Irene

Thought you would be interested in the Government Executive Magazine article on government advertising

Michael Messinger
OVP
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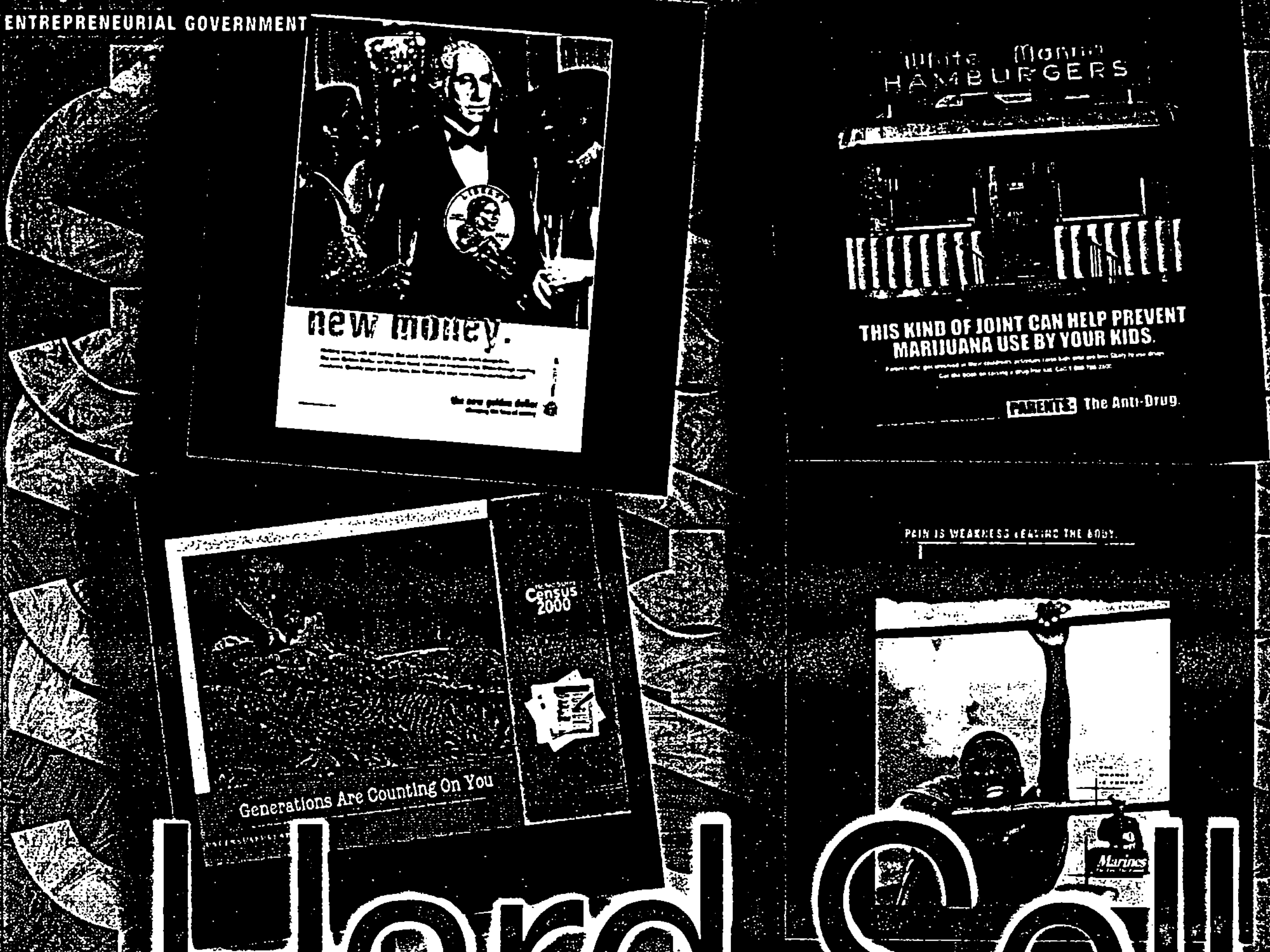


Hard Sell

Uncle Sam has become one of the biggest spenders on paid advertising in the world, but federal ad efforts are getting mixed reviews.

By Shawn Zeller

Alan Levitt doesn't mince words. "This is the most closely scrutinized advertising campaign in history," says the director of the media program at the White House Office of National Drug Control Policy. If that's overstating the case, it's not by much. Levitt, a 30-year veteran of the civil service, is referring to the federal government's 5-year, $1 billion campaign to eradicate youth drug abuse. The ads in the campaign, which was launched two years ago, have won kudos for their sophistication and creativity. But ONDCP has also faced harsh criticism on a number of fronts.

"We've had six congressional hearings, a General Accounting Office audit, two pickets and one sit-in," Levitt laments. The political pressure to make changes in the campaign or to hire particular advertising firms is constant, he says. "On a good day, it's like having a root canal. Everybody's got a better media slogan. Someone always thinks we should be spending more on methamphetamines, or designer drugs, or crack cocaine."

The criticisms don't end there. Rep. Lucille Roybal-Allard, D-Calif., has fought unsuccessfully for two years to force the office to include anti-alcohol advertising in its campaign. In January, Web magazine *Salon* ran an investigative article detailing an

Shawn Zeller is an assistant editor at National Journal.

ONDCP policy that gave TV networks a break on their obligations to provide free air time to the drug control office for public service announcements if popular TV shows featured drug abuse in a negative light. Members of Congress and newspaper editorial boards across the country lambasted ONDCP for stepping on First Amendment rights. The policy was revoked.

DAVID HILLS

Alan Levitt: ONDCP's ad campaign has won kudos and scrutiny.

Likewise, members of Congress became concerned when Scripps-Howard News Service reported in June that ONDCP's Web site dropped electronic "cookies" into the computers of visitors, tracking and recording their moves through the site. White House Chief of Staff John Podesta demanded that the practice cease immediately

In addition, minority-owned media outlets and advertising agencies, backed by the Rev. Al Sharpton and Reps. Carolyn C. Kilpatrick, D-Mich., and Robert Menendez, D-N.J., have complained loudly that ONDCP isn't spending enough on them. When the drug policy office declined to purchase $5 million worth of ads on Black Entertainment Television this year, BET executives became so enraged that they declined any anti-drug ads at all. "You snubbed your nose towards us with tokenism," wrote BET executive vice president Louis Carr in a January letter to ONDCP director Barry McCaffrey.

The successes and failures of the drug control campaign mirror those faced by other federal agencies as they expand their use of paid advertising on television and radio, in print media and, increasingly, on the Internet. In its most recent study of advertising spending, *Advertising Age* magazine reported that the federal government placed 25th in expenditures, with a total of more than $500 million in spending. That puts Uncle Sam right behind such major companies as Sony Electronics Inc. and Viacom Inc., and ahead of corporate titans Coca-Cola Co., Intel Corp., Honda Motor Co., and Anheuser-Busch Cos. Inc.

The study, which tracked 1998 spending, does not include recent increases in the government's ad budget. Indeed, in an effort to stem the decline in military recruitment, the armed service began to step up thei spending on advertisin last year. At the sam time, the Census Burea ran paid ads for the firs time ever, spending $20 million in an effort to rais response rates to censu forms. The U.S. Min lavished more than $5 million on wide-rangin ad campaigns promotin 50 commemorative stat quarters and the new golden dollar coin.

Several governmen campaigns have wor praise for adopting the best practices of private sector advertising. Census and Min officials already are touting the success o their ads in raising census response rates an demand for new coins. A recent U.S. Marines campaign featuring a young man being transformed into a soldier after fightin a dragon also has won accolades. But criticism of some federal ad efforts by minorities has dampened some of the enthusiasm and long-standing allegations of wastefu spending on ads and unfair competition with the private sector have persisted.

From PSAs to Prime Time

Until recently, the government relied mostl on public service announcements to get th word out about such things as respondin to the census, the dangers of drugs and th benefits of military service. Ad agencies donated the creative component and broadcas networks offered free air time.

The New York City-based Ad Counci has helped put together many of those ad since World War II, when it was founded b two industry trade groups. Council ad brought to prominence pop culture icon such as Rosie the Riveter and Smokey Bear Slogans such as the Transportation Department's "Friends Don't Let Friends Driv Drunk" and Nancy Reagan's "Just Say No" were popularized on Ad Council public service announcements.

PSAs remain an important part of government advertising. In January, for example, Defense Secretary William Cohe announced that Hollywood stars Tom Cruise, Harrison Ford, Robert DeNiro, Julia Roberts and Will Smith had agreed to appear in PSAs promoting military service.

But PSAs run only when networks hav

time to donate, so they tend to air at odd hours during less-popular programming. "With the economy as good as it is and advertising space tighter and tighter, it's harder and harder for the government to get its message across in the donated media environment," says Donna Feiner, senior vice president of the Ad Council.

As a result, more agencies are turning to sophisticated paid advertising campaigns, and using PSAs only as a supplement. Advertising agency executives say the strategizing that marks the latest ad campaigns by federal agencies rivals that of any corporate ad blitz.

Large advertising agencies create the new federal ads. The creative content is evaluated in focus groups and by panels of experts. Ads aimed at middle-class Caucasian adults differ from those targeting second-generation Hispanic children, and they run on different media outlets. Hired analysts evaluate the ads' effectiveness. Many of the bureaucratic hassles that once marked the government's acquisition process have been removed to make it easier to contract for ad campaigns. Outside consultants are brought in to help evaluate the ad firms who compete for federal business. Some agencies are now offering performance-based contracts that compensate ad agencies in proportion to the success of their campaigns.

ONDCP has used several prominent outside firms in its campaign. Leading the effort are Ogilvy & Mather, a New York City-based advertising agency with more than $8 billion in annual billings, and Fleishman-Hillard, a St. Louis-based public relations firm. Mendoza Dillon & Asociados designs ads for Hispanics; Lopito, Ileana & Howie focuses on Puerto Ricans; Muse Cordero Chen and Partners and Persaud Brothers put together the African American and Asian and Pacific Islander campaigns; and G&G Advertising is charged with influencing Native Americans.

Levitt says every ONDPC ad is rigorously vetted. Focus groups and panels of psychologists who specialize in treating teenagers analyze the content. Experts in minority advertising analyze scores of ads aimed at practically every ethnic group and

Carolyn C. Kilpatrick faulted ONDCP for slighting minority ad agencies.

subgroup conceivable. The campaign recently has released a barrage of ads aimed at influencing rural Americans.

Strategizing before the ONDCP ad campaign launched took nearly a year. Now, the National Institute on Drug Abuse is charged with reviewing the campaign's effectiveness every six months. It has awarded subcontracts to Westat Inc., the Annenberg School of Communications and the National Development and Research Institute to conduct the reviews. "This is a very powerful and sophisticated campaign," Levitt says. Though actual drug abuse numbers haven't yet declined much, Levitt points to first-year figures showing the number of children who say smoking marijuana "is cool" went down 14 percent. At the same time, the number of parents who said they began talking to their children more frequently about drug abuse rose 13 percent. "This is a social marketing campaign. It isn't just getting someone to buy some product. It's about changing behavior. That's more difficult and longer term," says Levitt.

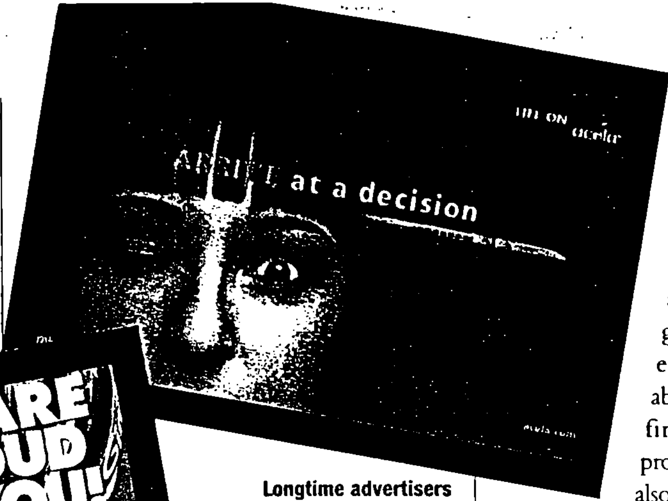
Advertising experts say other agencies should follow ONDCP's lead by spending more on ad campaigns and reorienting ads to more effectively reach target audiences.

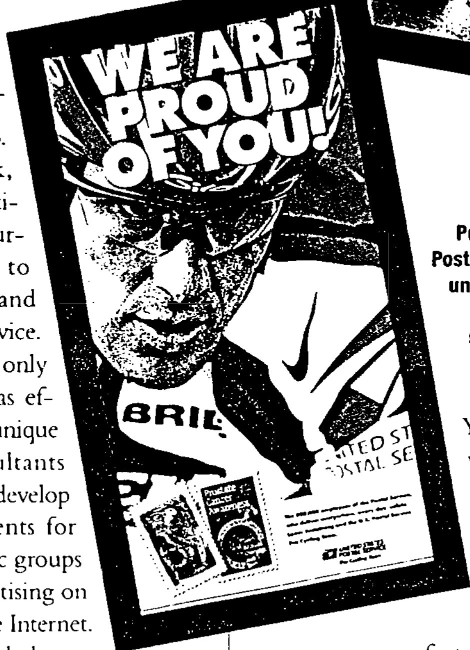
A July study prepared by advertising consultants at the Washington firms of Sawyer, Miller & Co. and Murphy, Pintak, Gautier, Hudome criticized the military's current ads for failing to develop distinct "brand identities" for each service. The consultants said only the Marine Corps has effectively developed a unique identity. The consultants urged the military to develop separate advertisements for different demographic groups and place more advertising on local television and the Internet. In light of a 1999 study by political consultants Michael R. Murphy and Carter D. Eskew, the Army, Navy and Air Force already are adopting performance-based contracts that reward ad agencies that are successful in boosting recruitment numbers.

The military is also significantly hiking its spending, a move that would have seemed incredible in the late 1980s and early 1990s, at the height of the post-Cold War defense downsizing. In 1993, military ad budgets had declined for six straight years. Sen. David Pryor, D-Ark., attacked the recipients of what was left of DoD's ad budget on the floor of the Senate, railing against "big-city, Madison Avenue advertising agencies . . . who continue to get fat on the military's advertising dollars at the taxpayer's expense."

But in June the Army hired Chicago-based Leo Burnett Worldwide Inc., Cartel Creativo, a Hispanic agency, and Images USA, an African American agency, to assume a contract valued at approximately $100 million a year, nearly double what the Army spent annually on ads during much of the 1990s.

The Air Force is reviewing proposals for a new $50 million ad campaign. Last year, the Air Force ran its first paid television advertisements and hired Siegel & Gale, a New





Longtime advertisers the U.S. Postal Service and Amtrak have both come under attack. Private firms accuse the Postal Service of having an unfair advantage. Ads for Acela, Amtrak's high-speed rail service have confused viewers.

York City firm, to devise a new logo and slogan for the service. The move came after the Air Force missed its recruitment goal for the first time in its history.

In June, the Navy also began seeking new agency applications. Last year, it conducted focus groups aimed at shifting its advertising to target a new generation of recruits. It also began running a TV infomercial that focuses on the real life stories of Navy enlistees. BBDO New York is overseeing the $34.5 million Navy ad budget this year.

Lavish spending on outside advertising firms marked the government's other major campaigns as well. The Census Bureau worked with New York City-based Young & Rubicam, as well as several subcontractors charged with hitting minority targets. The Mint shelled out $40 million just for the golden dollar campaign devised by Dan Rosenthal Co., of Bethesda, Md. The ads featured a hip George Washington character touting the new coin while riding the subway, snorkeling and ordering Chinese take-out.

Missing Minorities

For many minority leaders, the issue is not how much government is spending but where the money is going. In late 1998, the Federal Communications Commission issued a study showing that minority-owned radio and television stations received lower advertising revenues than other stations with similar ratings and program formats. "It was a wake-up call," says Rep. Kilpatrick. She and Menendez immediately launched discussions with advertising industry trade groups and urged them to educate their members about the discrepancies. Ad firms acknowledged the problem, Kilpatrick said, but also fired back, charging that the government needed to examine its own practices as well.

As a result, Kilpatrick and Menendez asked the General Accounting Office to examine the government's advertising contracts last year. In the May report, GAO found that from 1994 to 1998, advertising by government agencies increased from $139 million to $368 million. During that same period, the share of dollars going to small minority-owned businesses peaked at $3 million, or 3.1 percent of total spending, in 1995, before declining to $1.2 million, or 0.3 percent of total spending, in 1998. Because the figures do not include fees paid to larger minority-owned businesses, the American Advertising Federation is currently conducting a follow-up study.

"The federal government's efforts to include minority- and women-owned advertising agencies should be a shining beacon to private industry," Kilpatrick said. "Instead, we seem to be stuck in the Dark Ages."

The Army and the ONDCP, which have the two largest government ad budgets, have received the bulk of the criticism. Activists assailed the Army earlier this year for only considering full-service agencies or consortiums with at least $350 million in billings in choosing a new contractor. The size restriction effectively eliminated any minority-owned agencies from competing without first partnering with other agencies. Such arrangements are an ongoing complaint of minority agencies, says Ron Owens, a partner with the Virginia-based firm of Laughlin Marcinio Owens. "Because it's always a subcontract, the minority agencies are always beholden to the agency of record. They never get their share of face time with the client, nor the share of billings they think they deserve," he says.

Kilpatrick says she has met with Army Secretary Louis Caldera and White House Chief of Staff Podesta to discuss the Army contract. But she has even stronger con-

cerns about the ONDCP's efforts. "We think the whole drug media program is a farce," she says. "It's not really designed to reach those people that we feel need it, and more than that, the dollars aren't reaching those agencies in minority communities that can make a difference." Likewise, she says, minority-owned media outlets like BET are more trusted by black viewers, and should receive a large share of the spending regardless of how their ratings compare with major network television.

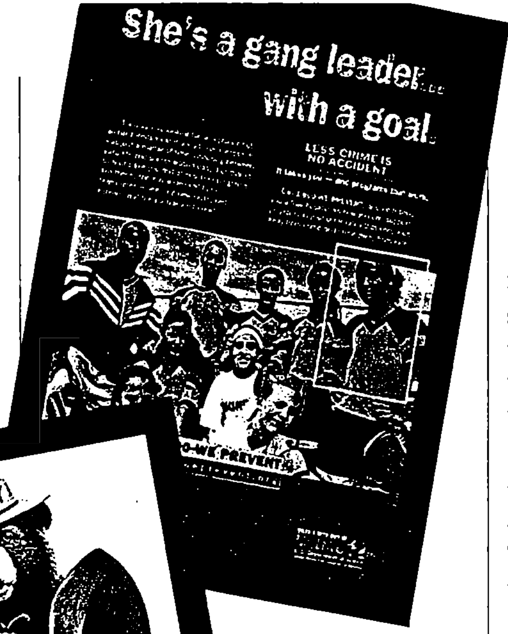
Levitt is unapologetic. "For us, the most important thing is delivering a message that resonates with the target audience. It's not about giving this or that group a piece of the pie." He says the ONDCP is effectively reaching minority viewers by targeting ethnic shows on network television and supplementing that with minority-owned media buys.

Still, a White House interagency working group led by Michael S. Messinger, deputy director of the National Partnership for Reinventing Government, is examining the issue. Messinger declined to comment about the panel's conclusions, but said he was planning to convene a conference on government advertising practices in the fall.

Same Old Story

While much of the story about government advertising is a tale of vigorous experimentation leading to fresh criticism, some agencies continue to find themselves pitted against the same old opponents and detractors. The U.S. Postal Service and Amtrak, the beleaguered government rail system, have been in the advertising business for years. The Postal Service will spend about $250 million this year to tout its express and priority mail services. Amtrak is running ads to draw attention to its planned high-speed Acela rail service on the East Coast. It also is running its normal array of TV, radio and print ads supporting existing services. Its total ad budget is about $50 million, according to Amtrak vice president of marketing Stephen W. Scott.

As long as the Postal Service has run advertisements for services that compete with those offered by private firms, it has faced bitter attacks. United Parcel Service director of public relations Tad Segal says the Postal Service's total ad budget is more than UPS and the Federal Express Co. spend combined. The spending is unfair, Segal said, because the Postal Service uses profits earned on its monopoly letter service to fund ads promoting its competitive products. Segal said the Postal Service was forced to pull one set of ads last year after Federal Express sued in federal court arguing that the ads were misleading. The ads compared the Postal Service's relatively low prices on two- and three-day mail service but failed to mention that FedEx and UPS are required by the 1970 Postal Reorganization Act to charge at least twice what the Postal Service charges on those services, Segal explained.



Public service ads like these for crime prevention and forest safety were a popular form of government advertising but now face competition from paid ads.

Likewise, Amtrak's campaign for its new high-speed Acela train service, designed by DBB Worldwide of New York, has run into fierce criticism from longtime opponents. Even Amtrak officials acknowledge that the ad campaign is somewhat strange. One of the more recent billboard ads, for example, featured a man with a trenchcoat pulled over his head with the tag line "Depart from your inhibitions." An informal *Philadelphia Inquirer* survey found the ad confused viewers. "Maybe he's a molester," Philadelphian Anthony Farnon speculated. Earlier ads simply said "arelaxb" or "aschmoozeb" over the Acela logo. Later versions said, "It's amazing the things that can happen between point a and point b. Life on Acela." None of those ads even hinted that the Acela was a train.

The ads were part of an ongoing teaser campaign aimed at sparking interest in the Acela before it gets rolling, according to Scott. The content is intentionally vague, he said, to spark initial interest. Later ads will fall more in line with Amtrak's standard advertising campaigns, which stress the convenience and comfort of train travel.

But critics say Amtrak began running the Acela ads far too early, even for a teaser campaign. That problem, they say, has only been compounded by the repeated delays in the Acela launch. Joseph Vranich, a former Amtrak spokesman and longtime critic, is unforgiving. "These teaser campaigns primarily serve the ad agencies who want to win awards from their peers," he said. "Amtrak's ads need to convey some actual information about trains and not just some guy in a trenchcoat looking like he's about to expose himself in Times Square." Scott acknowledged that Amtrak has pulled its TV advertising and is not putting up additional billboards until closer to the high-speed service's launch.

Ads' Value

Despite the reservations of minority advertising executives, most in the advertising world—unsurprisingly—are thrilled with the government's sudden spending blitz. Robert A. Ravitz, an executive vice president at Grey Advertising in New York City, has long advised advertising agencies pursuing government contracts. He said the government has made rapid improvements in the way it hires and uses advertising agencies. "There's no question, they are using agencies more intelligently. What we in the agency world have done traditionally for companies, we're now doing for the government."

Ravitz believes the ad campaigns have already brought dividends for the Census Bureau and ONDCP and expects other agencies to be satisfied as well. Congress and the Clinton administration deserve some credit, he says, for "realizing that you have to communicate aggressively to change behavior." Of course, he concedes, communicating aggressively entails doling out millions in tax dollars to advertising firms and media outlets. And what do federal customers get in return?

"Agencies try to make the best decision for the client," Ravitz says. "There's a value in that. The question is whether that value is worth all the money."

CAROLYN CHEEKS KILPATRICK
15TH DISTRICT, MICHIGAN
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White House Ceremony Concept Summary

Timed to correspond with Congressional Black Caucus weekend, on Thursday, September 14 or Friday, September 15, in an appropriate Washington setting like the White House Rose Garden

1. Presentation and formal adoption of Principles for Effective Advertising in the American Multicultural Marketplace:

- Estimated 50 corporation heads and representatives sign to <u>adopt</u> principles
- Government officials and trade associations sign to <u>endorse</u> principles; includes mainstream and minority trade groups

2. Announcement of House of Representatives resolution making September National Multiculturalism in Advertising Month; national rollout of Principles through AAF's national grassroots network of 50,000 members in local ad clubs and AAF College Chapters during September

- Creates an enduring and flexible framework to encourage continuing focus on diversity and multicultural advertising issues. Works for government as well as for private sector interests: Government conferences, trade association activities, corporate advertising/marketing initiatives.

- September timing corresponds with traditional scheduling of CBC Weekend and beginning of Hispanic History Month

Principles for Effective Advertising in the American Multicultural Marketplace

<u>Background on Principles and Committee Missions</u>

The principles embody the consensus of over thirty committee members who represented national advertisers, general market advertising agencies, minority-owned and focused agencies and minority -owned and focused media outlets. This Business Practices Review Committee (BPRC) worked under the auspices of the AAF Foundation and the AAF Board of Directors Multicultural Task Force. BPRC was charged with these missions:

- To identify the rationale, business and ethical paradigms that companies need to effectively promote growth, diversity and fairness in a multicultural marketplace

- To recommend practical guidelines that will help individual companies manage against those paradigms to achieve their goals

- To identify industry-wide initiatives that will be needed to support widespread adoption and successful implementation of these principles and practices

Corporate Participation on Committee

The identity of companies and their representatives has been confidential. This information will be revealed publicly during the national roll out of the Principles and Practices. A team of co-chairs represent four key industry business segments: National advertiser; general market agencies; minority advertising agencies; and minority media. They are: Procter & Gamble Global Marketing Officer Robert L. Wehling; True North Communications Chairman David Bell; The Chisholm-Mingo Group Chairman and CEO Samuel Chisholm; Spanish Broadcasting System President Raul Alarcon. Advertisers included DaimlerChrysler, Johnson & Johnson, Kraft and Kellogg's. Global ad agencies included D'Arcy, DDB Worldwide and Leo Burnett. Minority agencies included Don Coleman & Associates, La Agencia de Orci & Asociados. Minority media included BET, Essence Communications and black newspapers.

A Report Prepared by the Civil Rights Forum on Communications Policy

Civil Rights Forum on communications policy

When Being No. 1 Is Not Enough:

The Impact of Advertising Practices On Minority-Owned & Minority-Formatted Broadcast Stations

Kofi Asiedu Ofori
Principal Investigator

submitted to the
Office of Communications Business Opportunities
Federal Communications Commission
Washington, D.C.

Synopsis

As part of its mandate to identify and eliminate market entry barriers for small businesses under Section 257 of the Telecommunications Act of 1996, the Federal Communications Commission chartered this study to investigate practices in the advertising industry that pose potential barriers to competition in the broadcast marketplace. The study focuses on practices called "no Urban/Spanish dictates" (*i.e.* the practice of not advertising on stations that target programming to ethnic/racial minorities) and "minority discounts" (*i.e.* the practice of paying minority-formatted radio stations less than what is paid to general market stations with comparable audience size). The study consists of a qualitative and a quantitative analysis of these practices.

Based upon comparisons of nationwide data, the study indicates that stations that target programming to minority listeners are unable to earn as much revenue per listener as stations that air general market programming. The quantitative analysis also suggests that minority-owned radio stations earn less revenues per listener than majority broadcasters that own a comparable number of stations nationwide.

These disparities in advertising performance may be attributed to a variety of factors including economic efficiencies derived from common ownership, assessments of listener income and spending patterns, or ethnic/racial stereotypes that influence the media buying process. As a preliminary investigation, it was beyond the scope of this study to determine in quantitative terms the degree to which each of these factors may explain these disparities. Further statistical research should be undertaken to find the answer to this question. Anecdotal data collected by the study suggest that in certain instances, the media buying process is guided by ethnic/racial stereotyping, underestimations of disposable income, the desire to control product image, unfounded fears of pilferage, etc. Factors such as these form part of the basis for "no Urban/Spanish dictates"and "minority discounts" as practiced by advertisers and/or ad agencies.

As preliminary findings, the anecdotal and quantitative evidence suggests that certain practices in the advertising industry undermine marketplace competition and First Amendment principles favoring diversity of viewpoint. The study recommends further research that is sufficiently funded to fully examine these preliminary findings. The study also recommends that the federal government, based upon subsequent research and public comment, develop a policy statement on advertising practices and issue an executive order prohibiting federal agencies from contracting with ad agencies that engage in unfair or discriminatory advertising practices. With regard to the private sector, broadcasters, advertisers, and ad agencies should adopt a voluntary code of conduct that prohibits "no Urban/Spanish dictates"and "minority discounts" and that promotes a broad and diverse range of programming for all Americans.

Key words: advertising and discrimination; advertising and minorities; advertising and minority radio programming; small business competition and radio advertising.

Study Highlights

Findings:

A. An analysis based upon 1996 data for 3,745 radio stations indicated that:

- Stations that target programming to minority listeners earn less revenue per listener than stations that air general market programming.
- Minority-owned radio stations earn less revenue per listener than majority broadcasters that own a comparable number of stations nationwide.

B. Minority radio broadcasters responding to the study survey provided the following estimates of the magnitude and impact of "no Urban/Spanish dictates" and "minority discounts:"

- Ninety-one percent indicated that they had encountered "dictates" not to buy advertisements on their radio stations.
- Efforts to overcome "dictates" with market research that justifies ads on minority-formatted stations were most commonly met with no response or no recission of the dictate by advertisers or ad agencies.
- Survey respondents estimated that sixty-one percent of the advertisements purchased on their stations were discounted. The average amount of the discount was estimated to be 59 percent.
- Survey respondents estimated that "no Urban/Spanish dictates" and "minority discounts" reduce their revenues by an average of 63%.
- Forty-four percent estimated that "no Urban/Spanish dictates" and "minority discounts" interfere with their ability to raise capital and to acquire minority-formatted stations.
- Forty-four percent estimated that "no Urban/Spanish dictates" and "minority discounts," detract from the value of minority-formatted stations when they are being sold.

Conclusions:

- "No Urban/Spanish dictates" and "minority discounts" constitute barriers to competition because they detract from the amount of revenue earned per listener, and thus hinder a broadcaster's ability to attract investment capital, and to produce high quality news, information and entertainment programming in response to the needs of listeners.
- Most radio stations that air minority-formatted programming are adversely affected by advertising practices directed against minority listeners. Minority-owned stations, however, are disproportionately affected because 75% of them air programming targeted to minority listeners, compared to 8% for majority broadcasters.
- To the extent that minority formatted stations are unable to obtain advertising, their ability to serve the needs of listeners is impeded. The interest of all Americans, particularly minorities, in a broad and diverse range of informational and entertainment programming is undermined by advertising practices directed against minority consumers. Hence, "no Urban/Spanish dictates" and "minority discounts," undermine competition and detract from the First Amendment goal of diversity of viewpoint.

Recommendations:

- Subsequent research should endeavor to quantify the causal relationship between advertising practices and disparities in the advertising performance of minority-formatted and general market stations, and minority and majority-owned stations controlling for various factors such as ownership size, audience income, and market location.
- The Federal Communications Commission and the Federal Trade Commission should assemble a joint task force for the purpose of adopting a policy statement on acceptable advertising practices.
- Based upon the findings of subsequent research, the federal government should decide whether to issue an executive order that prohibits federal agencies from contracting with advertising agencies that practice "no Urban/Spanish dictates" and "minority discounts," or that otherwise fail to comply with the policy statement of the joint task force.
- The advertising and broadcast industries should adopt a code of conduct that requires buying decisions to be based upon market research and not flawed stereotypical assumptions. "No Urban/Spanish dictates" and "minority discounts" should be prohibited. Broadcasters should be required to prominently disclose whether the market research they use in conjunction with sales promotion has been prepared by a service that has been accredited by the Media Ratings Council. In instances where a non-accredited market research service is used, broadcasters should be required by the FCC to show cause why they do not use a service that is currently accredited by the Media Ratings Council.

Comparison of Minority and Major Broadcasters by Format

(All figures are averages. Currrency in thousands)

(Number of Stations)	'96 Nat Rev	# Nat. Stat.	'96 Stat. Rev.	Power Ratio
General Formats	$129,059	42.5	$2,202	1.16
Majority Owned - All (3293)	$130,497	43	$2,214	1.16
Majority Owned - Small (2,288)	$13,040	7.4	$1,410	1.16
Minority Owned - All (39)	$7,630	7.4	$1,237	0.85
Minority Targeted Formats	$86,125	26.3	$1,958	0.91
Majority Owned - All (297)	$116,574	34.8	$2,052	0.95
Majority Owned - Small (193)	$7,387	4.9	$1,038	0.99
Minority Owned - All (116)	$8,164	4.4	$1,717	0.82

Source: "**When Being No. 1 Is Not Enough:** The Impact of Advertising Practices On Minority-Owned & Minority-Formatted Broadcast Stations." (page 79)
Civil Rights Forum on Communications Policy.

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Congress of the United States
House of Representatives
Washington, DC 20515–2215

June 15, 2000

The Honorable William J. Clinton
President of the United States
1600 Pennsylvania Ave.
Washington, D.C. 20500

Dear Mr. President:

As you know, I have been working on behalf of the Congressional Black Caucus (CBC) to address business practices which are unfair to minority companies in the advertising industry. We believe these practices undervalue minority consumers. The American Advertising Federation (AAF), with the cooperation of several of our nation's largest advertisers, has developed *"Principles for Effective Advertising in the American Multicultural Marketplace,"* a strategic plan for boosting minority representation in the advertising industry.

This letter is to request that the Administration serve as the host of a historic event. Ideally, the event could take place in the Rose Garden, on either September 14 or 15, in conjunction with the Congressional Black Caucus Annual Legislative Conference (CBC/ALC). The purpose of the event would be a formal signing ceremony to commemorate the advertising industry's adoption and national roll out of the *Principles* and the announcement of September as National Multiculturalism in Advertising Month.

Holding the signing ceremony at the White House will encourage widespread acceptance of the *Principles* and support the CBC goal of increasing competition for minority advertising agencies, newspapers, broadcasters and Internet companies. The prestige of such a location for the recognition of *National Multiculturalism in Advertising Month* -- which would overlap the CBC/ALC week and the beginning of Hispanic History Month -- would underscore and institutionalize recognition of the importance of diversity and multiculturalism in advertising for years to come. In addition, by hosting the ceremony, the administration would complement the work of Vice President Gore's Interagency Working Group.

The *Principles* are the result of the year-long deliberations of the American Advertising Federation's (AAF) blue ribbon panel that Vice President Gore recognized during an AAF event in February, 1999. The committee was tasked with formulating guiding principles and recommended practices for the ethical conduct and effectiveness of the advertising industry. The need for this initiative was established in part because of the findings of a July 1998 Congressional Summit on Diversity in Advertising, during which Congressman Robert Menendez and I met with a number of minority business principals, and in part due to a 1999 FCC-commissioned report on disparities in advertising rates paid to minority broadcasters. After the results of the study were revealed, Chairman Kennard called for an industry code of conduct and Vice President Gore announced the formation of his Working Group which has worked cooperatively with the AAF committee.

Plans for an event include having all key advertising industry segments from the private sector, which were represented on the AAF's blue ribbon committee, to be represented at the formal signing ceremony. In keeping with the public-private partnership we have established to work on the issues there will also be representation from the public sector. Chief executive officers and senior executives representing major national advertisers, global advertising agencies, global media companies, minority-owned ad agencies and a variety of minority media outlets will be invited to adopt the *Principles*. Key advertising industry trade groups representing advertisers, agencies and minority business segments will be invited to endorse the *Principles*. Representatives from the Administration and other officials also will be invited to endorse the *Principles* including Chairman Kennard and Congressman Menendez who have been working in partnership with AAF and me on these issues.

Thank you for your continued support of minority-owned media outlets and advertising agencies. I am enclosing a summary about the *Principles* and will be happy to answer any questions you might have. Please do not hesitate to contact me if you have further questions, or have your staff contact my Administrative Assistant, Ms. Kimberly Rudolph at 202-225-2261. I look forward to hearing from you.

Sincerely,

Carolyn C. Kilpatrick

CAROLYN C. KILPATRICK
Member of Congress

CCK:kr

EXECUTIVE OFFICE OF THE PRESIDENT
OFFICE OF MANAGEMENT AND BUDGET
WASHINGTON, D.C. 20503

THE DIRECTOR

January 7, 1999

M-99-06

MEMORANDUM FOR THE HEADS OF EXECUTIVE DEPARTMENTS AND AGENCIES

FROM: Jacob J. Lew
Director

SUBJECT: Review of Federal Agencies' Media Initiatives

Last year, the Federal government spent more than $400 million on print advertising in newspapers and magazines and broadcast advertising on radio and television. These media initiatives include public safety alerts, information about government programs, and other public service information. It is important that the Federal government's media initiatives encompass the broad spectrum of the American public. The American people speak many languages, represent a richness of experiences, backgrounds, and perspectives, and receive information through a host of publications and radio and television stations. When the Federal government communicates with the American public, its aim should be to reach out as inclusively and effectively as possible.

Our goal is to reach out to the broadest possible audience in the most effective manner. Therefore, I am requesting that departments and agencies that engage in significant media initiatives (see list in Attachment A) review their current advertising practices and policies to ensure that they are consistent with our goal.

These departments and agencies are requested to provide within 90 days information (see Attachment B) about their media initiatives to:

Director
National Partnership for Reinventing Government (NPR)
750 17th Street, NW
Washington, DC 20501

You may also fax the report to (202) 632-0390. If you have any questions, you may contact Lynn Kahn of NPR at 202-694-0038 or Leslie Schwager of NPR at 202-694-0107.

Thank you in advance for your cooperation on this important initiative.

Attachments

Attachment A – Selected Agencies

Department of Agriculture
Department of Commerce
Department of Defense
Department of Education
Department of Energy
Department of Health and Human Services
Department of Housing and Urban Development
Department of the Interior
Department of Justice
Department of Labor
Department of State
Department of Transportation
Department of the Treasury
Department of Veterans Affairs

Consumer Product and Safety Commission
Corporation for Public Service
Environmental Protection Agency
Equal Opportunity Employment Commission
Federal Communications Commission
Federal Emergency Management Agency
Federal Trade Commission
Office of Personnel Management
Peace Corps
Small Business Administration
Social Security Administration
DUCPC

Attach[illegible]

I. **Please complete.**

Name of Media Initiative	Amount Spent FY 98	Estimated Expenditures FY 99

II. **The main objective of each initiative.**

For each of the media initiatives listed above, describe the main objective.

III. **The process by which your agency identifies the target audience.**

For each of the media initiatives listed above, identify the target audiences and describe how your agency determines and defines the target audiences. Describe to what extent experts on marketing to minority or ethnic groups are involved.

IV. **The process by which your agency designs a media initiative.**

Please describe how your agency plans and carries out a media initiative. Include in your description, whether you deal directly with media outlets or work through ad agencies, and what factors determine which media outlets you use. To the extent your agency pays for advertising, please include that information as well. Describe your process, if any, for requiring media outlets to provide discounts or matches as a condition for placing ads.

V. The process by which messages are crafted for and delivered to particular target audiences.

Please describe how your agency determines the particular needs of various target audience segments, such as persons whose native language is not English, minorities, or individuals with disabilities. Please include how often, if at all, your agency uses niche outlets targeted at minority audiences or foreign language media.

VI. The process by which you determine whether media initiatives have effectively reached target audiences.

Please describe the methods you use to ensure that your target audiences have been reached, including any qualitative or quantitative analytic tools that are used to measure the initiative's reach. Please attach any studies that have been conducted comparing the relative effectiveness of minority-targeted outlets in communicating with traditionally "hard to reach" communities, with the effectiveness of traditional mainstream media outlets in reaching the same communities.

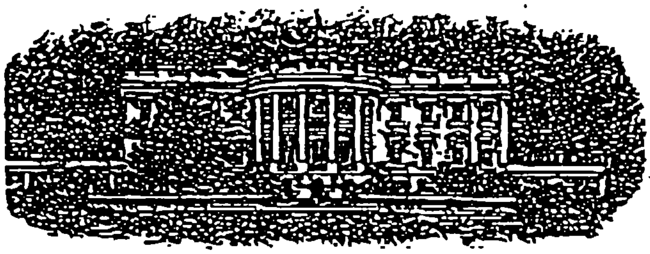
VII. Additional information.

Provide any ideas you have for how the Federal government can more effectively reach diverse audiences, and any examples of efforts your agency has undertaken that were particularly successful.

OFFICE OF THE VICE PRESIDENT

Domestic Policy Office
Old Executive Office Building
Washington, DC 20501

Phone: 202 456-6222
Fax: 202 456-6231



TO: Susan Valadcovic

PHONE: 6940005 **FAX:** 632 0390

FROM: Audrey Choi

number of pages including cover: 5

Comments:

Sue. As discussed here is the final signed document.
Thank you again for your help with this.
Please keep me posted + call me anytime if there's anything you need me to do to help move this along. Thanks
AC

A Report Prepared by the Civil Rights Forum on Communications Policy

Civil Rights Forum on communications policy

When Being No. 1 Is Not Enough:

The Impact of Advertising Practices On Minority-Owned & Minority-Formatted Broadcast Stations

Kofi Asiedu Ofori
Principal Investigator

submitted to the
Office of Communications Business Opportunities
Federal Communications Commission
Washington, D.C.

Synopsis

As part of its mandate to identify and eliminate market entry barriers for small businesses under Section 257 of the Telecommunications Act of 1996, the Federal Communications Commission chartered this study to investigate practices in the advertising industry that pose potential barriers to competition in the broadcast marketplace. The study focuses on practices called "no Urban/Spanish dictates" (*i.e.* the practice of not advertising on stations that target programming to ethnic/racial minorities) and "minority discounts" (*i.e.* the practice of paying minority-formatted radio stations less than what is paid to general market stations with comparable audience size). The study consists of a qualitative and a quantitative analysis of these practices.

Based upon comparisons of nationwide data, the study indicates that stations that target programming to minority listeners are unable to earn as much revenue per listener as stations that air general market programming. The quantitative analysis also suggests that minority-owned radio stations earn less revenues per listener than majority broadcasters that own a comparable number of stations nationwide.

These disparities in advertising performance may be attributed to a variety of factors including economic efficiencies derived from common ownership, assessments of listener income and spending patterns, or ethnic/racial stereotypes that influence the media buying process. As a preliminary investigation, it was beyond the scope of this study to determine in quantitative terms the degree to which each of these factors may explain these disparities. Further statistical research should be undertaken to find the answer to this question. Anecdotal data collected by the study suggest that in certain instances, the media buying process is guided by ethnic/racial stereotyping, underestimations of disposable income, the desire to control product image, unfounded fears of pilferage, etc. Factors such as these form part of the basis for "no Urban/Spanish dictates"and "minority discounts" as practiced by advertisers and/or ad agencies.

As preliminary findings, the anecdotal and quantitative evidence suggests that certain practices in the advertising industry undermine marketplace competition and First Amendment principles favoring diversity of viewpoint. The study recommends further research that is sufficiently funded to fully examine these preliminary findings. The study also recommends that the federal government, based upon subsequent research and public comment, develop a policy statement on advertising practices and issue an executive order prohibiting federal agencies from contracting with ad agencies that engage in unfair or discriminatory advertising practices. With regard to the private sector, broadcasters, advertisers, and ad agencies should adopt a voluntary code of conduct that prohibits "no Urban/Spanish dictates"and "minority discounts" and that promotes a broad and diverse range of programming for all Americans.

Key words: advertising and discrimination; advertising and minorities; advertising and minority radio programming; small business competition and radio advertising.

Study Highlights

Findings:

A. An analysis based upon 1996 data for 3,745 radio stations indicated that:

- Stations that target programming to minority listeners earn less revenue per listener than stations that air general market programming.
- Minority-owned radio stations earn less revenue per listener than majority broadcasters that own a comparable number of stations nationwide.

B. Minority radio broadcasters responding to the study survey provided the following estimates of the magnitude and impact of "no Urban/Spanish dictates" and "minority discounts:"

- Ninety-one percent indicated that they had encountered "dictates" not to buy advertisements on their radio stations.
- Efforts to overcome "dictates" with market research that justifies ads on minority-formatted stations were most commonly met with no response or no recission of the dictate by advertisers or ad agencies.
- Survey respondents estimated that sixty-one percent of the advertisements purchased on their stations were discounted. The average amount of the discount was estimated to be 59 percent.
- Survey respondents estimated that "no Urban/Spanish dictates" and "minority discounts" reduce their revenues by an average of 63%.
- Forty-four percent estimated that "no Urban/Spanish dictates" and "minority discounts" interfere with their ability to raise capital and to acquire minority-formatted stations.
- Forty-four percent estimated that "no Urban/Spanish dictates" and "minority discounts," detract from the value of minority-formatted stations when they are being sold.

Conclusions:

- "No Urban/Spanish dictates" and "minority discounts" constitute barriers to competition because they detract from the amount of revenue earned per listener, and thus hinder a broadcaster's ability to attract investment capital, and to produce high quality news, information and entertainment programming in response to the needs of listeners.
- Most radio stations that air minority-formatted programming are adversely affected by advertisin

practices directed against minority listeners. Minority-owned stations, however, are disproportionately affected because 75% of them air programming targeted to minority listeners, compared to 8% for majority broadcasters.
- To the extent that minority formatted stations are unable to obtain advertising, their ability to serve the needs of listeners is impeded. The interest of all Americans, particularly minorities, in a broad and diverse range of informational and entertainment programming is undermined by advertising practices directed against minority consumers. Hence, "no Urban/Spanish dictates" and "minority discounts," undermine competition and detract from the First Amendment goal of diversity of viewpoint.

Recommendations:

- Subsequent research should endeavor to quantify the causal relationship between advertising practices and disparities in the advertising performance of minority-formatted and general market stations, and minority and majority-owned stations controlling for various factors such as ownership size, audience income, and market location.
- The Federal Communications Commission and the Federal Trade Commission should assemble a joint task force for the purpose of adopting a policy statement on acceptable advertising practices.
- Based upon the findings of subsequent research, the federal government should decide whether to issue an executive order that prohibits federal agencies from contracting with advertising agencies that practice "no Urban/Spanish dictates" and "minority discounts," or that otherwise fail to comply with the policy statement of the joint task force.
- The advertising and broadcast industries should adopt a code of conduct that requires buying decisions to be based upon market research and not flawed stereotypical assumptions. "No Urban/Spanish dictates" and "minority discounts" should be prohibited. Broadcasters should be required to prominently disclose whether the market research they use in conjunction with sales promotion has been prepared by a service that has been accredited by the Media Ratings Council. In instances where a non-accredited market research service is used, broadcasters should be required by the FCC to show cause why they do not use a service that is currently accredited by the Media Ratings Council.

Comparison of Minority and Major Broadcasters by Format

(All figures are averages. Currrency in thousands)

(Number of Stations)	'96 Nat Rev	# Nat. Stat.	'96 Stat. Rev.	Power Ratio
General Formats	$129,059	42.5	$2,202	1.16
Majority Owned - All (3293)	$130,497	43	$2,214	1.16
Majority Owned - Small (2,288)	$13,040	7.4	$1,410	1.16
Minority Owned - All (39)	$7,630	7.4	$1,237	0.85
Minority Targeted Formats	$86,125	26.3	$1,958	0.91
Majority Owned - All (297)	$116,574	34.8	$2,052	0.95
Majority Owned - Small (193)	$7,387	4.9	$1,038	0.99
Minority Owned - All (116)	$8,164	4.4	$1,717	0.82

Source: "**When Being No. 1 Is Not Enough:** The Impact of Advertising Practices On Minority-Owned & Minority-Formatted Broadcast Stations." (page 79)
Civil Rights Forum on Communications Policy.

I. Introduction & Summary

A. The Impetus for this Study

This study stems from a Congressional mandate given to the Federal Communications Commission ("The Commission" or the "FCC") to initiate "a proceeding for the purpose of identifying and eliminating...market entry barriers for entrepreneurs and other small businesses in the provision and ownership of telecommunication services...."[1] Pursuant to that mandate, the Commission issued a Notice of Inquiry seeking comments on the nature of market entry barriers faced by small businesses.[2] The Commission also held a public forum in 1996 to identify barriers to competition and to formulate strategies to overcome them.[3]

At the hearing, witnesses testified before the Commission regarding practices within the advertising industry that were alleged to inhibit the ability of minority broadcasters to generate advertising revenues. James Winston, Executive Director of the National Association of Black-Owned Broadcasters ("NABOB"), testified that advertisers and ad agencies often issued instructions to media buyers not to purchase advertisements on urban-formatted[4] radio stations.[5] Commonly referred to as "no Urban dictates," the practice is also frequently used in connection with programming targeted to the Hispanic audience.[6] Mr. Winston's testimony was supported by the comments of Jeffrey Cullers, President of Vince Cullers Advertising Agency.[7]

Broadcasters serving the minority community reported many examples of these practices over a long period. They stated that "no Urban dictates" are often founded upon stereotypical perceptions about minority consumers. According to NABOB, minority station salespeople soliciting an advertisement from the Beef Council were told that the Council was not going to buy advertising time

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[1] Telecommunications Act of 1996, Pub. L. No. 104-104, 110 Stat 56 (1996), 47 U.S.C. § 257(a).

[2] Section 257 Proceeding to Identify and Eliminate Market Entry Barriers for Small Business (Market Entry Barriers Notice of Inquiry), 11 FCC Rcd 6280 (1996).

[3] *Forum on Small Business Market Entry Barriers, ("Market Entry Barriers Forum")*, Federal Communications Commission, September 24, 1996. *See* FCC Public Notice 64975, released September 5, 1996, announcing the forum's panels.

[4] Urban is a radio music format targeted to predominantly Black audiences.

[5] Testimony of James Winston, (NABOB) and Vince Cullers (Vince Cullers Advertising Agency), note 3, *supra*.

[6] Interview with Carey Davis, General Manager, WSKQ-FM and WPAT-FM, (Spanish Broadcasting System), page 8 (references to interviews refer to transcribed interviews available in volume III of the study and on file with the FCC Library and the FCC's Office of Communications Business Opportunities, unless noted as telephone interviews).

[7] *Market Entry Barriers Forum*, note 3, *supra*.

on urban formatted stations because "Black people don't eat beef."[8] NABOB also reported that a major mayonnaise manufacturer refused to buy commercial time based upon the perception that "Black people don't eat mayonnaise."[9] In both cases, NABOB members reported that the advertisers were unmoved by market research that indicated that African-Americans[10] represented a substantial number of the consumers of the companies' products.[11]

In many instances, advertisers were also reported to pay less money for commercial time on stations that target programming to minority listeners. Minority broadcasters claim that this practice, known as "minority discounts," accounts for a substantial loss of revenues from the sale of advertisements.[12]

The FCC's market entry barrier forum was proceeded by a conference nearly 20 years earlier during which similar information was brought to the Commission's attention. Panelists at the Commission's 1978 Minority Ownership Broadcasting Conference noted that:

> *A preconceived notion, on the part of some advertisers, is that minority consumers are unimportant and do not represent a particularly lucrative market. Consequently, advertisers are less inclined to purchase time on minority-owned stations.*[13]

The concerns of broadcasters have also been registered with members of Congress. In 1991, Representative Cardiss Collins, (D-Ill), introduced a bill[14] intended to prohibit the purchase or placement of advertisements in a manner that discriminates against broadcast, telecommunications or print entrepreneurs by reason of the entrepreneur's racial/ethnic status or the racial/ethnic status of the consumers targeted by the communications format. In introducing the bill, Representative Collins said:

> *According to the National Association of Black-Owned Broadcasters, black-owned radio and television stations, print media, and black-owned advertising agencies are subjected to systematic discrimination.*

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[8] NABOB, Spring Conference, 1996.

[9] NABOB, Spring Conference, 1997.

[10] This report uses the terms "African-Americans" and "Blacks" interchangeably to refer to persons of African descent living in the United States.

[11] NABOB, Spring Conferences, notes 8 and 9, *supra*.

[12] Minority broadcasters responding to the survey for this study estimated "minority discounts" averaged 59% (*see* page ?).

[13] *Report on Minority Ownership in Broadcasting*, Federal Communications Commission, 1978, at 25.

[14] NonDiscrimination in Advertising Act of 1991, H.R. 285, 102nd Cong., 1st Sess. (1991), (*see* Appendix B).

> *Ad agencies and their clients are refusing to advertise in media owned by blacks and other minorities. This means that in many cases Black media are being bypassed for advertising placement, even though they possess higher numbers in groups being targeted by the ad agency. Black-owned advertising agencies are also being singled out because they are presumed to have expertise in appealing to black audiences.*[15]

Though the bill was not passed, it drew attention to the impact of advertising practices on broadcasters and the community that they serve.

The FCC has long recognized that advertisers play a vital role in a station's financial success or failure.[16] Advertising dollars are critical to a commercial station's ability to make a profit to pay its employees, retire debt from the station purchase,[17] earn money to acquire other stations, and offer quality programming to its audience. Thus, advertising practices have a profound effect on a station's ability to serve their community of license.

Radio and television play a critical role in American society as a means of communicating news, information, and entertainment. In 1997, the average adult listened to the radio 22.5 hours a week.[18] Hispanics[19] listened to the radio 24.45 hours weekly, while African-Americans listened 25.5 hours weekly.[20] ~~The television was on 7.12 hours a day in the average American household in 1997.~~[21] Consequently, American television households viewed on average 50.24 hours of television a week in 1997, compared to 56.17 hours for Hispanic and 69.49 hours for African-American households.[22]

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[15] 137 Cong. Rec. E32-02 (1991).

[16] FCC, Office of Public Affairs, EEO Minority Enterprise Division, Minority Ownership of Broadcast Facilities: A Report (1979) at 19.

[17] *See* Akosua Barthwell Evans, *Are Minority Preferences Necessary? Another Look at the Radio Broadcasting Industry*, 8 Yale Law and Policy Review 380 (1990) ("*Radio Broadcasting*") at 400, ("A ripple effect of the difficulties in obtaining financing and high quality stations is that African-American broadcast facilities are often highly leveraged and have a greater dependency on advertising revenues to pay debt service.").

[18] Radio Marketing Guide & Fact Book, ("Radio Marketing Guide") www.rab.com/station/mgfb98/fact5.html accessed December 2, 1998.

[19] This report uses the term "Hispanics" to refer to persons of Hispanic origin or descent living in the United States.

[20] Radio Marketing Guide, note 18, *supra*.

[21] TVB, Resource Center, Trends in Television, www.tvb.org/researchreports/trend tv/timespent.html, accessed December 21, 1998.

[22] Nielson Media Research, Television Audience 1997, at 24.

Sixty minutes of the average American adult's day were spent reading, watching or listening to advertising.[23] The billions of dollars spent on radio and television advertising reflect its impact on the economy and society. In 1997, $13.4 billion was spent on radio advertising and $44.5 billion on television advertising.[24]

In light of the important role of broadcasting in American life, and the impact of advertising practices on broadcasters' ability to compete and serve the public, the FCC, in August 1997, commissioned the Civil Rights Forum on Communications Policy ("CRF") to conduct this study. The funding[25] allocated to this study only permitted a preliminary investigation of whether small, female and minority-owned broadcasters have greater difficulty in obtaining commercial advertising. The study seeks to establish a basis for a comprehensive analysis of this question in the future.

This study will aid the Commission in its efforts to evaluate policies to promote competition and overcome market barriers facing small, female and minority communications firms. It will serve as a foundational step for the FCC to "identify the specific obstacles that women and minorities face and to determine whether they are of the nature that will satisfy heightened judicial scrutiny."[26]

A comparison of the top-rated radio stations in the eighth largest market, Washington, D.C., illustrates the importance of this study. Minorities comprise a large percentage of the listening audience for the three highest-rated stations— WPGC-FM, WHUR-FM and WKYS-FM. These three stations are roughly comparable in terms of audience size, program format,[27] and audience demographics (see

[23] *The Average Adult*, The Pantagraph, Bloomington, Illinois, August 24, 1997, 1997 West Law ("WL") 2484757.

[24] TVB, Resource Center, Trends in Advertising Volume, www.tvb.org/researchreports/trends_advolume/1995_1997.html, accessed December 3, 1998. By comparison, $41.6 billion was spent on newspaper advertising in 1997, and $9.8 billion on magazine advertising. *Id.*

[25] This study was funded by a $20,000 contract awarded to the Civil Rights Forum by the Federal Communications Commission, Office of Communications Business Opportunities.

[26] *Section 257 Proceeding to Identify and Eliminate Market Entry Barriers for Small Business* ("Market Entry Barriers Report"), 12 FCC Rcd 16802, para. 222 (1997). The Report referenced strict scrutiny standards for affirmative action policies established by the federal government. *See, Adarand Constructors, Inc. v Peña*, 515 U.S. 200, 115 S. Ct. 2097 (1995); *See also, Memorandum to General Counsels*, Office of Legal Counsel, U.S. Department of Justice, June 28, 1995.

[27] WHUR and WKYS are both "urban" format stations, meaning they target the African-American community with "urban-style" programming. WPGC classifies itself as "Contemporary Hit Records ("CHR/Top 40"), although its programming is similar to its urban competitors and 79% of its audience consists of minority listeners. *See,* The Media Audit database (Spring 1997), prepared by International Demographics, Inc., Ben Carter, Regional Manager of the Interep

Table 1).[28] The demographics of WHUR, in fact, reflect a more economically affluent audience than the listeners of the number one rated station, WPGC. However, WPGC generated revenues in 1997 that were greater than the combined revenues of WHUR and WKYS.

Second, WPGC was far superior in terms of earning more ad revenues per listener. The power ratio is a measure of a station's ability to convert market share of listeners into market share of revenues.[29] The power ratio of WPGC was 1.26 compared to 0.78 for WHUR and 0.59 for WKYS. In comparison, the average power ratio was 1.06 for 3,502 stations reporting power ratio data for 1997 in the July 1998 edition of the BIA MasterAccess database.

Media Store, commented that some urban formatted stations designate their format as CHR or Adult Contemporary (AC) in order to avoid "no urban dictates" and "minority discounts." Telephone interview with Ben Carter, August 5, 1998.

[28] The column labels of Table 1 indicate station owner, call sign, local commercial share ("LCS," a measure of audience size), power ratios (a measure of a station's ability to convert listener share into share of market revenues), 1997 station revenues, program format, percent of minority listeners, percent of listeners with household income of $75,000 or greater, percent of listeners with a college degree, percent of listeners age 25 to 54, and percent of listeners with professional or technical employment (*see*, Glossary, Appendix K for definitions). Minority-owned stations are highlighted in dark shading. Data in the first six columns was provided by the July 1998 edition of the BIA MasterAccess, BIA Research, Inc. Audience demographic data was obtained from Fall 1997 edition of The Media Audit (Fall 1997), International Demographics, Inc.

[29] Stations with power ratios less than 1.00 are "underselling" their audience— the station's market revenue share is less than its market listener share. Conversely, those with power ratios over 1.00 are "overselling" their audience— the station's market revenue share is greater than its market listener share. *See* BIA Research, *Interpreting BIA's Numbers in MEDIA Access Pro*, undated memo, ("The estimated revenue share for the station is determined by dividing the station revenues by the market revenues times 100. Then this calculated revenue share figure is divided by the local commercial share. A power ratio greater than 1 indicates the station is overselling its audience share; while a ratio less than 1 indicates a station is underselling its audience share."). (*See*, Glossary, Appendix K, (the 1998 edition of the BIA MasterAccess database was renamed MediaAccess Pro)).

Table 1. Washington, D.C. - Top-Rated Stations

Owner	Calls	LCS	Power Ratio	1997 Station Revenues (1,000s)	Format	% Minority Listeners	% 75,000 plus HHI	% College Grad.	% Age 25-54	% Prof./ Tech.
CBS	WPGC FM	7.4	1.26	$22,000	CHR/Top 40	79.3%	26.0%	15.1%	63%	13.4%
Howard Univ.	WHUR FM	6.8	0.59	$9,500	Urban	93.4%	31.8%	23.7%	75%	21.5%
Radio One	WKYS FM	6.5	0.78	$12,000	Urban	85.7%	26.9%	13.7%	65%	12.8%
Chancellor	WMZQ FM	6.1	1.12	$16,000	Country	11.0%	36.6%	22.2%	86%	22.2%
Chancellor	WBIG FM	5.2	1.06	$13,000	Oldies	26.3%	37.2%	29.0%	73%	73.7%
ABC	WMAL AM	5.2	0.94	$11,500	News/Sports	24.0%	46.4%	31.3%	54%	30.1%
Chancellor	WASH FM	5.1	1.21	$14,500	AC	46.3%	37.3%	30.8%	73%	36.0%

Data: BIA MasterAccess; The Media Audit

In addition to format label, two main factors distinguish the market leader, WPGC, from its two closest competitors. First, WHUR and WKYS are owned by minority broadcasters,[30] while WPGC is owned by CBS, a publicly-held, non-minority broadcaster. Minority ownership also distinguishes WHUR and WKYS from the next four competitors, all of which have fewer listeners but earn equal or greater revenues. The second distinguishing factor is ownership size. The owners of the top revenue performers in Table 1 are among the top five largest group owners in the country. The 1997 national revenues for all radio stations owned by CBS, the owner of WPGC, were $1.5 billion, compared to $9.5 million and $56.8 million for Howard University's station and all Radio One radio stations, respectively.[31]

This example is typical of what can be found in several large urban markets where top-rated minority-formatted and/or minority-owned stations fail to earn advertising revenues that are

[30] WHUR is a commercial station owned by Howard University, a historically Black college; WKYS is owned by minority-owned Radio One.

[31] CBS owns 166 radio stations nationwide compared to 1 for Howard University and 13 for Radio One (BIA MasterAccess, July 1998 edition).

commensurate with their large audience.[32] (*See also*, *Ratings Racism: When No. 1 Is Not*, by Mira Schwirtz, MediaWeek, June 22, 1998).

This pattern raises several questions: To what extent does ownership size explain discrepancies in advertising performance? To what extent does minority-format or minority ownership contribute to the inability of stations to earn revenues that are commensurate with their large audience shares? And, to what extent does the racial/ethnic or economic status of an audience influence the buying practices of advertisers and ad agencies?

B. The Research Objective

Following the Commission's mandate to "identify the specific obstacles that women and minorities face" in the communications industry,[33] the FCC's Office of Communications Business Opportunities (OCBO) contracted for this study to "examine whether minority or women-owned firms, and small firms, which have acquired FCC broadcast licenses, have greater difficulties in obtaining advertising or are affected by industry practices which may lower their advertising revenue."[34]

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[32] Based upon local commercial share rankings for 1997, minority-formatted and/or minority-owned broadcasters rank among the top four stations in New York, Washington, D.C., Detroit, Houston and Los Angeles. In each of these markets many non-minority-formatted stations with fewer numbers of listeners receive greater amounts of advertising revenues. In New York, for example, the number one station in terms of listeners is WQHT-FM, an urban formatted station that has a 1997 average local commercial share of 6.90. Easy listening station WLTW-FM also has a 6.9 local commercial share. The revenues of WLTW, however, are $37.9 million, compared to $26.6 million for WQHT. Spanish formatted WSKQ-FM is minority-owned and is the third ranked station in New York with a local commercial share of 5.2. Yet~~, its~~ revenues were only $20.7 million compared to $32.7 million for WCBS-FM, an oldies formatted station that also had a 5.2 rating. The top revenue performer for New York was a mid-market performer in terms of local commercial share; WFAN-AM owned by CBS, earned $47 million and averaged 3.1 in terms of local commercial share. Data derived from the BIA MasterAccess, July 1998 edition.

[33] Market Entry Barriers Report, 12 FCC Rcd 16802 para. 222.

[34] Request for Quote ("Advertising RFQ"), Impact of Advertising Practices on Small, Minority and Women-Owned Broadcasters, FCC Office of Communications Business Opportunities, (97-10), July 1997.

The Commission specifically requested an analysis of the impact of "no Urban dictates"[35] and "minority discounts."[36]

The term, "no Urban/Spanish dictates," means that the advertiser or its agency has issued a directive that commercials are not to be aired on stations that program primarily to the Black and Hispanic communities, regardless of data on station ratings, audience demographics or consumption patterns. "Minority discounts" consist of buying time on a minority-owned or minority-formatted station at a rate that is substantially less than what the station's ratings and audience characteristics suggest should be paid.

Definition of this problem

This study was intended to be a preliminary investigation. Its objective was to analyze advertising practices and to identify areas for further research. Specific areas of research concerning "no Urban/Spanish dictates" and "minority discounts" include:

- range and extent of the practice;
- motivation factors (e.g. income and/or race of the listening audience);
- impact on station revenues;
- impact on power ratios— a station's ability to convert its listener share into shares of revenue in a market;
- ownership size; and
- access to capital and ability to expand.

C. Methodology

The methodology consisted of survey questionnaires, in-depth interviews and quantitative analyses. Preliminary efforts were undertaken to refine the research question.

First, CRF determined that it is standard practice in the advertising industry to target ad campaigns to consumers who are most likely to purchase the products or services of the advertiser (*see* Overview of Media Buying, Appendix A). In the case of radio, this means buying commercial time on stations that have an audience that satisfies the "buy criteria" (*i.e.* demographic characteristics that

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[35] The Advertising RFQ which solicited bids for this research study mentions "other dictates" in addition to "no Urban dictates." Preliminary investigations indicated a need to include "no Spanish dictates" in the study. For purposes of this study's analysis, "Spanish" format includes programming targeted to the Hispanic community, whether provided in the Spanish language or in a Spanish-English bilingual format.

No - Span dictates as well.

[36] Advertising RFQ, page 4.

advertisers believe best describe the people most likely to purchase their products, such as males with a college degree, ages 25 to 54). The fact that most commercial buys on radio are targeted suggests that a demographic segment (*i.e.* males without a college degree, ages 12 to 34) is always excluded from an ad campaign.

Given that targeted advertising is a standard business practice, CRF recognized that a causal link between poor advertising performance and "no Urban/Spanish dictates" and "minority discounts" could not be established, unless "dictates" and "discounts" could be distinguished from justifiable business practices. In order to do this, it would be necessary to assemble a data set that contained data on station advertising performance, as well as audience demographics. The attempt to do this, however, resulted in a relatively small data set of 1,533 stations mostly located in the top 100 markets. CRF determined that the task of assembling a data set for a representative number of markets and stations containing both station performance and demographic data was beyond the scope of this project. Subsequent research with appropriate funding is recommended to undertake a full statistical analysis of the problem.

The quantitative analysis, more fully explained below, did compare the advertising performance of stations controlling for program format, ownership size, and minority ownership. These findings, therefore, should be regarded as *prima facie*. They will be verified or invalidated by subsequent research. They are presented here as preliminary findings and to inform future research efforts.

At the outset, interviews were conducted to refine the research question. In the *television arena*, interviewees suggested that bias related to race and ethnicity was primarily based on the race or ethnicity of minority salespeople, and had less to do with the viewing audience. This view is consistent with the fact that television, unlike radio, is viewed by a broad segment of audience demographics throughout the broadcast day. The exception to this practice is foreign language television. The investigation of the television medium, therefore, concentrated upon discrimination related to the ethnic/racial composition of the salesforce of minority-owned television stations, as well as minority ownership.

T.V. Bias

In the *radio arena*, the preliminary interviews suggested that many stations are hindered in their ability to earn ad revenues due to advertising practices that disfavor programming targeted to minority listeners.[37] The main focus of the study with regard to radio, therefore, was directed toward determining the extent to which, if any, "no Urban/Spanish dictates" and "minority discounts" are practiced in the advertising industry and quantifying the relationship between such practices and the advertising performance of minority-formatted stations.

Radio Bias

[37] For the purpose of this study, program formats were categorized as minority-format or general market based upon the categories employed by BIA Research Inc., (*see* Appendix K). BIA formats denoted as ethnic, black, Spanish, or urban were categorized as minority-formatted. These broad classifications also included subcategories (e.g. urban includes rhythm and blues, urban adult contemporary, and urban rap). All other formats were categorized as general market.

The qualitative methodology included in-depth interviews of 21 radio industry executives. The interviews focused on "minority discounts" and "no Urban/Spanish dictates." A full transcription of the interviews is on file with the Federal Communications Commission Office of Communications Business Opportunities and in the FCC Library. It is also available as volume III of this study.

In addition, a survey questionnaire was submitted to the General Managers of all 284 minority-owned radio stations that are listed in the 1997 minority ownership report published by the U.S. Department of Commerce.[38] Sixty-four completed questionnaires were returned, representing a response rate of 22.5 percent. Survey questionnaires were also distributed to all 30 television licensees identified as owned by minorities by the U.S. Department of Commerce. Eleven completed questionnaires were returned representing a response rate of 36.6 percent. The survey instruments and their consolidated results are presented in Appendix J.

The survey response rates and survey design did not produce results that can be generalized to the universe of minority broadcasters. Accordingly, the survey analysis represents the views of only those broadcasters who responded to the survey. Further research should be conducted with sufficient resources to provide results that can be generalized to all minority broadcasters. Subsequent research should also survey the experience of non-minority owners that air programming targeted to minorities.

Two separate quantitative analyses were undertaken to examine nationwide data on the radio industry. The independent variables for the first analysis were program format, the ethnic/racial classification of the station owner, and number of stations owned nationwide. Two dependent variables served as proxies for advertising performance: power ratios[39] and station revenue.[40] These two variables were compared on the basis of the independent variables. The results of the analysis are discussed in Section III-C-2 and Section III-C-3.

Data for the first analysis was obtained from the August 1997 edition of the BIA MasterAccess radio database prepared by BIA Research Inc. (*see*, Glossary in Appendix K for description of BIA's methodology for estimating station revenues). The BIA database was queried to produce a list of all stations in 1996 with advertising performance data by using the selection criteria: "stations with a power ratio greater than zero."[41] This produced a data set of 3,745 stations representing approximately one-third of the nation's commercial radio stations in 1996. The data set included 155 stations that were

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[38] *Minority Commercial Broadcast Ownership in the United States* ("NTIA Minority Ownership Report"), National Telecommunications and Information Administration, U.S. Department of Commerce, August 1997.

[39] The power ratio measures a station's ability to convert its share of listeners into share of market revenue. *See*, Glossary, Appendix K and note 29, *supra*.

[40] Average station revenues reflect average gross revenues, as opposed to net. (*see* Glossary, Appendix K).

[41] A power ratio greater than zero indicates the station reported revenue and listener data.

identified as minority-owned[42] and 413 stations with programming directed to minority listeners. Stations included in this data set ranged from Arbitron market number 1 through market 246. Appendix D contains a frequency distribution table that indicates the number of stations in each Arbitron market.

A second analysis sought to determine whether the audience demographics associated with minority-formatted programming could be readily distinguished from the demographics of general market programming. This analysis was undertaken because it was previously determined that media buyers take audience demographics into consideration when deciding where to place advertisements (*see* Appendix A). For this analysis CRF compared minority-format stations with general market stations on the basis of average household income and percentage of ethnic/racial listeners. The results of the analysis are presented in Section II-C-1.

Data for the second analysis was obtained by combining the August 1997 edition of the BIA MasterAccess database prepared by BIA Research Inc. and the Spring 1997 edition of The Media Audit prepared by International Demographics, Inc. Pairing data from The Media Audit with data from BIA resulted in a combined data set of 1,533 stations. This data set consists of stations located mostly in the top 100 Arbitron markets and includes 98 minority-owned stations and 212 minority-formatted stations. See Appendix D for a market frequency distribution table for this data set.

Data comparisons for both analyses were performed using SPSS software version 7.5.

As noted earlier, the funding available for this study was insufficient to undertake a comprehensive statistical analysis that simultaneously controls for all variables that may affect advertising performance. Hence, the quantitative findings of this study should be regarded as preliminary. They are presented here to inform future research that should control for additional variables such as audience income. Therefore, the results contained in this study do not constitute conclusions about the causal relationship between the independent and dependent variables. Further statistical inquiry is necessary to explore and verify these findings.

D. Summary of Major Findings

Radio. As discussed further below, the quantitative data suggest that minority-formatted radio stations earned less revenue per listener than stations that aired general market programming. Second, minority-owned radio stations appear to earn less revenues per listener than majority broadcasters that owned a comparable number of stations nationwide. These disparities in advertising performance may be attributed to a variety of factors including: economic efficiencies derived from common ownership; advertisers' or ad agencies' assessments of a radio audience's income, spending patterns, and responsiveness to advertising; or ethnic/racial stereotyping that influences the media buying process.

possible causes for revenue disparity

[42] The August 1997 edition of the NTIA Minority Ownership Report was used to flag stations in the BIA MasterAccess database as minority-owned. The NTIA list was modified to conform with sales transactions that had occurred through August 1997.

As a preliminary investigation, this study was able to establish that disparities in advertising performance exist. It was not able, however, to determine in quantitative terms the degree to which each of these factors may explain disparities in advertising performance. Further statistical research should be undertaken to find the answer to this question. that study was able to prove

With regard to the anecdotal data, the results of study survey and interviews suggest that "no Urban/Spanish dictates" and "minority discounts" are partly the cause of the disparities in the advertising performance described above. According to the anecdotal data, the following factors influence the media buying process and to some extent form the basis of "no Urban/Spanish dictates" and "minority discounts:"

- racial/ethnic minority consumers are incorrectly stereotyped as inappropriate consumers to receive advertising for certain luxury products or services;
- stations that program to minority listeners are excluded based on average listener income, regardless of data about consumption patterns;
- the desire to disassociate a company's image from minority consumers;
- language barriers, in the case of Hispanic radio;
- advertisers' unfounded fears that minority consumers pilfer;
- media buyers' and advertisers' unfamiliarity with the consumer habits of minorities;
- efforts by broadcasters and their national sales representatives to discourage advertisements on minority-formatted stations; and
- the belief that minorities can be reached as effectively through the general media as compared to targeted media.

Despite indications that Hispanics and Blacks are a substantial and growing segment of the domestic economy (*see* Section II-B-3 and C), the anecdotal data provided evidence that "no Urban/Spanish dictates" and "minority discounts" are still practiced in the radio marketplace.

An example of these practices is the reported refusal of luxury automobile manufacturer BMW to consider placing advertisements on urban formatted stations in the New York metro market. According to the station manager of one of the urban stations, BMW also disregarded qualitative research showing that Black adults accounted for 46 percent of the people who owned or leased BMWs in New York (*see* page 26; *see also*, page 25 for an example involving Volvo). In industry jargon this practice is called "no Urban dictates" or "no Spanish dictates" (*i.e.* a policy not advertise on stations due to their urban or Spanish formats). BMW, example

The results of CRF's survey research provided an estimate of the magnitude of the problem concerning "dictates." Ninety-one percent of the minority broadcasters responding to the survey indicated that they had encountered "dictates" not to buy commercials on their radio station (*see* page 32).

Minority survey respondents reported that efforts to overcome "dictates" using audience measurement research yielded meager results. When asked to describe the response of advertisers and ad agencies toward research that demonstrated minority patronage for the advertised product, survey respondents rated "no response" and "acknowledgment of the research, but no rescission of the dictate" as the two most common responses (*see* page 38).

The Black consumer is less valued than the White consumer and therefore they're going to pay less for Black consumers. Judith Ellis, Sen. V.P., Emmis Broadcasting.

[T]he account supervisor for a major car manufacturer says to me, "Come on guys. You know we're wasting our time here." And I said, "How's that?" He says, "You know the Hispanics don't buy or lease cars." Luis Alvarez, Sales Manager, WSKQ, WPAT.

There are certain products, name brands, who for the longest time did not utilize Blacks in their advertising even though they knew that Blacks represented a significant part of their sale volumes. Byron Lewis, Chairman, The UniWorld Group

Media executives interviewed for the study reported that advertisers and/or ad agencies habitually purchase commercial time on minority-formatted stations at rates that are lower than what is paid to stations that air programming to the general market. This practice is customarily called "minority discounts." For example, a well-known mattress retailer offered to buy time on a New York urban station at a rate lower than what it offered to pay to a jazz format station under common ownership with the urban station. The urban station was offered a discounted rate, despite the fact that its audience size was greater than that of the jazz station. Moreover, qualitative data ranked the urban station 22 points higher than the jazz station with respect to listeners' plans to buy bedding or mattresses (*see* page 85).

Minority broadcasters responding to the survey estimated that 61 percent of the advertisements purchased on their stations were discounted. The amount of the discount was estimated to be 59 percent (*see* page 35). When asked to estimate the magnitude of sales loss attributable to "no Urban/Spanish dictates" and "minority discounts," the minority broadcasters replied that these practices reduced their revenues by an average of 63%.

The corollary to this claim is that minority broadcasters would perform better, and possibly exceed the performance of their majority competitors, but for "minority discounts" and "no Urban/Spanish dictates." Quantitative data collected by this study suggests that if minority-owned broadcasters and minority-formatted broadcasters were able to earn revenues at the same rate per listener as general market broadcasters, higher performance levels might be possible. The data suggest that "minority discounts" and "no Urban/ Spanish dictates" constitute considerable barriers to competition for minority-owned and minority-formatted broadcasters.

CRF employed two measures of advertising performance: station revenues and power ratios. Station revenues in this study are based upon annual gross revenues. Power ratios indicate whether a broadcaster is "overselling" or "underselling" its audience share. Hence, a station with a 1.20 power ratio is earning more revenue per listener than a station with a 0.80 power ratio (see Glossary, Appendix K).

The analysis of nationwide data indicates that stations with ~~minority formats averaged power~~ ratios of 0.91, compared to 1.16 for stations with general market programming (*see* Table 2, page 79). This analysis is consistent with other trend analysis that shows that minority-formatted stations have been less able to convert their listener shares into advertising revenue, even when they have large audiences.[43]

Disparities in advertising performance as measured by power ratios were also observed in terms of the racial/ethnic ownership of the broadcaster. Majority owners that aired minority targeted programming averaged power ratios of 0.95~~, compared to 0.82 for minority owners.~~ The average power ratio was 1.16 for majority owners in general market format, compared to 0.85 for minority owners in general format.

These disparities persist when comparing minority broadcasters to majority broadcasters of comparable size. Small[44] majority-owned broadcasters that target programming to minority listeners averaged power ratios of 0.99, compared to 0.82 for minority broadcasters in that format. In the

[43] James H. Duncan's 1997 report on radio revenue and ratings documented this trend over time. CRF computed the historical average for the power ratios of minority and general market formatted stations analyzed by Duncan between 1991 and 1996. During that period, the power ratio for the stations analyzed by Duncan averaged 0.96 for Hispanic formats and 0.73 for urban/black formats, with a combined average of 0.85. For general market formats, the average power ratio between 1991 and 1996 was 1.07. The historical data indicate that during this decade, Black and Hispanic formats have been less able to convert their share of the listening audience into revenues than general format stations. This time series analysis is consistent with the anecdotal evidence in this study. *See,* James H. Duncan, *Share-to-Revenue Conversion Ratios, (Some call them Power Ratios, We call them Conversion Ratios) and Format Performance Analysis," ("Duncan's Power Ratio Analysis"),* Duncan's American Radio, Inc., May 1997, page 5.

[44] Small majority owned broadcasters airing minority-formatted programming were defined as those owning 17 or fewer stations nationally in 1997, mirroring the range of minority ownership in that format. The average number of stations owned nationally by minority broadcasters airing minority-formatted programming was 4.4. The average number of stations owned nationally by small majority broadcasters airing minority-formatted programming was 4.9. *See* Table 2, page 79; *see also,* NTIA Minority Ownership Report, 1997 and the August 1997 edition of the BIA MasterAccess.

general market format category, small [45] majority owners averaged power ratios of 1.16, compared to 0.85 for minority owners.

In terms of station revenues, general market stations averaged revenues that were 12% greater than minority-formatted stations. Majority broadcasters, overall, outperformed minority broadcasters within both format categories. Station revenues for majority broadcasters that aired general market programming were on average 79% greater than those of minority competitors within the same format. Majority broadcasters that aired minority-formatted programming averaged revenues that were 20% higher than those of minority broadcasters in the same format category.

A comparison of broadcasters of comparable size[46] indicates that general market majority-owned broadcasters averaged revenues that were 14% greater than minority-owned stations within the same format category. Significantly, the revenue comparison indicated that minority broadcasters that target minority listeners outperformed small majority broadcasters in both format categories. Station revenues for minority-formatted, minority-owned broadcasters were 65% greater than small majority competitors with minority targeted programming, and 22% greater than small majority competitors in the general market category.[47] This finding indicates that minority-owned broadcasters are strong marketplace competitors. Their advertising performance would likely be even better, allowing them to provide more service to their listeners and to grow at a competitive rate, were it not for the advertising practices analyzed in this study.

On the basis of station revenues and power ratios, general format stations outperformed stations that targeted programming to the minority audience. Majority broadcasters as a whole that aired general market programming performed better than minority and small majority broadcasters that aired minority formats. These findings based upon nationwide data are consistent with anecdotal evidence that suggest that advertisers and/or ad agencies place less value on the minority consumer. The anecdotal evidence and quantitative findings, taken together, suggest that in the absence of "minority discounts" and "no Urban/ Spanish dictates," minority-owned and minority-formatted stations would earn more revenue per listener than they do currently.

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[45] Small majority owned broadcasters in general market format were defined as those owning 26 or fewer stations in 1997, mirroring the range of minority owners in that format. The average number of stations owned nationally by minority broadcasters and majority broadcasters airing general market programming was 7.4. *See* Table 2; *see also*, NTIA Minority Ownership Report, 1997 and BIA MasterAccess database, 1997.

[46] The basis of the revenue comparison of broadcasters of comparable size was the same as that for the power ratio comparison. *See*, notes 45-46, *supra*.

[47] Revenue comparisons in this study did not control for the market rank of stations. As noted in Section II-C-2-c, minority broadcasters are more concentrated than majority broadcasters in large urban markets where station revenues are higher. Such variations in market rank affect revenue comparisons (*see* Chart L).

Research beyond the scope of this preliminary investigation is required to determine the relative effect of various independent variables (ownership size, audience income, audience ethnicity, minority ownership, program format, etc., *see* Section II-D) upon advertising performance. As preliminary research, the findings presented by this report may be confirmed or disproved by subsequent research. These findings are presented ~~as *prima facie*~~ evidence of practices in the advertising industry that discriminate against minority listeners ~~and indirectly~~ against the stations that serve them. They are also intended to highlight areas for further inquiry.

only a prima facie case

Women-Owned Radio Stations. Until October 1998, the FCC did not require broadcasters to report the gender or race of station owners.[48] In an effort to identify women owners to be examined for this study, CRF contacted American Women in Radio Television and Film, the National Telecommunications and Information Administration ("NTIA"), and the Federal Communications Commission. NTIA publishes an annual list of minority broadcasters, but does not identify the owners' gender. While that list is an indispensable tool for examining minority ownership, one may only estimate gender by examining first names. Apart from this source, CRF was able to identify only six radio stations owned by two non-minority females. Limits on the funding allocated to this study prevented a more exhaustive effort to identify all female radio and television owners. Considering the distinct possibility that there may be more women owners, particularly of large station groups, CRF concluded that there was inadequate data at this time upon which to base an analysis.

It is recommended that subsequent research first undertake to identify the nation's female broadcasters. A study should be conducted to assess the impact of advertising practices upon female broadcasters from the standpoint of programming formats that target women viewers/listeners, the presence of women in the station's sales force, the station's status as female-owned, and the ability of female entrepreneurs to raise capital.

Minority-Owned Television. Television programming is not targeted through the course of the broadcast day to a narrow audience demographic in the same way as radio. This makes it less likely that the revenue earning ability of minority television stations can be linked to ad agency or advertiser bias against an audience, though it may vary by show. The only instance in which such bias was identified was in the context of Spanish-language television. One station reported negative advertiser support due to the station's Spanish-language format and the Hispanic composition of the audience (*see* Section III).

Other reported instances of lack of advertiser support originated from Home Shopping Network (HSN) affiliates. Based upon 1997 estimates of minority television ownership, 25 percent of the Black owners aired commercials 24 hours a day as HSN affiliates. Complaints about advertiser support originating from minority-owned HSN affiliates are believed to stem from advertiser reluctance to support this unique format, and not from the racial/ethnic composition of the viewing audience.

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48 *See, In the Matter of Policies and Rules Regarding Minority and Female Ownership of Mass Media Facilities*, FCC 98-281, MM Dockets 98-43 & 94-149, released November 25, 1998, 1998 WL 814552 (stations must report race and gender of owner on FCC broadcast ownership reports).

There was no consensus on the part of the survey respondents concerning the effect of minority sales staff , minority ownership or minority-oriented programming on the ability of the television stations to earn advertising revenues. Therefore, no conclusions or generalizations can be made in this area.

Further research is recommended to analyze the impact of advertising practices which take race, ethnicity or gender into account on television, particularly their impact on which shows are produced or aired and the advertising performance of programs. Research should also examine the impact, if any, of advertising practices on the images of minorities and women on television programming.

E. Policy and Research Recommendations

This study was intended to be a preliminary investigation of practices in the advertising industry that affect broadcasters. Recommendations for further research and a process for developing policy initiatives are summarized below.

1. Further Research Recommendations

As noted earlier, it is a normal business practice in the advertising industry to target advertising to probable consumers. Hence, it is essential that research undertaken as a follow-up to this study distinguish between legitimate business practices, and those which may not be justifiable in terms of nondiscriminatory marketing objectives.

One such method is to compare the general market cost per point paid to general market and minority-formatted stations. The cost per point is the price that an advertiser pays to reach 1% of the audience in a specific metro market (see Glossary, Appendix K). Section II-C-2-d presents evidence that minority-formatted stations receive general market cost per points that are discounted. In order to prove a pattern of such practices, however, a researcher must have access to proprietary information. Advertising agencies and national rep firms generally maintain such records. CRF attempted to, but could not, obtain such data. It may be necessary for future researchers to avail themselves of the subpoena powers of the federal government in order to access such information.

On the basis of questions raised by this study concerning the impact of advertising practices on minority-owned and minority-formatted stations, CRF also recommends the following research initiative:

- A broader study, funded with sufficient resources, should be undertaken to analyze the impact of various factors on broadcasters' performance. Such an analysis will help the FCC identify whether there are impediments to entry and growth in the broadcast industry that warrant Commission action, and the reasons for those obstacles.

- The analysis should examine factors such as: the impact of ownership size on revenue and power ratios; advertising pricing variances (including cost per point variances) by format; the racial/ethnic classification of the owner, and owner size; differences in quantity of advertising time made available by stations; consumer responsiveness to advertising on minority-targeted media compared to general market media; the extent to which a broad variety of formats are subjected to systematic "discounts," or "dictates" based on the audience served; the relationship between "dictates" or "discounts" and the range of formats on a broadcaster's stations; the extent to which "discounts" are based on audience income levels for various formats; the quantity of discounts experienced by minority-formatted stations and other formats, and their pervasiveness; the extent to which discounts may be related to station classifications of power and reach (*i.e.* AM or FM, Class A or Class C); the extent and pervasiveness of "no Urban/Spanish dictates," and the use of dictates for other formats.

- Additionally, the analysis should consider the impact of the race/gender of station, ad agency, advertiser and representative firm personnel; the practices of broadcast owners in competing against minority-formatted or minority-owned stations based upon misrepresentations and improper disparagements; the ownership of radio and television stations by women; whether stations targeting programming at women are subjected to similar practices in the advertising industry, and the influence of such factors.

- The analysis should also probe the use of media ratings services in advertising decisions, particularly unaccredited services. It should examine the effect of audience undercounting by media ratings services on the advertising performance of minority-owned and minority-formatted broadcasters. It should investigate the impact of advertising practices on viewers and listeners, *i.e.* whether they affect the availability of format, diversity of viewpoints on the airwaves, and broadcasters' service to the American public. Finally, the analysis should investigate whether minority or women owners encounter barriers based on race or gender, and whether any such findings justify remedial measures or incentives to remove barriers to market entry, growth and competition for small, minority and women-owned radio stations.

2. Policy Initiatives

On the basis of the comprehensive study described above, the Federal Communications Commission and the Federal Trade Commission should coordinate efforts to address the research findings. Specifically, the two agencies should:

- Assemble a joint task force to develop standards for acceptable advertising practices. Standards adopted by the task force should be included in a joint policy statement issued by the Federal

Trade Commission[49] and the Federal Communications Commission[50] stating their shared and separate jurisdictions. The policy statement should be open for public comment before being implemented. The Federal Trade Commission should have primary jurisdiction regarding instances in which advertisers, ad agencies, or broadcasters are alleged to have violated regulations governing unfair and deceptive business practices. The Federal Communications Commission should take the Federal Trade Commission's findings into account when determining whether the public interest would be served by renewal of a broadcasters' license or other FCC actions including sanctions.

- Recommend whether an executive order should be issued that prohibits federal agencies from contracting with ad agencies or advertising representatives that practice "no Urban/Spanish dictates," "minority discounts," or that otherwise fail to conform to the standard of practices adopted by the joint task force.[51] A 1989 General Accounting Office report on federal use of small and disadvantaged advertising subcontractors estimated federal advertising expenditures to total $165 million.[52] Such spending capacity should be used to leverage compliance with standards established by the joint task force.

- Require broadcasters to show cause why they do not use an audience research service that is accredited by the Media Ratings Council. Broadcasters that use non-accredited research services should be required to prominently disclose that fact to advertisers, ad agencies and others that rely upon such data.

3. Private Sector Initiatives

[49] Section 5(a) of the Federal Trade Commission Act appears to provide the Federal Trade Commission with authority to exercise jurisdiction over advertisers, ad agencies and other entities involved with the media buying process to the extent that they engage in practices affecting commerce that are unfair, false, misleading or misrepresentations of fact. 15 U.S.C. § 45(a)(1) ("Unfair methods of competition in or affecting commerce...are hereby declared unlawful.").

[50] The findings of this study suggest that "no Urban/Spanish dictates" and "minority discounts" undermine the revenue generating ability of broadcasters and consequently their ability to obtain financing and to serve the public interest with quality programming. Such practices appear to constitute barriers to competition and market entry. Section 257 of the Telecommunications Act of 1996 provides the Commission with the jurisdictional authority to examine and eliminate such barriers.

[51] *See also*, NonDiscrimination in Advertising Act of 1991, H.R. 285, 102nd Cong., 1st Sess. (1991), (Appendix B) (bill intended to deny tax deductions for advertising expenditures for persons who discriminate against minority owned or formatted communication entities in the purchase or placement of advertisements).

[52] U.S. Government Accounting Office, Federal Use of Small Disadvantaged Subcontractors is Minimal (GAO/RCED-89-54), June 1989.

In the private sector, CRF recommends:

- The broadcast and advertising industries should develop a code of conduct for advertisers, their representatives and broadcasters. The code should indicate that decisions about buying ads should be based on market research supplied by accredited ratings services. It should require broadcasters and advertising representatives to prominently disclose whether the research upon which they are relying is accredited by the Media Ratings Council. Such research should take consumption patterns into account. The code should prohibit the practice of "no Urban/Spanish dictates" and "minority discounts." It should require that stations be evaluated based on their individual merits, including their audience ratings and demographics. The code should require workforce training regarding laws prohibiting unfair or deceptive disparagement of a competitor, and training regarding diversity. The code should encourage diversity in hiring. All employees, regardless of race/ethnicity or gender, should receive training and work experiences that may lead to promotion.

4. Serving the Public Interest

The issues discussed in this study ultimately affect the quality of programming made available to the listening public. To the extent that advertising practices constitute barriers to competition, broadcasters are less capable of providing a diverse range of viewpoints and a plethora of high quality programming choices. Congress, the Courts,[53] and the FCC[54] have repeatedly expressed concern that a diversity of viewpoints must be reflected in the broadcast media. Indeed, this investigation of barriers to competition is an outgrowth of Congressional policy "favoring diversity of media voices, [and] vigorous economic competition."[55]

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[53] *See, Associated Press v United States*, 326 U.S. 1, 20 (1943) ("[The First Amendment] rests on the assumption that the widest possible dissemination of information from diverse and antagonistic sources is essential to the welfare of the public....") *See also, Metro Broadcasting, Inc, v FCC*, 497 U.S. 547, 568 (1990), (overruled on other grounds, *Adarand Constructors*, 515 U.S. 200). In *Metro*, the Court commented,"[T]he diversity of views and information on the airwaves serves important First Amendment values....The benefits of such diversity are not limited to the members of minority groups who gain access to the broadcasting industry by virtue of the ownership policies; rather, the benefits rebound to all members of the viewing and listening audience." *Metro Broadcasting Inc*, 497 U.S. 547 at 568.

[54] *Statement of Policy on Minority Ownership*, 68 FCC 2d 979, 981 (1978) ("Adequate representation of minority viewpoints in programming serves not only the needs and interests of the minority community but also enriches and educates the non-minority audience.")

[55] Telecommunications Act of 1996, Pub. L. No. 104-104, 110 Stat 56 (1996), 47 U.S.C. § 257(a) &(b). ("[In] identifying and eliminating...market entry barriers....the Commission shall seek to promote the policies of this Act favoring diversity of media voices, vigorous economic competition, technological advancement, and promotion of the public interest, convenience, and necessity.")

The public interest consequences of "no Urban/Spanish dictates" and "minority discounts" are eloquently stated by Tom Castro, Chairman and President of El Dorado Communications:

> *1) Because of the discounts, sometimes you can't compete and keep your best people. And that leads to a brain drain. We do the hard work of training them, and then they go off and work for these larger companies...; 2) Our profits are less. If our profits are fewer, then when it comes time to buy the station that comes up for sale in a given city where we're competing with CBS and Clear Channel and ABC, they're going to be able to outbid us for those properties because of the profits that they have built up over time. And so that means they have yet another scarce frequency that they control, and we are losing the opportunity to build wealth for ourselves. 3) The quality of our programming, while good, would be better if we had more profits. If we had more profits we could invest that back into our business. So, it's harder to remain competitive and it's harder to promote your format to the public.... It's a vicious circle.*[56]

The "vicious circle" described by Tom Castro affects all broadcasters that target programming to minority listeners. However, minority broadcasters appear to be affected in disproportionate numbers.

The vast majority of stations owned by minority broadcasters provide programming designed to serve the needs of minority listeners (see Chart A). Seventy-five percent of all stations owned by minorities are classified as minority format.[57] In contrast, 8% of stations owned by majority group members are classified as minority format (see Chart A). Majority owners control 267 minority-formatted stations, compared to 116 owned by minorities. However, the greater tendency of minority owners to serve the minority community[58] means that practices such as "no Urban/Spanish dictates" and "minority discounts" have a disproportionate effect on minority broadcasters.

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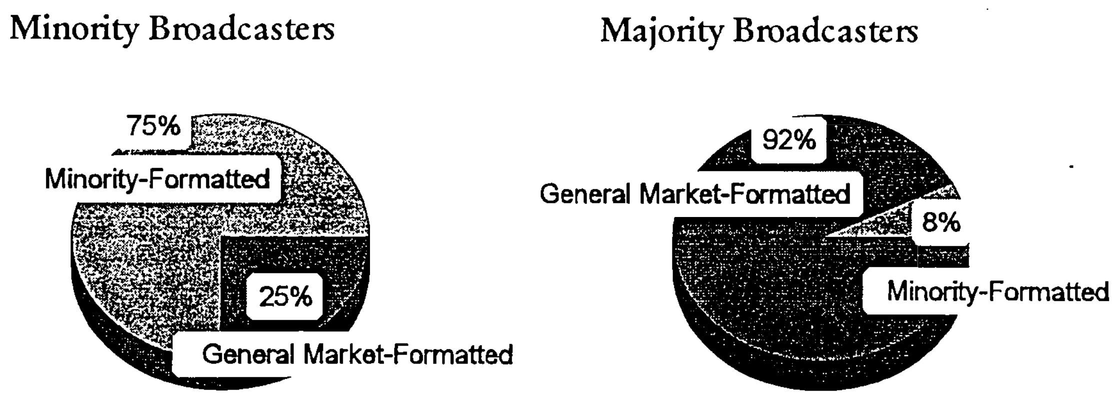
[56] Telephone interview with Tom Castro, Chairman and President of El Dorado Communications, December 14, 1998.

[57] As discussed in footnote 210, many minority-owned broadcasters that identify their stations as general market format have high levels of minority listeners. They may be self-designated as "gospel" or "religion," but their audience is predominantly minority.

[58] *See also, Metro Broadcasting,* 497 U.S. 547, 580-581 ("Evidence suggests that an owner's minority status influences the selection of topics for news coverage and the presentation of editorial viewpoint, especially on matters of particular concern to minorities.") The FCC's Office of Communications Business Opportunities is undertaking a study to examine the current linkages between minority ownership and broadcast content, focusing on news and public affairs programming.

Chart A

% of Stations with Minority or General Market Format by Owner Race/Ethnicity



Data: BIA MasterAccess, August 1997 edition.

"No Urban/Spanish dictates" and "minority discounts" effectively reduce the revenues a station earns per listener. Consequently, such stations have fewer resources with which to serve the needs of listeners in terms of news, public affairs or entertainment programming.

The findings of this study constitute *prima facie* evidence that "dictates" and "discounts" impede market entry, access to capital, competition and diversity of viewpoint. The findings of this study warrant further research. Based upon the conclusive findings of follow-up research, the Commission should decide whether to exercise its jurisdiction to eliminate market entry barriers caused by "no Urban/Spanish dictates" and "minority discounts."

Congress of the United States
Washington, DC 20515

CC: Rachael ✓

June 7, 2000

Mr. John D. Podesta
Chief of Staff to the President
The White House
1600 Pennsylvania Avenue NW
Washington, D.C. 20500

Dear Mr. Podesta:

You will recall from our previous conversation at the White House that we, along with our Congressional Black Caucus (CBC) and Congressional Hispanic Caucus (CHC) colleagues, have been working on the most important issue of parity in advertising for minority-owned advertising agencies and media outlets. The regrettable and unfortunate lack of fairness and parity in the budgeting and pricing for minority-owned and operated media companies and advertising agencies has been long unresolved. Since September of 1998, we have been working with the American Advertising Federation (AAF), minority advertising agencies and ad companies, and other groups to address the challenge that all minorities have achieving equal opportunity to compete in advertising. Strong minority companies not only increase tax revenues to federal, state, and local governments, they also offer employment and training opportunities that might not otherwise exist.

On January 13, 1999, the Federal Communications Commission (FCC) released its report, "When being No. 1 is Not Enough: The Impact of Advertising Practices On Minority-Owned & Minority Formatted Broadcast Stations." This report mirrors the sentiments of many minority media companies and ad agencies: the impact of advertising practices on minority-owned and minority-formatted broadcast stations is bleak, shameful and inexcusable. This report represented a start, and is an important analysis, but it was clear that more work was needed. Therefore, we formally requested that the GAO conduct a government-wide analysis of the amount of minority advertising and advertising agency contracts that have been awarded for the past ten years. The goal of this request was to determine exactly where the federal government stands as the example to the rest of private and public industry in this issue, and to suggest possible non-partisan and objective recommendations for improvement.

The results from the first phase of the study are complete and they are troubling. Total federal advertising contract obligations increased from $139 million in fiscal year 1994 to $368 million in fiscal year 1998. During the same time, obligations to small disadvantaged businesses peaked at

$3 million or 3.1% of obligations in fiscal 1995, and declined to 1.2 million or 0.3% in fiscal year 1998, with 66% going to women-owned businesses. In 1998, some 91 percent of the total federal advertising budget was allocated to large agencies, none of which are owned by women or minorities. We are enclosing for your review a copy of the GAO study.

Vice President Gore has been a supporter of this issue and we greatly appreciate his continued support. Thank you for your time and attention to this important issue. We feel it is important to keep you informed on this issue because of its importance to the CBC and CHC. We would like to meet with you at your earliest convenience. We will have our staff contact your assistant to schedule an appointment. Do not hesitate to call us if your have any further questions. We look forward to hearing from you.

Sincerely,

Carolyn C. Kilpatrick

CAROLYN C. KILPATRICK
Member of Congress

Robert Menendez

ROBERT MENENDEZ
Member of Congress

CCK:kr

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United States General Accounting Office
Washington, D.C. 20548

General Government Division

B-285075

April 17, 2000

The Honorable John D. Dingell
Ranking Minority Member
Committee on Commerce
House of Representatives

The Honorable Carolyn Cheeks Kilpatrick
House of Representatives

The Honorable Robert Menendez
House of Representatives

Subject: Federal Advertising Contracts: Distribution to Small Disadvantaged Businesses

This letter responds to your request for a review of the distribution of federal contract dollars for advertising services to minority-owned businesses. Since data on all minority-owned firms are not readily available, we are limited to providing data on small disadvantaged businesses (SDB) and women-owned businesses.[1] Specifically, as agreed with your offices, we are providing information on (1) the goals established for federal contracting with small minority-owned and women-owned businesses; (2) trend data on the distribution of prime advertising obligations for fiscal years 1994 through 1998; (3) information on the distribution of and competition for advertising contracts with fiscal year 1998 obligations; and (4) information on the distribution of subcontract awards to SDBs for selected advertising contracts.

Our review was based on analysis of pertinent legislation and interviews with officials at the Small Business Administration (SBA), the General Services Administration's (GSA) Federal Procurement Data Center (FPDC), the American Association of Advertising Agencies, and the American Advertisers Federation. In addition, we obtained and analyzed data from the Federal Procurement Data System (FPDS) on contract obligations categorized as advertising services. We did not verify FPDS data nor did we evaluate how contracts were solicited, which is a subject of a future review.

[1] Generally, an SDB is a small business that is at least 51 percent unconditionally owned by one or more individuals who are both socially and economically disadvantaged. Named groups that are considered socially and economically disadvantaged are black Americans, Hispanic Americans, Native Americans, and Asian Pacific Americans. 15 U.S.C. §637.

We conducted our review from July 1999 to January 2000 in accordance with generally accepted government auditing standards. We requested comments on a draft of this letter from the Administrator of SBA. SBA's comments are discussed at the end of this letter.

Results in Brief

The Small Business Act, as amended, establishes a governmentwide goal that a minimum of 23 percent of all federal prime contract dollars should be awarded to small businesses.[2] The Small Business Act also establishes governmentwide goals for SDBs and women-owned small businesses that each group receive not less than 5 percent of the total value of prime and subcontract awards for each fiscal year. Although SBA has established industry-specific size standards for what constitutes a small business, including advertising, there are no industry-specific contracting goals. In addition, large businesses with contracts generally exceeding $500,000 that offer subcontracting possibilities are required to prepare subcontracting plans on how they intend to use small businesses, SDBs, and women-owned small businesses as subcontractors. They must also prepare semiannual reports on the actual distribution of subcontract dollars.

Total advertising contract obligations increased from $139 million in fiscal year 1994 to $368 million in fiscal year 1998. During that same time period, the share of prime contract obligations to SDBs peaked at $3 million, or 3.1 percent of the total contract obligations in fiscal year 1995, and experienced a general decline to $1.2 million, or 0.3 percent in fiscal year 1998.[3]

Analysis of fiscal year 1998 obligations made under prime contracts for federal advertising showed that $337 million, or 91.4 percent, of the total advertising contract obligations were to large businesses. Twelve federal agencies or departments funded these obligations under 36 contracts awarded to 26 different contractors. The five largest advertising contracts, which included the antidrug contract with the Department of Health and Human Service (HHS), and four recruiting contracts with the Departments of the Army and the Navy, accounted for 78 percent of the obligations. FPDC reports show that 20 of the 36 contracts were awarded using full-and-open competition. Another 10 contracts were purchase orders or blanket purchase agreements.[4] Two contracts were awarded on a sole source basis, and one contract was awarded under a multiple award schedule.[5] FPDS data were not available on the type of solicitation for the three remaining contracts.

FPDC data show that during fiscal year 1998, funds were obligated to 10 SDBs under 10 prime advertising contracts awarded by 5 federal agencies or departments. FPDS data available on

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[2] 15 U.S.C. §644(g)(1). The Small Business Reauthorization Act of 1997 increased the goal from 20 to 23 percent. Public Law 105-135, December 2, 1997.

[3] Some SDBs are also women-owned businesses that have experienced a similar decline between fiscal years 1994 and 1998.

[4] FPDS data do not reveal the nature of competition for the underlying contract from which the purchase order or blanket purchase agreement was drawn.

[5] Generally, a contractor is placed on a multiple award schedule under a competitive process

the type of solicitation for 7 of the 10 contracts showed that 4 were awarded through other than full-and-open competition; 2 were awarded as small business set-asides;[6] and 1 was awarded under a multiple award schedule.

There are no governmentwide goals for awarding a particular percentage of advertising subcontract dollars to SDBs. However, if a prime contract exceeds $500,000 and offers opportunities for subcontracting with SDBs, the prime contractor must establish plans for distribution of those subcontracts and report on the amount of subcontract funds awarded to SDBs from contract inception through completion. Subcontracting reports were required on 12 of the 36 advertising contracts with large business firms that received fiscal year 1998 obligations. These reports show that SDBs received over 8 percent of the total subcontracting funds awarded under these 12 prime contracts, although the SDB share varied widely from 0 to 50 percent.

Goals Established for Federal Contracting With Small Minority-Owned Businesses

The Small Business Act, as amended, establishes a governmentwide goal that a minimum of 23 percent of all federal prime contract dollars be awarded to small businesses. The Small Business Act also establishes governmentwide goals for SDBs and women-owned small businesses that each group receive not less than 5 percent of the total value of prime and subcontract awards each fiscal year. One mechanism that helps agencies meet their SDB contracting goals is section 8(a) of the Small Business Act.[7] Under this provision of the act, certain contracts can be reserved for SDBs in the 8(a) program thus ensuring their participation. Although the goals are governmentwide, agencies may negotiate specific goals with SBA that may be higher or lower than the governmentwide goals.[8] According to SBA officials, there are no industry-specific goals, either governmentwide or by agency. FPDC collects data and reports governmentwide and agency prime and subcontract goal statistics.

In addition, large businesses with advertising contracts exceeding $500,000 that have subcontracting possibilities are required to submit subcontracting plans to establish percentage and dollar goals for subcontracting with small businesses, SDBs, and women-owned small businesses. The contractors are to report semiannually to the contracting officer on how they actually performed compared to their plan.

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[6] A small business set-aside is the reservation of an acquisition exclusively for participation by small business concerns.

[7] 15 U.S.C. § 637(a) (1994).

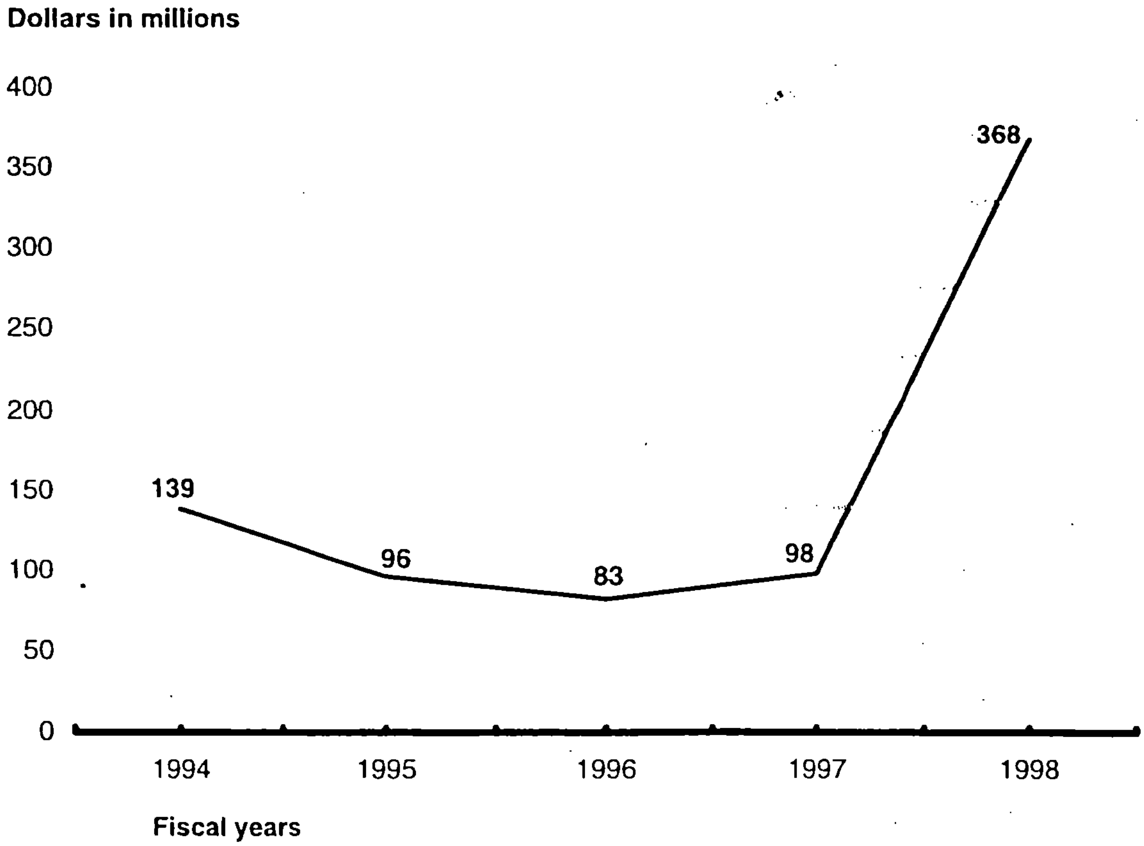
[8] A separate statutory provision, applicable only to the Department of Defense, the Coast Guard, and the National Aeronautics and Space Administration sets a 5-percent goal for contracts and subcontracts to be entered into with SDBs. 10 U.S.C. § 2323(a)(1)(A).

Trend Data on Advertising Contract Obligations for Fiscal Years 1994 Through 1998

Total advertising contract obligations increased from $139 million in fiscal year 1994 to $368 million in fiscal year 1998. The yearly changes in obligations during this 5-year period are shown in figure 1. During the same period, the share of advertising obligations going to SDBs and women-owned businesses generally declined. Details on this trend are presented in figure 2.

As shown in figure 1, obligations for advertising contracts totaled $139 million in fiscal year 1994 and then trended downward for 2 years before increasing to $368 million in fiscal year 1998.

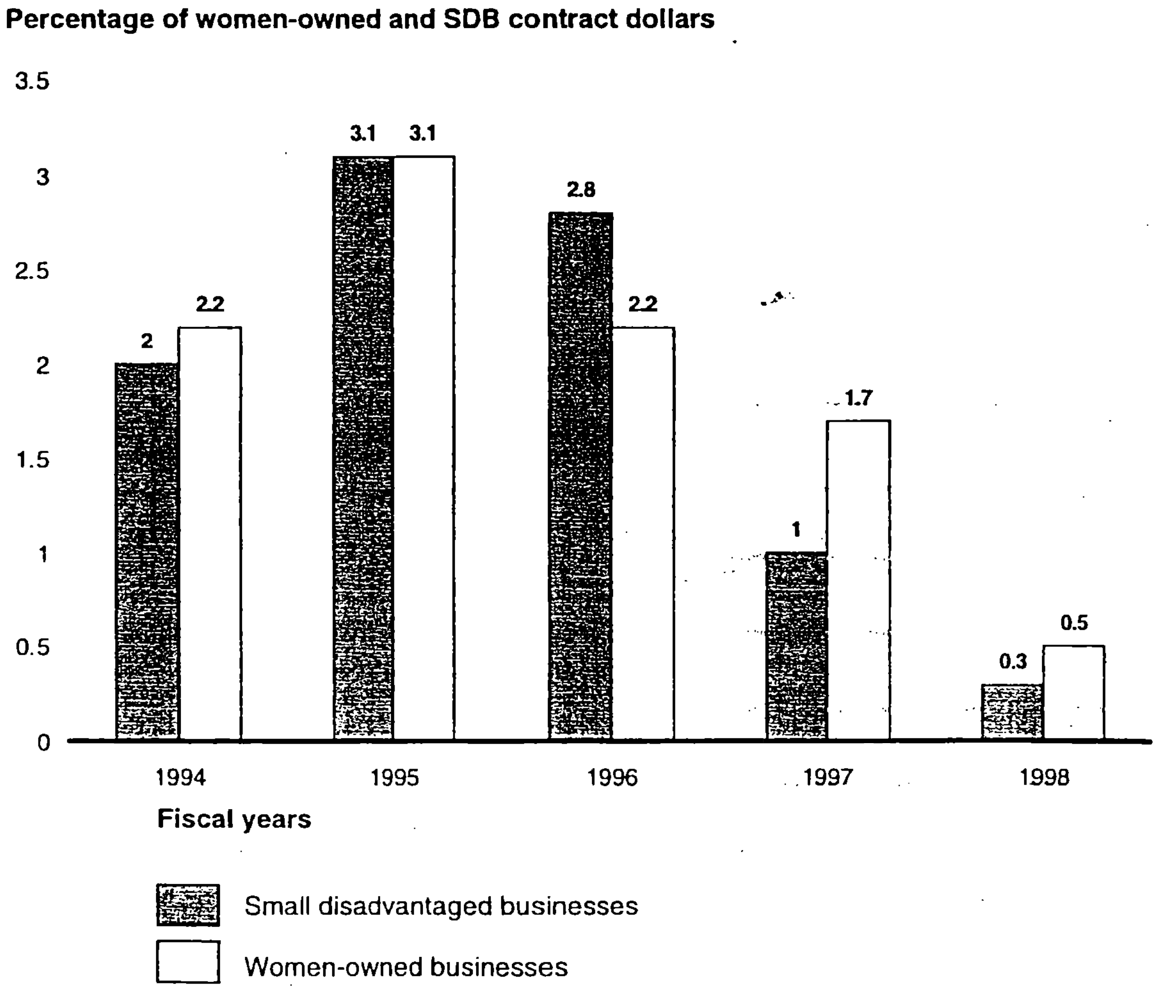
Figure 1: Total Advertising Obligations to Prime Contractors, Fiscal Years 1994-98



Source: GAO analysis of FPDS data.

According to SBA officials, SDBs are generally minority-owned firms. For an advertising agency to qualify as a small business, the criterion established by SBA is $5 million or less in annual receipts.[9] FPDC data for fiscal years 1994 through 1998 showed a generally declining trend in obligations of prime contract advertising dollars to SDBs and women-owned businesses. The share of total contract obligations awarded to both SDBs and women-owned businesses peaked at 3.1 percent in fiscal year 1995 and declined to 0.3 and 0.5 percent, respectively, in fiscal year 1998. Figure 2 shows the percentage of prime contract dollars obligated to SDBs and women-owned businesses from fiscal years 1994 to 1998.

Figure 2: Proportion of Women-owned and SDB Prime Advertising Contract Dollars as a Percentage of Total Federal Advertising Obligations



Note: Women-owned SDBs are reported in both categories shown above in figure 2. For the 5-year period, the women-owned portion of SDB obligations ranged from 26 to 88 percent, and the SDB portion of women-owned business obligations ranged from 33 to 80 percent.

Source: GAO analysis of FPDS data.

[9] SBA is authorized to establish size standards for small businesses. Consideration is given to economic factors comprising the structure of an industry, including degree of competition, average firm size, start-up cost, entry barriers, and distribution of firms by size. Standards vary by industry, for example, including annual receipts thresholds of $5 million for advertising agencies and $10.5 million for television broadcasting stations.

Advertising Contract Obligations for Fiscal Year 1998

Analysis of prime advertising contracts with obligations in fiscal year 1998 showed that most of the funds that were obligated involved contracts awarded to a few large firms. Most of these contracts were awarded through full-and-open competition. Although funds were obligated to 10 SDBs under prime contracts in fiscal year 1998, these obligations accounted for a very small share of the federal advertising dollars obligated that year, and most were awarded by other than full-and-open competition or through set-asides. SBA officials told us the low percentage of advertising contracts going to SDBs and women-owned businesses may be explained in part by the large size of many government contracts. They noted that in fiscal year 1998, about 86 percent of all advertising contract obligations were for $10 million or more and, thus, largely beyond the reach of small businesses.

In fiscal year 1998, the federal government obligated about $368 million on 85 different prime advertising contracts. Obligations on contracts with large businesses accounted for about $337 million, or about 91.4 percent, of the total contract obligations. SDBs accounted for about $1.2 million, or about 0.3 percent, with nearly 66 percent of these obligations made to women-owned businesses. Other women-owned small businesses accounted for another $1.2 million, or about 0.3 percent. Other small businesses accounted for about $29.8 million, or almost 8.1 percent. Other types of businesses, such as nonprofit and foreign-owned companies, accounted for about $0.5 million, or about 0.1 percent. Table 1 shows a summary of the distribution of prime advertising contract obligations in fiscal year 1998.

Table 1: Summary of Distribution of Prime Advertising Contract Obligations in Fiscal Year 1998

Type of business	Number of contractors	Number of contracts	Contract obligations ($000)	Percentage of total
Large	26	36	$336,897	91.4%
Small disadvantaged				
Women-owned	5	5	740	0.2
Not women-owned	5	5	450	0.1
Subtotal	10	10	1,190	0.3
Other small (not SDB)				
Women-owned	4	4	1,246	0.3
Not women-owned	25	27	28,591	7.8
Subtotal	29	31	29,837	8.1
Other (e.g., nonprofit)	8	8	489	0.1
Total	73	85	$368,413	100%

Note: Percentages do not add to 100 due to rounding.

Source: GAO analysis of FPDS data.

Most of fiscal year 1998 funds that were obligated to advertising contracts went to a few large firms. The five largest obligations accounted for 78 percent of total contract obligations and were awarded to three large firms. Funding for the five largest obligations in fiscal year 1998 came from HHS for an antidrug campaign and the Army and the Navy for recruiting campaigns. Total advertising obligations in fiscal year 1998 to large businesses went to 26 firms that had a total of 36 advertising contracts. We could not readily determine whether these firms were minority-owned, in part because the FPDC does not collect those data, but also because 18 of the 26 firms were publicly held. However, FPDS does collect data on whether firms are women-owned, and that data for fiscal year 1998 revealed that none of the 26 large contractors were women-owned firms. Table 2 lists all 36 prime contracts to large firms in fiscal year 1998, including the awarding federal agency or department, contractor, type of solicitation, and contract obligations.

Table 2: Prime Advertising Contract Obligations to Large Businesses in Fiscal Year 1998

Agency/Department	Contractor	Type of solicitation	Contract obligations ($000)
Health and Human Services	Bates Advertising USA, Inc.[a]	Sole source	$119,848
Army	Young & Rubicam, Inc.[a]	Full-and-open	90,255
Navy	BBDO Worldwide, Inc.[a]	Full-and-open	32,981
Defense Supply Service (Army)	Bates Advertising USA, Inc.[a]	Full-and-open	23,750
Navy	BBDO Worldwide, Inc.[a]	Full-and-open	19,273
Air Force	Bozell Kamstra, Dallas[a]	Full-and-open	12,159
Food and Drug Administration	Arnold Communications[a]	Full-and-open	10,494
Census	Young & Rubicam, Inc.[a]	Full-and-open	10,014
Treasury	Young & Rubicam, Inc.[a]	Full-and-open	7,578
Federal Emergency Management Agency	Bozell Worldwide, Inc.[a]	Full-and-open	3,236
Air Force	TMP/Worldwide, Inc.[a]	Full-and-open	2,021
Justice	Miller Advertising Agency,Inc.	Full-and-open	2,000
Treasury	USA Today	Full-and-open	450
Justice	Bernard Hodes Advertising	Full-and-open	428
Treasury	Grey Advertising, Inc.	N/A	399
Defense Reutilization & Marketing Service	Bates Advertising USA, Inc.[a]	Full-and-open	258
Nuclear Regulatory Commission	Bernard Hodes Advertising	Full-and-open	256
Treasury	Reese Communications Co.	N/A	219
Housing and Urban Development	BBDO Atlanta, Inc.	Full-and-open	200
Peace Corps	Persiscope, Inc.	Full-and-open	122
Air Force	Unisys Corp.	Multiaward schedule[b]	114
Treasury	W.B Doner & Company, Inc.	N/A	105
Housing and Urban Development	Nashville Tennessean	Full-and-open	100
Treasury	Cox Enterprises	PO or BPA[c]	90
Treasury	Cox Enterprises	PO or BPA[c]	80
Transportation	The Ogilvy Group, Inc.	Full-and-open	78
Treasury	Kansas City Star Company	PO or BPA[c]	75
Treasury	Kansas City Star Company	PO or BPA[c]	60
Army	American Multi-Cinema, Inc.	PO or BPA[c]	56
Veterans Affairs	San Antonio Express News	Sole source	52
Army	KHWY, Inc.	PO or BPA[c]	36
Army	Bozell, Jacobs, Kenyon, & Eckhardt	Full-and-open	35
Treasury	Memphis Publishing Co.	PO or BPA[c]	30
Justice	USA Today	PO or BPA[c]	26
Justice	JWT Specialized Communications	PO or BPA[c]	14
General Services Administration	The Times Mirror Co., Inc.	PO or BPA[c]	5
Total			$336,897

Legend:

BPA blanket purchase agreement
N/A not available (FPDS does not require the type of solicitation for these contracts.)
PO purchase order

[a]Subcontracting plan required.

[b]Purchased from a multiple award schedule. Companies compete and agree to provide services at set rates to be on the schedule.

[c]Contracts were awarded through either purchase orders or blanket purchase agreements. Data are not provided on the nature of competition for the underlying contract.

Source: GAO analysis of FPDS data.

FPDC records show that 20 of the 36 contracts were awarded through full-and-open competition. Another 10 were awarded under purchase orders or blanket purchase agreements,[10] 1 was awarded under a multiple award schedule, and 2 were sole-source awards.[11] FPDS data on the type of solicitation were not required for the three remaining contracts.

The 10 prime contracts with obligations to SDBs accounted for about 0.3 percent of the total advertising obligations in fiscal year 1998. Five of these contracts with about 66 percent of the obligations were awarded to women-owned SDBs. Table 3 shows the awarding federal agency or department, contractor, and fiscal year 1998 obligations for prime advertising contracts with SDBs. FPDC data available for 7 of the 10 contracts shows that 4 of the contracts were awarded through other than full-and-open competitions, 2 contracts were awarded through set-asides, and 1 contract was awarded under a multiple award schedule.

Table 3: Fiscal Year 1998 Advertising Prime Contract Obligations to SDBs

Agency/Department	Contractor	Contract obligations ($000)
Air Force	Four Winds Services, Inc.[a]	$351
Small Business Administration	Colabours Communications, Inc.	199
Housing and Urban Development	Sykes Communications, Inc.[a]	192
Justice	Executive Personnel Services, Inc.	173
Treasury	Barrell Marketing, Inc.[a]	113
Air Force	Navales Enterprises, Inc.[a]	54
Navy	Conway Marketing, Inc.	38
Navy	The Desktop Designer	38
Treasury	Lisboa Associates, Inc.[a]	30
Treasury	ZGS Communications, Inc.	2
Total		**$1,190**

[a]Women-owned business.

Source: GAO analysis of FPDC data.

[10]FPDC data do not reveal the nature of competition for the underlying contract from which the purchase order or blanket purchase agreement was drawn.

[11]HHS' $119 million contract with Bates Advertising USA, Inc., was the single largest obligation in fiscal year 1998 and was awarded on a sole-source basis. HHS officials approved the sole source award as needed to expand an ongoing contract to establish a nationwide antidrug campaign. The justification indicated that by quickly awarding media contracts, the government would save $20 to $30 million in higher media advertising charges than if the buys were postponed until a third phase full-and-open contract was awarded. The record on the other sole source contract, by the Veterans Affairs with the San Antonio Express News, indicated that the paper was the only source available.

Subcontract Awards to Small Businesses and SDBs

There are no governmentwide goals for awarding a particular percentage of advertising subcontract dollars to SDBs. However, contractors who receive prime advertising contracts that exceed $500,000 and offer subcontracting possibilities with SDBs are required to prepare a plan for distribution of those subcontracts. The contractors must also prepare semiannual reports showing total subcontract awards made to the SDBs from contract inception through completion.

We found that semiannual reports of advertising subcontracts awards to SDBs were required on 12 prime advertising contracts that received obligations in fiscal year 1998. Our analysis of these semiannual reports revealed that SDBs received about 8 percent of the total subcontracting funds awarded under these 12 prime contracts. Although the SDB share on specific contracts ranged from 0 to 50 percent, 7 of the 12 contracts awarded more than 5 percent of their subcontract dollars to SDBs. Also, four of the seven contracts awarded more than 10 percent of their subcontract dollars to SDBs. This included a 50-percent share of subcontract dollars to SDBs on a Department of the Treasury public education advertising contract, a 35-percent share on a Census project contract, a 24-percent share on a contract for advertising of the Department of Defense surplus property sales, and a 10-percent share of a Navy recruiting contract. Table 4 provides a summary of the distribution of subcontracting dollars for each of the 12 contracts. The table includes the agency or department, contractor, subcontract totals, and the totals and percentages of subcontract dollars awarded to large businesses, small businesses, and SDBs.[12]

[12]Table 4 data show no correlation to the reported value of 1998 obligations reported in table 3. Unlike table 3, table 4 data included total subcontract awards under each of the 12 contracts from contract inception through the dates that the reports were completed, most of which were late 1999.

Table 4: Distribution of Subcontract Dollars by Select Contractors ($000)

Agency/ Department	Prime contractor	Total sub-contract	Large businesses Amount	Large businesses Percent	Small businesses Amount	Small businesses Percent	Small disadvantaged* Amount	Small disadvantaged* Percent
Health and Human Services	Bates Advertising USA, Inc.	$126,092	$110,415	87.6%	$15,677	12.4%	$8,688	6.9%
Army	Young & Rubicam	92,382	73,401	79.5	18,981	20.6	7,565	8.2
Defense Supply Service (Army)	Bates Advertising USA, Inc.	39,822	34,637	87.0	5,185	13.0	1,952	4.9
Navy	BBDO Worldwide, Inc.	34,195	29,017	84.9	5,178	15.1	2,627	7.7
Air Force	Bozell Kamstra, Dallas	23,280	18,335	78.9	4,945	21.2	707	3.0
Census	Young & Rubicam	17,933	5,265	29.4	12,668	70.6	6,283	35.0
Navy	BBDO Worldwide, Inc.	14,595	12,989	89.0	1,606	11.0	1,522	10.5
Food and Drug Administration	Arnold Communications	6,005	5,775	96.2	230	3.8	30	0.5
Defense Reutilization & Marketing Service	Bates Advertising USA, Inc.	832	234	28.1	598	71.9	200	24.0
Air Force	TMP Worldwide, Inc.	551	428	77.8	123	22.4	0	0.0
Federal Emergency Management Agency	Bozell Worldwide, Inc.	168	147	87.0	21	12.4	0	0.0
Treasury	Young & Rubicam	32	16	50.0	16	50.0	16	50.0
Total		**$355,887**	**$290,659**	**81.7%**	**$65,228**	**18.3%**	**$29,590**	**8.3%**

Note: Percentages for subcontracts to large and small businesses may not add to 100 due to rounding.

*Small disadvantaged is a subset of small businesses.

Source: Data provided by the FPDC and subcontracting reports filed by contractors with cited agency or department.

Agency Comments

We requested comments on a draft of this letter from the SBA Administrator. We received written comments from the Associate Deputy Administrator, Government Contracting and Minority Enterprise Development, on March 16, 2000. He generally concurred with the facts in our letter and provided some observations that we have incorporated into this letter where appropriate. He said our letter shows that the value of subcontracts awarded to SDBs provided them more significant opportunities than prime contracts, and that the prime contracts and subcontracts should be examined together in assessing SDB participation in federal contracting. He also said that the distribution of federal advertising contracts to SDBs and women-owned businesses would have been more useful if we compared it to percentages of total advertising revenues obtained by these businesses. We agree that this information would be valuable. However, we did not collect it because it was not readily available.

We are sending copies of this letter to Representative Tom Bliley, Chairman, House Committee on Commerce; Senator Christopher Bond, Chairman, and Senator John Kerry, Ranking Minority Member, Senate Committee on Small Business; and Representative Jim Talent, Chairman, and Representative Nydia Velazquez, Ranking Minority Member, House Committee on Small Business. We are also sending copies of this letter to the Honorable Adia Alvarez, Administrator, Small Business Administration, and other interested parties. Copies will also be made available to others on request.

If you have any questions, please call me at (202) 512-8387. Major contributors to this letter include Rudy Chatlos, Bruce Goddard, Reid Jones, Billy Scott, Hilary Sullivan, and Paulina Treviso.

JayEtta Z. Hecker
Associate Director, Government
Business Operations Issues

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Record Type: Record

To: See the distribution list at the bottom of this message
cc: martin l. yeung/omb/eop@eop
bcc:
Subject: Re: follow up to kilpatrick/menendez minority advertising request

The follow-up meeting on the minority advertising request is set for Tuesday, July 11th at 5:00 pm in Sally Katzen's office. Attendees from the Hill will be Kimberly Rudolph with Rep. Kilpatrick and Jim Daitree with Rep. Menendez. Please call me if you have any questions, 66620.

Lisa M. Kountoupes

Lisa M. Kountoupes
06/29/2000 08:03:11 PM

Record Type: Record

To: See the distribution list at the bottom of this message
cc: Maria Echaveste/WHO/EOP@EOP, Martin L. Yeung/OMB/EOP@EOP
Subject: follow up to kilpatrick/menendez minority advertising request

Maria - I talked to Rep. Menendez' LD about our discussions this morning and he is pleased with where things stand.

All - Reps. Kilpatrick and Menendez are interested in an EO related to minority advertising and federal government agencies. They are also interested in the White House hosting an event in September to coincide with the CBC weekend and CHC month highlighting voluntary principles for action that are being developed by a number of private sector CEOs. Maria is interested in pursuing this matter.

Next steps:

Erica - will you please schedule a meeting next week early the week after with Sally Katzen, Elizabeth Gore, Bob Damus, Lisa Brown, Irene Bueno, me and the staff from the congressional offices (Kilpatrick is the Chief of staff, Kim and Menendez is the LD Jim Daitree) at OMB so we can discuss

1. the full plans/interests of the congressional offices
2. the impacts of the OMB policy directive (issued in january of 1999)
3. what an executive order might look like

at this point i do not believe we will need to discuss the report.

please call me or email if you have questions. 66620 thanks

Message Sent To:

Sally Katzen/OMB/EOP@EOP
Elizabeth Gore/OMB/EOP@EOP
Irene Bueno/WHO/EOP@EOP
Lisa M. Brown/OVP/EOP@EOP
Robert G. Damus/OMB/EOP@EOP
Erica R. Morris/WHO/EOP@EOP

Message Sent To:

Lisa M. Kountoupes/WHO/EOP@EOP
sally katzen/omb/eop@eop
elizabeth gore/omb/eop@eop
irene bueno/who/eop@eop
Lisa M. Brown/OVP/EOP@EOP
Robert G. Damus/OMB/EOP@EOP

MEETING WITH REPRESENTATIVE CAROLYN KILPATRICK (D-MI) AND REPRESENTATIVE ROBERT MENENDEZ (D-NJ)
June 28, 2000

BACKGROUND

According to Lisa K., Representative Kilpatrick is mostly interested in the prospect of doing a White House event in September to highlight the principles that industry CEOs are already starting to commit to in the area of minority advertising. The date they propose is in September during the CBC weekend and Hispanic History Month. She recognizes that this is a complicated political issue in many respects but thinks that an event like this is a win-win. Specifically, the request is for the White House to host a formal signing and roll-out of the *Principles for Effective Advertising in the American Multicultural Market Place* in September. This invitation is currently pending consideration.

Representative Kilpatrick is also working on a house resolution to designate September as multi -cultural history month. Kilpatrick's office also notes that recent contracting guidance from the army has resulted in knocking out minority participation because of the threshold business levels ($350 million). Lisa has called Menendez' office and evidently he is "fed up" with the VPs efforts to address and examine this issue. He has quietly talked about asking the administration to do an EO on this issue. Neither office understands what happened to the report that was put together last year or what happened to it when it went to the One America office. I am still waiting to hear from Lisa Brown on this report.

THE GAO REPORT

The GAO report found that total federal advertising contract obligations increased from $139 million in Fiscal year 1994 to $368 million in FY 1998. During the same time, obligations to small disadvantaged businesses peaked in 1995 at $3 million or 3.1 percent but declined to $1.2 million or 0.3 percent in fiscal year 1998, with 66 percent of those going to women-owned businesses. In 1998, some 91 percent of total federal advertising federal budget were allocated to large agencies, none of which are owned by women and minorities.

ADMINISTATION ACTIVITIES

The Administration and in particular the Vice President and the FCC has recognized this problem and has very active in this area. In January 1999, the FCC issued a report finding discrimination in advertising and Chairman Kennard called for an industry code of conduct. The Vice President Gore also announced the formation of an interagency working group to work with the American Advertising Federation's (AAF) to formulate principles and recommended practices for the ethical conduct and effectiveness of the advertising industry. I am still waiting to discuss with Lisa Brown for an update on report and executive memo that was announced by the Vice President.

JIM KOHLENBERGER
06/28/2000 05:43:31 PM

Record Type: Record

To: Irene Bueno/WHO/EOP@EOP

cc:
Subject: VP Remarks at the National Association of Black-Owned Broadcasters

REMARKS BY VICE PRESIDENT AL GORE
NATIONAL ASSOCIATION OF BLACK-OWNED BROADCASTERS

(As Prepared for Delivery)

Thursday, September 17, 1998

It is always a deep personal honor for me to come before the National Association of Black-Owned Broadcasters -- for the third time in five years.

The news is better covered, and the country is better served, if our reporters, editors, newspapers, and radio and TV stations reflect the full diversity of the country they serve. Thank you, NABOB, for nearly a quarter-century of leadership.

Over the past 22 years, you have helped open the doors of opportunity to a whole new generation of owners and journalists. Until 1949, there wasn't even one black-owned radio station in the United States. Today, NABOB represents 157 black-owned stations and 18 commercial television stations. In an industry that has gone from album to 8-track to cassette to CD to digital tape to DVD to improve clarity the past two decades, the clearest voice of all has been provided by the men and women of NABOB. And we are a better nation for it.

Now, in this time of progress and prosperity, our challenge is opening those doors of opportunity even wider -- in your profession, and in all professions -- so that every child can share in the American Dream.

Look at how far we've already come: 16.7 million new jobs. The lowest unemployment in a generation. The lowest African-American and Hispanic unemployment on record. The lowest African-American poverty rate on record. The fastest real wage growth in 25 years. More small businesses created the past 5 ½ years than in the previous 12 years combined -- all with the lowest inflation in 32 years.

And we should remember that all of this progress is due to the policies of one person --

President Bill Clinton. His policies and programs have been good for the United States of America.

We are especially proud of the fact that one of the most successful administrations in history is also the most diverse.

As NABOB has helped teach us for more than 20 years: we are not successful in spite of our diversity -- we are successful because of it!

But we also know that the brightest lights sometimes cast the biggest shadows. For all we have done, we have a lot more to do. There are still too many people who have not shared in our success, who are still waiting for the chance to prove themselves. And in too many places and professions, the glass ceiling has still not been shattered.

Tomorrow, the National Telecommunications and Information Administration will release its 1998 Minority Commercial Broadcast Ownership Report. It shows that minorities now own 337 of the 11,524 commercial broadcast stations nationwide. That's just 2.9 percent.

The report also shows that minority ownership of TV stations fell from 38 stations to 32 stations -- and the number of minority television station owners fell from 22 to 13. There are still no minority owners in 17 states. And while minorities now own 23 more radio stations than they did last year, it mostly came through consolidation at the expense of other minority owners -- 11 black, 8 Hispanic, one Asian-American, and three Native American.

This isn't just a question of diversity, it's a question of democracy. In the marketplace of ideas, independent minority-owned broadcast stations play a vital role in this country. As a nation, we cannot afford to lose your voice. That's why President Clinton and I are committed to doing all we can to preserve and sustain it.

First, on the individual level, we must continue to do all we can to promote the hiring and training of minorities in the broadcast industry. For nearly 30 years, we have had a valuable FCC rule in place that required broadcast licensees to make special efforts in recruiting and outreach to minority employees. As most of you know, that rule was struck down, and our request for a re-hearing was denied. Despite that disappointment, this week's decision is not the final word. The Department of Justice and the FCC are reviewing the various opinions that were released and will decide whether or not to appeal. In the meantime, I support Chairman Kennard's efforts to revise the rule so we can do the most possible in this area within the constraints of the court's decision.

We are also working to promote diversity from within. Earlier this year, I convened a task force of ten federal agencies to increase diversity in broadcasting, and particularly in hiring practices. Bill Kennard has made opportunity a cornerstone of his agenda and has worked hard to secure 21 voluntary commitments -- including the nation's largest cable and broadcast stations -- to voluntarily continue their EEO practices, and has promoted the message that most broadcasters already know: we are all better off if everyone has a chance to succeed. That point was proven by two former Ivy League Presidents -- Harvard's Derek Bok and Princeton's William Bowen -- who recently found that universities that make an extra effort to recruit qualified African-American students are rewarded with students who work just as hard, are just as likely to graduate -- and more likely to participate in the community. Because of it, the entire community benefits from a diversity of views. The same is true of broadcasting. It would be a tragedy if the next Tom Joyner or Pierre Sutton is being turned away because they didn't get the chance. I challenge broadcasters to live up to their public interest obligations and show their leadership in the community by recognizing and embracing the importance of diversity.

Second, on the ownership level, we need to be sure that consolidation does not lead to elimination of minority broadcasters and minority voices. We have all seen the benefits of consolidation in many industries. But in broadcasting, consolidation has also placed new demands on independent stations and minority owners. The more the bar gets raised, the harder it is to compete. More and more minority owners are being forced to sell to majority-owned conglomerates or minority group owners. If this trend continues, we risk losing not just minority representation in the ownership ranks, but crucial opportunities in the workforce and voices in the community.

Over the past three years, the broadcast industry has benefited handsomely from this great wave of consolidation. As they reap these rewards and seek even greater opportunities to consolidate, I believe they should help others benefit as well. The FCC is working with broadcasters right now to explore new ways to ensure that as the industry continues to consolidate, a rich, diverse array of voices is maintained on the public airwaves.

We are also working to help all small business owners get the access to capital they need to create jobs. We are proud of the fact that last year, the Small Business Administration made or guaranteed more than $13 billion in loans and venture capital investments -- including a record $2.6 billion to more than 10,600 minority-owned businesses. In fact, over the last four years, loans to minority borrowers have more than doubled. In addition, earlier this year, I was proud to announce a the first-ever agreement between the SBA and the Big Three auto makers, to increase subcontract awards to minority-owned businesses by $3 billion over the next three years -- a 50% increase over today's levels. We launched a new campaign to expand lending to African-American-owned small businesses by a dramatic $1.4 billion. And, we recently launched a new "Business LINC" Initiative, to encourage large businesses to mentor small, locally-owned businesses in distressed areas.

Today, we take another step forward. Today, I am asking our Small Business Administration to carefully review its efforts to help minority-owned broadcasters -- to make sure they receive the technical assistance, the mentoring, and the capital they need to succeed. We know how crucial this industry is to our future -- and we are committed to your strength and success.

Third, on the community level, we need to do all we can to promote advertising on minority-owned stations, and to ensure that the ugly face of discrimination is not being used to discourage advertisers. Like you, I was appalled when I read about that shameful memo urging advertisers not to use ethnic radio stations. There was no place for that kind of discrimination in 1968, there is no place for it in 1998, and we are taking new action to help prevent it.

I am pleased that the FCC is conducting a study on discrimination in the advertising market. We need to know all the facts, so we will know how to address them. I am also pleased to announce that this week, I will ask all federal agencies to review their own advertising policies, to ensure that our government is not part of the problem, but part of the solution. Together, let us work for basic justice and fairness -- on our airwaves, and all across America.

In this global economy, America carries a special obligation. People across the world see in America the reflection of their own great potential -- and they always will, as long as we give all our citizens, whatever their background, an opportunity to achieve their own greatness.

But to do that, we need all of you. Your tradition is a tradition of leadership and excellence. By providing diverse viewpoints; by supplying a vital training ground for the next generation of young thinkers and leaders; and by helping to ensure that our airwaves hold opportunity for all Americans, you help provide common ground for the American Dream.

So I look forward to working with you, to prove to the world that our diversity is a great strength -- and to harness that strength for the good of all our people, right here at home. Thank you.

###

M DASCHLE

United States Senate
Office of the Democratic Leader
Washington, DC 20510-7020

May 23, 2000

The Honorable Willi m Kennard, Chairman
Federal Communicat ions Commission
445 12th Street, S.W.
Washington, D.C. 2)024

Dear Chairman Ken ard:

Under your leadersh p, the Federal Communications Commission has placed an admirable priority on promoting competit on, consistent with the mandate of the Telecommunications Act of 1996. Despite these efforts, compe ition in the local residential telephone market lags behind, and has yet to benefit from the competitio envisioned by the Act.

One major trend tha t holds promise for engendering such facilities-based competition is the movement by cable providers to c ompete with existing providers in the provision of local telephone service. You have reformed the horizo ntal ownership rules to encourage this development. With your continued leadership, the cable industry i uniquely situated to become meaningful competitors with incumbent service providers.

The Commission sl ould continue to encourage cable providers to compete for local telephone service by treating companies fairly that seek to merge in order to accelerate deployment of local telephone service through cable hook ups to millions of homes. It is my hope that the Commission will apply the new ownership rules in a way that does not restrict a merging company's ability to comply with the rules, either through limi ing the actions the company may take to come into compliance or by unduly limiting the time period allo wed for compliance. It could undercut competition if unduly onerous burdens were placed on such cor panies in ways that discouraged them from making the investments that are so critical to the future of fac lities-based competition.

Thank you for you consideration of these concerns.

With best wishes, am

Sincerely,

Tom Daschle
United States Senate

AT&T
Suite 1000
1120 20th Street, N.W.
Washington, DC 20036

Facsimile Cover Sheet

To: David Beier, Jay Dunn, Maria Echaveste, Elizabeth Echols, Tom Kalil, Jim Kohlenberger, Minyon Moore, Steve Ricchetti

cc:

Phone:

Fax: 456-6231, 456-6218, 456-6703, 456-7708, 456-2223, 456-6231, 456-2983, 456-6703

From: Carol Wilner

Phone: (202) 457-7435

Fax: (202) 457-2258

Date: June 12, 2000

Pages including this cover page: 2 pages

All:

Attached is a letter from Senator Daschle to Chairman Kennard regarding horizontal ownership rules.

Carol

David Beier —
CHIEF OF STAFF TO THE PRESIDENT
6.16.00
Tom Kalill —
What's this about? Is there something I should worry about? or do?
Maria

Sent: 6/17/00
rgt