

JUNE 14, 2005

MEDIA

Antenna Adjustment

Clear Channel is pulling apart its empire as it scrambles to compete in a changed media world

It's a recent Monday morning at Clear Channel Communications Inc.'s (CCV) limestone headquarters in San Antonio, and the sense of urgency is palpable. Chief Executive Mark P. Mays, 41, in khakis and a short-sleeved plaid shirt, bounds into the office of his brother, 39-year-old Chief Financial Officer Randall, carrying an enormous loose-leaf notebook. On one wall hang framed vintage posters from Rolling Stones, Led Zeppelin, and Johnny Cash concerts. A large window looks out onto a parched golf course, while inside the air-conditioned office a putter and golf balls litter the carpet. A handheld receiver for getting rival XM Satellite Radio flickers in its charger like an irritating reminder.

Mark, Randall, and John T. Tippit, senior vice-president for strategic development, are in their weekly strategy session. Huddled over notebooks filled with employee suggestions, the Texas-raised Ivy League MBAs gather, as they do each Monday, to plot their course in the lightning-fast world of media. In the 1990s it was all about hobnobbing with investment bankers and getting the numbers right to pull off one of the most rapid industry rollups in history. But once the Mayses completed their quest to become the largest player in radio and live entertainment, running the enterprise got way complicated.

Today the Mays boys may still be financial engineers at heart, but if they want to keep Clear Channel successful in an on-demand world, they will have to quickly transform themselves into entrepreneurial techies. "Let's get moving. I have another meeting in 45 minutes," says Mark. Hungry for innovation, the three begin poring over some 300 proposals winnowed from their 35,000 U.S. employees who were asked to pitch ideas for changing the company's business as usual. Among them: using cell phone text messaging to promote Clear Channel and a Wi-Fi offering. They're part of a companywide contest launched in February. "I want to throw some serious rewards at the winners. We need to send the message that this is important," Mark tells the other execs.

It was only five years ago that Clear Channel was on top of the world. The Mayses, led by their father, Lowry, had put together a dazzling series of acquisitions, making Clear Channel the company to watch -- or get out of the way of -- in media. Their control in radio was such that they were accused of being mini-Murdochs -- too powerful and overreaching with their political views.

The company increasingly drew criticism, some of it harsh. Foes accused Clear Channel of blacklisting the antiwar Dixie Chicks (the company has repeatedly denied this) and of being too profit-hungry. Their cost-saving technique of voice-tracking (one disk jockey for many stations) was widely decried -- and blamed for nearly causing a public health disaster. In 2002 police in North Dakota tried in vain for 90 minutes to reach a real person at six Clear Channel stations near the town of Minot to get the word out about a toxic chemical spill. The company has since retreated from voice-tracking: It now accounts for only 9% of all of its programming, down from 15% several years ago. Once supremely certain that its synergies would deliver shareholders to the promised land of fat returns, Clear Channel instead has spent years fighting critics, lawsuits, and bad press. It also faces

two Justice Dept. investigations over allegations of being anticompetitive.

Meanwhile, technology was changing their world. Consumers became empowered as new entertainment choices, from Napster to iPods to cell phones, lured people away from their radios. The speed of technology advances, the rapid rise of satellite radio, the Internet customization of media -- none of these were anticipated during Clear Channel's early dealmaking days. On top of that, an ad recession and the emergence of new and promising outlets for advertisers, such as the Internet, helped put Clear Channel's shares in the tank. In the past year alone, its stock is off 25%, to about \$29, even after the company bought back about 10% of outstanding shares starting in April, 2004. That's a steep drop from about \$80 a share at its buying peak in 2000. The formerly cocksure Clear Channel is a humbled enterprise.

No wonder the Mayses and their executives are scrambling to clear all that static. And the results could affect the entire \$20 billion U.S. radio industry, particularly since other radio execs closely watch dominant Clear Channel's moves. On Apr. 29 the company announced plans to spin off its concert-promotion and live-venue business to shareholders and offer 10% of its billboard business in an initial public offering. The plan mirrored the current vogue among media conglomerates -- splitting apart to try to unlock hidden value in their many assets. Some observers, though, viewed the Clear Channel breakup plan, first discussed by its board 18 months ago, as an acknowledgement that putting all the businesses under one roof was a failure. "They just couldn't make it work," says Merrill Lynch & Co. (MER) radio analyst Laraine Mancini. "They ran the business too much for short-term gains and not enough for long-term health." Mancini figures the spin-off, the IPO, and a one-time \$3 dividend could boost total shareholder value by 20%.

PROGRAMMING SHIFT

Beyond the dismantling, the \$9.4 billion-a-year Clear Channel is draping itself in new media offerings. It's launching digital radio channels and podcasting and developing more exclusive content for radio station Web sites. The goal is to find ways to deliver what's essentially a live, local medium to a borderless, timeless cyberworld. Mark says he has had talks with Apple Computer (AAPL) CEO Steven P. Jobs, Microsoft (MSFT) CEO Steven A. Ballmer, and Yahoo (YHOO)! CEO Terry S. Semel about ways their companies might use Clear Channel content. Clear Channel is also hellbent on winning back some of the status it has lost to satellite newcomers XM and Sirius by signing big names to host their own shows, including Donald Trump and Jesse Jackson. And Harry Thomason, a Hollywood director and longtime friend of Bill Clinton's, confirmed to *BusinessWeek* that Clear Channel has had talks with the former President about his own show. "There's definitely a place for the former President on radio at some point," says Thomason.

In hopes of increasing traffic to its radio Web sites, a new feature called *Stripped*, which debuted on May 24, offers exclusive performance footage and interviews. The first segment features popular new singer John Legend on 125 sites, spiking Web traffic in cities such as Philadelphia, San Francisco, and Phoenix. Search engine Ask Jeeves Inc. signed on as a sponsor. To inject a bit of hip, the company in the past year brought in 35-year-old Internet guru Evan Harrison, former head of AOL Music, among other new young hires.

Clear Channel execs now refer to their "incubators" when discussing new projects, and Mark says the company is "less radiocentric and more listener-centric. What we do best is deliver an enormous amount of local content. We should be able to deliver that in alternative ways." At a confab of more than 300 Clear Channel program directors in Atlanta on June 6, radio division CEO John Hogan's message to his troops was: "Radio is more than tall towers in big fields. We can no longer be limited to a singular distribution method."

But despite the new rallying cries, flashes of the old, bumbling Clear Channel shine through. In the too-clever-by-half category, it hoped to create buzz about an Akron station format change from sports to progressive talk last month by starting a critical Web site blasting the corporatization of

radio. Problem was, listeners sensed the company's fingerprints on the ersatz opposition, and a second wave of criticism hit -- this one in the form of hate e-mails and a torrent of anti-Clear Channel blogging.

It's a far cry from 1972, when Mark and Randall's dad, L. Lowry Mays, now 69, bought his first radio station in San Antonio with friend and car dealer B.J. "Red" McCombs, who went on to own the Minnesota Vikings. Lowry was the epitome of the tall, tough, self-made Texas businessman. Over the next 30 years, he bought station after station -- about 70 radio companies in all -- many after 1996, when Congress lifted radio regulation. He also bought TV stations and moved into billboards and, eventually, live entertainment. Today, Clear Channel owns 1,200 U.S. radio stations (of the 10,600 commercial stations operating in the U.S.), 40 TV stations, 104 concert halls and amphitheatres, and 824,000 outdoor displays worldwide. The company's concert-promotion business is the biggest in the U.S. Current tours of the Rolling Stones and U2 top their roster.

The elder Mays has played a less active role in running the company of late; last year he had brain surgery to relieve pressure from a blood clot. He was wheelchair-bound, but after months of rehab, the 6-foot-2-inch rancher is walking with a cane. He's at the office several times a week, but it is Mark's and Randall's show. Both brothers have large families -- Mark has six kids; Randall has four. They see each other mostly at the office and say they have a close working relationship. "What you see with us is what you get. There are no hidden agendas between us," says Randall, a former investment banker at Goldman, Sachs & Co. (GS) who came home from New York to work in the business in 1992. His old firm is handling the restructuring. Mark has a Texas folksiness, affable and back-slapping, while Randall is more reserved. Mark jokes that "he's the smart one. I'm the good-looking one." Deadpans Randall: "I'm not sure what's better."

SCATTERED AUDIENCE

The Mayses know their core radio business faces critical times. More than 200 million Americans tune in to radio at least once a week, but they're spending much less time listening -- about three fewer hours a week per listener than 10 years ago, says Arbitron Inc. And Clear Channel's growth rate for annual revenue, which hit 20% during the acquisitions, is projected to be just 4% over the next five years, according to a report by Morningstar Inc. New growth will come from reaching new listeners, say execs. "There's not a lot of ideas we aren't thinking about," says Randall, sipping green tea.

Part of that has meant giving more latitude to executives such as 31-year-old Sean Compton, vice-president for radio programming. As dozens of new digital radio channels are created -- so-called HD Radio -- Compton and his team will develop programming for those channels. New technology is allowing radio stations to offer digital and analog signals on the same frequency. That will enable them to offer two to three extra channels per existing station. Listeners can get these new channels only with a digital receiver, for which the lowest prices are about \$250 now. Clear Channel is busy converting 1,000 of its stations to digital, which could mean up to 3,000 more channels to program. It's a serious response, Compton believes, to the specific channel formats on competing satellite radio. "Radio will outlast the other guys," says Compton, the son of a Cincinnati deejay. "It always has."

INTERNET VS. SATELLITE

Then there's Jeff Littlejohn, a 39-year-old former radio engineer, who oversees research and development "skunk works" operations in Cincinnati and Ogallala, Neb. He's working on customizing Clear Channel content for subscriptions on cell phones and pushing into wireless broadband. "We have lots of towers, billboards, lots of ways to build out a [wireless] network to put the Internet in your car," he says. Adds Sean Ross, vice-president for music and programming at consultant Edison Media Research: "The one thing that could interrupt satellite radio's trajectory as a new product is Internet radio in the car."

More immediately, Clear Channel is trying to rectify a longtime listener gripe -- that it airs too many ads. To boost revenues, the company once ran 16 minutes of ads an hour on average. But, "we're in changing times in every medium, and listeners have learned to be impatient because of the Internet and shorter ads on TV," says radio ad buyer Natalie Swed Stone of OMD USA.

So six months ago, Clear Channel boldly decided to cut its ad time and reduce the length of spots from 60 seconds to 30. The short-term result: less revenue, which worries Wall Street. But execs believe fewer and shorter ads will win back listeners, boost ratings, and in turn lead to higher ad rates. There isn't enough data yet to show that the "less is more" initiative is working, but Mark Mays projects that shorter ads will eventually draw an audience that's 30% larger. "Listeners clearly love the change," he says.

Also facing greater scrutiny in the near term is Clear Channel's planned split-up. Industry watchers first viewed the spin-offs as part of the media strategy du jour, following Viacom Inc.'s (VIA) announcement in March that it plans to cleave itself in two and John C. Malone's proposal to spin off a 50% stake in Discovery Networks from Liberty Media Corp. (L). But Mays says this was no copycat decision -- the board of directors had already been mulling the move. "This will be the best of both worlds," says Mark. "These businesses will be able to grow much faster, and we will still have relationships with them."

From the beginning, Wall Street never much liked the live-entertainment business, for which Clear Channel paid a hefty \$4.4 billion in 2000 in a deal for Robert Sillerman's SFX Entertainment Inc. Promoting concerts and owning venues was supposed to be a good fit with radio: Shows could be promoted with on-air ads, and radio stations could woo listeners at concerts. But the payoff never materialized. The entertainment business accounts for about 29% of Clear Channel's revenue but only 6% of cash flow, with margins in single digits, vs. upwards of 40% for radio.

Still, Mark insists that buying into entertainment wasn't a mistake, adding that it helped create important relationships in the business. "What we learned is that there were a lot of misperceptions in the market," he says. "We were a little naive to think the facts would simply speak for themselves." Many investors would argue that the facts have spoken.

Clear Channel hopes to get Securities & Exchange Commission and IRS approvals for its restructuring in the next few months and wrap the deals up by yearend. If Wall Street didn't like Clear Channel's entertainment business, it has been cool to its restructuring, too. The stock is down several dollars a share from \$32 on the day the plans were announced. Bear, Stearns & Co. (BSC) analyst Victor Miller, for one, thinks Clear Channel should focus on buying back shares, selling the entertainment biz to a third party rather than spinning it off, and offering more than 10% of the billboard business to shareholders.

Back in San Antonio, between private jet hops across the country to meet with bankers, other media execs, and employees, the Mays brothers huddle yet again to choose 10 winning suggestions from its workforce. "Who knows what idea might change the game for us?" says Mark. Spoken like a man who no longer takes anything for granted.

By Tom Lowry

http://www.businessweek.com/magazine/content/05_25/b3938093_mz016.htm

Copyright 2000-2004, by The McGraw-Hill Companies Inc. All rights reserved.
Terms of Use Privacy Notice

BusinessWeek online



A Division of The McGraw-Hill Companies