The Consumer Federation of America, Consumers Union and Free Press Release Six New Research Studies That Dismantle Big Media's Case for Abandoning FCC Ownership Protections

Big Media hangs their case for the elimination of FCC ownership protections on three basic claims:

1) Traditional media needs further deregulation because they are in dire financial straits.
2) The Internet and cable TV have altered the local news media marketplace to the point where ownership protections are no longer needed to serve the public interest.
3) There is no harm from media consolidation, and benefits actually result from duopolies and cross-owned properties.

However, the facts just do not support these claims. In their reply comments to the FCC, and in six new research studies released today, The Consumer Federation of America, Consumers Union and Free Press ("consumer groups") dismantle each of these claims and demonstrate that ownership protections preventing Big Media from getting even bigger remain necessary in order to serve the public interest.

Industry Claims of Poverty Are Bogus

In their FCC comments, the National Association of Broadcasters claims further consolidation is needed in order to save their industry from financial ruin. However, the NAB uses a misleading and irresponsible financial analysis in order to make their case. They only report financial records from odd numbered years, ignoring even numbered years "to avoid the sometimes inconsistent impact of advertising associated with [Olympic and national election] events." This irresponsible approach to financial analysis is obviously done to hide the truth: that the broadcast industry remains one of the most profitable business sectors. In the study ***Out of Focus: The NAB's Fraudulent Financial Analysis***, the consumer groups debunk the industry's claim of poverty.

The Internet and Cable Have Not Changed Everything - They Do Not Significantly Contribute to Independent Local News Production

Industry commenters frequently claim that the Internet is leading to a substantial decline in the use of traditional news media, asserting that online news sources are serving as substitutes for traditional print and broadcast media. In the study ***Internet Media Usage and Substitutability***, the consumer groups demonstrate that this is simply not the case. The groups show that a decline in the use of news did occur, but it took place in the mid to late 1990's, well before the rise of online news outlets, and has actually increased since 2002. Furthermore, the data indicates that online users treat Internet sources as supplements to -- not substitutes for traditional media.

Overall, the data indicates that only a small percentage the web audience visits "independent news sites", that is, sites not operated by traditional print, broadcast and cable media outlets. However, as demonstrated in the study ***Independent Local News Lack Original Content***, the content of these independent sites is based heavily on the original reporting of traditional media outlets. Furthermore, the overwhelming majority of the locally focused content on independent websites deals with non-hard news topics like arts, entertainment and food. Finally, the study shows that the audiences of these sites are extremely small and transient when compared to the web audiences of traditional local media outlets.

Several industry groups cite a rise in locally focused cable channels as evidence for the need to eliminate broadcast ownership rules. In the study ***National Owners Dominate Local Cable News***, the consumer groups shed light on this bogus industry claim, demonstrating the dearth of independent local cable news sources.

Using channels cited by industry groups along with official FCC documents, the consumer groups compile a list of over one hundred local or regionally focused cable channels. However, only a quarter of these stations are actually independent sources of local news. Furthermore, the reach of these few stations is limited, with only 16 of the nations' 210 TV markets being served by an independent local cable news channel, and over a third of the stations serving the New York TV market alone. The study also shows that the local/regional cable-only news staff represents an addition to the local resource pool (newsroom staff) of less than 3 percent in the regions they serve. On a national basis, they represent an addition to the local news resource base of approximately one-half of one percent.

Duopolies and Newspaper-Broadcast Combinations Do Not Lead to Increases in Local News Production - These Forms of Consolidation Deprive the Public of Diverse Sources of Local News

Industry commenters claim that consolidation of TV outlets and creation of newspaper-TV combinations in the same market create benefits such as increases in local news programming. However, these claims do not withstand close scrutiny. In their initial comments to the FCC (detailed in the book *The Case Against Media Consolidation*) the consumer groups employed rigorous empirical methods to refute these claims. However, comments submitted to the FCC by Media General and Tribune Co. used data to argue the opposite. In ***Industry Studies of Cross-Ownership***, the consumer groups deconstruct the industry's evidence, and show that their conclusions are highly flawed.

The study shows how Media General's statistical approach was based upon a biased data sample, with their results lacking statistical significance. When Media General's analysis is adjusted to account for its flaws, the results show that markets without cross-owned stations are likely to have between 10 and 25 percent more total news hours than markets with these stations.

Tribune presents data on TV ratings and news hours, as well as circulation of newspapers for the five markets in which it owns a newspaper-TV combination. Unlike Media General, it does not provide non-combination comparison markets, which diminishes the utility of the analysis. However, it does offer before and after data for TV stations and newspapers. The consumer groups analyze the Tribune data and show that their analysis fails to demonstrate the benefit of cross-ownership combinations.

Although Tribune's limited sample showed that the number of news hours increased slightly more at the combination stations than the non-combination stations over the 2001-2006 period, the circulation of combination newspapers declined more than that of non-combination papers. The net effect was a statistically significant decline in the total output of news from the combinations.

On the harm side of the equation, industry commenters repeatedly claim that media markets are not currently concentrated, and elimination of FCC ownership rules will not result in a level of concentration that warrants concern. In the current proceeding, the consumer groups definitively demonstrated that local U.S. media markets are already concentrated, and that further relaxation of FCC ownership rules would increase market concentration to alarming levels. However, industry groups such as Hearst and NAB submitted their own market structure analyses that paint a picture of a competitive marketplace. In the study ***Misleading Industry Market Analyses***, the consumer groups show how Hearst and NAB's analyses reflect fundamentally flawed approaches to product and geographic definition and market structure issues. The industry groups argue that the FCC should not consider audience sizes when determining market concentration. However, the study highlights how ignoring audience size led to the 3rd Circuit Court of Appeals remand of the FCC's 2003 ownership rule changes.

Industry data that is supposed to prove the benefits of cross-ownership simply fails to do so. Therefore, there is no justification for allowing these local market mergers, which sacrifice important sources of independent local news and bring no public interest benefits.

Highlights of the CFA/CU/Free Press Rebuttal Media Ownership Studies

Study #1 - Out of Focus: The NAB's Fraudulent Financial Analysis

- NAB's financial analysis that claims industry poverty is based on an inappropriate and misleading approach. NAB only counted revenue in odd numbered years, ignoring the vastly more profitable even numbered years.
- NAB's conclusion that audiences in larger markets are more valuable than those in smaller markets is fundamentally flawed, because it does not account for the higher costs of conducting business in the larger markets.
- Recent sales of broadcast properties show that the industry is quite healthy. The TV stations sold by The New York Times Company garnered 14-times cash flow, a very high amount for the media sector.

Study #2 - Media Usage and Substitutability

- Contrary to industry claims, the Internet is not the cause of decline in the traditional news media sector. In fact, what decline in news consumption that did occur happened in the mid to late 1990's, and news consumption has actually increased since 2002.
- The Internet appears to be a complement to traditional media, not a substitute.
- The low level of news consumption is not a result of the Internet, but merely a characteristic of youth. Data shows that as the young age, they spend more time with the news.
- The overwhelming majority of Internet news sites visited by online users are not independent, but websites of traditional print and television media companies.

Study #3 - Independent Local News Websites Do Not Significantly Contribute to Source or Viewpoint Diversity

- Independent local news websites cited by industry commenters as evidence of a transformed media marketplace are not significant competitors to traditional media.
- These websites produce very little original reporting, or original hard news reporting.
- Only a fifth of the stories from the city-specific sites surveyed were based on original reporting. However, over half of these stories were on subjects dealing with arts and entertainment, or food related topics.
- Less than 3 percent of the stories from the city specific sites in our sample contained original reporting on "hard news" topics.
- The city specific websites rely heavily on the original reporting of traditional local news outlets such as daily newspapers or broadcast television stations.
- The city-specific websites have very small audiences. The median number of unique monthly visitors to the websites of the local newspapers in the same markets is over 100 times as large. Furthermore, the physical space presence of the traditional media outlets would make their viewership almost two thousand times as large.
- The audiences of the city-specific websites are very transient. Only 8 percent of the visitors to the city-specific websites viewed the site between 2 and 30 times in a month. However, 28 percent of the visitors to the websites of local newspapers were frequent users, viewing the sites between 2 and 30 times in a month.

Study #4 - Local Cable News Channels Do Not Significantly Contribute to Source or Viewpoint Diversity

- Contrary to industry claims, local cable news channels are not significant sources of independent local news content.
- There are only 31 independent cable channels nationwide that air local news reporting. Just 4 companies own 80 percent of these stations.
- Over 40 percent of these stations serve the New York City television market.
- The additional reporting resources devoted by these channels are miniscule. The local/regional cable-only news staff represents an addition to the local resource pool (newsroom staff) of less than 3 percent in the regions they serve. On a national basis they represent an addition to the local news resource base of approximately one-half of one percent.

Study #5 - Industry Studies of Cross-Ownership

- The small amount of hard data submitted by industry that purports to show benefits from newspaper-TV local combinations is methodologically flawed and does not support their case for eliminating the ban on cross-ownership.
- Media General submitted an analysis that used a flawed and biased matching methodology.
- The results reported by Media General are not statistically significant, and thus show no benefit in terms of increased local news production by cross-owned stations.
- When Media General's analysis is adjusted to account for some of its flaws, it is shown that non-combination markets are likely to have between 10 and 25 percent more total news hours.
- Tribune's analysis does not consider non-combination markets, and thus has no "control" variable. Thus their conclusions have no place in the rigorous analysis of ownership policy.
- The Tribune data, which covers certain markets where it operates, shows that TV news viewing has declined much less than overall TV viewing and that TV news markets remain highly concentrated.
- Although the number of news hours increased more at the combination stations than the non-combination stations during the 2001-2006 period (in the selected Tribune markets), the circulation of combination newspapers declined more than that of non-combination papers. The net effect was a statistically significant decline in the total output of news from the combinations. A gain of half an hour of news coverage per station was offset by a reduction in circulation of almost 50,000 papers per day.
- There is a wealth of rigorous empirical research that contradicts Media General and Tribune's claims that cross-ownership results in increased news production.

Study #6 - Misleading Industry Market Analyses

- The *Prometheus* Court affirmed the legitimacy of conducting media market structure analysis to determine market concentration in order to assess the effect of ownership policy changes. However, the analyses offered by Hearst and NAB are poorly executed.
- Hearst and NAB's market structure analyses reflect fundamentally flawed approaches to product and geographic definition and market structure issues.
- These industry analyses make the same mistake the Commission has made in the past -- ignoring audience size when determining concentration. This mistake directly led to the overturning of the FCC's 2003 ownership rule changes.
- NAB tries to portray a competitive local radio marketplace using a highly flawed analysis. When we correct for these flaws we show that instead of an average of 81 stations per market, we find four owners with a 90 percent market share.
- When the flaws in the industry analyses are corrected, it is clear that U.S. local media markets are highly concentrated, and further consolidation brought on by FCC deregulation will lead to great increases in market concentration.