For MPR, it was acquiring its own building in downtown St. Paul, complete with electronic news ticker on the outside. As Bill Kling put it, "MPR made a choice in 1979 to build a building that would emphasize 'professionalism' and its stature as a major 'institution.'" Kling believes this was a major turning point internally and externally for MPR.

WBEZ had a similar experience in moving to a prominent location on Chicago's Navy Pier. For Colorado it was the quest for a second channel in Denver. For WNYC it was the high profile $20 million sale of the stations from the City to the WNYC Foundation.

5. Willingness to assume risk . . . and debt

These four groups have been innovators within our field in their financing strategies. Calculated risk has been fundamental in the evolution of every one of them, most evident in the fact that each of them has taken on significant debt to finance an important step in their growth. Debt financing as a strategy to grow services that will eventually pay for themselves is no stranger among the major institutions of the nonprofit sector. Universities, hospitals, museums, and performance centers have long tapped the tax exempt bond market and other mechanisms of debt financing to build their capacities. We in public radio are largely novices in this arena.

6. Confidence in a larger role

Some people look terrific in a nice suit. Others just look overdressed. And a few look like they are wearing someone else's clothes.

Significance seems to require a certain comfort in playing a larger role. WBEZ's Torey Malatia recalled the nervous staff that prepared for the station's first fundraiser after they had moved to the new digs at Navy Pier. "Maybe the listeners would think we were too rich, or too full of ourselves, or too something to need their support. Instead, we had one of our most successful drives ever. Instead of what we feared, it seemed that because we were taking ourselves seriously, the audience took us seriously . . . at a whole new level. It was an important lesson."

7. Engaged and committed civic leadership

All of these organizations are led by strong, skilled, visionary leaders. It is difficult to imagine them being where they are without the people at the top. But these leaders have strengthened their hands by building and nurturing boards of civic leaders who are deeply engaged in their organizations' success and publicly committed advocates within their communities.

Most public radio stations, including many community licensees, are still operated under what I think of as the "conspiracy of professionals." It takes some courage to consciously pass power and authority to genuine community-based leadership. It takes hard work to find, cultivate, and retain the best talents of one's community. But the dividends can be profound. Meaningful civic leadership within the public radio enterprise grounds our public service, enhances our accountability, connects us with major financial resources, and ensures our enduring strength through the inevitable transitions in professional staff.

8. Bold ask for community support

These organizations have used the strong platform created through the preceding steps to approach their communities with bold requests for support. In capital campaigns and special initiatives they have redefined expectations for public radio's place in the hierarchy of individual and organizational giving, both in their own communities and, as role models, for others.

* * * *

The concept of The Path to Significance is a work in progress. But I am certain that there are elemental steps that these organizations have done right, that they follow in a common direction, and that others can replicate their success. Every time someone suggests that public radio has reached its full potential or is brushing up against natural limits to its growth, our leading stations have shown that we have far more opportunity than most imagine. The Path to Significance leads to that opportunity.

I would like to hear nominations for others amongst us that deserve a close look and welcome ideas for how to improve the framework – or challenges to its basic concepts. Contact me attthomas@srg.org

May 2003

This report was developed as part of Charting the Territory, SRG's national planning initiative for public radio that is supported by the Corporation for Public Broadcasting and SRG member stations.

Making the Case:

Transformative Growth in
Public Media's Local Journalism

Tom Thomas and Terry Clifford
Station Resource Group

grow the audience for public radio

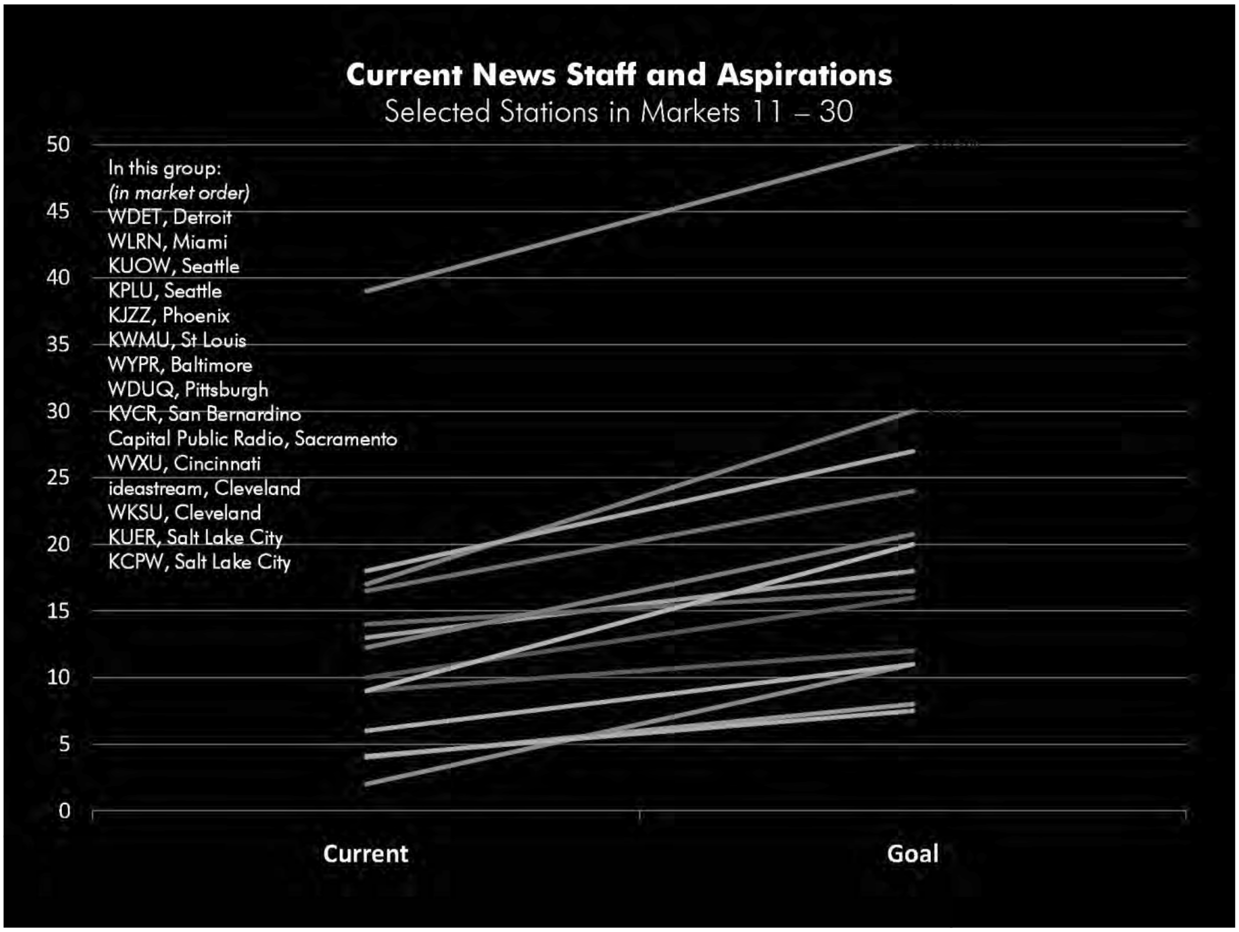
Journalism	Become America's most trusted and most widely-used source of daily news and information.
Local Journalism	Greater scale and capacity in local and regional reporting so we can realize the impact and significance to which we aspire.

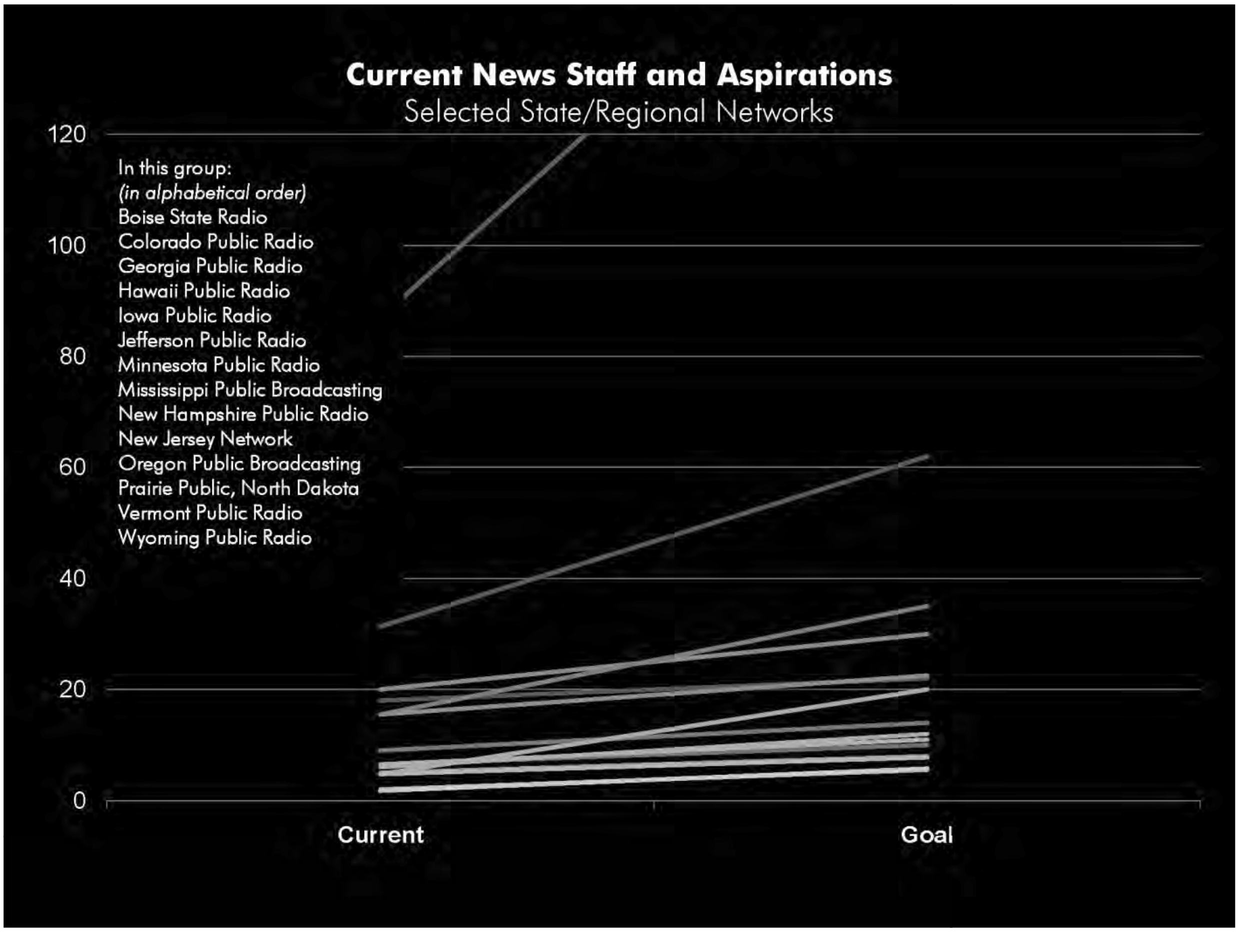
Public service outcomes

- Trustworthy, original reporting on the issues and needs of our communities
- Civil discourse and a centering conversation on our future
- Partnerships that expand the depth of our stories and the reach of our work
- Engagement with audiences that leads to better decisions and solutions

Raise the bar

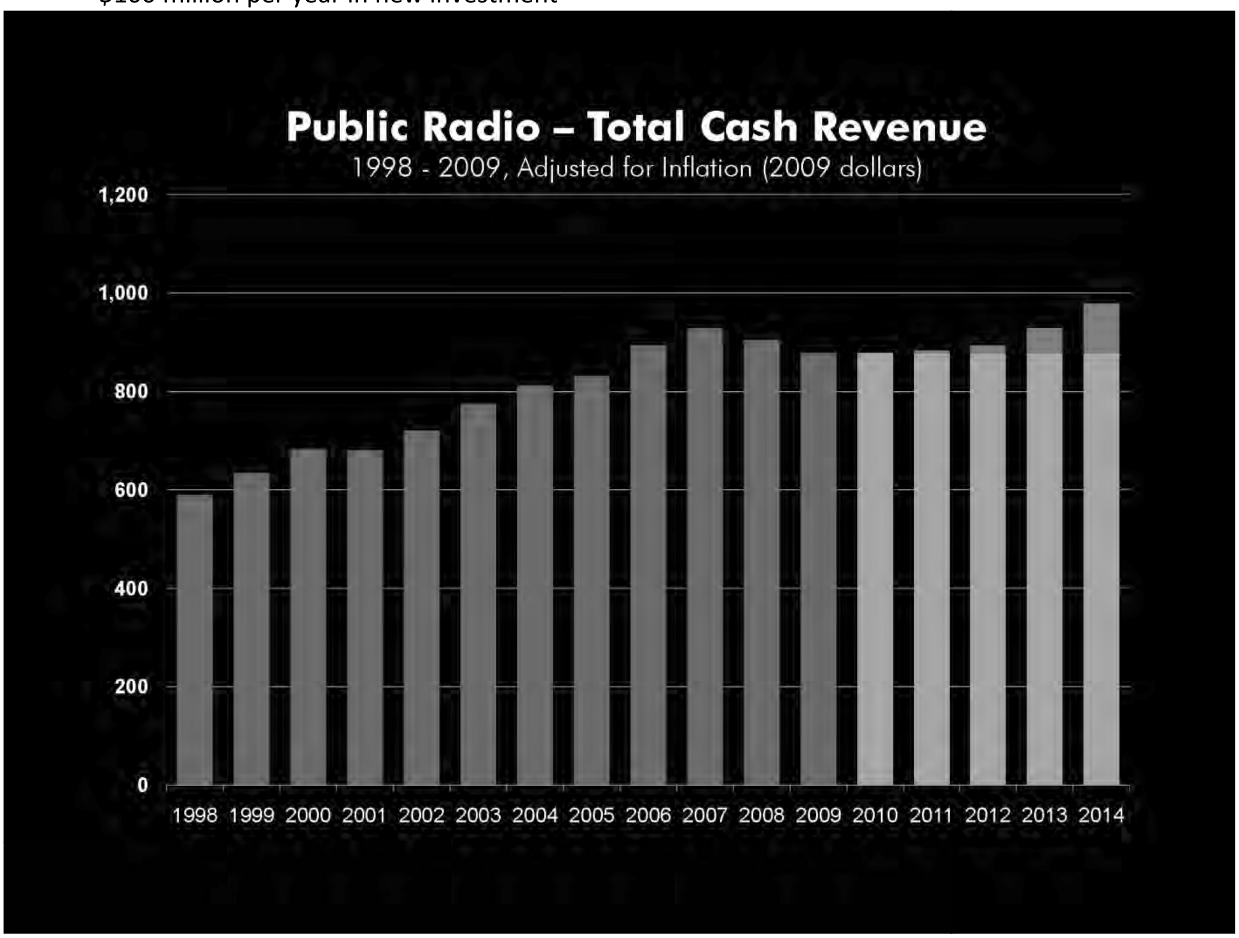
- Reporting staff – more feet on the street
- Editing and production capacity
- Digital skills throughout the newsroom
- Innovative community connections
- Voices and views that reflect America


Current News Staff and Aspirations
Selected Stations in Markets 11 – 30
50
45
40
35
30
25
20
15
10
5
0
In this group:
(in market order)
WDET, Detroit
WLRN, Miami
KUOW, Seattle
KPLU, Seattle
KJZZ, Phoenix
KWMU, St Louis
WYPR, Baltimore
WDUQ, Pittsburgh
KVCR, San Bernardino
Capital Public Radio, Sacramento
WVXU, Cincinnati
ideastream, Cleveland
WKSU, Cleveland
KUER, Salt Lake City
KCPW, Salt Lake City
Current
Goal


Current News Staff and Aspirations
Selected State/Regional Networks
120
100
80
60
40
20
0
In this group:
(in alphabetical order)
Boise State Radio
Colorado Public Radio
Georgia Public Radio
Hawaii Public Radio
Iowa Public Radio
Jefferson Public Radio
Minnesota Public Radio
Mississippi Public Broadcasting
New Hampshire Public Radio
New Jersey Network
Oregon Public Broadcasting
Prairie Public, North Dakota
Vermont Public Radio
Wyoming Public Radio
Current
Goal

A transformative investment

- 1,000 new reporters, editors and producers
    - – Equipment
    - – Technical support
    - – Fundraising to sustain them
- $100 million per year in new investment



Public radio members

- Listening to the service
- Personal importance
- Education
- Need for listener support

Performance of News Stations

- Size of the news staff does not help predict listening
  – Core composition
  – Education level in the market
  – News franchise
- Size of the news staff does not help predict listener support
  – Size of core audience

Stations with more resources are making mission-driven investments of those resources in local and regional community service.

A Campaign for Growth

- Public funds
- Seed funding from major national foundations
- Principal funding from local and regional philanthropy and major gifts
- A multi-dimensional plan for long-term sustainability

Global Warming Activists

- Global warming is actually happening
- Global warming is harmful – to us
- Human activity contributes to global warming
- Personal action will make a difference

Local Journalism Supporters

- Local journalism is at risk
- This is harmful to our communities
- Public radio can be part of the solution
- Local philanthropy and major donors can make a difference

Test the Case

- Three markets
  – St. Louis, Louisville, Vermont
- Major donors and local foundations
- In-depth conversations
  – KublerWirka
- Cross-check with national foundations

Local Journalism is at Risk

- Collapse of newspaper revenue
  – $20 billion in annual revenue lost in last five years
- Journalism positions disappear
  – Nearly one-third across the past decade
- Degradation of television news
  – Partisan cable shout-fests
  – Culture of celebrity

This Harms our Community

- Challenge to democracy
  – Decline of accountability in public life

– Erosion of public discourse

– Less informed electorate

- Challenge to community

  – Loss of connection across social and geographic barriers

  – Weaker civic and cultural fabric

Public Radio Can Play a Role

Others urge public media to take a larger role in journalism

– Knight Commission

– FCC "Future of Media"

– Columbia Journalism Review

– New America Foundation

…but public radio is not the answer

It Gets Complicated

<u>Challenges Raised</u>

- Limits of broadcast-based radio

  – Only so much time

  – Don't replace signature national shows

- Analytical reporting, yes

  – Hard news, not so much

- The quality standard is high

  – Local talent and execution inconsistent

- Reporting on hot topics has risks

  – Easy to offend benefactors

<u>Areas of Opportunity</u>

- Value-added, discerning aggregator

  – Facilitate access to other news sources

- Develop content and audience across other media

  – Less and less a radio station, and more and more an organization that provides news and information that I can access in many other ways

- Partnerships with other players

<u>Relative Priority</u>

- Competing community needs

  – Direct human services, civic development, education, health care, environment

- Finite resources

- Link effective philanthropy to quality of public discussion and debate about priorities

  – A catalytic role for effective giving

<u>Making the Case</u>

- Transparency about business models and mechanisms for investment

  – Collaboration and partnership

  – Local/regional/national

  – Look to leverage and scale

  – Avoid competition and redundancy

Build on topical areas

  – Economic future of the community

  – Energy

  – Public education

  – Environment

– Healthcare

– Transportation

– Political accountability

– Social challenges (poverty, addiction, etc.)

The importance of information stewardship

– Public trust

– High quality reporting

– Balance and fairness

From serve the audience to serve the community

– Current case focused on personal benefits

– Not just more local journalism for current listeners

– May require difficult strategic trade-offs

The Summary Argument

Where we are

– Large and committed audience

– Demonstrated commitment to quality reporting

– Distinctive, impactful medium

– Experience in fundraising, membership, and a viable business model

Where we are going

– New audiences for our service

– New capabilities and journalism expertise

– Impact beyond audience metrics

– Embrace new channels and platforms

– Partner in content and production

Just One More Thing

Public radio may have a unique role as a news organizer

– A crossroads in the news ecology

– Make connections and collaborations

– Convene and facilitate a conversation about community information needs and solutions

– The next hire might not be a reporter, but an organizer

WHITE PAPER ON PUBLIC MEDIA COLLABORATION MODELS

> *"We live in a digital age, a networked world, where the race is on to out-collaborate, out-network, and out-innovate adversaries, competitors, and even nature. Plan to go it alone? Think again. Where everyone is connected, the game-changer is collaboration. "*[1]

Collaboration is the game changer for public media. We are seeing more stations willing to try various collaborative partnerships. Stations are beginning to see significant advantages to banding together with other like-minded stations around a range of core functions from content creation, to technical/infrastructure, to development and administrative. All appear to be driven by the desire to build greater capacity to serve their local communities better through smarter or more strategic use of their resources.

Across the public media system leaders are recognizing how much the environment has shifted, while in many cases dealing with tighter or more constrained resources than ever. A realization is emerging that new innovative partnerships that preserve what is essential about being local, and outsource what is not essential, is the best path to increase capacity to provide greater local service. Public media leaders are acknowledging that our historic go-it-alone attitude is a major liability.

As Bratton and Tumin state in their book: "Reaching across boundaries, often abetted by technology that connects us all, collaboration unleashes the power of the many to do together what none can do alone. That takes a new mind-set, one that says, 'we can achieve more together than we can alone.' A mind-set that looks across boundaries of departments, companies, and nations, and sees people as partners and change as opportunity, not threats. "[2]

There are strong and positive examples of collaboration in public media today with more on the horizon, but it will require that new mind-set to be more widely held to permanently change the way public media operates going forward.

This white paper outlines four basic models for public media station collaborations. Each is described briefly to get the concept established and understood broadly. Each model is based on, and/or inspired by, an existing industry concept either currently in use or on the drawing board.

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[1] Collaborate or Perish: Reaching Across Boundaries in a Networked World, William Bratton and Zachary Tumin, 2011., p. 2-3.

[2] Ibid., p. 3

- **Content Creation Collaborators (CCC)**

Four or more stations come together to create a dedicated team of reporters to provide multi-platform coverage on a dedicated topic (aka content vertical) and develop content expertise to become the go-to source for that topic. CCC's include an editor and reporter based at a lead station and other reporters based at each partner station. The editor works in conjunction with the reporters and partner stations' newsrooms to set the editorial agenda, and the resulting audio/video and online content airs on the partner stations and is distributed on a project website and/or station websites, social media, and mobile devices. The collaborators also create community engagement events and utilize social media to allow the audience to connect with and inform the topic. A CCC builds journalism capacity at each station in a cost-effective manner; generating more capacity together than any of the individual stations could achieve on their own.
(Inspired by the LJCs and N3)

- **Technology & Infrastructure Collaboration (TIC)**

Several stations and/or public media organizations come together to unleash the potential of digital technology to increase the reach and use of public media content, create economies of scale and/or strengthen each partner and/or the public media system. These initiatives solve real problems that stations face today and are critical if stations are to stay abreast of the technology curve. They advance new cultures of collaboration, across all types of digital distribution outlets (online, mobile, etc.), as well as open up new opportunities for innovation and collaboration between media producers and consumers. TICs save money, create a better way of dealing with equipment refresh needs, increase innovation, as well as maximize business and public service opportunities.
(Inspired by Joint Master Controls & PMP)

- **Outsource, Upgrade, and Increase ROI (OUIR)**

  - **Consolidated Development Collaboration (CDC)**
    Four or more stations of similar size, licensee type and development capacity outsource (nearly) all development functions to a centralized operation that hires development experts, utilizes state-of-the-art software and best fundraising practices to generate significantly higher returns for each station. Each station contributes the amount of its budget (approximately) that is currently dedicated to development activity (underwriting, on-air fundraising, off-air fundraising, and grant writing). In return, by raising the level of staff expertise and creating economies of scale, each station would see a revenue increase of as much as three to four times their investment; spend about the same; get much more.
    (Inspired by the DEI Hubs and WGBH's Contributor Development Partnership (CDP))

  - **Administrative/Operational Collaboration (AOC)**

Four or more separately licensed stations form a central administrative service office or department to provide leadership, financial systems, fundraising support, engineering services, group planning and other support for its participating stations. This service function will most likely be based at the partner station with the most capability to manage it. This is not a merger; stations maintain their local governance and key staff, FCC license, while outsourcing expensive administrative and/or operational functions.

Services could include payroll, personnel administration, bank accounts, investment accounts, benefits, bookkeeping and grant administration, underwriting and membership services, studios, transmitters and translators maintenance throughout the region and, regional news reporting, editorial support, coordination and training for news personnel at stations.
(Inspired by Coast Alaska)

- **<u>Operational & Organizational Consolidations or Collaborations (OOCC)</u>**

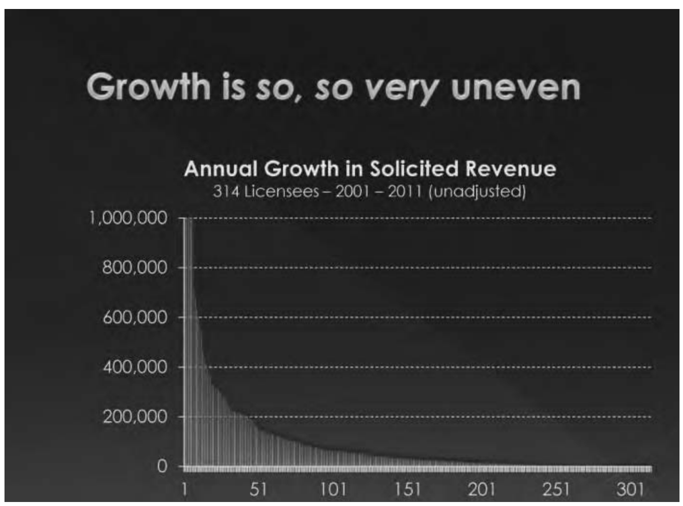
  - **<u>State or Regional Networks</u>**
    Mergers and acquisitions that consolidate several independent stations into one entity are a viable strategy to improve service to a region or state, increase operational efficiency, develop economies of scale and secure long-term sustainability. More importantly, stations with limited capacity to meet their service aspirations (as stand-alone stations) find this approach a viable strategy to better serve their local communities. These regional or state networks (hub and spoke) form through acquisitions and/or mergers, or through entering into long-term LMAs. One entity is designated as the network headquarters where the bulk of the programming and administrative functions will emanate. Other stations become bureaus focused on localizing the service and engaging their community, raising funds, and contributing to the central service. The bureau staff size is scaled to fit each community.
    (Inspired by regional networks in MN; WI; Iowa, & the Dakotas)

  - **Multi-Station Mergers (MSM) or New Public Media Company (aka NewCo)**
    Two or more stations (radio-radio; radio-TV) come together to create a new entity (NewCo) by zero basing their operations and disbanding their former organizations to form a new community focused, content first production entity to produce and distribute across all platforms; radio, TV, web, mobile.
    (Inspired by ideastream)

Examining the Great Divide

Between Public Radio Stations Enjoying Greater and Lesser Growth in Total Station Revenues

Background: Previously assembled data clearly reveals that the public radio stations with the largest Total Station Revenue (TSR) have consistently posted dramatic annual increases in earned/contributed revenues over the past ten years -- whereas the vast majority of public radio stations fall dramatically behind such growth. Many of the largest TSR stations have posted annual revenue growth as much as 100% and the Top 32 TSR stations generate half of all public radio revenues. In contrast, lesser stations' growth rates are closer to 1 or 2%. Moreover, earlier studies sponsored by the Corporation for Public Broadcasting (CPB) also established that the vast majority of public radio stations were regularly sustaining operating losses (defined as expenses exceeding earned and contributed revenues). Thus, even stations with smaller revenue growth rates were operating in the red as acceleration of expenses outstripped growth in revenues. This picture clearly suggests, absent significant changes in the economic and social environment in which they operate, very serious challenges exist for smaller stations' futures.



[Courtesy of Mark Fuerst, Current, Director of Strategic Initiatives]

Why is this a Concern? Unlike many other western democracies, the U.S. has, since the inception of mass media, relied upon – and been well-served by – a system predominated by local media outlets which provide a blend of nationally, and locally, generated content. The nation's geography has suggested such a structure and the public has celebrated it. If one believes that public radio provides a singular type of content in the media landscape, it is important that localism remain an element of the nation's public media services if public broadcasting is to continue to effectively serve the nation. Moreover, local content and control over commercial media has been progressively eroding in the face of both evolving federal policy and technological development. While there is a profit motive which attends that aggregation of national structure in commercial media, no such motive exists in noncommercial media. As such, **public media affords to nation's best opportunity for maintaining an effective locally-focused media voice – and public radio is the nation's best foundation for maintaining such a system. While one can be reasonably assured that locally-focused public radio outlets will remain effective in the major TSR markets, such is apparently not the case for the remainder of the nation.**

Environmental Changes: The factors which are producing these trends range widely across major arcs in the crossroads of public media.

<u>Technology</u>: The technologies pertinent to radio and television have exploded. Traditional "broadcasting" is increasingly seen by many, including the federal government, as where communication systems have come from – part of the nation's past as opposed to part of the nation's future. It seems likely that any continued federal investment in public media will be less-centered on broadcasting in order to develop support for alternative platforms such as online. In general, neither public radio nor public television have developed the ability to become significant in these alternative arenas. Most stations' engagement consists either of streaming their online signals and refining mechanisms for accepting public contributions online. Public radio's most aggressive initiative for online significance has been led by National Public Radio (NPR), which has made huge investments in developing both online content and infrastructure. Yet, NPR has slipped from one of the nation's most prominent online news sources – a role it held when the online world was a much smaller one in scale – to a currently far less visible posture. In a recent survey, the majority of public radio managers expressed the view that public radio has yet to develop a clear, compelling and sustainable online vision.

To the degree that alternatives to the broadcasting model continue to erode listening to transmitters, and to the degree that society even more fully utilizes the "exploded" media model world which the constellation of online, satellite and programming-on-demand content affords, traditional public radio revenues in most markets are likely to decelerate much as has occurred for commercial television and newspapers.

<u>Cost of Operation</u>: Broadcasting has been a remarkably resilient medium since the days of crystal set radio. At the receiving end, the public supports remarkably low costs consisting of the purchase of a receiver, and the cost of its operation, coupled with acceptance of commercial content. For the broadcaster, the equation involves capitalizing a studio and transmission plant with their respective fixed expenses, and securing programming either from network/syndicated sources or locally-developed. For the most part, in the commercial world network programming has been acquired at a cost of local stations that still allowed the station to invest in local programming while, simultaneously, enjoying a healthy operation profit. As competition from new media has eroded traditional broadcasting audiences, that equation is breaking down. Networks are struggling (General Electric's exiting television with its sale of NBC is a canary in the coal mine moment) and local television stations' profitably has dramatically eroded. In public radio, network programming has never been priced in a model that effectively responds to the market forces which have successfully controlled commercial network broadcasting. NPR and the other networks are beginning to understand that they can no

longer secure revenues from local public radio stations which annually exceed inflationary growth and, indeed, some markets are struggling to maintain network programming purchase cost levels of the past. **With the online world increasingly making network public radio programming available through a variety of portals and, as such, the productivity of local stations' broadcasting network product will increasingly produce less robust ROI for local stations' investments in network programming purchases – an equation which may hold true for most public radio stations but be less true for the largest TSR stations. Any such trends hold tremendous potential significance for the public radio networks and local stations alike.**

Like all businesses, stations expenses fall in two categories – fixed expenses and discretionary expenses. Station's fixed expenses consist of the cost of transmission (leases, utilities, maintenance, and core administrative costs) and discretionary expenses which primarily consist of purchasing or producing programming. Since broadcasting is a labor-intensive business, apart from volunteer produced programming local programming is always more expensive – per minute – than network/syndicated acquisition where the cost of production can be spread over a larger universe of supporting clients. Even with salaries held to inflation, fringe benefit costs such as health care, routinely well-exceed inflation which escalates the challenge of developing or maintain local programming in a world where revenues fail to growth faster than inflation – which is certainly the case for most public radio stations. The most serious challenges for most stations fall in the area of locally produced programming.

Just as in health care cost for personnel, many of broadcasting's fixed expenses fall in areas that also can't be held to inflation-adjusted levels. The cost of land/space for transmission plants is often controlled by long-term leases which were developed at a time when broadcasting stood taller in the media landscape than its evolving role. Moreover, competitive media such as cellphone carriers are now vying for those same transmission sites which helps escalate the rental values with which broadcasting must compete. Energy costs are growing, costs which involve both the electricity to power transmitters as well as fuel to service those plants. These costs are particularly significant in the more sparsely populated west where transmission systems can be more difficult to reach and maintain.

In short, the cost of operating traditional broadcasting media are likely to continue to grow much faster in the future than any currently predictable traditional rates of revenue growth – and the principal result of that inequality over time is likely to be the starvation of locally produced program content.

Federal Revenue:

In much of America, the existence of public radio and public television has either directly resulted from original federal investments made in establishing stations (with grants for building transmission systems and basic studios) and a federal subsidy to their operating costs (through the Corporation for Public Broadcasting's Community Service Grants) or both. It is likely that, relative to their local sustainability absent continued federal investment, portions of the existing public broadcasting system were overbuilt. A number of states have already had to confront such an equation as both federal and state resources for devoted to public radio have significantly declined. The public radio system a whole is likely going to confront such challenges in the future even if federal support, through CPB, continues at traditional levels. What is more likely, however, is that any continued federal investment in public media will either disappear over time or be broadened in scope to include “new” media – with resulting shrinkage in funding for traditional public broadcasting.

Funding from states, colleges and universities has also been a reliable element of public radio revenue. Such funding is also declining and, as both state governments and higher education face serious financial challenges, it is hard to imagine such funding either keeping pace with inflation or growing beyond inflation. More likely, such funding will continue to erode and further sharpen the challenge for maintaining traditional public radio services in most markets.

For the majority of public radio stations, funding from CPB and states/higher education is an important revenue element. If support from these sources was seriously reduced, or disappeared, most stations would face unsustainable operating losses if they continued to provide their traditional services/programming.

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Discretionary Investment Opportunities:

A new book by former NPR CEO Ken Stern (“With Charity For All”) asserts that nonprofits in America have traditionally underfunded necessary investments in their core administrative functions with resulting inability to effective strategize their futures and maintain needed effectiveness and efficiency in their current operations. Public radio has made some discretionary investments in the future, NPR’s digital division being the prime example. Because public radio’s national institutions/entities possess sufficient scale to do so, they provide the best examples of public radio’s seeking to creatively and strategically invest in future opportunities.

The ability to research, identify and effectively pursue potential areas of investment in future opportunity is a huge imperative for the survivability of many public radio stations in order to combat the technological, economic and social forces which are at play. Most local stations, however, exhibit little in the area of exploring and making such investments. Essentially, most public radio (and public television) stations seem to be following the model of riding the train down the track until there is no more track.

The Challenge:

- Maintain effective local public radio service in communities served by TSR stations 51 and below
- Help at differing TSR levels stations achieve success in translating SRG’s *Elements of Achieving Significance*
- Help stations identify and pursue appropriate future opportunity investments

Factors which may warrant consideration:

- Per capita direct support levels achieved in communities of varying sizes

- Cost base for acquired programming vs. local programming at different TSR levels and differing ROI to stations from those investments
- Differing levels of new/alternative media engagement at varying TSR levels
- Reliance upon institutional support received by lesser TSR stations and the trends for such support
- Modeling the impact of reductions in CPB support at different TSR levels
- Differing factors, if any, between news, music and mixed format stations
- Varying levels of operational efficiency, if any, between larger, and lesser, TSR stations

The Task:

- Develop detailed information on the issues and factors identified above in order to reinforce, or refute, the assumptions made above
- Develop economic and/or programmatic models which provide viable paths which could permit lesser rank TSR stations to continue providing appropriate public services to their communities on a cost-effective basis with the goal of preserving local programming and control to the greatest extent possible
- Identify existing internal public radio system structures, if any, which more threaten lower-TSR ranked stations to a greater degree than larger TSR stations and identify appropriate policy changes, if any, which might lessen such threats
- Identify appropriate future public service investment opportunities for public radio stations, with particular attention paid to stations in lower TSR ranks
- Present the Institute's findings on these matters to the public radio community for appropriate consideration

Annual Growth Rates in Licensee Revenues

1997 through 2011

Current Year Dollars (unadjusted)
For 315 Licensees
Based on CPB Annual Financial Reports filed in 2001 through 2011

Compiled by Mark Fuerst, Director of Strategic Initiatives, Current
For
The Fifth Public Media Futures Forum
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About this Chart:

I am distributing this chart to answer a specific question that emerged many times after the Public Media Future Forum session at the New Orleans Super Regional meeting. In my presentation I pointed to the 10-year annualized revenue growth rate as one indicator of station strength, and almost no one in that room knew how their own station fit into that picture.

For this chart, I used the Annual Financial Reports (AFRs) that you and other licensees sent to the CPB. I included only the 314 licensees *that filed AFRs for each and every year from 2001 through 2011*.

This ranking uses **Total Direct Revenue**, which is slightly different from the ranking I used in New Orleans. That one was based on "solicited revenue." This ranking includes all the direct cash support you reported each year, including your state support, university direct support, CPB support and federal grants.

Why change? First, I think you and other managers are more likely to be aware of your "total direct revenue," which is the cash you have to spend. Second and, equally important, the ***ten year annualized growth rate for direct revenue*** provides an similar measure of "Who's growing fast enough?" which was the main point of the financial analysis I prepared for the New Orleans Forum.

The implications are the same: Licensees growing by $200,000/yr (or more) from 2001 – 2011 were far more likely to be expanding news staff, expanding digital services and building major gift programs—the three characteristics that seemed, to my eye, to define the "leading stations" in my survey.

A few notes of caution:

First, readers familiar with CPB's grant system will understand the distinction between "licensees" and "stations." That distinction is important. Most CPB-qualified licensees run a single station and submit just one AFR that captures all of their revenue. A sizable group of licensees run multiple stations but channel all of the revenue through a single AFR. But a few organizations control multiple licensees with multiple CSGs. Two well known examples are Minnesota and Wisconsin Public Radio. MPR controls seven CSG-qualified licensees (KSJN, KSJR, KBPR, WSCD, KCCM, KLSE, and KPCC in Los Angeles). WPR, a combination of the University of Wisconsin and the Educational Communications Board, has four (ECB controls WLSU, WERN, and WHAD; the University controls WHA). Organizations like MPR and WPR should combine all their licensees to compute their real, overall growth rate. Unfortunately, I did not have time or the full list of these licensees so I could aggregate multiple-station, multiple-licensee revenues into combined numbers.

Second, program changes can produce curious financial results over a ten-year span. An organization with multiple CSG licensees may have moved all the news and information programming onto Licensee A, while making Licensee B "all classical." Based on the material I reported in New Orleans, the growth rate for Licensee A (News) is likely to be high; the growth rate for Licensee B (Classical) might be low or even negative, now that NPR news has been removed. The *combined* growth rate—the growth rate for the "owner"—might be good, bad or average, but you cannot see that by looking at this table.

Finally, I did not have time to analyze the reasons that some licensees in the chart came up with negative growth rates. A few appear to be part of multi-station groups where reported revenue may have been shifted around. Others may have suffered losses in tax-based or institutional support. Others may just be in decline and, probably, in trouble. This is an area that deserves additional attention.

Skipping over these problems allowed me to produce and circulate this report today, so I could answer the question many of you asked me in New Orleans: <u>What was *my station's* ten-year growth rate? and How did *my growth rate* compare with this or that other station?</u>

ID	Grantee	2001 Total Direct Revenue	2011 Total Direct Revenue	Annual Growth in Total Dir. Rev '01 - '11	% Chg Total Dir Rev '01 - '11	Rank by Growth in Dir. Rev '01-'11
1466	KSJN-FM	32,121,902	65,039,554	3,291,765	102.5%	1
1527	WNYC-FM	22,440,805	49,615,055	2,717,425	121.1%	2
1303	KPCC-FM	4,136,040	17,544,718	1,340,868	324.2%	3
1339	WAMU-FM	6,180,212	19,127,497	1,294,729	209.5%	4
1370	WBEZ-FM	10,519,128	22,970,131	1,245,100	118.4%	5
1312	KQED-FM	14,833,215	26,503,639	1,167,042	78.7%	6
1439	WBUR-FM	15,986,536	23,416,206	742,967	46.5%	7
1588	KOPB-FM	6,232,146	13,586,576	735,443	118.0%	8
1658	KUOW-FM	5,381,809	12,439,625	705,782	131.1%	9
1593	WHYY-FM	6,332,114	12,555,179	622,307	98.3%	10
1350	WLRN-FM	2,676,085	8,873,284	619,720	231.6%	11
1327	KVOD-FM	6,542,779	12,582,819	604,004	92.3%	12
1317	KCRW-FM	9,574,732	15,442,505	586,777	61.3%	13
1645	WHRV-FM	1,929,239	7,011,445	508,221	263.4%	14
1627	KUHF-FM	3,396,102	8,190,961	479,486	141.2%	15
1536	WUNC-FM	3,609,335	8,300,934	469,160	130.0%	16
1470	KLSE-FM	2,502,170	6,854,965	435,280	174.0%	17
1310	KPBS-FM	3,787,196	8,097,420	431,022	113.8%	18
1487	KWMU-FM	2,539,007	6,647,368	410,836	161.8%	19
1621	KERA-FM	3,909,849	7,906,900	399,705	102.2%	20
1559	WGUC-FM	2,408,712	6,196,475	378,776	157.3%	21
1516	WFUV-FM	3,035,638	6,757,883	372,225	122.6%	22
1280	KJZZ-FM	3,274,480	6,944,044	366,956	112.1%	23
1642	WVPS-FM	4,231,957	7,629,647	339,769	80.3%	24
1614	WPLN-FM	2,128,117	5,494,603	336,649	158.2%	25
1359	WABE-FM	5,785,861	9,037,129	325,127	56.2%	26
1531	WXXI-FM	1,967,671	5,105,595	313,792	159.5%	27
1575	KOSU-FM	779,515	3,868,270	308,876	396.2%	28
1597	WYEP-FM	916,228	3,951,291	303,506	331.3%	29
1308	KXJZ-FM	1,852,277	4,868,190	301,591	162.8%	30
1616	KUT -FM	4,597,107	7,597,685	300,058	65.3%	31
1595	WXPN-FM	4,752,691	7,644,391	289,170	60.8%	32
1443	WUOM-FM	4,143,932	6,999,654	285,572	68.9%	33
1458	KSJR-FM	1,806,692	4,496,255	268,956	148.9%	34
1673	WHAD-FM	2,091,971	4,644,659	255,269	122.0%	35
1670	WHA-AM	6,509,034	9,031,295	252,226	38.8%	36
1435	WYPR-FM	2,246,380	4,629,285	238,291	106.1%	37
1427	WWOZ-FM	1,315,621	3,698,370	238,275	181.1%	38
1514	WAMC-FM	4,613,720	6,950,479	233,676	50.6%	39
1460	WSCD-FM	2,398,508	4,732,584	233,408	97.3%	40
1498	KNPR-FM	2,076,490	4,387,836	231,135	111.3%	41
1591	WITF-FM	2,280,512	4,532,784	225,227	98.8%	42
1364	KHPR-FM	1,937,627	4,041,076	210,345	108.6%	43
1587	KQAC-FM	511,684	2,591,922	208,024	406.5%	44
1537	WFAE-FM	2,355,846	4,386,635	203,079	86.2%	45
1577	KSOR-FM	1,990,470	3,977,079	198,661	99.8%	46
1594	WRTI-FM	1,751,040	3,723,132	197,209	112.6%	47
1336	WPKT-FM	3,465,944	5,436,130	197,019	56.8%	48
1388	WFYI-FM	2,192,391	4,132,338	193,995	88.5%	49
1253	KSKA-FM	1,000,267	2,857,878	185,761	185.7%	50
1661	KPLU-FM	4,142,357	5,838,035	169,568	40.9%	51
1297	KUSC-FM	5,636,323	7,314,442	167,812	29.8%	52
1602	WLTR-FM	720,975	2,377,841	165,687	229.8%	53

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1296	KPFK-FM	2,003,391	3,566,312	156,292	78.0%	54
1357	WUSF-FM	3,311,079	4,870,501	155,942	47.1%	55
1335	WSHU-FM	2,742,310	4,290,313	154,800	56.4%	56
1560	WCPN-FM	4,179,622	5,726,301	154,668	37.0%	57
1648	WCVE-FM	1,462,318	3,008,834	154,652	105.8%	58
1502	New Hampshi	2,664,393	4,167,823	150,343	56.4%	59
1656	KWSU-AM	1,883,119	3,362,763	147,964	78.6%	60
1468	KCCM-FM	1,542,473	2,991,608	144,914	93.9%	61
1347	WJCT-FM	780,580	2,193,858	141,328	181.1%	62
1650	WVTF-FM	1,923,445	3,323,784	140,034	72.8%	63
1438	WFCR-FM	2,310,702	3,650,669	133,997	58.0%	64
1331	KUNC-FM	1,278,028	2,614,834	133,681	104.6%	65
1672	WUWM-FM	1,834,044	3,135,664	130,162	71.0%	66
1258	KUAC-FM	566,665	1,740,923	117,426	207.2%	67
1486	KDHX-FM	570,032	1,736,604	116,657	204.7%	68
1641	KUER-FM	1,567,866	2,730,385	116,252	74.1%	69
1281	KUAZ-FM	1,888,829	3,028,058	113,923	60.3%	70
1493	KUCV-FM	1,462,331	2,578,939	111,661	76.4%	71
1566	WKSU-FM	3,553,027	4,612,882	105,986	29.8%	72
1434	WEAA-FM	562,483	1,567,527	100,504	178.7%	73
1311	KALW-FM	917,591	1,919,832	100,224	109.2%	74
1504	WBGO-FM	4,100,716	5,102,950	100,223	24.4%	75
1492	KUFM-FM	1,036,311	2,013,641	97,733	94.3%	76
1481	KCUR-FM	2,343,458	3,284,316	94,086	40.1%	77
1515	WSKG-FM	976,787	1,914,420	93,763	96.0%	78
1598	WDUQ-FM	1,867,557	2,770,511	90,295	48.3%	79
1324	KRCC-FM	657,706	1,558,133	90,043	136.9%	80
1371	WNIJ-FM	1,511,787	2,405,296	89,351	59.1%	81
1676	KUWR-FM	1,438,531	2,331,920	89,339	62.1%	82
1383	WFIU-FM	1,731,471	2,616,278	88,481	51.1%	83
1413	WFPK-FM	3,104,311	3,984,765	88,045	28.4%	84
1529	WRVO-FM	1,047,039	1,922,334	87,530	83.6%	85
1429	WMEH-FM	2,085,591	2,956,854	87,126	41.8%	86
1521	WSLU-FM	1,175,167	2,024,827	84,966	72.3%	87
1669	WERN-FM	4,338,216	5,186,067	84,785	19.5%	88
1352	WMFE-FM	1,697,232	2,523,165	82,593	48.7%	89
1356	WMNF-FM	1,004,963	1,817,724	81,276	80.9%	90
1538	WDAV-FM	928,977	1,728,187	79,921	86.0%	91
1674	WYMS-FM	783,914	1,570,175	78,626	100.3%	92
1431	WMEA-FM	2,085,331	2,870,587	78,526	37.7%	93
1551	KCND-FM	1,507,814	2,284,953	77,714	51.5%	94
1291	KPFA-FM	2,514,325	3,258,632	74,431	29.6%	95
1600	WPSU-FM	586,591	1,330,808	74,422	126.9%	96
1659	KPBX-FM	996,418	1,739,394	74,298	74.6%	97
1549	WFDD-FM	954,987	1,693,475	73,849	77.3%	98
1279	KBAQ-FM	1,510,530	2,248,453	73,792	48.9%	99
1490	KEMC-FM	881,737	1,619,133	73,740	83.6%	100
1362	WJSP-FM	2,801,491	3,538,331	73,684	26.3%	101
1319	KVPR-FM	852,795	1,588,167	73,537	86.2%	102
1374	WDCB-FM	1,005,415	1,738,282	73,287	72.9%	103
1306	KXPR-FM	1,604,139	2,333,382	72,924	45.5%	104
1366	KBSW-FM	599,336	1,317,386	71,805	119.8%	105
1299	KVMR-FM	416,293	1,133,805	71,751	172.4%	106

ID	Grantee	2001 Total Direct Revenue	2011 Total Direct Revenue	Annual Growth in Total Dir. Rev '01 - '11	% Chg Total Dir Rev '01 - '11	Rank by Growth in Dir. Rev '01-'11
1411	WNKU-FM	674,578	1,385,198	71,062	105.3%	107
1404	KANU-FM	2,072,032	2,758,497	68,647	33.1%	108
1574	KGOU-FM	685,162	1,371,546	68,638	100.2%	109
1454	WCMU-FM	1,930,001	2,614,133	68,413	35.4%	110
1535	WCQS-FM	890,821	1,561,509	67,069	75.3%	111
1301	KAZU-FM	396,168	1,036,433	64,027	161.6%	112
1288	KUAR-FM	715,744	1,341,732	62,599	87.5%	113
1410	WKYU-FM	1,103,809	1,724,625	62,082	56.2%	114
1307	KVCR-FM	578,382	1,191,323	61,294	106.0%	115
1564	WOSU-FM	2,509,956	3,118,051	60,810	24.2%	116
1606	KUSD-FM	1,033,809	1,639,547	60,574	58.6%	117
1376	WGLT-FM	898,094	1,503,780	60,569	67.4%	118
1375	WIUM-FM	920,478	1,524,647	60,417	65.6%	119
1610	WUOT-FM	1,186,894	1,776,814	58,992	49.7%	120
1507	KUNM-FM	1,208,068	1,794,404	58,634	48.5%	121
1447	WKAR-FM	2,352,819	2,936,600	58,378	24.8%	122
1505	WWFM-FM	776,920	1,357,121	58,020	74.7%	123
1583	KLCC-FM	1,349,134	1,925,195	57,606	42.7%	124
1293	KSJV-FM	2,483,008	3,057,817	57,481	23.1%	125
1406	KANZ-FM	813,179	1,363,486	55,031	67.7%	126
1355	WFSU-FM	1,878,399	2,426,671	54,827	29.2%	127
1409	KMUW-FM	971,015	1,500,469	52,945	54.5%	128
1278	KNAU-FM	1,547,693	2,053,639	50,595	32.7%	129
1254	KNBA-FM	2,421,924	2,925,340	50,342	20.8%	130
1384	WVPE-FM	787,366	1,288,528	50,116	63.7%	131
1633	KPAC-FM	2,833,741	3,322,132	48,839	17.2%	132
1343	WPBI-FM	1,223,773	1,702,779	47,901	39.1%	133
1478	KBIA-FM	961,451	1,432,366	47,092	49.0%	134
1349	WDNA-FM	253,725	719,159	46,543	183.4%	135
1264	KTOO-FM	600,180	1,059,979	45,980	76.6%	136
1495	KIOS-FM	634,433	1,084,296	44,986	70.9%	137
1534	WAER-FM	708,940	1,150,613	44,167	62.3%	138
1599	WVIA-FM	910,044	1,349,912	43,987	48.3%	139
1570	WYSO-FM	779,049	1,207,600	42,855	55.0%	140
1400	KSUI-FM	1,572,498	1,999,880	42,738	27.2%	141
1354	WUWF-FM	1,004,229	1,429,561	42,533	42.4%	142
1412	WUKY-FM	980,556	1,402,127	42,157	43.0%	143
1323	KGNU-FM	499,893	907,519	40,763	81.5%	144
1451	WIAA-FM	933,525	1,337,036	40,351	43.2%	145
1403	KHCC-FM	1,332,901	1,729,962	39,706	29.8%	146
1389	WBAA-FM	970,453	1,361,930	39,148	40.3%	147
1636	KUSU-FM	726,586	1,106,481	37,990	52.3%	148
1377	WCBU-FM	685,991	1,063,501	37,751	55.0%	149
1653	KDNA-FM	415,580	788,221	37,264	89.7%	150
1452	WMUK-FM	1,154,020	1,525,400	37,138	32.2%	151
1304	KMUD-FM	380,481	750,093	36,961	97.1%	152
1640	KRCL-FM	571,909	938,114	36,621	64.0%	153
1418	WEKU-FM	792,171	1,153,260	36,109	45.6%	154
1459	KUMD-FM	591,932	950,281	35,835	60.5%	155
1576	KWGS-FM	800,415	1,152,458	35,204	44.0%	156
1292	KCHO-FM	749,088	1,098,606	34,952	46.7%	157
1590	WQLN-FM	593,933	935,858	34,193	57.6%	158
1525	WBAI-FM	2,843,242	3,183,861	34,062	12.0%	159

ID	Grantee	2001 Total Direct Revenue	2011 Total Direct Revenue	Annual Growth in Total Dir. Rev '01 - '11	% Chg Total Dir Rev '01 - '11	Rank by Growth in Dir. Rev '01-'11
1417	WKMS-FM	657,533	981,505	32,397	49.3%	160
1626	KTSU-FM	711,922	1,034,303	32,238	45.3%	161
1401	KWIT-FM	693,205	1,009,690	31,649	45.7%	162
1423	KRVS-FM	483,520	793,943	31,042	64.2%	163
1380	WUIS-FM	983,458	1,293,099	30,964	31.5%	164
1290	KHSU-FM	575,088	870,649	29,556	51.4%	165
1509	KRWG-FM	678,010	972,667	29,466	43.5%	166
1421	WRKF-FM	735,455	1,028,427	29,297	39.8%	167
1286	KUAF-FM	999,845	1,291,388	29,154	29.2%	168
1668	WLSU-FM	362,663	646,160	28,350	78.2%	169
1390	WBST-FM	782,997	1,055,348	27,235	34.8%	170
1271	KCAW-FM	528,713	796,335	26,762	50.6%	171
1267	KOTZ-AM	669,257	934,842	26,559	39.7%	172
1571	WYSU-FM	798,072	1,060,313	26,224	32.9%	173
1607	WUTC-FM	663,260	924,612	26,135	39.4%	174
1456	WEMU-FM	1,410,345	1,669,622	25,928	18.4%	175
1644	WMRA-FM	1,055,604	1,312,348	25,674	24.3%	176
1548	WHQR-FM	840,858	1,096,579	25,572	30.4%	177
1394	KUNI-FM	1,955,920	2,209,161	25,324	12.9%	178
1518	WBFO-FM	1,639,146	1,889,120	24,997	15.3%	179
1437	WSCL-FM	732,295	979,536	24,724	33.8%	180
1397	KIWR-FM	315,748	562,017	24,627	78.0%	181
1461	KAXE-FM	434,447	672,741	23,829	54.8%	182
1501	KUNR-FM	886,921	1,121,086	23,417	26.4%	183
1464	KFAI-FM	517,168	751,234	23,407	45.3%	184
1368	WSIU-FM	1,133,238	1,366,452	23,321	20.6%	185
1407	KRPS-FM	612,251	844,210	23,196	37.9%	186
1266	KMXT-FM	414,438	640,701	22,626	54.6%	187
1344	WGCU-FM	1,318,903	1,541,532	22,263	16.9%	188
1251	WTSU-FM	668,955	890,374	22,142	33.1%	189
1332	KSUT-FM	696,547	915,322	21,878	31.4%	190
1619	KETR-FM	384,734	603,176	21,844	56.8%	191
1441	WUMB-FM	1,220,467	1,438,578	21,811	17.9%	192
1532	WMHT-FM	998,914	1,213,456	21,454	21.5%	193
1445	WDET-FM	2,910,876	3,124,923	21,405	7.4%	194
1623	KTEP-FM	493,349	706,634	21,329	43.2%	195
1675	WXPR-FM	377,247	589,720	21,247	56.3%	196
1428	KDAQ-FM	691,041	902,820	21,178	30.6%	197
1430	WERU-FM	319,172	526,860	20,769	65.1%	198
1420	WBRH-FM	327,356	520,797	19,344	59.1%	199
1625	KPFT-FM	1,065,760	1,257,510	19,175	18.0%	200
1499	KUNV-FM	300,893	488,674	18,778	62.4%	201
1671	WORT-FM	434,947	622,595	18,765	43.1%	202
1550	KEYA-FM	291,423	477,242	18,582	63.8%	203
1611	WKNO-FM	1,507,153	1,691,841	18,469	12.3%	204
1269	KFSK-FM	342,551	524,497	18,195	53.1%	205
1363	WSVH-FM	651,697	829,753	17,806	27.3%	206
1450	WGVU-FM	457,130	634,597	17,747	38.8%	207
1592	WLCH-FM	267,458	441,482	17,402	65.1%	208
1609	WETS-FM	724,117	895,635	17,152	23.7%	209
1662	WVPN-FM	3,375,419	3,545,677	17,026	5.0%	210
1391	WVUB-FM	344,672	514,520	16,985	49.3%	211
1480	KJLU-FM	341,349	509,045	16,770	49.1%	212

ID	Grantee	2001 Total Direct Revenue	2011 Total Direct Revenue	Annual Growth in Total Dir. Rev '01 - '11	% Chg Total Dir Rev '01 - '11	Rank by Growth in Dir. Rev '01-'11
1632	KPVU-FM	377,075	543,541	16,647	44.1%	213
1422	KSLU-FM	299,890	465,274	16,538	55.1%	214
1573	KCCU-FM	561,561	723,269	16,171	28.8%	215
1365	KBSU-FM	1,210,585	1,367,520	15,694	13.0%	216
1565	WDPR-FM	626,643	783,320	15,668	25.0%	217
1545	WNCW-FM	1,007,693	1,161,401	15,371	15.3%	218
1396	KCCK-FM	729,593	876,249	14,666	20.1%	219
1503	WBJB-FM	361,814	508,460	14,665	40.5%	220
1386	WBNI-FM	913,617	1,058,391	14,477	15.8%	221
1582	KRVM-FM	423,341	568,017	14,468	34.2%	222
1556	WAPS-FM	469,371	612,601	14,323	30.5%	223
1265	KRBD-FM	464,032	604,541	14,051	30.3%	224
1345	WQCS-FM	1,205,999	1,345,919	13,992	11.6%	225
1285	KAWC-AM	430,080	569,266	13,919	32.4%	226
1618	KAMU-FM	493,745	629,103	13,536	27.4%	227
1283	KXCI-FM	426,905	560,259	13,335	31.2%	228
1572	KCSC-FM	557,342	690,578	13,324	23.9%	229
1252	WUAL-FM	1,183,729	1,315,252	13,152	11.1%	230
1477	KRCU-FM	455,506	582,837	12,733	28.0%	231
1378	WQUB-FM	398,809	525,722	12,691	31.8%	232
1436	WESM-FM	308,692	434,663	12,597	40.8%	233
1678	WIPR-FM	3,098,408	3,221,876	12,347	4.0%	234
1620	KEDT-FM	507,347	629,458	12,211	24.1%	235
1302	KZYX-FM	416,922	527,077	11,016	26.4%	236
1483	KXCV-FM	617,155	720,915	10,376	16.8%	237
1589	WDIY-FM	439,025	540,689	10,166	23.2%	238
1472	WURC-FM	292,410	392,112	9,970	34.1%	239
1485	KMST-FM	558,633	654,029	9,540	17.1%	240
1245	WBHM-FM	1,341,036	1,435,804	9,477	7.1%	241
1337	WMNR-FM	553,513	641,938	8,843	16.0%	242
1489	KTBG-FM	549,290	637,334	8,804	16.0%	243
1506	KANW-FM	493,012	576,031	8,302	16.8%	244
1533	WPPB-FM	1,501,235	1,581,888	8,065	5.4%	245
1617	KVLU-FM	414,492	492,209	7,772	18.7%	246
1542	WTEB-FM	943,233	1,019,704	7,647	8.1%	247
1510	KABR-AM	145,486	219,821	7,434	51.1%	248
1416	WMKY-FM	581,364	654,745	7,338	12.6%	249
1250	WVAS-FM	723,282	795,592	7,231	10.0%	250
1520	WNED-FM	1,876,225	1,946,768	7,054	3.8%	251
1276	KCHU-AM	310,245	379,601	6,936	22.4%	252
1465	KBEM-FM	865,816	932,596	6,678	7.7%	253
1424	KEDM-FM	407,830	474,237	6,641	16.3%	254
1541	WFSS-FM	352,019	418,095	6,608	18.8%	255
1287	KASU-FM	649,240	711,922	6,268	9.7%	256
1259	KDLG-AM	387,935	449,754	6,182	15.9%	257
1511	KENW-FM	339,736	398,484	5,875	17.3%	258
1328	KUVO-FM	1,085,937	1,144,416	5,848	5.4%	259
1313	KCBX-FM	1,421,824	1,478,253	5,643	4.0%	260
1348	WFIT-FM	337,930	393,366	5,544	16.4%	261
1341	WPFW-FM	1,552,188	1,606,515	5,433	3.5%	262
1256	KYUK-AM	614,524	666,596	5,207	8.5%	263
1277	KSTK-FM	349,878	399,804	4,993	14.3%	264
1247	WLRH-FM	804,924	853,196	4,827	6.0%	265

ID	Grantee	2001 Total Direct Revenue	2011 Total Direct Revenue	Annual Growth in Total Dir. Rev '01 - '11	% Chg Total Dir Rev '01 - '11	Rank by Growth in Dir. Rev '01-'11
1433	WBJC-FM	1,374,120	1,416,892	4,277	3.1%	266
1512	KTDB-FM	356,694	396,741	4,005	11.2%	267
1262	KHNS-FM	330,980	367,795	3,682	11.1%	268
1544	WSHA-FM	373,763	407,700	3,394	9.1%	269
1385	WNIN-FM	460,323	492,915	3,259	7.1%	270
1629	KNCT-FM	394,878	420,071	2,519	6.4%	271
1679	WRTU-FM	1,591,416	1,605,596	1,418	0.9%	272
1255	KBRW-AM	698,926	711,225	1,230	1.8%	273
1455	WBLV-FM	791,721	800,966	925	1.2%	274
1496	KVNO-FM	746,632	746,763	13	0.0%	275
1473	WJSU-FM	395,450	394,970	-48	-0.1%	276
1442	WICN-FM	396,024	391,683	-434	-1.1%	277
1682	WRTE-FM	326,300	317,895	-841	-2.6%	278
1353	WKGC-FM	493,387	477,556	-1,583	-3.2%	279
1569	WCSU-FM	373,877	354,466	-1,941	-5.2%	280
1666	WOJB-FM	343,196	321,527	-2,167	-6.3%	281
1596	WQED-FM	1,552,933	1,528,628	-2,431	-1.6%	282
1402	KBBG-FM	332,223	299,806	-3,242	-9.8%	283
1558	WOUB-FM	1,385,974	1,353,170	-3,280	-2.4%	284
1562	WCBE-FM	1,415,550	1,365,873	-4,968	-3.5%	285
1379	WVIK-FM	802,303	751,043	-5,126	-6.4%	286
1524	WCNY-FM	748,432	691,022	-5,741	-7.7%	287
1263	KBBI-AM	687,873	613,593	-7,428	-10.8%	288
1680	KPRG-FM	409,152	334,561	-7,459	-18.2%	289
1315	KUSP-FM	1,012,571	936,451	-7,612	-7.5%	290
1246	WJAB-FM	420,316	321,850	-9,847	-23.4%	291
1309	KRCB-FM	427,915	315,324	-11,259	-26.3%	292
1488	KSMU-FM	1,238,807	1,124,640	-11,417	-9.2%	293
1249	WHIL-FM	494,117	376,499	-11,762	-23.8%	294
1568	WGTE-FM	1,180,645	1,032,315	-14,833	-12.6%	295
1393	WOI-FM	2,556,540	2,400,087	-15,645	-6.1%	296
1624	KMBH-FM	352,264	186,181	-16,608	-47.1%	297
1475	WPRL-FM	500,810	313,211	-18,760	-37.5%	298
1425	WWNO-FM	1,243,530	1,048,639	-19,489	-15.7%	299
1358	WUGA-FM	885,762	677,321	-20,844	-23.5%	300
1314	KCSM-FM	1,869,525	1,658,757	-21,077	-11.3%	301
1449	WGVU-AM	404,814	185,883	-21,893	-54.1%	302
1453	WNMU-FM	993,971	773,080	-22,089	-22.2%	303
1497	KCEP-FM	1,052,590	827,935	-22,466	-21.3%	304
1440	WGBH-FM	13,405,950	13,125,181	-28,077	-2.1%	305
1474	WMPN-FM	1,604,709	1,317,664	-28,705	-17.9%	306
1639	KBYU-FM	1,928,473	1,580,023	-34,845	-18.1%	307
1638	KPCW-FM	1,396,758	893,567	-50,319	-36.0%	308
1457	KBPR-FM	2,679,413	2,149,241	-53,017	-19.8%	309
1346	WUFT-FM	2,523,266	1,935,219	-58,805	-23.3%	310
1361	WCLK-FM	1,912,386	1,277,654	-63,473	-33.2%	311
1342	WETA-FM	8,211,913	7,402,654	-80,926	-9.9%	312
1382	WILL-FM	3,636,359	2,784,166	-85,219	-23.4%	313
1295	KKJZ-FM	2,801,310	1,586,179	-121,513	-43.4%	314
	Total	**555,128,359**	**917,755,082**	**36,262,672**	**65.3%**	

Finding the next hundred million dollars

Prepared for the Third Public Media Futures Forum

By Mark Fuerst,
Director of Strategic Initiatives, *Current*

The Public Media Futures Forum Project is sponsored by the American University School of Communications and the USC Annenberg Center for Communications Leadership & Policy with editorial and research support from *Current*, the news source for people in public media.

Author's notes:

This analysis was prepared using the data provided to CPB by more than 500 public media licensees in their Annual Financial Reports. I want to express my appreciation to CPB staff for their assistance in providing access to this information and for their help in clarifying details in those reports, which have evolved over the last decade and a half.

I also want to thank the staff at *Current*, especially Steve Behrens and Karen Everhart, for their editorial guidance and patience in organizing the material and clarifying my own thinking about this subject. A shorter version of this material will be published in the July 9 edition of Current, in time for the annual Public Media Marketing and Development Conference in Seattle.

None of this work would have been accomplished without the support of the Wyncote Foundation and David Haas. Wyncote facilitated the move of Current from WNET, where it had been for two decades, to the School of Communications at American University. And David's financial support has allowed me to conduct this research and to develop the Public Media Futures Forums as a new and unique platform for system discussion.

Finally, I want to recognize the important example provided by the Station Resource Group in focusing system discussion on opportunity— rather than on limitations and problems—even in the face of significant challenges.

For those who question public broadcasting's ability to react strategically to changing business conditions, I've got good news.

A review of the last fifteen years of financial data shows that despite their widely divergent revenue trajectories, public radio and television have *both* made great progress in implementing structural and cultural changes needed to seize genuine revenue growth opportunities, some of which are generating $100 million or more in new system revenue *every year*.

In radio, improvements in basic membership practice increased member revenue by $104 million from 1995 to 2010; radio underwriting secured by licensees (stations) tripled between 1995 and 2008, from $60 million to $183 million before falling back to $157 million in 2010, another gain of $100 million.

And third, both radio and TV moved strategically and somewhat cohesively to exploit a set of "philanthropic revenues"— major gifts, endowment income and foundation fundraising—to increase system revenue by $186 million in new annual funding from 1999 to 2010.

This impressive result does not even consider the large volume of restricted "capital gifts," which are accounted for separately in the Annual Financial Reports (AFR) that licensees submit to CPB each year. Most of the analysis in this paper is based on a study of those Reports.

The growth in major gifts—donations over $1,000 from individuals—grew from changes in public media development practices, recommended repeatedly by task forces and supported by CPB and DEI over two decades. This strategic shift in development activity provided a safety net for public television when its membership and underwriting revenues plummeted from their dot-com era peaks. They reinforced public radio's revenue growth during the last decade, providing income to expand newsgathering capacity and laying the building blocks for multiplatform service strategies.

Growth in Philanthropic Revenues

	*1999	2010	
Radio			
Major Gifts	**3,636,449	47,425,758	43,789,309
Endowment Revenue	3,228,255	17,299,886	14,071,631
Foundation Support	34,135,863	75,084,792	40,948,929
Total for Radio	41,000,566	139,810,436	98,809,870
TV			
Major Gifts	13,087,477	66,437,672	53,350,195
Endowment Revenue	18,102,094	41,088,387	22,986,293
Foundation Support	117,690,097	128,624,968	10,934,871
Total for TV	148,879,668	236,151,027	87,271,359
Combined Radio and TV Philanthropic Support	189,880,235	375,961,463	186,081,228

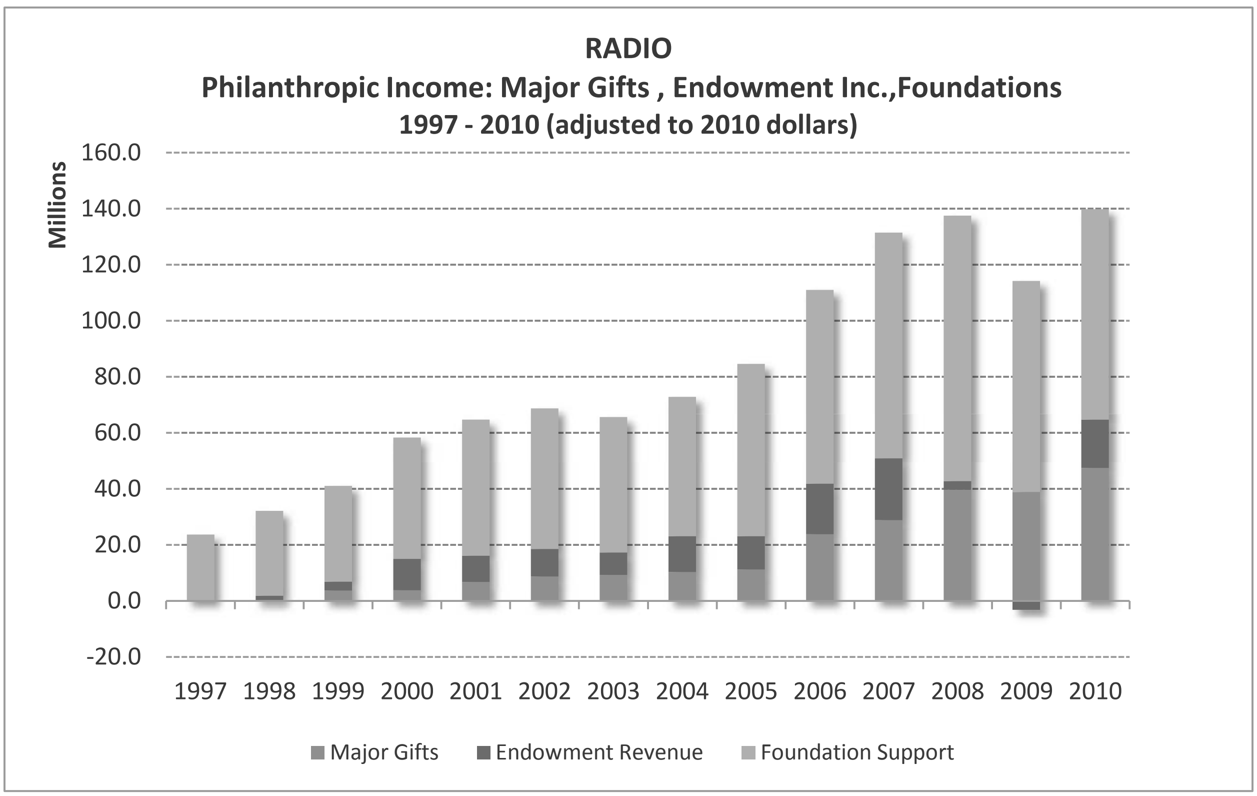
*1999 is the first year for which CPB Annual Financial Reports track major gifts.
**All figures are for licensees only. All figures are adjusted to 2010 dollars

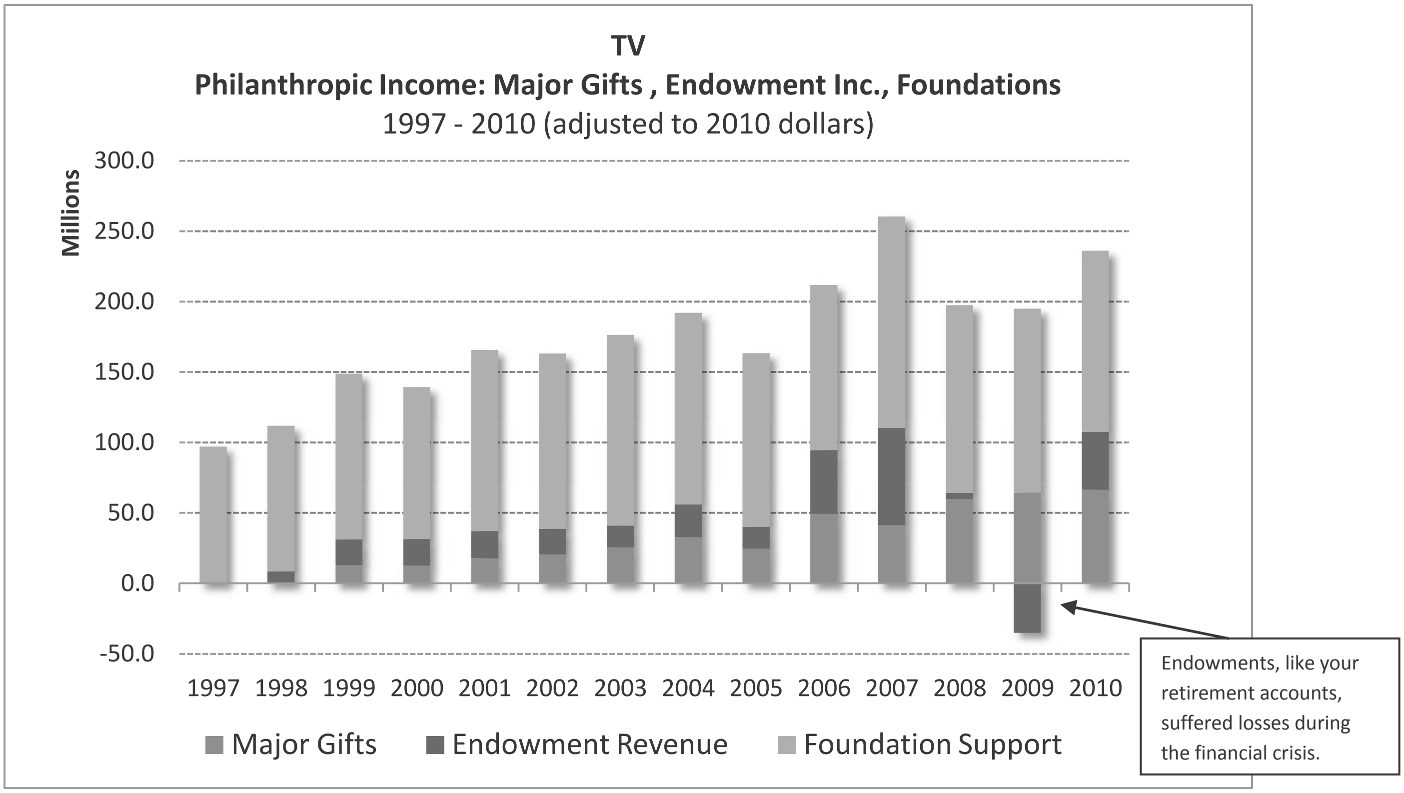
While most of these "philanthropic revenues" accrues to the largest stations in both radio and TV (see the charts on page 9), the gains provide compelling evidence that a systematic focus on a strategic opportunity can have a profound impact on public service media.

Without the concentrated efforts and investments of CPB, Development Exchange Inc., and station leaders, the public media system would be much weaker today.

Equally important, a survey of front-line development staff in public media indicated that *the continued expansion of major giving programs may be the single largest development opportunity for the decade ahead*. The upside could be another $100 million in additional annual revenue, if stations and networks can organize their staffing and coordinate their activities for optimal impact.

As I discovered in extensive interviews with public media development leaders in recent weeks, two thirds of the professionals we contacted see strong growth potential in major gifts fundraising and improvement in membership practices. That same group was less sanguine about the potential for out-sized growth through the improvement of "existing underwriting practices; those may have to change for real breakthroughs. And they were, overall, optimistic about the potential for new revenue models on digital platforms, but breakthroughs in that area are likely only after improvements in infrastructure and systems.





During the next Public Media Futures Forum, to convene in Seattle July 10 in advance of the Public Media Development and Marketing conference, we'll brainstorm and discuss this and other game-changing, strategic revenue opportunities for public media in the decade ahead.

Data Source: Annual Financial Reports, required from each licensee

To prepare for the Seattle forum and the survey of development leaders, I analyzed thirteen years of revenue data (FY1997 to 2010) submitted by public broadcasting licensees to CPB as a requirement for then the annual Community Service Grant.

The shift from very strong reliance on audience-sensitive income to a more balanced model of audience-sensitive *and* philanthropic revenues shows up clearly in those reports.

It is revealing to note that prior to 1998 the Annual Financial Reports did not track endowment income, and major gifts revenues first appear as a separate line item in the AFRs in 1999. Prior to that, *all* individual gifts, except capital fund contributions were recorded as "subscription/membership revenue" or "revenue from Friends groups."

The tracking reflected the reality in the system: In 1998, only 85 licensees reported *any* endowment revenue, totaling $7.7 million; major giving was similarly low. After a decade of major gift and foundation cultivation 197 licensees were reporting endowment income totaling $58.4 million in 2010.

In these thirteen years, licensees have moved away from labor intensive, small bore activities like auctions. In 1997 112 licensees reported $19.7 million in net auction revenue; by 2010, the number of licensees reporting auction income had dropped to 88 and total (net) auction revenue was $7.2 million. While auctions may have provided a weekend of excitement and community participation, stations were learning to deploy staffing more strategically. Identifying and cultivating major donors or working with foundations to find appropriate projects for grant support provided a much better return on effort than auctions.

In 2001, public TV's audience-sensitive "earned revenue" (a term we will use for memberships plus corporate underwriting) was already in decline. Membership income peaked at $491 million in 1999 revenues, and underwriting peaked a year later at $347 million. As the earned revenue decreased over the decade, major TV stations stabilized their operations by successfully focusing on major gifts and foundation grants.

As this was happening, large market and networked radio stations also expanded their fundraising portfolios with major gifts and foundation grants—but without the disruptive losses in earned income that hit public TV.

The strategic shift to philanthropic fundraising, jump-started in the late 1990s through the concerted efforts of system leaders and stations, appears to have altered the basic business model of public television: From 1999 to 2010, television licensees

Top 20 TV and Radio Licensees in Major gifts Reported on CPB Annual Financial Reports in 2010

TV Licensees					Radio Licensees			
Licensee	City	Major Gifts	Donors		Licensee	City	Major Gifts	Donors
WGBH-TV	Boston	$7,674,154	1,056		WGBH-FM	Boston	$3,009,916	524
KVCR-TV	San Bernardino	$5,746,717	1		WNYC-FM	New York	$2,935,133	1,398
WNET-TV	New York	$4,984,608	1,594		KQED-FM	San Francisco	$2,345,623	1,195
KCET-TV	Los Angeles	$4,239,888	503		WBUR-FM	Boston	$1,923,066	777
KBYU-TV	Provo	$4,154,454	111		KSJN-FM	Saint Paul	$1,873,817	783
KQED-TV	San Francisco	$3,584,203	1,644		WBEZ-FM	Chicago	$1,837,229	999
WPBT-TV	Miami	$2,138,903	323		KPCC-FM	Saint Paul	$1,796,159	735
KPBS-TV	San Diego	$2,117,093	531		KVOD-FM	Centennial	$1,474,529	517
WETA-TV	Arlington	$2,021,683	843		KOPB-FM	Portland	$1,276,541	756
KLRU-TV	Austin	$1,512,561	520		WKCP-FM	Fort Lauderdale	$1,248,218	81
KTCA-TV	St. Paul	$1,511,825	616		KUSC-FM	Los Angeles	$922,402	339
WTTW-TV	Chicago	$1,430,320	526		KCRW-FM	Santa Monica	$872,724	490
WQED-TV	Pittsburgh	$1,386,465	13		WHRV-FM	Norfolk	$837,412	212
OPB	Portland	$1,149,529	744		KUOW-FM	Seattle	$791,014	615
KUON-TV	Lincoln	$1,083,084	13		WXXI-FM	Rochester	$720,602	206
KUHT-TV	Houston	$998,212	445		KPBS-FM	San Diego	$712,988	228
KERA-TV	Dallas	$945,505	416		WUNC-FM	Chapel Hill	$645,674	316
KVIE-TV	Sacramento	$793,788	215		KERA-FM	Dallas	$631,573	378
WTVS-TV	Wixom	$766,527	255		KUHF-FM	Houston	$610,969	367
KCTS-TV	Seattle	$716,765	166		WAMU-FM	Washington	$605,460	342

increased annual major gifts/bequests from just under $3.6 million to $66.4 million. (Both figures adjusted to 2010 dollars and exclude capital gifts.) By 2010, the TV endowments, many of them built by major gift fundraising, were supplying an additional $41.0 million in annual income in 2010.

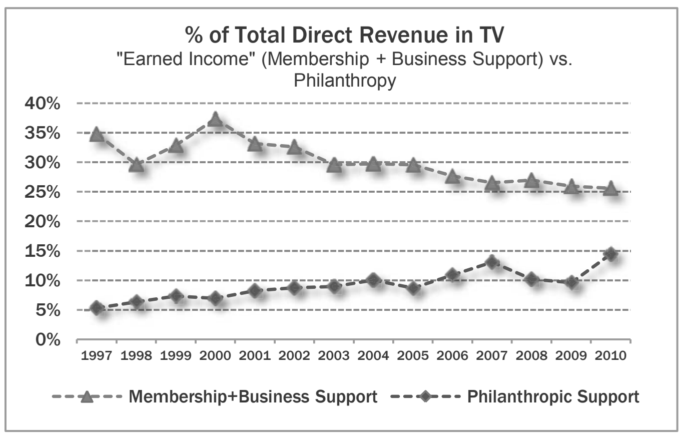
Among radio stations, major gift revenue grew by 1204% from just $3.6 million in 2000 to $47.4 million in 2010, with radio station endowments generating an additional $17.3 million in 2010.

The major gift effort was complemented by increased emphasis on foundation support, again with very impressive results for both TV and radio.

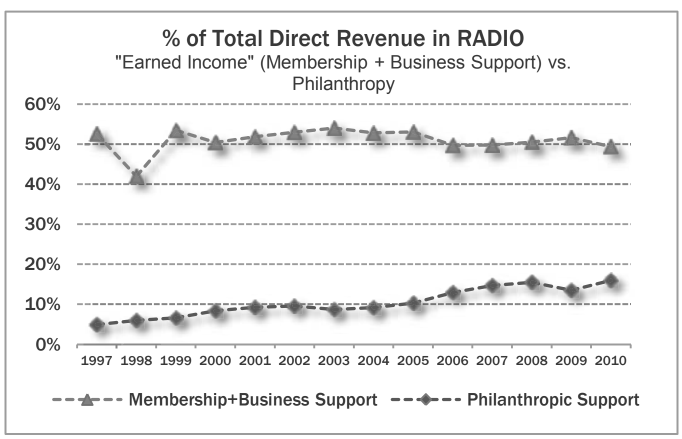
For decades, foundation grants have been a large part of public television's revenue picture, nationally and locally. Consequently the growth in TV of foundation support has been modest: total foundation revenue for PTV licensees grew from $117 million in 1999 to $128 million in 2010, again, adjusted for inflation and excluding capital gifts. The picture in Radio is more dramatic: in the same period, radio foundation support *doubled*, from $34.1 million to $75.0 million.

The expansion of philanthropic revenue is already showing up in the content and service of public broadcasting, and a trend that is likely to continue in the decade ahead. In TV, revenues from major gifts and foundation support have bolstered community-engagement projects such as the CPB-backed American Graduate initiative that seeks to improve high school graduation rates, and local projects aimed at assisting homeowners struggling with excessive mortgage debt.

Neither of these projects "pledge well," at least not so far, but they are well suited for the philanthropic fundraising emphasis at many public TV stations.



Although one can only imagine where the public TV system would be if its membership and underwriting revenues had stabilized — or even grown — local stations have become less reliant on audience-sensitive income. This in itself may be good news for those who have long complained about *Lawrence Welk* reruns airing on local stations or the qualitative differences between public TV's regular schedule and its pledge fare.



The shift from earned income to philanthropic support is clear and, potentially, profound. In 1997, audience-sensitive revenues comprised 35 percent of public TV's total annual income; by 2010, they provided just 25 percent. Philanthropic revenue (major gifts, endowment income and foundation support) increased in a reciprocal fashion, from 5% in 1997 to

15% in 2010.

In radio, the income growth from major gifts and foundation grants have financed the expansion of local news operations and facilitated the transition to multi-platform news publishing. The cost of these investments may eventually be recovered by expanded memberships or underwriting, but audience sensitive income from any digital service remains elusive.

It will take another decade before the long-term impact of this revenue shift plays out. Whatever happens, we can say this: The growth of major gifts, endowment income and foundation support represented an enormous opportunity that was identified by development leaders at the close of the 1990's. Stations and networks, DEI and CPB all combined to change the culture of public media fund raising to capture this new revenue.

Revenue Expansion at a High Cost, Concentrated at the Top

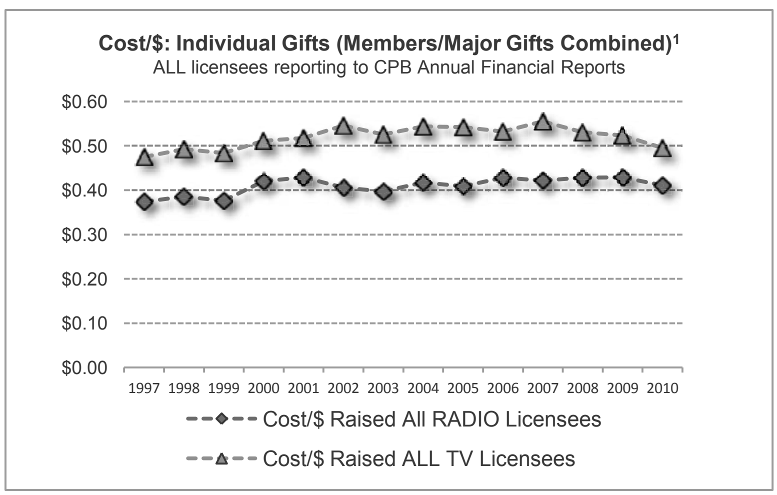
With all this good news about deep pockets of growth at least two issues come immediately to the fore: First, the gains cited above are all described in *gross* revenue terms. So, it is natural to ask: how much was *net* revenue increasing? And second, many people reading this paper will wonder how this new, philanthropic revenue is distributed across the 500 TV and radio licensees.

The answers to both questions go to the heart of major system issues that continue to elude easy solutions.

With the information available, we can only provide a crude measure of net revenue. The CPB Annual Financial Reports break development expenses into two large categories, "Fund raising and membership development" and "Underwriting and grant solicitation." There is no indication of how much money was spent on basic memberships and how much was devoted to major gifts.

Still, using those figures, we can get some insight into fund raising costs. Combining the total of membership/friends revenue with major gifts, we can calculate a crude cost per dollar raised for "individual gifts" (member revenue + major gifts and bequests).

In 1999, TV stations, reported spending 47 cents in "fund raising and membership development" for each dollar-raised of individual gifts. That ratio peaked in 2007 at 56 cents/dollar. The trend in radio was similar, but a bit lower. In 1997 the 370 radio licensees reported spending 37 cents in fund raising/membership development costs for each dollar of combined individual gifts; the radio numbers also peaked in 2007 at 43 cents/dollar.



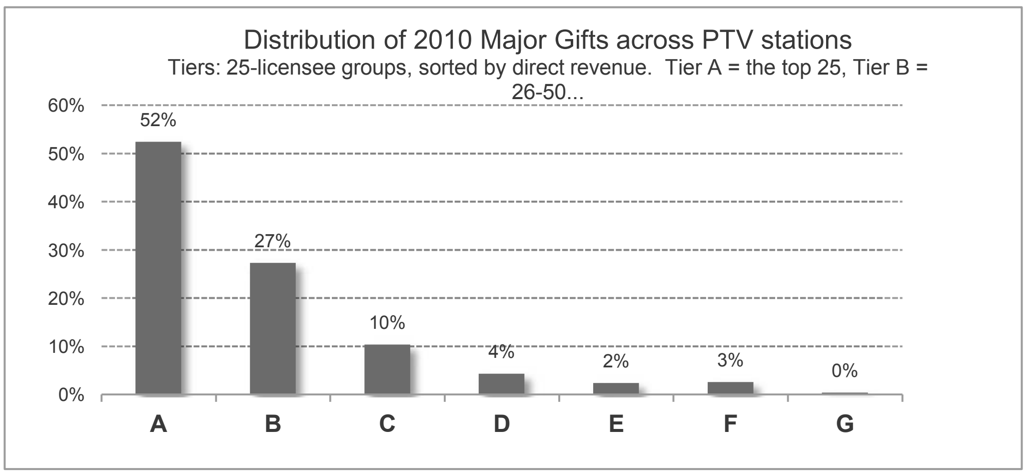
[1]Calculated using Annual Financial Reports Members/Friends Revenue + Major Gifts reported on Schedule A divided by "Fund raising and membership development" Expense reported on Schedule E.

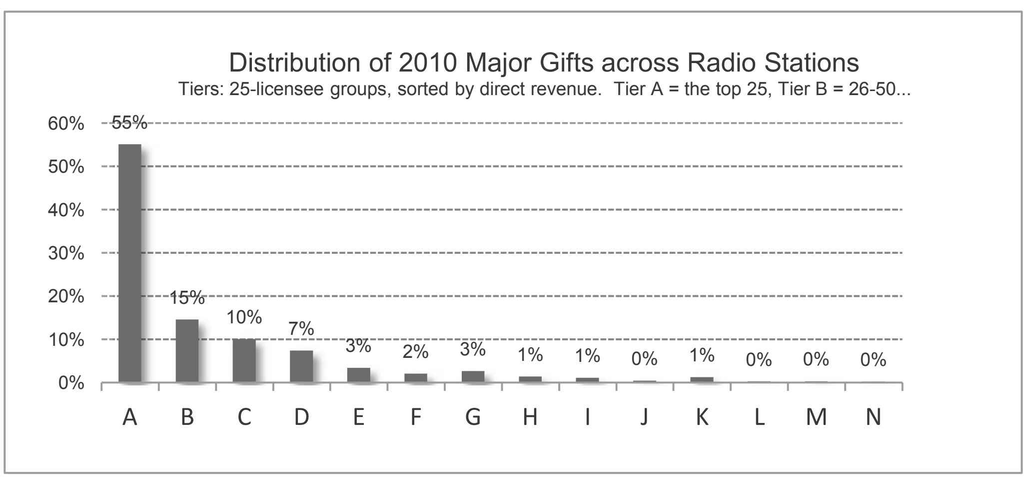
This ratio of fundraising expenses to dollars raised is only crude estimate taken over hundreds of stations whose individual cost structures vary substantially. The Annual Fundraising Reports don't provide enough detail to be more precise.

Still, the results are surprising. The unexpected feature of this analysis is not the specific value, which, at 50 cents per dollar raised in TV is uncomfortably high. The surprise is that these system-wide ratios barely changed over 15 years, despite the increasing volume of major gift revenue, which one might have expected to be less costly. In fact, the cost per dollar for "individual gifts" trended up.

Taking up the second question, the distribution of new philanthropic revenue, the results are more in line with expectations. As shown in the graphs below in 2010 the largest 50 PTV stations[1] took in 80% of all major gift dollars. The smallest 100 TV stations took in 10%. In Radio, the distribution was slightly less concentrated: the largest 50 licensees took in 70% all major gift dollars in 2010. The smallest 200 stations took in 7.5%

The Major Gifts Revenues are Concentrated in the Largest Licensees





[1] Ranked by total direct annual revenue

Both questions—the cost of fundraising and the distribution of revenues—are intimately connected to issues of long-term sustainability, optimal allocation of resources and the need for reasonable efficiency in a time of fiscal austerity.

What's the next game-changer?

Over the last month we interviewed 15 public broadcasting executives and polled another 27 speakers who will appear at the DEI conference to determine where they see the major areas for growth in the coming decade.

Their responses, which will be explored in more depth at the July 10 Forum, emphasized

1. A broad agreement on the potential for continued growth in philanthropic and member revenues,
2. Continuing concern about the high cost of fundraising and the varying of *capacity* to conduct efficient fund raising across the system;
3. Somewhat lower expectations about the potential for strong expansion of basic station underwriting, and
4. General optimism about the potential for digital operations, with no clear picture on how to harness new media revenues in the near-term.

<u>Extend the focus on major gifts</u>

Without question, major gifts will continue to be an area for outsized revenue growth. Two-thirds of those who contributed suggestions, through interviews or surveys, identified major giving as their first or second priority for revenue expansion.

Many of the executives we contacted believe major gift work is just beginning to flourish and most see enormous potential that can be exploited by wider adoption of basic techniques and a continued emphasis on training.

Training is a key. Norm Silverstein, CEO at WXXI TV/AM in Rochester suggested that "The best thing CPB ever did was fund the Major Giving Initiative," and he immediately moved on to express his support for a renewal of that effort. Steve Ramsey, g.m. at the smallest station we contacted, KBCS-FM in Bellevue, WA, was just as convinced about the importance of major gifts and the need for training support.

Over the last decade, hundreds of development professionals and station chief executives received basic training in major gifts fundraising, and the practices they learned are now embedded in the culture of local stations. The traditional notion of a general manager who is deeply involved in daily operations is receding as the concept of the "g.m. as civic leader" emerges. In addition, more stations have adopted the practice of involving board members in major gift fundraising.

These changes coincide with the demographic trend that points to a huge opportunity in major gift fundraising: the aging of millions of baby boomers, many of whom are already donors to public radio or TV and the estate planning that will take place as they approach retirement.

"We know the audience has the wealth indicators," wrote Mikel Elcessor, g.m. of Detroit's WDET and a DEI Board member. "What we need to do now is invest in and behave in a manner that is consistent with the enormity of the opportunity."

Fundraising consultant Helen Kennedy suggested that public stations set a specific goal for expanding their major donor programs. After looking over the Target Analysis fundraising reports of her clients, she said major donor programs often reach no more than .6 percent of the contributors in a station's donor file. "I certainly think that many of these stations could aspire to a goal of 1% of their total membership in the major donor category," she said.

Rethink Basic Membership Approaches: Away from Annual Gifts to Sustainers

Other respondents cited big upside potential in strengthening the basic membership programs at local stations by supplementing annual gift programs with "sustainer programs," which involve monthly donations automatically paid by credit card or a bank transfer. Many stations have already established sustainer programs, but fundraising consultants Barbara Appleby and Valerie Arganbright, who built a highly successful program for Minnesota Public Radio, are now recommending that stations restructure and refine their programs to make recruitment and retention of sustainers their top priority. (See Appleby's commentary that will be published in the next issue of *Current*).

Behind the optimism for both major gifts and membership expansion we also sensed a continuing concern about the high cost of membership fundraising, especially in TV, where premium-driven pledge drives have become the norm.[2]

In Underwriting: Stop Selling Your Station, Begin Selling the (Collective) Audience:

The most compelling suggestions we received for improved underwriting called for a radical reorientation, away from selling spots on your station to packaging and selling the whole public radio audience in each market. This approach will be championed at the PMDMC by Grey Smith, Director of Corporate Support at Public Radio Partnership in Louisville.

In Smith's carefully crafted presentation, provided to us in advance of the PMDMC, he uses his own success in Louisville to illustrate the benefits of providing businesses and agencies with ease of access to the whole public radio audience across all stations in each media market. "Put old rivalries aside," he wrote. Stop the race to the bottom, where stations vie for the least restrictive language and maximum spot length. "Put your rates together and create a [shared] Public Radio Rate Card."

This is what Smith has been able to do in Louisville where the Public Radio Partnership brought three formats (News, Classical and AAA) under a single management structure. Representing all three formats, Smith secures 90% of the Louisville "ad market share" (= the same share of ad spending equal as your station's or your group of stations' share of listening). For PRP, that adds up to a take of $1.8 million out of $45 million in radio total revenue in Smith's home market.

Applied to a large market like Philadelphia, Smith sees "$11 million per year in new revenue divided between three stations (WRTI, WHYY and WXPN)."

[2] Even admitting the crude simplifications used made to calculate the ratio of "fund raising and membership development costs" to "individual gifts" on page 7, it is hard to escape the sense that pubcast membership programs are costly operations. The Better Business Bureau currently recommends a cost/dollar raised ratio of no more than 35% of the relevant revenues. Our review of the station AFRs seemed to indicate that many stations, especially smaller stations, are operating well above that level.

Extended to the entire system, Grey's strategy could be the foundation for outsized revenue growth, perhaps on the order of major gifts.

Smith's approach was strongly supported by Jim Taszerack, Jr., Principal at Market Enginuity, which provides out-sourced underwriting sales support for some of public media's most progressive stations, including KCRW-FM, Ideastream FM/TV (Cleveland), KERA FM/TV (Dallas) and both KPLU-FM and KING-FM in Seattle.

Digital Media: The Systems are NOT in Place

The most perplexing area of opportunity is digital media, an area where many of our respondents sensed almost unlimited, long-term growth. Unfortunately, very few people were able to describe the tactics needed to capture that potential.

Many stations continue to see digital as "high expense, low return," at least for now. This has not stopped the most ambitious stations from making large online investments. (And why not? After all, pretty soon everything is going to be online.)

But others question both the strategy and the tactics. One prominent consultant, who asked to be anonymous, chuckled as he called "digital the new opera." Stations feel that they should be doing this, but they're not sure what they're getting from it, either in service or in financial returns.

Regardless, a full 33% of our poll respondents placed "the development of revenue streams from digital media" as one of their top two priorities for revenue expansion.

Tim Olson, VP for Digital Media and Education at KQED, and one of the most highly regarded leaders in this sector, sent an excellent, compact summary of investment opportunities that he felt could bring significant returns. His suggestions included software and infrastructure improvements to replace "relationship management systems… [created prior to] the modern web." In Olson's view, the legacy systems "lack key features, such as real time processing and integration to social networks." He is optimistic about the potential for progress, but admits that "the transition is complex and bumpy." Part of the infrastructure problem cited by Olson is "identity management applications" to track online interaction. "Public broadcasting needs a way for us to pass preferences, playlists, conditional access and other parameters" between the diverse systems that provide public access.

In raising these issues, Olson was well aware of both technical and the political challenges, citing access to the end-user data as "the third rail of public media."

Olson's views were echoed by Paula Nemzek, Membership Manager at KCTS9 in Seattle. Nemzek agreed "with the emphasis on sustainers and major gifts," but suggested that "online is obviously going to be more important as we go along." She was particularly concerned about the existing methods of selecting and fulfilling pledge premiums, which "are eons behind the Amazon shopping experience in terms of gratification – a huge problem that will only grow bigger."

100 million dollar opportunities: They were there in 1995 and, most likely, still there in 2012

Very few of the people we contacted in the course of this project recognized that both public radio and TV had in the last decade developed *any* revenue opportunities worth a hundred million dollars a year in new, unrestricted operating revenues.

Why? Well, the gains were distributed unevenly. Even at the largest stations, it's hard to appreciate the enormity of a collective success. Of course, as this was happening, CEOs were very busy fighting off or reacting to the loss of tax support, in the states and on Capitol Hill. And every station at every level of radio and TV was hammered by the financial crisis that emerged in 2007-2008, the effects of which are still with us.

Still, we could see the collective gains embedded in Annual Financial Reports from 500 radio and TV licensees. We found **three** one hundred million dollar advances: in radio underwriting; in radio memberships; and in "philanthropic revenue"—major gifts, endowment income, and foundation support—across both radio and TV.

The threats that distracted people from sensing those successes have, if anything, intensified. The competition, which might reverse those gains is also likely to increase in the coming decade. But new or expanded opportunities are emerging.

Collecting suggestions for the upcoming Forum on the Future of Public Media, we found at least three areas that might, if properly managed, become the next set of outsized opportunities for the 2010's.

- If we use Helen Kennedy's observations as a guide, then it's true: <u>major gift programs *are* just getting started</u>. If few or no stations have even 1% of their donors in the major gift category, the upside is large indeed.

- <u>Updating annual gift program to focus strategicially on sustainers</u> may also have potential upside on the same scale as major gifts. Sustainer efforts have already started. What remains to be seen is: Can sustainer work endure and build on its recent success? How hard will it be to reorganize the membership department culture so sustainer programs are more than another box on the gift ladder?

- Gray Smith's call to "stop selling your station and start selling the whole public radio audience," is a third suggestion, that, if we believe Gray's math, might be worth $5-10 million in the largest markets and $500,000 to a million dollars per market in dozens of smaller cities. Those numbers could add up to the kind of outsized business support opportunity that public broadcasters will need to fund an aggressive expansion of news, nrw forms of community engagement and digital service development.

The big question mark is digital media. No one doubts that it will grow, probably overtaking legacy broadcasting as the dominant service platform. So, the upside revenue opportunities in this sector may be—no, they *have to be*—the largest and most important of all.

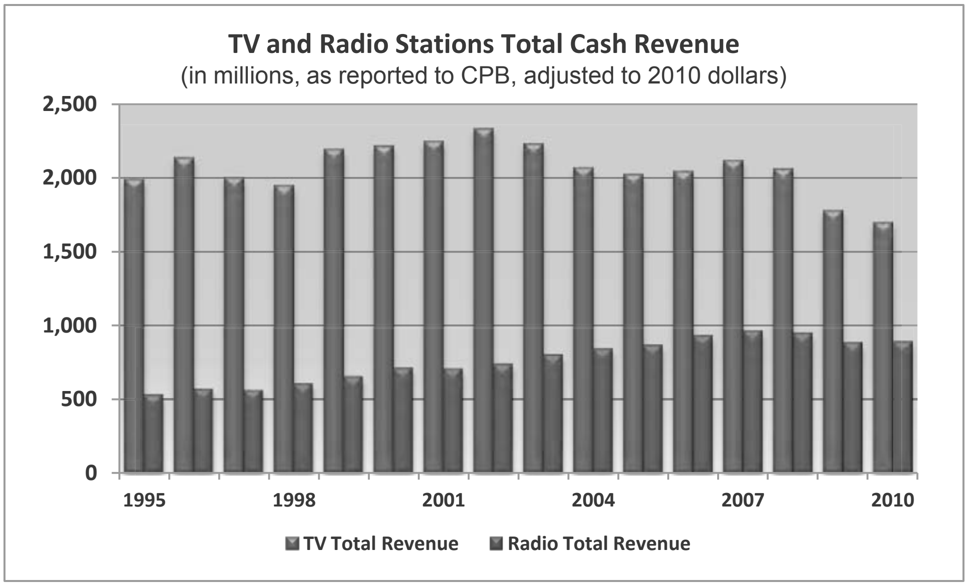
But exploiting the upside potential for digital media is probably out of reach until a leadership group hammers out the kind of agreements and commitments that characterized all of the landmark advances of public broadcasting over the last thirty years. Those landmark events and decisions include the development of national program services in both radio and TV, the launch of the satellite system, and more recently, on a smaller scale, the decisions to invest in and emphasize major gift training throughout the system.

That last decision is now paying some very handsome dividends.

Broad Trends in System Financial Development 1995 – 2010

In 1995, Total PTV licensee revenue stood at just under $2 billion. Those revenues peaked in 2002 at $2.33 billion, then declined, with a slight recovery in the mid 2000's. PTV licensees ended the decade with $1.69 billion, down 27.2% (-$635 mm) from 2002.

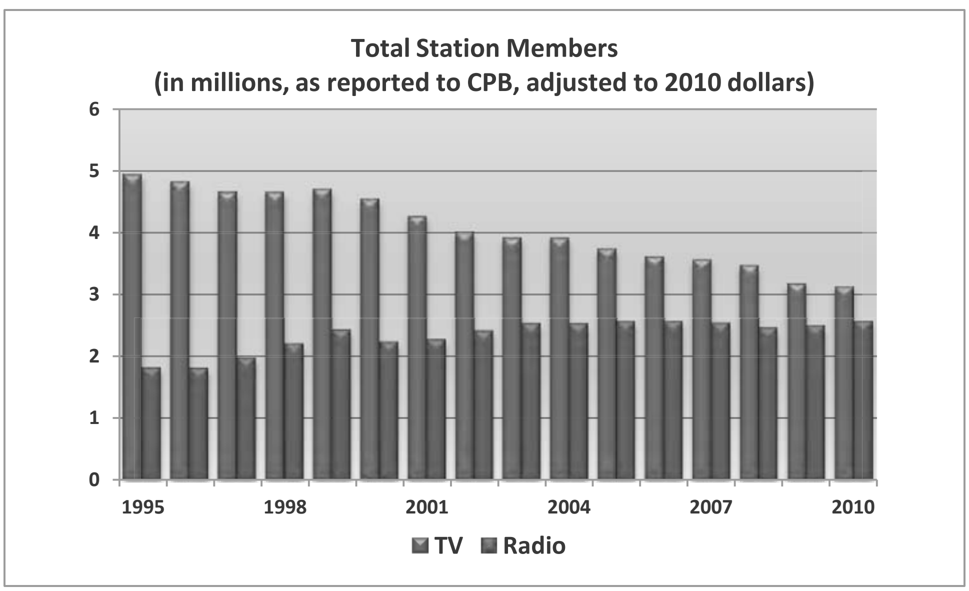
Radio licensee revenues in 1995 were $444 million. From that point, radio revenues grew steadily, doubling by 2006 and peaking in 2007 at $957 million, then falling back -7.6% (-$73 mm) to end the decade at $884 million.



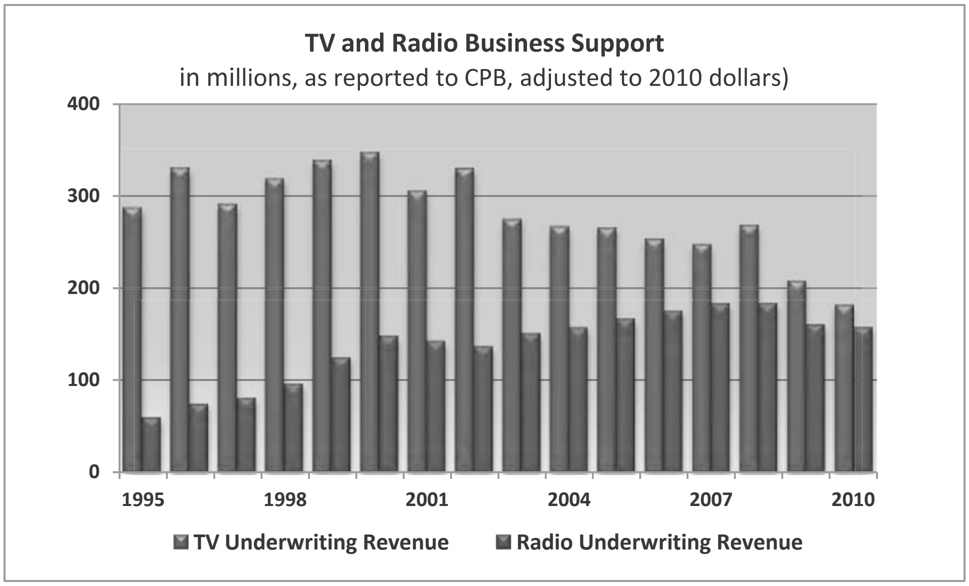
Major Trends in the last 15 Years

The four most significant financial developments in public broadcast finance during this period are:

- The deterioration of TV membership files, going back at least as far as 1995;
- The sharp decline of TV corporate underwriting after 2000;
- The steady growth in audience-sensitive revenues within radio; and
- The expansion of philanthropic support in both radio and TV, discussed above.



Between 1995 and 2010, PTV stations lost 37% of their member from 4.94 million to 3.13 million. In the same period, radio membership files grew 41% by from 1.81 million to 2.55 million.



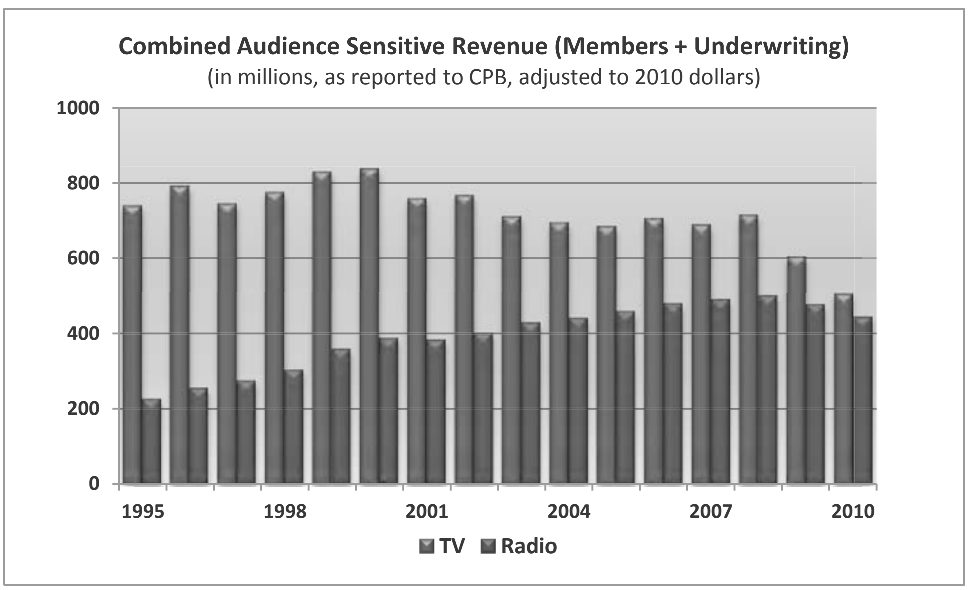
TV business support peaked in 2000 at $329 million (adjusted); it then fell as the decade wore on. By 2010, business support had fallen -48% to $181 million. Radio underwriting tripled from $60.5 million in 1995 to a peak of $183 million in 2008, then falling back -14% (-$26 mm) by 2010.

TV and Radio are approaching parity in Audience-Sensitive Revenue

As a consequence of these trends, the financial dimensions of the public broadcasting system are substantially changed in this 15 year span.

TV entered the period with $738 million in combined audience-sensitive "earned revenue" (= memberships plus underwriting), more than three times the volume in radio ($226 mm).

By 2010, the volume of this "earned revenue" in TV had fallen by -31.6% (-$233 mm).



Radio "earned revenue" was moving in the opposite direction. Combined memberships and underwriting nearly *doubled*, from $226 million in 1995 to $442 million 2010 (up $215 mm). Consequently, by 2010, the economy of earned revenues in TV was just 12% larger than earned revenues in radio.

Note: The graphs in this Appendix are based on data from the annual summaries of system financial reports published by CPB for each fiscal year. The totals vary slightly but not significantly from data used in the accompanying article, which was taken directly from the 500+ Annual Financial Reports filed each year, 1997 – 2010, by stations receiving CPB Community Service Grants.

Individual Giving to Public Radio Stations

Analysis, Theory, Proven Practices, and Good Ideas to Raise More Money

Thomas J. Thomas
and Theresa R. Clifford

June 2008

STATION RESOURCE GROUP
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Individual Giving to Public Radio Stations

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How listeners listen and what they believe – about the value of the programming to them and the way the station is supported – are powerful predictors of their giving to public radio.

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Successful individual giving programs are based on relentless attention to building the number of givers. Proven practices for keeping current givers and finding new ones yields steady returns.

The on-air pledge drive 14

With so much at stake – hours of air time and thousands of dollars – we ought to do better. It is often a matter of focus, discipline, and thinking more about the listener than ourselves.

Work to the net 17

It is net revenue – the dollars left after accounting for the cost of fundraising – that can be applied to a station's public service.

Tracking the top performers 20

Top performing stations raise the majority of their money off-air, build their volume of giving transactions, and are highly effective at securing mid-level contributions.

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Giving programs aimed at $1,000+ annual donors are bringing substantial revenue to some stations and hold the potential for over $30 million in annual station support.

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The size of your audience frames your potential, your choice of format makes a huge difference, and consistent reliable performance in both programming and development will shape your results.

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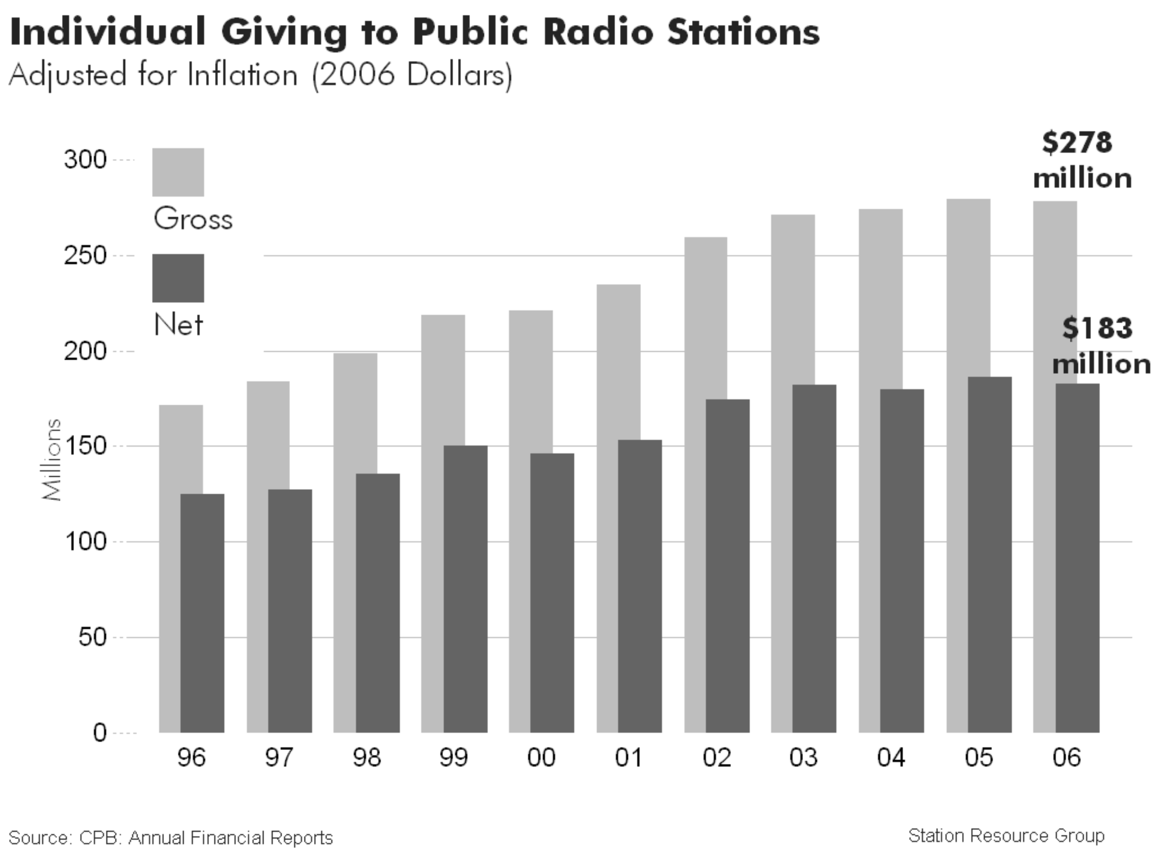
Introduction

Individuals gave over $278 million to their public radio stations in 2006, a testament to the value public radio delivers and the very personal connection stations have established with millions of listeners. Individual giving is far and away the most important source of public radio's revenue: 80% more than program underwriting and other contributions from businesses, 80% more than support from all levels of government, and more than double the cash and indirect support from educational institutions.

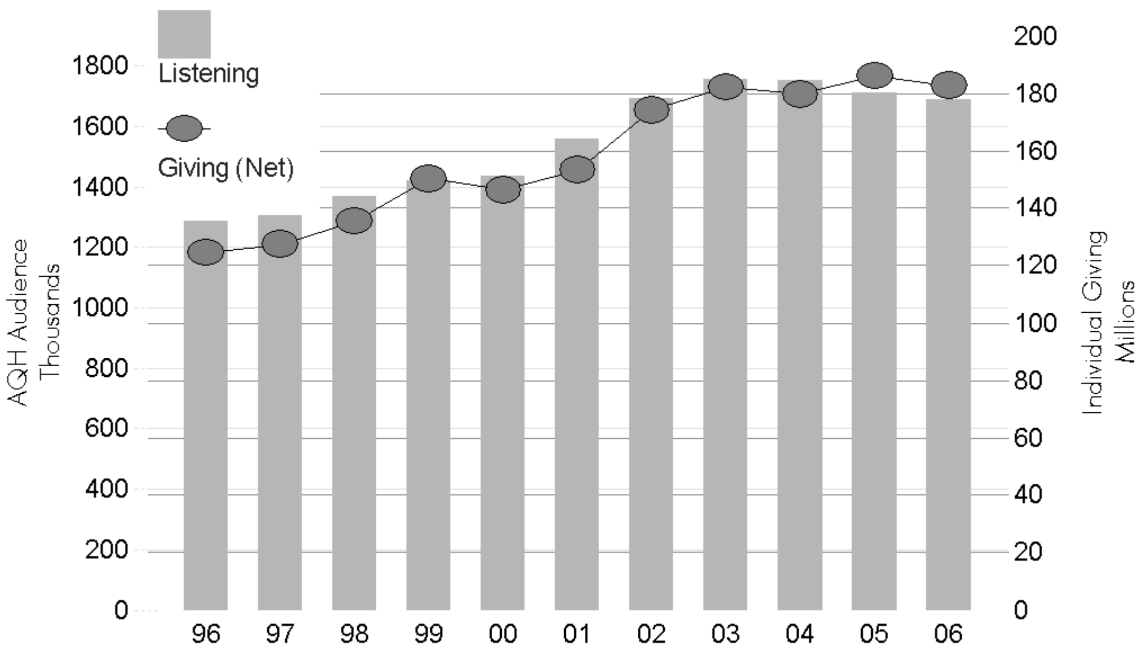
But the impressive sum for 2006 was smaller, in real, inflation-adjusted dollars, than the year before. Not a lot less – only $1 million or 0.4% – but less all the same.

When we examine net income, what's available after backing out the cost of fundraising, the total was $183 million. The year-to-year change in net income was a drop of $3.4 million or 1.8%.



Public Radio's Listening and Giving

Listening Mon-Sun, 6am-Midnight, Persons 12+
Giving Net of Costs and Adjusted for Inflation (2006 Dollars)



Source: Arbitron Nationwide, Radio Research Consortium; CPB Annual Financial Reports

Station Resource Group

We should not be surprised at these recent results in individual giving. There is a close and powerful link between listening and giving and public radio's listening (average quarter hour audience) has been edging downward since 2003.

> **Until we sort out strategies that will drive a new arc of audience growth, public radio's continuing fiscal strength will turn on increasing the <u>productivity</u>, <u>efficiency</u>, and <u>effectiveness</u> of our fundraising.**

This is a difficult but realizable goal. A close look at the chart above reveals that public radio's net revenue from individual giving grew well ahead of the growth in listening from 1996 through 1999: 21% vs. 10%. There was both a sense of urgency – repeated proposals to reduce federal support significantly – and a collective focus – the Public Radio Future Fund – that helped make that level of performance possible. Similar urgency and focus are called for again.

Meeting this challenge is critical. Stations' aspirations for wider reach and deeper impact move ever forward and the costs of realizing those aspirations grow steadily larger. As important as federal support and institutional subsidies may be, stations' own efforts in individual fundraising will likely be the principal driver of a larger success for our field.

To prepare this report we have worked through massive amounts of station financial and audience data, sifting, sorting, correlating, segmenting, and sometimes just staring in search of informative patterns, evidence of best practices, and a helpful framework for action. The data tell a powerful story of both accomplishment and unrealized opportunity for continued financial growth.

We will review a broad array of tactics – basic membership and pledge drives, building mid-range donors, major gifts, and more. The various tactics we present have their respective rhythms, disciplines, and metrics, but we see all the elements as connected. As development consultant Helen Kennedy says, ―Giving starts with programming and ends with planned gifts and everything else is a step in between." She and colleague Jim Lewis write:

> ―The underlying strategy for the development of individual giving is ‗get ‗em, keep ‗em, upgrade ‗em.' But underneath this simple phrase is a complex development system we call the donor continuum which employs a well-coordinated tool box of development techniques with both long and short-term goals.
>
> ―One of the big weaknesses we see in development programs is the lack of coordination among, or even awareness of, the various steps along the way. One of the characteristics that we have observed in highly successful individual giving programs is embracing a little discussed best practice, the carefully coordinated development program with synergistic goals to which development staff are held accountable.
>
> ―There are many benefits of such a highly coordinated program: greater awareness of the organization and its value to its community, higher revenues, an awareness of the environment in which the station operates. . . . In various scenarios we have developed, as mid-level and major giving improves and the various giving levels are no longer seen as destinations, net revenue improves, in spite of the higher costs that are associated with more personal development relationships."

Each station must ultimately shape its own fundraising goals, strategies, and tactics. We believe, however, that most stations can realistically challenge themselves to achieve levels of individual giving well beyond current performance – even at current levels of audience service. The future of public radio's public service depends upon doing so.

–Thomas J. Thomas
Theresa R. Clifford

It starts with listening

Individual giving to public radio starts with listening. In our focus on the latest fundraising strategies and tactics we sometime forget this simple fact.

While the number of listeners to a station is hugely important in setting a framework for giving – small audiences simply do not translate to big bucks – *how* those listeners use the station and *what they believe* about the station are critical in separating those who give from those who do not give.

Extensive research and analysis at the listener level have yielded powerful insights about public radio‘s listener supporters. Much of this knowledge has been gleaned from studies that recontact the people who filled out Arbitron diaries, allowing an integration of data about their listening (from their diary) and information about their values, beliefs, and behavior (from their recontact survey).

In *Audience 98 – Public Service, Public Support* David Giovannoni, Leslie Peters, and Jay Youngclaus presented a statistical model that predicts giving behavior of individual public radio listeners. They offered a pithy summary of the model:

“If a person:

- ☑ listens to public radio
- ☑ tunes in regularly
- ☑ values what he hears
- ☑ believes he needs to do his share
- ☑ has money to give

. . . that person is likely to give some to you.”

Four of the five factors are driven by a station‘s own performance.

George Bailey, in *Public Radio Tracking Study*, *Turning Listeners into Givers* (2003), affirmed and updated the Audience 98 model: He wrote:

→ We confirmed that **public radio givers can be predicted primarily from patterns of listening**. Reliance may be measured by purely behavioral variables like loyalty to a public station and becoming a core listener.

→ Personal importance is an internal realization. **Individuals who not only listen but also sense that public radio has become important in their lives are more likely to become givers.**

→ **Education adds predictive power** to our model. Half of public radio givers have earned an advanced degree, an indicator of their socially responsible values and upscale lifestyles.

→ **Belief that public radio depends on listener support adds some predictive power** to our model, but the strong predictors are behavioral reliance upon public radio along with a sense of personal importance.

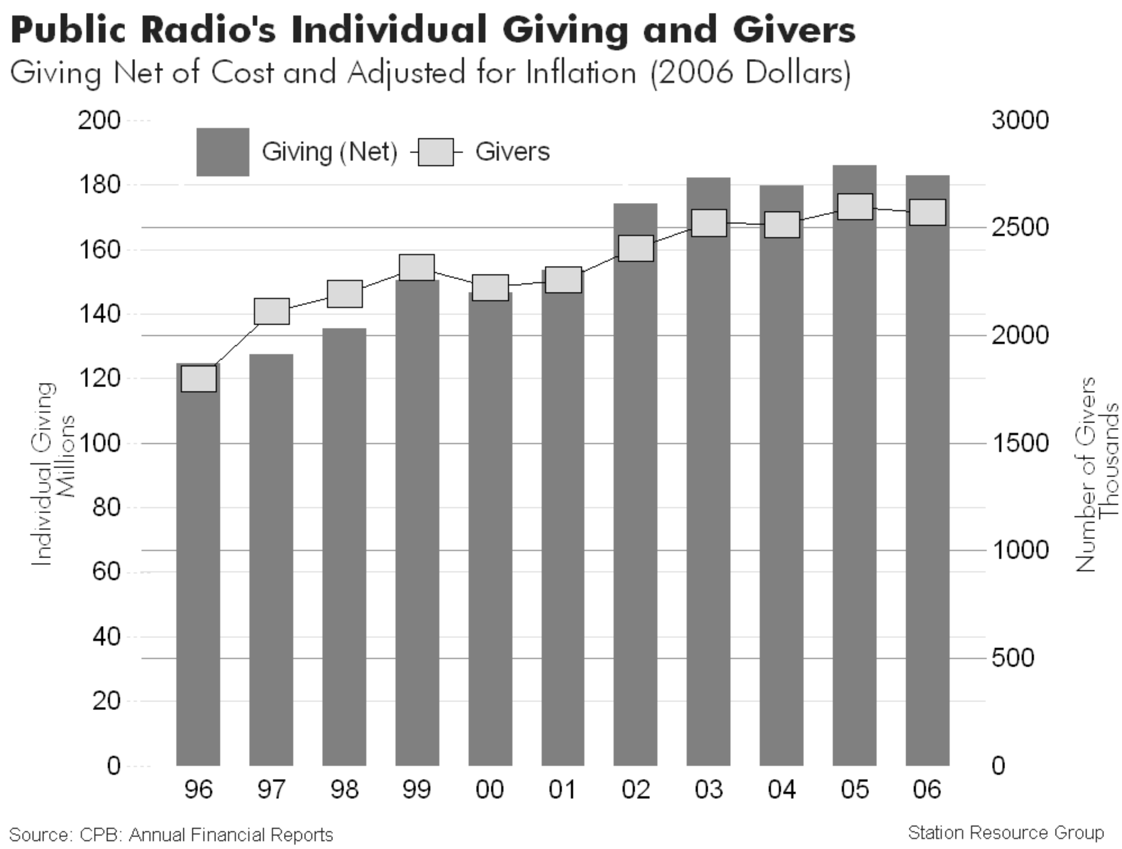
Both studies highlight how much fundraising success, at the listener-by-listener level where giving decisions are made, is more than adding ears to the audience: it is about building a relationship with listeners. This is one of the most important differences in the business models of commercial and public broadcasting.

A fundraising-aware programming strategy focuses on building regular, frequent, loyal use, a strong perception of personal value, and an understanding of the importance of giving.

To view *Audience 98* reports, go to www.aranet.com. For Walrus Research reports, go to www.walrusresearch.com

Of course programming, by itself, doesn't raise a dime and there is no meter running that automatically converts reliance, personal importance and value to listener revenue. It is only when these essential factors are combined with a disciplined, coordinated development program that listeners become givers and the virtuous cycle of public service generating public support to fuel still more service begins to engage.

A focus on givers



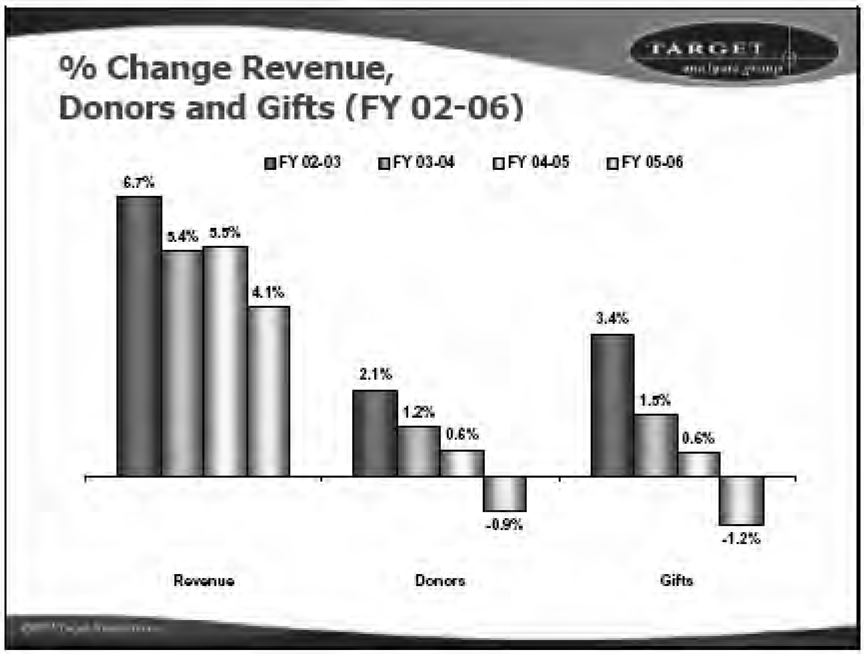
The plateau in the amount of individual giving to public radio has gone hand-in-hand with a plateau in the number of givers.

Jim Lewis and Helen Kennedy of Lewis Kennedy Associates have, for years, prepared an annual report on the fundraising performance of stations that use Target Analysis Group's donorCentrics™ tools. Their FY 2006 report, based on 55 stations, includes the following year-to-year findings:

- Both audience and donor growth were flat in FY 06, and revenue growth was lower than in the prior year.
- Revenue rose due to a higher average gift.
- Over 41% of revenue growth was a function of growth in gifts of $1,000 and above.
- All key renewal rates were down; first-year renewal is a particular problem.
- Median renewal gifts were flat, while the overall number and average were actually down.

- New gifts were down, and the increase in rejoins was not large enough to overcome the decline in total acquisitions.

The chart below shows these most recent findings in the context of three preceding years. Each bar represents a year-to-year change. Changes in revenue and gift amounts are not adjusted for inflation.



From *Public Radio Membership Fundraising in FY06*
© Target Analysis Group and Lewis Kennedy Associates 2007

These are sobering findings. To view the full report and other Lewis Kennedy analyses, go to www.lewiskennedy.com.

It was not long after public radio membership veteran Barbara Appleby took up her current position as Director of New Revenue Strategies at National Public Radio that she began urging colleagues to focus on building the *number of givers* to public radio. Appleby observes that many stations have been meeting their budget needs through larger gifts from an essentially flat pool of givers. She argued in an internal NPR memo, *Toward a National Membership Goal:*

> —A disciplined multi-year, multi-faceted strategic focus on givers will increase sustainable net revenue for stations. The reverse is not true: a focus on revenue will not increase givers and will lead stations down the unsustainable, slippery slope of more dollars from fewer givers which will eventually lead to fewer dollars overall.—

Appleby‘s advocacy had its intended effect and NPR and the Development Exchange have joined in an effort to build the giver base to three million.

Increasing the number of givers when the audience is growing takes discipline and hard work. Doing so when the audience is flat is much harder.

The future trajectory of public radio listening is uncertain. Some believe we face a sustained steady state, if not a decline, as newer technologies and a more competitive landscape erode radio's position. Others, including ourselves, believe public radio has significant opportunities for continuing growth in listening both over the air and online. (SRG has just launched a CPB-supported system-wide ―Grow the Audience" planning effort.)

But even if we anticipate slow or no growth in listeners, public radio can increase the number of givers – and thus its prospects for long-term revenue growth – through a sharp focus on the basics of individual giving.

A decade ago SRG launched *Brilliant on the Basics: Listener Support* as a collaborative learning project involving eighteen SRG members. Working together over two and a half years, participants set common goals, identified growth opportunities, monitored performance, commissioned research, implemented new practices, and reported to the public radio system. Among the key findings reported by Mark Fuerst, who served as project director:

> ―A focus on top-line membership revenues can conceal weaknesses in a membership program that will hamper the station in the long run. While increased revenue will always be a top priority, continuing growth will also involve building the membership file with donors who have a high propensity to renew and upgrade. This file growth requires excellent work in both recruitment and renewal."

A start-of-the-project analysis of *Brilliant on the Basics* stations – several of which were leading stations in public radio development – revealed that while their membership revenue was increasing:

- Revenue growth and file growth were both slowing;
- Renewal rates were declining, contributing to the declining growth;
- The best results were being achieved by stations that employed the widest range of mailing activities, including acquisition mail, additional gift campaigns and lapsed member mailings.

Renew, Renew, Renew

The *Brilliant on the Basics* participants moved toward a *proven practice model:*

> **"There is a short list of proven practices that can build a station's membership file and position the station for strong revenue over the long run. These practices are not complex – they are a matter of timing, discipline, and budgeting. The best practice models include expanded off-air member recruitment, expanded renewal programs, and regular mailing to lapsed donors."**
>
> **These practices made sense then. The stations that used them built both the number of givers and their revenue. They make sense now.**

These techniques are discussed and illustrated in the *Brilliant on the Basics Final Report* on SRG's web site: (http://www.srg.org/bob/about.html). They are also presented in detail in the membership section of the Development Exchange site (www.deiworksite.org).

A fundamental aspect of the *Brilliant on the Basics* work and DEI's proven practices is that the emphasis is not primarily on finding new givers, but on keeping or getting back the givers the station already knows and upgrading their gifts over time. John Sutton, President of John Sutton & Associates, mapped the key concepts in a post on his blog (http://radiosutton.blogspot.com)

> "Growing a donor base works just like growing any customer base. Current customers are the most likely to be next year's customers and the cheapest to keep. The next most ‗profitable' segment is previous customers who just don't do business with us as frequently as we'd like. The most expensive and most difficult customer to get is one who has never done business with us before.
>
> ". . . We grow audiences by getting current listeners to tune-in more frequently. By giving them lots of good reasons to tune in throughout the week, we keep them in the weekly Cume. The same is true for donors. By giving them lots of good reasons throughout the year to give, we keep them in the annual donor base.
>
> "Sometimes listeners tune-in every 8 or 10 days and fall out of the weekly Cume. They are ‗Lapsed Cumers.' Fixing the programming to get them listening every 4 or 5 days gets them back in the Cume. Sometimes donors give every 14 or 20 months and fall out of the annual donor count. They are ‗Lapsed Donors'. Fixing the fundraising program to get them to give every 7 or 10 months gets them back in the annual donor count. And when the

program is fixed, any newly acquired listeners or donors are less likely to fall through the cracks. That's the first step to growth.”

Sutton‘s priority list is straightforward:

> **When it comes to donors, stations need to prioritize by first keeping current donors, getting lapsed donors back, and then acquiring new givers.**

“Lapsed” Donors – Often Just Marching to a Different Beat
Jim Lewis and Helen Kennedy of Lewis-Kennedy Associates offer their own strong pitch for getting lapsed donors back based on analysis of donorCentrics™ reports from the Target Analysis Group. Among many other features, these reports allow public radio to track lifetime value – the average gross revenue that a giver to a public radio station represents over time.

Lewis and Kennedy found that, on a technique-by-technique basis, the long-term value and current retention of lapsed donors surpass a newly acquired donor. For example, a donor reacquired by ―lapsed mail” brings an average $19 more in lifetime value than a donor acquired by cold mail, and their average retention will be 1 point higher. The difference between lapsed donors reacquired via the web and new web donors is even greater. They write:

> ―For this reason, we often suggest to stations with large numbers of lapsed members that their best hopes for the future lie in the past – that their best prospects for increasing their file lie in recapturing those who have given in the past rather than finding new members. This doesn‘t mean that they shouldn‘t try to acquire new members, but that their effort to recapture those who have given in the past should be at least equal.
>
> ―We know from examining giving patterns in many types of organizations that some donors have given during the previous year, but are not giving now. However they will give during the following year; in fundraising parlance, this is a LYBNT—‗last year, but not this.‘ Others may give every three years or on some other schedule that is irregular to us, but meaningful to them; this is a SYBNT—‗some years, but not this.‘ Both are valuable to public radio. Not only is their lifetime value high when reacquired, but conversations with them reveal that many consider themselves loyal supporters of the service. For this reason, the most effective fundraising appeals to them make no reference to their ‗lapsed‘ status, either directly or obliquely, but ask them to renew their support of the station.”

Make the first time easy
New givers are, of course, essential to a growing individual giving program. Many stations could be pursuing them in more effective and productive ways than is currently the case. The following suggestions encourage stations in that direction.

Don’t set the bar too high. In whatever venue we are seeking new givers – on air, direct mail, online – seeking too high a gift, rather than a first show of support, is usually a mistake.

Barbara Appleby writes:

> “It‘s important to consider that our most far-reaching appeals to listeners are those that we broadcast in on-air campaigns – every listener hears the same message. While high dollar pitches result in more (short-term) gross dollars, these pitches also result in fewer givers and run the risk of communicating to prospective, former and current givers that contributions below a certain threshold simply do not “make a difference” to your station.
>
> “When the Contract with America threatened CPB funding for stations in the mid-90s, the On-Air Fundraising Partnership messages that year were all about “every dollar making a difference,” not about giving a dollar-a-day or $1,000 to help replace federal funds. The number of givers to CPB-qualified stations rose 30% from the start of FY1995 to the end of FY1997 – from 1.63 million to 2.11 million, an increase of 482,000 givers over three years. ”

Direct mail remains a valuable tool for acquiring new givers. Because it requires “entrepreneurial budgeting” – a development budget constructed to invest and reap – stations tend to move away from it in lean times. That is a mistake.

Dick McPherson heads McPherson Associates, Inc., a direct marketing and communications agency specializing in non-profit fundraising programs. As consultant to SRG‘s *Brilliant on the Basics* he gave the following advice:

> “Organizations with the largest memberships—both inside and outside public broadcasting—are those that consistently seize opportunities in inviting climates by investing in the acquisition of new members whose retention produces high net revenue.
>
> “To succeed in this area, stations need appropriate list exchange policies and practices. Some of the nation‘s best lists are available only on

exchange. Reliance on rented lists in the face of —break-even” goals leads to limited mailing and testing. List exchanges are a sensitive area and must be handled with high integrity, but that should not deter stations from this useful tool.

—We believe stations should work together to develop and hone their acquisition practices. The tradition of every station conducting its own mail program drives up cost, leaves practices very uneven, and makes success or failure in direct mail dependent on individual staff members who often lack experience in the broader world of direct response marketing.”

Online acquisition of new givers should increasingly complement on-air pledge and direct mail techniques.

Online activity is playing a steadily larger role in many stations‘ individual giving programs. Much of this activity is an adjunct to on-air pledge drives. The online dimension gives the listener a self-service option for managing his or her pledge transaction and an immediate option for fulfillment. This convenience and immediacy is an expected option for a growing segment of stations‘ listeners.

Online communications – email and web sites – can also be **an effective tool for acquiring new givers totally apart from on-air pledge drives**. This dimension of online giving takes more effort to implement and is far less developed across the public radio system. We believe it is a significant area of opportunity.

Knowledge about online acquisition of givers is evolving rapidly within the nonprofit sector. Within public broadcasting, the Integrated Media Association‘s *Web Marketing Toolkit* offers tips and guidelines. It is on IMA‘s web site at www.integratedmedia.org. Public Interactive now offers tools and products to support online giving, including acquisition. Vendors such as Convio (www.convio.com) offer useful publications and guides on their websites.

Certain basics emerge as fundamentals:

- Online acquisition of givers requires planning, organization, discipline, and investment just like other areas of a station‘s giving program.

- Be creative in acquiring email addresses. Public radio stations have a huge advantage compared to other nonprofits in their ability to call listeners to their web sites and capture their addresses – usually in exchange for something of value such as playlists, follow-up information on a story, subscription to an e-newsletter, or further information on selected topics.

- Be patient in building a relationship and manage the relationship responsibly. Gather information about a person over time. Deliver genuine value online as well as over the air. Give the person some control over the relationship, such as how often they are contacted or what kind of information they want. Scrupulously protect their privacy.

- Assume that the reasons for giving by givers acquired online will reflect the same factors we have discovered across other techniques: use of and reliance on the station's service, importance of the service at a personal level, understanding that the station depends on listener contributions and not government funding. The fact that the station is communicating with the listener online does not change that equation.

- Experiment, test, and monitor results.

The on-air pledge drive

Ask “civilians” about public radio fundraising and the most likely responses are groans and wisecracks about what we do on-air – tote bags, mugs, and “the number to call . . .” The on-air pledge drive is the public face of public radio fundraising. For years pledge drives accounted for huge portions of individual giving at most stations. Even with today‘s more advanced fundraising methods many stations still rely heavily on on-air pitches for support.

With so much at stake – hours and hours of air time for listeners, tens of thousands of dollars for stations – one would think we could do better at these recurring drives. We know a great deal about what to do and what not to do. But we allow ourselves to drift, leaving too much to the last minute in pre-drive planning, floating off-message in improvised appeals, obsessing over food for volunteers rather than sequencing our pitches.

The Development Exchange has a substantial body of material about on-air pledge drives on its web site (www.deiworksite.org). An array of consultants is available to help plan and critique stations‘ on-air appeals. Examples of compelling appeals are available at the PRX Fundraising Soundbank (www.prx.org/articles/216), a joint project with the Development Exchange and Public Radio Program Directors.

For a pithy summary that reminds both veterans and beginners of key elements and the need for focus and discipline, we like the following interview with Jay Clayton, who created WBUR's "More Programming, Less Fundraising" program, participated in several fundraising research projects, and currently oversees DEI's Benchmarks for Public Radio Fundraising. He was interviewed by Adrianne Mathiowetz of PRX: The Public Radio Exchange.

PRX: What are the necessary basics of a drive? What needs to be said?

Jay Clayton: Fundraising is reminding listeners of the value they get from listening, getting them to agree that their direct financial support is important and makes a difference, and getting them to give.

PRX: What are some common mistakes that stations/hosts/producers make in a fundraising drive?

JC: Losing sight of the fact that fundraisers are about listeners' time, not ours. Listeners tune in to stations for their core programming, not for pledge drives. At the same time, listeners understand and support our need for their financial support. In other words, they don't mind us asking them for money. Many listeners prefer that we ask them for money because they understand the direct link between listener support and editorial independence. What listeners tend not to like is how we ask for their support. Specifically, they dislike the interruptions that on-air drives create and they dislike the drives' production values (or sometimes the lack of production values).

> **When I review air checks of stations' pledge drives, which I do frequently, what I often hear are pledge breaks that are not focused on the fundamentals of fundraising.**

Some breaks go on for two to three minutes before anyone asks for money and often that request is an offer to get a station premium that isn't linked to the value of station support. In other cases I've heard pitchers focused on themselves and their commute into the station.

In some cases pitchers do ask listeners to call but they don't offer compelling reasons, from the listeners' point of view. Often the request is tied to the station's need to meet a goal -- dollars or donors -- by the end of the hour or to call because there's nothing happening in the room where volunteers are waiting to answer the phones.

Asking me to call because no one else is calling is not a winning approach. Goals have their place in pledge drives but they need to be tied to listeners' interests. For example, instead of saying help us raise another $1,500 in this hour to stay on track, try saying, our goal is $1,500 in this hour. That will pay for many hours of the program you're listening to and keep fundraising to a minimum so you can hear more of the programs you enjoy and rely on.

Some stations are beginning to see value in focusing goals on donors rather than dollars because when you focus the fundraising on listeners' participation the money usually takes care of itself. Stations sometimes have multiple goals, for overall givers and for new givers. I think this is an area worthy of more exploration because it brings listeners into the fundraiser and makes it more meaningful to them personally.

PRX: How do you define a successful campaign?

JC: A successful campaign adds contributors to the station, renewing givers, first-time givers, past givers and additional gifts from current givers. Meeting the financial goal is obviously important but building the station's base of givers is ultimately more important because that drives future giving. More donors participating in the drive, as opposed to more money from fewer donors, increases opportunities to ask for support off air which contributes to less reliance on pledge drives and more efficient drives.

PRX: You mentioned on the phone that "the issue isn't the message; the issue is the way the message is delivered." Could you elaborate on that?

JC: We know from years of solid research what turns a listener into a giver. I don't think the challenge with pledge drives is about reinventing that thinking. I think the challenge is finding fresh approaches to delivering and engaging listeners in our messages. Ira Glass has been brilliant on this stuff. His fundraising spots take the same basic messages we've used for years but he finds funny and compelling ways of getting the messages across. He tells stories and that's far more engaging than just delivering dry copy. It's hard to tell those stories day to day over the course of a long pledge drive. That's why, in my opinion, we need to keep trying and at the same time make our drives as short as possible while building our base of givers.

Work to the net

Our discussion so far has centered almost entirely on the income side of individual giving. But it takes money to raise money and at the end of the day it is the **net** revenue from contributions – the funds that remain after accounting for the costs of raising them – that is the point of the fundraising effort. It is net revenue that stations are able to invest in fulfilling their public service missions.

Our experience is that calculating net revenue from individual fundraising is more difficult than it might seem at first blush. For radio-only operations, accounting for income from individual givers is a relatively straightforward matter, guided by best practices and generally accepted accounting principles. Allocating radio specific income is more complicated at joint radio/television operations, especially those that share call letters, and usually reflects a combination of internal politicking and accounting.

The expense side gets complicated for everyone. Among the issues:

- Staff who work on membership and who have other duties at the station.
- Communications with members and others – by mail, electronic newsletters, and at events – that often straddle membership development and general promotion and outreach for the station's service.
- Senior development staff who may oversee individual giving, grant development, and underwriting.
- Decisions about how to value the air time used for pledge drives.
- At university stations, decisions about how indirect support for the station is allocated against membership efforts.

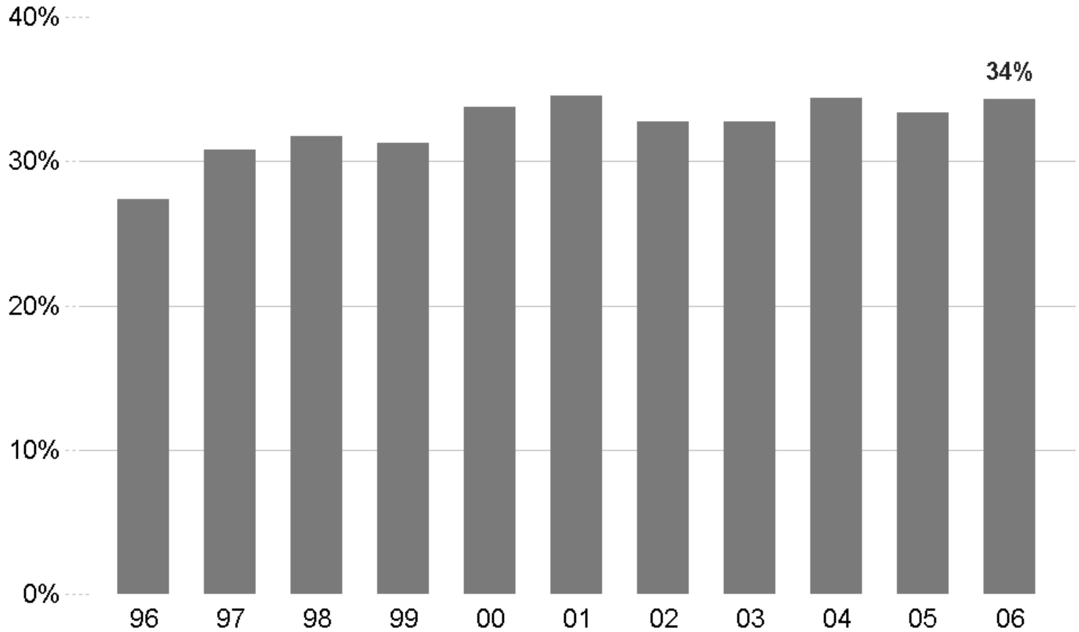
Different stations will use different approaches to account for the costs of individual fundraising. More important than a "right" approach is one that makes sense within a broad framework of accounting principles and that is <u>applied consistently over time</u> to assess performance and progress.

The Corporation for Public Broadcasting collects annual data from stations regarding both individual giving and the cost of fundraising. Given the variations in accounting practice across stations, it is somewhat problematic to use this data for station-to-station comparisons. But in the aggregate, this data is our best indicator of how the field is performing.

SRG adjusts these reported figures to isolate the costs specifically associated with individual giving.

Fundraising Cost as Percent of Revenue

Adjusted for Inflation (2006 Dollars)



Source: CPB: Annual Financial Reports, Adjustments by SRG

Station Resource Group

In FY 2006 public radio stations spent 34 cents to raise a dollar in individual giving – about the same as for the past few years, give or take a penny, but a little more than was the case a decade ago.

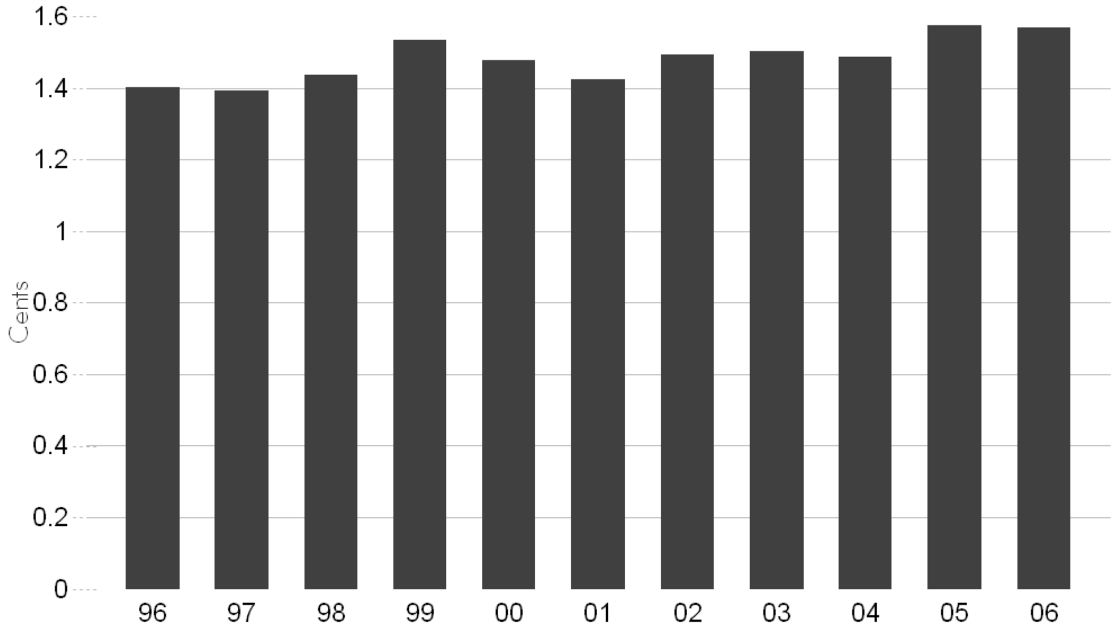
Public radio stations' gross individual giving – from members, friends groups, and major donors –increased by 62% from FY 1996 to FY 2006, after adjusting for inflation. But *net* revenue increased by 47%. The difference, gross versus net, is significant and is attributable to the rise in the cost of fundraising.

Net Support in the Context of Listening

Earlier in this report we talked about how important the amount of listening is to the decision to give for an individual listener. It is also possible to examine the relationship of listening and giving in the aggregate, tracking net revenue from listeners in the context of total hours of listening by those listeners.

The metric for this key relationship is *net listener support per listener hour*. We chart the results for all of public radio on the next page.

Public Radio's Net Listener Support per Listener Hour
Adjusted for Inflation (2006 Dollars)



Sources: CPB: Annual Financial Reports, Arbitron Spring Nationwide, RRC Station Resource Group

This simple chart reflects a massive number of interactions – billions of hours of listening and millions of dollars contributed to public radio. At first glance, the most striking feature is how little the basic relationship has changed over an extended period of time.

A closer look reveals we are moving in a positive direction. The net listener support per listener hour has increased 12% from FY 1996 to FY 2006. This increase in productivity becomes more profound when we consider that listening to public radio increased by 31% over the same period. That means public radio's listener support efforts both kept pace in building relationships with an increasing number of listeners *and* increased the level of giving – over and above inflation – across old and new listeners alike.

This increase is also an example of the power of very modest changes across an enormous number of interactions. By increasing the net income per listener hour from 1.401 cents in 1996 to 1.568 cents in 2006, public radio gained $19.5 million more in net revenue in 2006 than would have been the case if productivity remained at 1996 levels.

Of course some stations are more productive than others, and that's where we will turn our attention in the next section of this report.

Tracking the top performers

A few years ago, The Development Exchange launched an annual benchmarking project to help stations evaluate fundraising performance and potential in terms of net revenue relative to their audience.

The DEI project, unlike the analysis in the Lewis Kennedy report cited earlier, defines —individual givers” exclusively as those who give gifts under $1,000. This focuses DEI‘s analysis on a critical sub-group of givers to public radio sometimes characterized by stations as —transactional” givers and also called —mid-level givers” when the gift exceeds $250. Major Gifts are handled as a separate area, where the patterns of givers and giving for higher gifts can be analyzed separately from gifts under $1,000.

John Sutton, President of John Sutton & Associates, prepared analyses of the data for both 2005 and 2006. He wrote:

> —The 2006 DEI Benchmarks for net individual giving (donors who give $1 to $999 annually) confirm what was learned from the 2005 data. The top performing stations, those at the 90th percentile or higher in net Individual Giving revenue relative to audience, achieve excellence by being good at fundraising all year and not just during on-air pledge drives.” (DEI‘s *Individual Giving Report, July 2007*” i*s available to DEI members at* www.deiworkshite.org)

Sutton observed:

> —DEI‘s 2006 Benchmarks confirm that top performance [in the $1 to $999 range] is achieved primarily through a higher volume of giving, not increasing the average gift.”

He goes on to add:

> —The lesson here is that using average gift for all donors as a success metric is a bad idea. . . . Stations become top performers by growing the number of annual donors who give $250 to $999 annually without sacrificing donor growth in the $1 - $249 segment.”

Stations wishing to improve their net revenue should develop strategies and tactics to get more donors in each of the giving segments.

Sutton illustrates his point with two tables.

Top Performance: Donors by Annual Giving Levels (90th percentile)

Weekly AQH	$1-$249 Givers	$250-$999 Givers	Total Givers
5,000	10,200	1,200	11,400
10,000	20,400	2,500	22,900
15,000	30,600	3,700	34,300
20,000	40,800	4,900	45,700
25,000	51,000	6,100	57,100

[How to read this chart: If your station's full-week AQH is 5,000, then the annual listening to your station (Listener-Hours) creates the potential for 10,200 donors who give between $1 and $249 annually. Your station's potential for mid-level givers ($250-$999) is 1,200. All numbers are rounded to the nearest 100 givers. Estimates are based on the performance of stations that are in the 90th percentile or higher in net Individual Giving revenue relative to audience from DEI's 2006 Benchmarks.]

Median Performance: Donors by Annual Giving Levels

Weekly AQH	$1-$249 Givers	$250 - $999 Givers	Total Givers
5,000	7,000	500	7,500
10,000	14,100	1,000	15,100
15,000	21,100	1,500	22,600
20.000	28,100	2,000	30,100
25.000	35,100	2,500	37,600

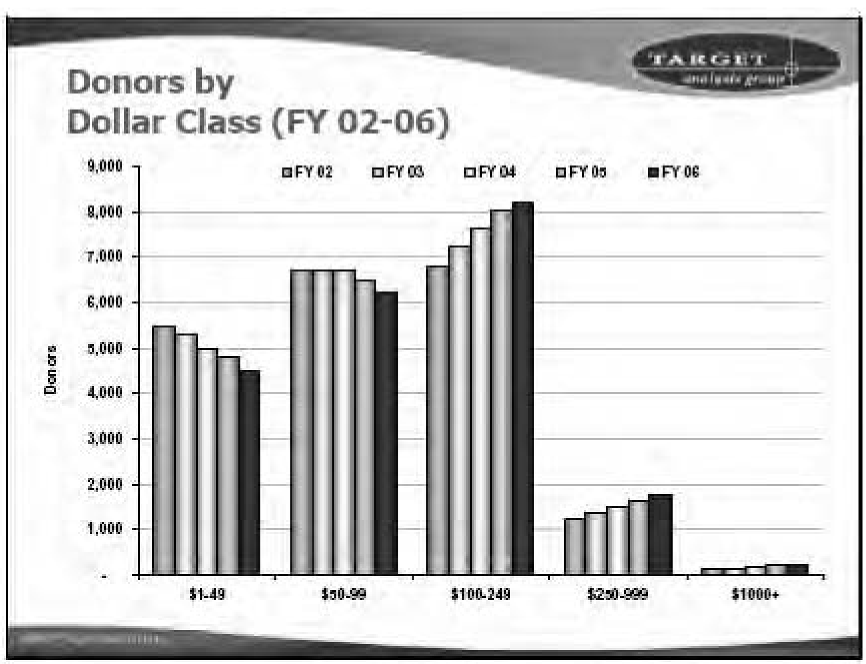
[How to read this chart: If your station's full-week AQH is 5,000, then the annual listening to your station (Listener-Hours) creates the potential for 7,000 donors who give between $1 and $249 annually. Your station's potential for mid-level givers ($250-$999) is 500. All numbers are rounded to the nearest 100 givers. Estimates are based on the median performance of stations in net Individual Giving revenue relative to audience from DEI's 2006 Benchmarks]

Jim Lewis and Helen Kennedy weigh in on average gift amounts with a slightly different emphasis:

> “While it may not be in the best interest of a station to increase the average gift of a new donor, it would be derelict for a development department not to raise the average gift overall. The rising average contribution must be seen within the framework of the entire development operation. As members and donors progress through the phases of their life cycles, they may indeed be willing and able to make larger gifts. As development professionals we would again be remiss not to ask for the larger gift as the nature of the philanthropic transaction changes with the donor‘s changing life cycle phase.”

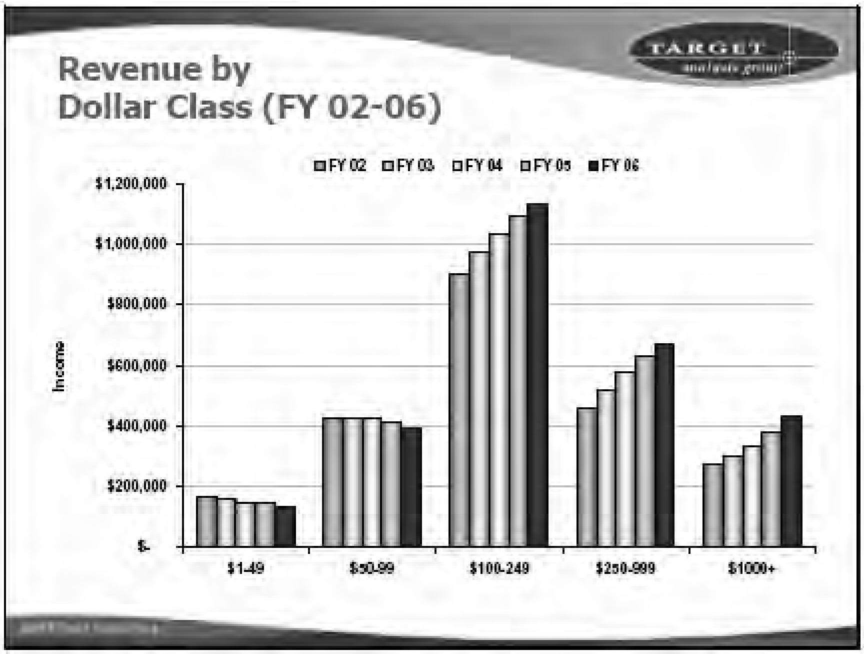
Lewis and Kennedy‘s presentation of Target Analysis data highlights the emerging importance of public radio‘s mid-range givers.

> “There have been significant changes during the five-year period in the dollar groupings of public radio‘s members and the revenue they produce.
>
> “For the second year, public radio had fewer donors at levels below $100, and more at all levels above that. Growth rates increased with the dollar class, i.e., the $1-49 group had the greatest percentage drop, and the $1,000 and above group the greatest gain, with the remaining three groups increasing their rate of growth (or minimizing the rate of loss) in proportion to the dollar group. The largest group of givers gave $100-$249, an average 38% of members.” *(Public Radio Membership Fundraising in FY06)*



The concentration of actual revenue from mid-range givers is even greater than the concentration of donors, as shown below. Lewis and Kennedy write:

> “The greatest percentage of revenue, 48%, came from those giving $100-$249, as it has been throughout the five years of history in this report.”



In Barbara Appleby‘s NPR memo, *Toward a National Membership Goal*, she reinforces the importance of using off-air tactics to build this mid-level giving:

> “Use smart database marketing practices to re-acquire lapsed members and to encourage additional gifts, upgrades, and renewal-upgrades from givers once they are in your station‘s database. These smart, yet simple, practices allow you to target givers based on their length of time on your file, their giving history, and any other information you may have about them. This approach is ultimately much more effective than broadcast messages which are heard by many, responded to by a few, and ‘tuned out‘ by most.”

Helen Kennedy observes that membership needs to be marketed with the same planning, organization, and consistency that one would apply to a more conventional “product.” She says:

> “Building the case needs to happen all year long – not just during pledge drives. It is all of a piece.”

Doug Eichten, President of the Development Exchange, underscores the crucial importance of steady, thorough execution of basic steps in the stewardship of givers – the proven practices in renewing and upgrading those who have already made an initial gift.

> –The difference between stations that are really performing and those that aren‘t is often not a matter of one station knowing something that the other station does not. It‘s that one station consistently executes and the other lets things slide, gets distracted, or makes poor choices when the budget is tight.”

Major gifts

In early 1996 SRG invited a half dozen members with outstanding fund raising records to pool their resources with support from CPB's Future Fund for a joint venture to pioneer areas outside the usual public radio fund raising repertoire. These —Leaders Partnership" stations chose to focus on major gifts, which the stations then defined as annual gifts of $1,000+ for general support of the station's mission. The Leaders Partnership was succeeded by SRG's Major Gifts Initiative, which involved another 20 stations in major giving activities.

The focus on major gifts was a significant choice on several levels:

- With benefit of hindsight, it is remarkable that major giving was considered —pioneering" for even these top performing stations. It was already such a fundamental piece of the revenue equation at many successful nonprofits outside public broadcasting.
- On a very practical basis, these —pioneers" are today routinely raising hundreds of thousands of dollars a year from $1,000+ annual gifts and they are joined by a growing number of stations doing the same.
- At the broadest level, stations that commit to building major giving programs find they are committing themselves to higher levels of professionalism in such areas as governance, executive leadership, planning, and community engagement.
- Major giving programs at many stations have created horizontal integration with annual giving campaigns, capital campaigns, and special project campaigns such as station purchases, producer circles, and launching large-scale news and information programs.

A decade later we asked Results Group International (www.ResultsG.com), fundraising counsel on the Leaders Partnership project and our follow-up Major Gifts Initiative, to assess where public radio now stands in its major gifts work. Results Group principals Claudia Chouinard and Carol Eddy interviewed over three dozen station and national leaders – executives, development staff, and board members – and reviewed system-wide individual giving data.

Chouinard and Eddy see a significant, as-yet-unrealized opportunity:

- —We guess-timate that public radio as a field is taking advantage of around 20% to 30% of its current dollar potential for major and planned giving . . . . That means that 70% of the dollars that are —on the table" are not being effectively pursued by stations at this time.
- —We believe that all stations except those with donor bases under around 2,000 households have strong potential to achieve viable return on investment within 24 to 36 months of investment.

- Basing projections on the current 2.6 million donors to public radio, even with projections of zero growth, we come up with an estimate of $20 million in planned giving value over the long term plus annual income potential that approaches $30 million over time."

They prepared a summary of public radio's strengths, weaknesses, opportunities, and threats to realization of this income potential. Here's our amended version of their summary

REALIZATION OF STATIONS' MAJOR GIFTS POTENTIAL

STRENGTHS	WEAKNESSES
▪ The affluence, education and age of public radio donors indicate excellent major and planned giving prospects.	▪ Prospective donors do not perceive that stations want or need major and planned gifts
▪ Extremely high affinity of donors to the public radio brand of programming.	▪ Ownership and control of the public radio brand rests more with NPR than stations
▪ Broad base of low dollar donors represents strong planned gift prospects for gifts from assets rather than from income.	▪ Stations largely lack the skills, resources and inclination to plan and pursue long-term rather than short-term giving.
▪ Steps needed to raise community profiles and make competitive cases for support are within reach of most stations.	▪ Stations hold to culture of broadcasting rather than a culture of philanthropy and resist spending on major and planned giving even if future rewards are promising.
▪ Classical music stations have politically neutral missions and strong appeal to culturally motivated donors.	▪ Classical music stations can be perceived as having little social impact and not as important as major cultural institutions
▪ News and information stations have activist missions and strong appeal to donors engaged in civic and political issues.	▪ News and information stations can be perceived as liberal and not as critical as some other nonprofits in meeting urgent social needs.
▪ Most stations exceed the 2,000+ donor household threshold needed for a return on major gift investments.	▪ Station infrastructure is too weak and investment of resources and time is too low to achieve viable return.

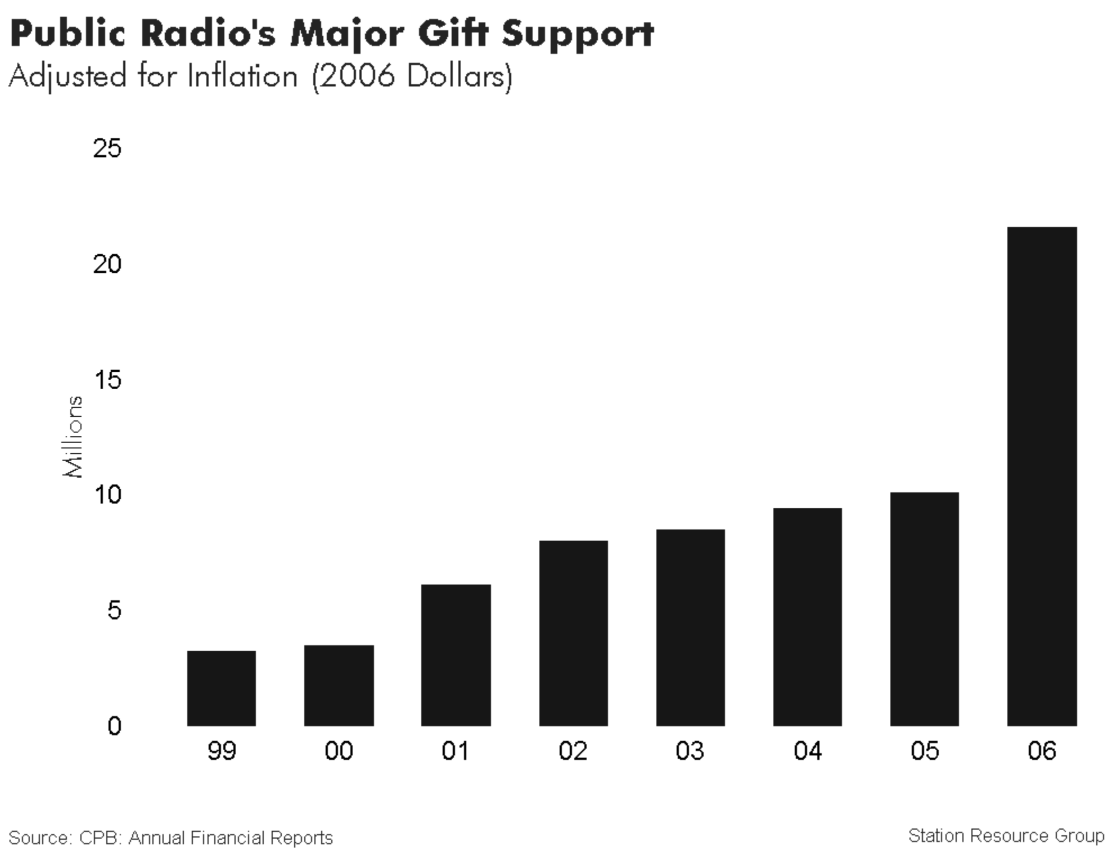
REALIZATION OF STATIONS’ MAJOR GIFTS POTENTIAL

OPPORTUNITIES	THREATS
▪ To continue to build station value and connection to communities and community leaders.	▪ Increasing ability of content creators to reach audiences directly and capture value for themselves.
▪ To exercise careful ownership and stewardship of a critical asset for every nonprofit – the database of donors and supporters – to build long-term revenue.	▪ Enticements by others to provide access to donors without enforceable agreements regarding future control of revenues and donor access.
▪ Substantial ―head room” in the development of major gifts programs at almost every local station.	▪ Programming fees and costs that so dominate budgets as to constrain station abilities to invest longer term in donor development.
▪ To reinvent stations as highly visible community nonprofit institutions with strong volunteer leaderships and competitive philanthropic cases for support	▪ The difficulties of reinventing any organization and attracting talent with new backgrounds, plus lack of consistent practical counsel and training for top leadership.
▪ To equip and train stations to compete head-to-head locally and with national program producers for philanthropic support	▪ Low awareness of the survival imperative of becoming more aggressive and competitive, especially with those traditionally considered partners
▪ To attract to top station management experienced nonprofit volunteers and professionals who are not broadcasters	▪ The dominant ‗broadcaster‘ mentality and related lack of a culture, conditions and expectations conducive to professional level fundraising
▪ To raise stations‘ position in the philanthropic priorities of their supporters	▪ Reluctance to invest sufficiently in staff time and visibility required to emerge on donor‘s priority lists.
▪ To convince local stations to work together to realign themselves before the age of terrestrial radio draws to a close	▪ Low sense of urgency, history of independent local action, and reliance on national entities to define future agendas

A special challenge in the major gifts area is the paucity of consistent and accurate data on station performance. Organizations differ on what constitutes a major gift or major donor, although most current discussions in public radio look at contributions of $1,000 and more. Because activity in this area is uneven across the system, studies based on sub-groups of stations – those participating in a particular project or working with a particular vendor – produce different findings depending on which stations did and did not participate.

Stations are also inconsistent in their reporting to CPB and others who survey the field. Prior to FY 2006, amounts reported to CPB as major gifts were excluded in calculating stations' satisfaction of the —audience service criteria," resulting in significant under-reporting. This can be seen in the chart below, where most likely only the FY 2006 amount is an accurate reflection of performance.

Coming to a common understanding of how major gifts are defined and reported will have a significant impact on both system-wide projections and the planning of programs such as CPB's Radio Major Gifts Initiative, which aspires to involve a diverse range of stations.



Stepping back from these challenges, though, there is an evergreen quality to many of the lessons SRG learned about major giving and public radio:

- A sustained, reasonably professional and consistently executed effort will, over time, result in a steady increase in the level of major gifts.

- A successful major gifts program requires a multi-year approach, allocation of adequate staff time, and attention to ―re-inventing” the shape of the effort as the scope and capacity of the station‘s work evolve.

- The role of the General Manager is central to the success of the program.

- Stations must commit to engage in a process that will not only build giving, but also transform how senior staff and board/licensee leadership engage with their communities and civic leaders.

- An unexpected challenge for many will be how to articulate a compelling vision for the future with which to frame requests for major gifts. Or, as major giving consultant Robert Stein of MajorGiving.com puts it: ―Cultural organizations that do a good job of positioning themselves as institutions of significance are more likely to build strong bonds with the wealthiest members of their communities.”

- The major gifts skill set, once developed, can be employed across other fundraising activities – capital campaigns, dedicated funding projects, endowments, annual giving campaigns, and planned giving.

- Most stations retain major gifts counsel at some point in the development of their program. The success of this relationship is as much a matter of chemistry as professionalism. There needs to be choice, flexibility, and discrete points that allow for a decision to continue or change the relationship.

- $1,000+ annual gifts are only a starting point. Many nonprofits in our communities set significantly higher thresholds for their annual major giving efforts, as do a few of public radio‘s leading stations. In making plans and setting goals, look at others in your community as well as others in public broadcasting.

- How to give recognition to donors who give more substantial gifts, how active a donor can be in directing how the gift is used, how to frame the discussion about a substantial gift that might be tied to a will – these are all are examples of issues that present special challenges in managing a major gift effort.

Robert Stein of MajorGiving.com states:

> “Recognition remains one of the most critical aspects in attracting major gifts. Cultural organizations and public broadcasting are uniquely positioned to be able to provide it. Donors sometimes say they are not giving for the recognition, but truth be told, they rarely give anonymously, which says a lot about the human need to be thanked and to have others know that you've done a good deed for your community.”

- Like other fundraising areas, experienced major gift professionals bring a wealth of experience and best practices to this process. As one recently hired-away major gift professional told SRG, “Stations need to be prepared to compete for staff and consultants on the basis of the non-profit and educational market in general and, more specifically, within the context of the best cultural institutions in your city”.

We conclude this major gifts discussion with two cautionary notes that emerged in our recent discussions with people who are taking leadership roles in developing major gift programs.

Robert Stein advised:

> “[This report] is going to be read by people who don't see themselves as the problem. Too many public radio CEOs think that by hiring someone with major giving experience they are making progress. . . . They don't appreciate that you cannot consign leadership or vision to subordinates.
>
> "The single greatest inhibitor to major gift activity is the aged management class of public radio that emerged through engineering, journalism and programming. Very few feel comfortable wearing the mantle of CEO; very few are comfortable with the notion of institutionality or of discussing vision. I am optimistic that, with planning and nurturing, the next generation of managers will be better equipped to deal with donors."

And DEI President Doug Eichten, who has mapped out a system-wide major gifts effort for CPB, says:

> “We‘ve got to get the balance right. I want to get stations moving in the major gifts area; there‘s so much opportunity. But I am also afraid that some of us are getting distracted by the excitement of new activity and the lure of big bucks. We need to be certain that the day-to-day work of basic membership doesn‘t get neglected. Major giving builds on that work; it cannot replace it.”

Programming, development, and consistent effort

Stations that have more audience raise more money from listeners. Several studies over the years have documented the very high correlation between the amount of a station‘s listener support and the size of its audience, whether measured as the weekly cumulative audience, the average audience per quarter hour, or the number of core listeners (those who use the station more than any other).

Other things being equal, more listeners and more listener support go hand-in-hand.

But the other things are rarely equal. One clear difference among stations is the programming strategies they choose – their format or combination of formats. SRG‘s *Public Radio Format Study: Financial Patterns* documented significant differences in the financial performance of stations with different formats. We turned to George Bailey of Walrus Research to push deeper into the data to get a better understanding of the interplay between listening, giving, and the fundraising performance of different stations.

The Public Radio Format Study's financial analysis was based on 145 stations that met several criteria. They had a large enough audience that we could characterize the audience response to different elements of their programming. Their programming was focused enough to place them in one of seven format categories based on listening to their different programming elements. And they operated only one radio service so we could associate their financial performance with a given programming strategy.

Bailey used basic giving and listening data from these stations to explore the relationship between overall levels of individual giving and audience indicators such as cumulative audience, cumulative audience of core listeners, average quarter hour audience, core composition of the audience, listener loyalty to the station, and various combinations of these indicators. His statistical analysis encompassed three fiscal years.

His first step was to affirm a close and simple correlation of listeners and listener support. Examining all 145 stations, regardless of format, Bailey found:

> ―The strongest predictor we found was one variable, straight cume.”

In fact, differences in the cumulative audience explained 86% of the variance in individual giving among the stations in the *Format Study* sample. Bailey noted that the size of the AQH audience and the size of the cumulative audience of core listeners also correlate quite closely with the level of individual giving.

This is a powerful reminder of the close relationship between programming and development. A station's public service, shaped by its programmers, is the foundation on which development efforts build.

But what about the marked difference in financial performance among the different format groups revealed in SRG's earlier work?

Bailey took a second pass through the data, repeating the analysis format-by-format for the four format groups for which we had sufficient data to support statistical techniques: News, News/Classical, Classical, and Jazz. All four formats displayed a significant relationship between the number of listeners and total listener support.

Correlation of Listener Dollars and Audience Measures
By Station Format
Pearson's r, statistically significant at 99 percent

	Cume	AQH	Core Cume
News	.944	.945	.932
Jazz	.941	.940	.948
News/Classical	.913	.846	.807
Classical	.838	.759	.787

As correlations go, these are very high numbers. But high correlations only tell us that there is a close fit between one variable and another, in this case the size of the audience and the amount of listener support.

> Correlations do not tell us the *scale or dynamic* of a relationship, in this case *how many* listeners go with *how much* listener support.
>
> Correlations also do not tell us the *cause* of the relationship.

So we move on to further analysis. The next step was to examine the simple ratios between listeners and listener support. Bailey used cumulative audience for the calculation.

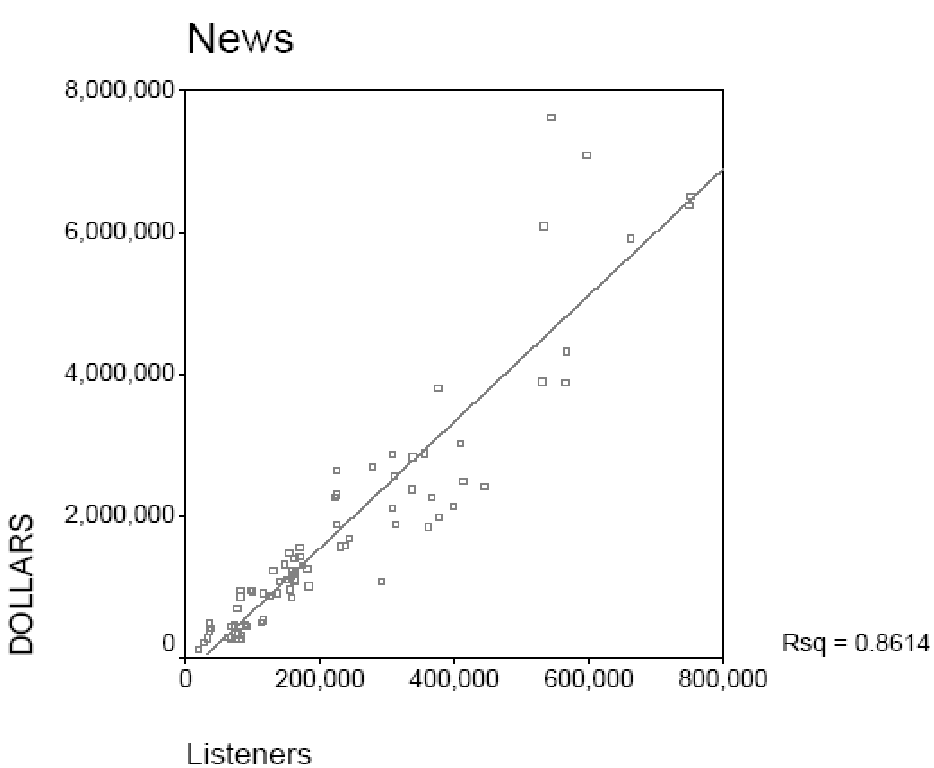
Ratio of Listener Dollars to Listeners
By Station Format
Dollars per cume listener

	Mean	Standard Deviation	Median
News	7.5	2.3	7.3
News/Classical	8.2	3.9	7.2
Classical	6.3	2.4	6.7
Jazz	4.5	3.5	3.2

The median News station generates $7.30 per cume listener and News/Classical stations perform similarly. The median Classical station generates $6.70 per cume listener. The median Jazz station reaps less than half that, at $3.20.

Means and medians are static numbers. With one more analytical step we can add a dynamic quality and uncover the likely change in individual giving as the size of the audience rises or falls for stations presenting different formats. Using regression analysis, Bailey calculated the relationship for each format.

Here is what we see for News stations. The dots show individual stations. The line is the predicted relationship. The model fits the data quite well.



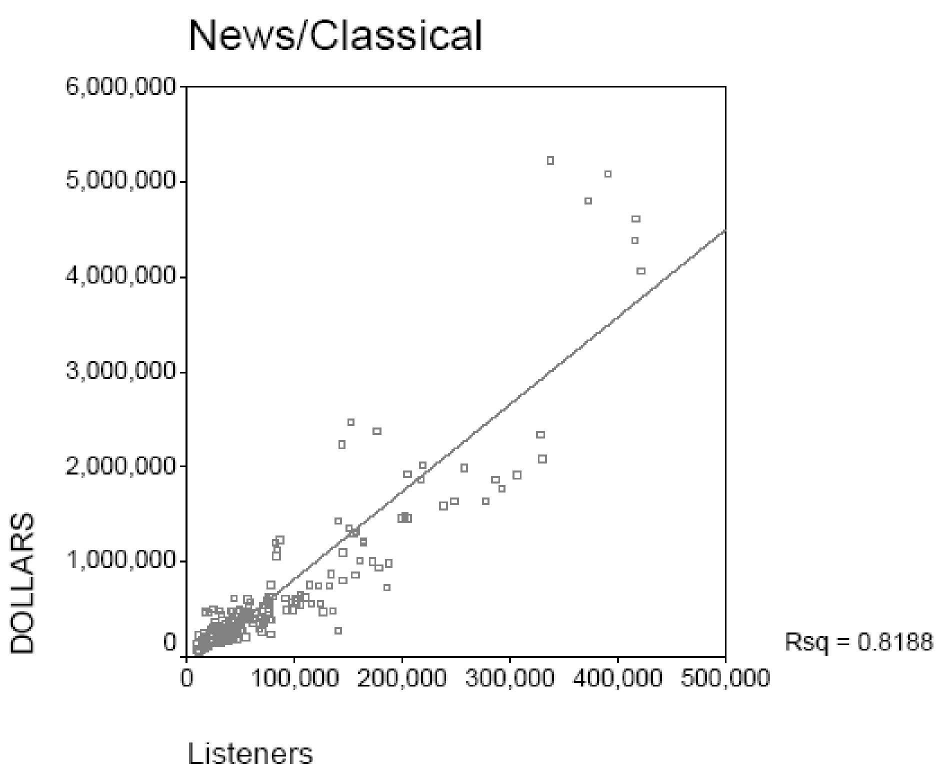
The dynamic of the relationship is this: for every additional 1,000 listeners in the weekly cumulative audience, a News station can expect to generate an additional $8,916 in listener support.

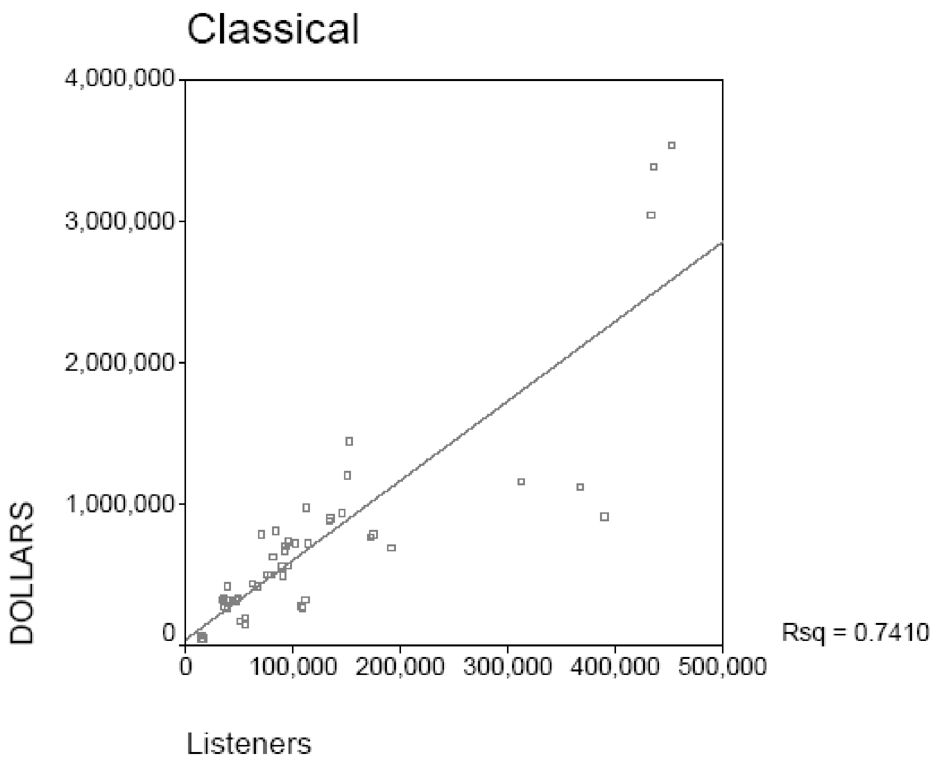
So what about the rest of the formats?

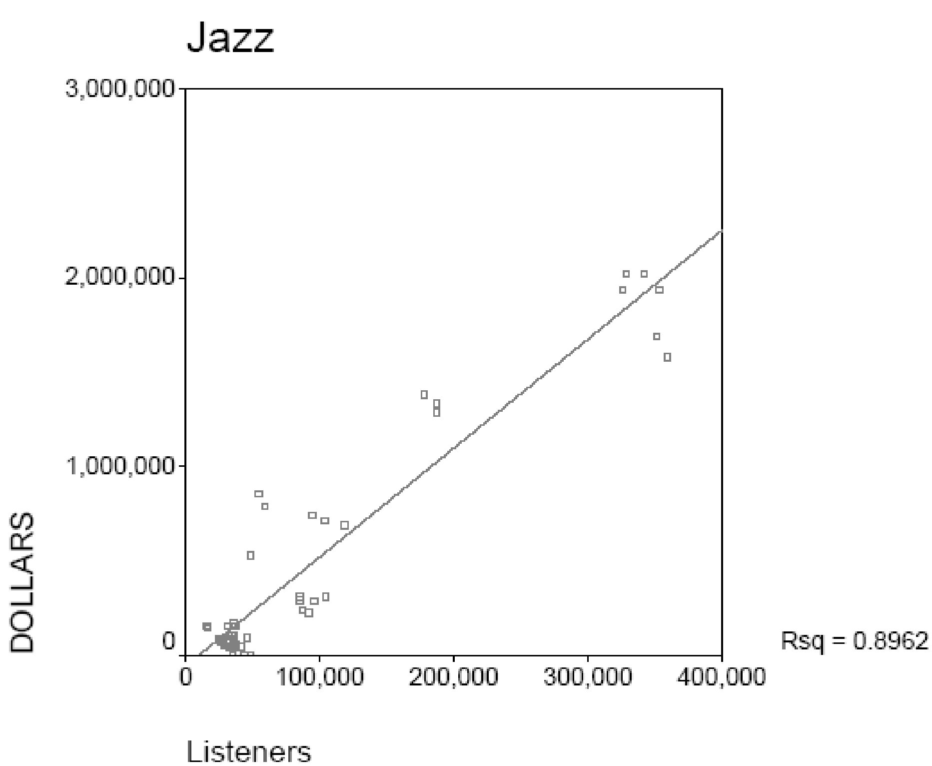
Predicted Change in Listener Dollars
Per 1,000 Change in Cume Listeners
By Station Format

If cume listeners grow or shrink by 1,000 at	Support will change	Variance explained
News stations	$8,916	86%
News/Classical stations	9,205	82%
Classical stations	5,624	74%
Jazz station	5,774	90%

Here are the charts for the three other formats. Note that the scale on both the vertical and horizontal axes changes for each.




Classical
4,000,000
3,000,000
2,000,000
1,000,000
0
DOLLARS
0
100,000
200,000
300,000
400,000
500,000
Listeners
Rsq = 0.7410


Jazz
3,000,000
2,000,000
1,000,000
0
DOLLARS
0
100,000
200,000
300,000
400,000
Listeners
Rsq = 0.8962

These listener/listener support ratios and predicted changes are fairly powerful stuff.   They suggest that public radio‘s different formats and programming strategies are, at least in some respects, different businesses with different business models. In making major format decisions and in setting development goals and assessing performance for stations within public radio‘s different formats, these broad patterns are critical.

This aligns with a long chain of audience research.

Twenty years ago, summing up the findings of Audience 88, we wrote:

- Listeners who choose public radio are significantly different from those who do not.
- Listeners who make a public radio station their favorite are different from those who just sample its programming.
- These differences extend to the kinds of listeners who are attracted to each of public radio‘s distinctive formats and services.
- All of these differences are reflected in the extent to which listeners consider public radio important and worthy of their financial support. (*Audience 88: Issues & Implications*)

More recently, several joint studies by SRG and Public Radio Program Directors on the value and values of public radio‘s different formats underscored important differences in listeners‘ uses of and benefits from our different services. This research informed PRPD‘s widely publicized Core Values of News, Core Values of Classical Music, and Core Values of Jazz.

This past year SRG‘s *Public Radio Format Study: Listening Patterns* underscored key differences in the audience dynamics of stations with different formats, showing, for example, that News station listeners are 35% loyal to that group of stations while Jazz station listeners are 25% loyal. Listeners to News stations rely more on their station than listeners to Jazz stations. This is a key factor in understanding the different relationships between listeners and giving for these two groups of stations and brings us full circle to the start of this report.

> How listeners listen and what they believe – about the value of the programming to them and the way the station is supported – are powerful predictors of their giving to public radio.

Does this mean that format is fundraising destiny? Yes and no. The differences in fundraising results between formats are huge. But within each format there are stations that are clearly above the predicted line and those that are clearly below. The differences between top performing and low performing stations with similar audiences amount to tens of thousands of dollars.

What accounts for the difference between these two groups?

Our view – and those of most others who have studied the question –is that it is the interplay of both programming and development efforts at the respective stations that makes the difference.

Those stations that exceed the predictive model do so, in part, because their listeners include a higher proportion of people who use the station regularly, value it, and understand the importance of listener support in ways that fit the *Audience 98* and *Tracking Study* giving models. They execute their respective formats in a stronger, more consistent, more compelling way.

But if that were the full explanation, adding such factors as core cume, average loyalty, or average time spent listening to the station model should have strengthened its predictive power. That turned out not to be so.

The second reason stations get better-than-predicted results is they do a better job at development. They execute the many practices and recommendations presented in this report in a stronger, more consistent, more compelling way.

Most public radio stations know that a successful programming service cannot be built around one host or one show – however important they might be. It is service through the day and across the week that builds a station‘s place in its listeners‘ lives and in its community.

We believe the same is true with individual fundraising. It cannot turn on a great pledge week or a few wealthy donors – however important they might be. It is a sustained disciplined effort throughout the year, on air, in the mail, and online, that embraces givers at all levels of support that generates the sustainable revenue streams to fuel our service.

Acknowledgements

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We thank all of them for their knowledge, insights, and support and for their permission to make use of their work.

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