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George S. Ford, Chief Economist

1 September 2007

Jonathan Levy
Deputy Chief Economist
Federal Communications Commission
445 12th Street S.W.
Washington, D.C. 20554

RE: Peer Review of REVIEW OF THE RADIO INDUSTRY, 2007 by George Williams, Federal Communications Commission

Dear Jonathan:

At your request, I have reviewed the study entitled REVIEW OF THE RADIO INDUSTRY, 2007, by Commission Senior Economist George Williams. Per your instructions, I have considered the following: (1) whether the methodology and assumptions employed are reasonable and technically correct; (2) whether the methodology and assumptions are consistent with accepted economic theory and econometric practices; (3) whether the data used are reasonable and of sufficient quality for purposes of the analysis; and (4) whether the conclusions, if any, follow from the analysis. Also per your instructions, I will not "provide advice on policy," but limit my discussion to the four listed standards above. I am aware that this review is not anonymous. To my knowledge, I have no potential conflicts of interest in this proceeding or on these issues more generally.

The REVIEW OF THE RADIO INDUSTRY, 2007, is a 31-page document excluding a title page. There are 20 pages of text and 13 tables and charts, the latter of which is discussed in the text of the document. Some of the underlying data used to compute the descriptive statistics reported in the study are provided as Appendices to the document in Microsoft Excel files. While the document references a "Technical Appendix (at ft. 8)," it appears to be titled the "Data Appendix." If the "Data Appendix" is not the same as the referenced "Technical Appendix," then I was not provided the latter document and my commentary therefore is not reflective of that portion of the study. Most of the analysis in this study has appeared in earlier studies with the same title (though for different years).

As for content, this study is primarily a collection of statistics on the radio broadcast industry. No new theoretical or empirical techniques are proposed, presented or employed. The discussion of the descriptive statistics relies on established techniques and theoretical concepts. For example, the study's discussion of market concentration makes use of the concentration ratio (CR1, CR2, and CR4), which is a widely accepted and informative measure of market or industry concentration. The financial ratios used in Section 4 (Radio Industry Financial Performance) are also established indicators of financial performance from both a practical and theoretical perspective. As such, their use in a study of this type is reasonable. Further, the interpretation of the trends in these financial indicators is consistent with standard professional practice. While others may have different interpretations of the trends, those used in this study are sensible and consistent with professional standards. It appears that sufficient detail and discussion on these financial ratios is provided so that the underlying data could be reproduced by other researchers.

Perhaps the most difficult aspect of radio broadcasting to measure is Format Diversity. The count of formats statistic used in this study is a simple yet plausible measure of Format Diversity. The author recognizes that there are many alternate measures and provides a list of recent studies on the topic, but the one selected is a reasonable measure of diversity for some purposes.

Much of the data is based on Arbitron defined radio markets, which is consistent with FCC policy on market definition for radio broadcasting. Data used for this study are provided by BIA, Compustat, Arbitron, and Service Quality Analytics Data (SQAD). All of these data sources are generally viewed as reliable and their use for this study is reasonable. Some relevant details and limitations of these data sources are discussed in the study.

I have three specific comments on the study that warrant attention. First, the author needs to decide whether there is a "Data Appendix" or a "Technical Appendix." Second, on Page 5, the study states,

> The decline in the number of owners reflects a continuation of the consolidation of the commercial radio industry that has occurred since the passage of the Telecom Act in 1996. However, most of the consolidation occurred in the years immediately following the Act in 1996. From 1996 to 2000, 18.5 percent of radio stations, on average, changed hands each year. However, from 2001 to 2006, this average annual percentage fell to 7.8 percent.

In my opinion, the statistics do not support the argument that consolidation has slowed (though they are consistent with the argument). Consolidation need not be the consequence of station sales; concentration arises only when such sales reflect a purchase by entities that already own radio stations. Third, there is an unnecessary spacing between footnote 27 and 28.

Overall, it is my opinion that: (1) the methodology and assumptions employed are reasonable and technically correct; (2) the methodology and assumptions are consistent with accepted economic theory and econometric practices; (3) the data used are reasonable and of sufficient quality for purposes of the analysis; and (4) the conclusions follow from the analysis. The study is well written, well documented and conveys useful information to both researchers and policymakers.

Sincerely,

George S. Ford
Chief Economist