

Planning Productive Partnerships – PBMA Session

More work, less staff: plans for new operational models are needed.

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(Thanks to Erin for sharing her powerpoint presentation!)

Session Synopsis:

When would you consider some kind of consolidation, who would your potential partners be, and how would you go about exploring consolidation/merger?

- Benefits of changing your organization's operational model
- Options that can be pursued
- Steps needed to assess the options

Benefits of changing your organization's operational model

- Economies of scale
 - o Public Radio Capital works with stations on acquisitions and business models. When you merge or bring on another group, you may only need to add 5 people instead of replicating all duties.
- Larger Market share
- Better market position
- Higher public profile
- More strategic fundraising
- Additional, distinct services content

- A process that takes time and planning:
 - o Highly emotive
 - There can be egos on the line
 - Concerns about job loss
 - o Involves taking risk
 - o Change is always tricky

Range of Operations for Operational Models

- Collaboration (least complex)
 - o Ex: Programs
- Shared functions
- Joint Venture
- Merger
- Acquisition (more complex)

- Why Public Radio Capital on this subject?
 - o Since 2001, leading public broadcasting nonprofit in area of acquisitions, financing new channels as well as consultation on benefits of mergers, developing new services, and building solid business plans for these activities. Currently, PRC is working in both public radio and TV to:
 - Help organizations analyze and establish new ownership and operating models based on solid financial planning
 - Have done over \$230 million of transactions
 - Have done a fair amount of financing on acquisitions
 - Have a public radio fund from which they can lend money
 - Help organizations deal with the human dynamics of pursuing these goals
 - Can help with merger discussions
 - Help organizations do this in a results oriented and timely process

- Go about it in a number of ways in a process

- **Collaboration**

- Co-produce a program with another non-profit in your city (public radio, public TV, school district, arts center, symphony, ballet, cable channel, etc.)
 - Can share the cost and have joint fund-raising
- Coordinate the timing of your pledges drives with other stations
 - Having joint fund-drives can eliminate competition and smooth things over
- Co-sponsor events with other public broadcasters, develop combined state and national policy maker presentations (lobbying), create unified back room strategies, broadband and other technology platform usage.
 - All of these steps can reduce costs while helping to highlight presence in the community and ultimately get the service that you want out there delivered
 - Ex: The local symphony hall in Pennsylvania invested in the Met Opera HD program and invested in the equipment to have it broadcasted at the theatre but didn't have the \$ to invest in the series promotion. Pennsylvania Public TV (WLVT) came up with 2 tiers of tickets for members, promoted the whole series on their air and did email blasts to their members. The symphony hall got local TV promotion that they couldn't otherwise get targeted to a key demographic.
 - Ex: Denver Radio – Colorado Public Radio got permission from the FCC to do on-air fundraising for the symphony. Their investment will come back tenfold. The number that they gave out to call was for the symphony so they didn't have to deal with taking pledges. Very well received by the city.
 - Ex: University of Central Florida – in Orlando but don't have public broadcasting facilities. Partnered with the local public Television to give them lectures for their .2 channel.

- **Shared Functions**

- Consider what positions might be able to be shared by more than one organization to increase efficiency and reduce costs
 - HR, Administrative Support, Accounting, Engineering, Technical support, Facilities Management, Marketing, Website Maintenance, etc.
 - Do you have those functions in-house or do you outsource them? Ex: outside bookkeepers. Is there another group that can share this part-timer with you? IT is also a common source of collaboration...does this person have to be full-time for you or can you share them with other stations?
 - Co-locating with other non-profits in town to have shared receptionist, conference rooms, kitchens, photocopiers, etc.
 - Ex: KERA in Dallas has brought other art groups into their building and helped focus that part of town as the arts center.
 - Reduce overhead to put more \$ towards your services.

- **Joint Venture**

- Consider establishing a management service company or programming company that will provide multiple services to both stations
 - Each organization maintains its existing legal structure, but reaches an agreement with another station to form a third company and move some employees over to that company.
 - Could be a management service company, programming.
 - More formal on the spectrum of steps.

- **Operating Agreement or LMA (Local Management Agreement)**

- Perhaps you're the stronger station and the other organization isn't as strong and it makes sense for you to do more oversight than full-on integration

- Ex: Cincinnati Public Radio (see full details at end)
- **Merger**
 - Integrates and merges two or more organizations into one new legal entity
 - Moves existing organizations from greater autonomy to greater integration
 - Achieves the benefits of economies of scale
 - Results in a market solution with greater synergies and services to the local community
 - Challenges on the radio side are often when there are 6 different stations that are partially serving the same market...when all are airing All Things Considered during the afternoon drive time, you can merge and serve the audience better with more diversity in programming.
 - Ex: Cincinnati took over the Xavier and re-branded them as Cincinnati public radio – we serve all of you and are bigger and better (see more details at end)
 - Creates a new service and brand that can be marketed separately with potentially bigger profile
- **Acquisition**
 - Existing organization acquires the license and equipment of another organization
 - May, or may not, take on some of the staff from the selling licensee
 - Achieves the benefits of economies of scale
 - Generally involves debt financing and need for capital
 - Results in a market solution, greater synergies and services to the local community
 - With this, you're buying the license – you'll need capital and debt financing unless the station just gives you the license. This can be more expensive.

Steps needed to Assess the Options

- A structured process and analysis
 - Most areas of the organization will be affected so a thorough assessment of the financial impact, as well as the impact on human capital, services to the community and the ultimate benefits is needed.
 - Does it make sense?
- When might a merger make sense?
 - Either station cannot sustain or renew itself
 - Sum will be greater than the parts
 - Communities may already think of the stations as the same
 - Greater synergy with merger than without it.
 - Duplicated programs suggests market solution is needed to provide better service to the community and attract more audiences
 - If a station goes under, loss of programming to a community
 - This comes into play with the Radio side a lot
 - Ex: Cincinnati and Xavier (more details at end)
 - Portland's classical station was owned by the school district and the district decided they needed to have a bid. A Friends group was put together to purchase it
- Why might it make sense to your organization?
 - Finances – uneven cash flow, limited access to capital to fund new projects, declining audiences and revenues, increasing costs of doing business
 - How solid and financially strong is your organization and if it's getting eaten away, would this help?
 - Fend off a competitive threat
 - Expand geographic reach
 - If the signal only serves a metro area, can it be expanded by joining up with another station?
 - More comprehensive programming

- Stronger and more diverse board
- Access to new donors
- Reduce service confusion and fragmented audience
- Stronger and more diverse board
- What should your organization do prior to engaging in discussions?
 - If there are signs in your organization, there are some things you want to do internally before getting word on the street.
 - Self-assessment
 - Establish desired outcomes and goals
 - Prioritize the must haves, but be flexible and open to the process
 - If you identify two target groups in the community to talk to, they'll come with their own list of interests....where do you meet in the middle? Identify areas for compromise and others that are deal-breakers.
- What group might you collaborate or merge with?
 - Public Radio station
 - Public TV Station
 - Production Company
 - Ex: E-town in boulder, CO – they record live music and are on about 230 commercial and non-commercial stations. They have collaborated by taping shows at Red Rocks and then it's played on the TV station as well as the soundtrack being aired on stations across the country.
 - One or more non-profits
 - Other entities?
 - Ex: Wisconsin Public Television's Outreach and the Educational Communications Board partner with each other as well as with libraries.
 - Ex: Chamber of commerce with Pennsylvania (WLVT) - the visitors and convention bureau has brought a lot of money to help fund productions...history on the towns that also attract more tourism. Then the cities and municipalities can use the pieces when they are out at their tradeshows.
- How do the organizations match up?
 - History of organization and in working with each other
 - Reputation
 - Use of volunteers
 - Company Culture
 - Current Challenges
 - Strengths and weaknesses (financial and operational)
 - Approach to fundraising
 - Governance – board level of engagement, involvement and oversight
 - Decisions about going forward may require the board's support depending on their level of involvement
 - Board-staff relationship
 - Licensee structure (University versus Community)
 - Be aware of the layers of oversight and regulations
 - Can make any conversations going forward more complex
- What are issues that need to be carefully managed from day one?
 - Communications – the Rumor Mill (internal and external)
 - Staff, board, donors, community
 - Self-interest – loss of attachment, status, employment, security
 - Needs to be addressed right away

- Fear of change to culture – values and customs
 - Ex: 10 radio stations were about to lose their funding from CPB – not reaching revenue goals or listening thresholds. CPB funded a station renewal project and decided there needed to be an organizational development person involved. How does your board interact? What’s helping your organization? What’s hindering your organization? If you’re going to renew/reconfigure your org, what do you keep and what do you have to change? Who are the people who are keeping your organization from moving forward? Need to have some objectivity and figure out how it’s all playing into the process.
- What is the best way to go about the discussions?
 - An impartial facilitator is key – one who can manage the process, coordinate the gathering of information, and keep the dialogue going as ideas and options evolve
 - Ex: David Brugger worked with the stations in Cincinnati and Dayton.
 - Having somebody who can manage the process, coordinate the gathering of information, and keep the dialogue going as ideas and options evolve.
 - Stations sometimes think, “we can do this ourselves” but the jobs of the stations are to run the stations and this is an outside piece – there are a lot of areas to be tracking and while it’s imperative that the right people at the station are involved, how do you keep it on track when a fund drive is going on?
 - All organizations need to assemble a team consisting of the necessary representative skills (financial, HR, operations, board members, etc)
 - If you’re going to change the organization in a fundamental way, there may be push back and lack of buy-in if you bring them into the process too late. This is true also at the staff level. You want to ensure buy-in rather than them feeling like it was put upon them.
 - Team members should be reasonable, tactful, patient and committed to the process/discussions/problem solving and confidentiality
 - Might be a clash of cultures that can cause some challenges – roller coaster ride of emotions
- Topics to Explore with other organizations
 - Desired outcomes
 - Critical issues
 - Timeline
 - Might be some pressing financial need from one side
 - Roles (point person from each organization)
 - Many a process has been stalled by lack of knowledge about who the decision maker is and who needs to be at meetings
 - Rules of engagement re: communication, confidentiality, etc.
- Potential Outcomes
 - A cohesive governing body capable of leading the merged entity in a unified manner.
 - A merged vision and mission statement expressed in a sound strategic plan that is supported by the entire organization.
 - Could cost more in the beginning (may not be instantaneous savings and so that needs to be planned for)
 - A clear management structure representing the best skills of the per-merger management teams.
 - An evolving, integrated organizational culture that staff feel connected to.
 - A sound, realistic budget and budget-monitoring system.
 - A unified human resources management system, including a unified and equitable compensation system.
 - A method for measuring the success and outcomes of the organization’s efforts.

- A coordinated set of high-quality, effective programs aligned with the new organization's mission.
 - May be hard to have the IT systems to talk to one another
- A combined information system that meets management's needs.
- Financial viability must be assessed early on
 - Thorough review, analysis and modeling of
 - Each company's existing stand-alone financial situation
 - Detailed – staff, salaries, programming costs
 - Can we save or not? What should we or shouldn't we cut?
 - the combined financial situation with no changes
 - the combined financial situation with adjustments
 - What would happen if you modify the programming – will you lose or gain listeners?
 - Update after every decision. What is the business impact of the decision? This aids in the decision making process as other topics are discussed, and information is exchanged.
 - Information to be shared
 - Organizational documents
 - Personnel documents
 - Audience financials
 - List of Real Estate, Licenses, Loans
 - Leases, licenses, litigation
 - Need to have full disclosure
- Typical issues to address if merger looks feasible
 - Governance
 - Mission of the new organization
 - Number of board members
 - Number of committees
 - Legal structure of the merger
 - Name/Logo of the merged organization
 - Role of Advisory Board
 - Effective Date
 - Financial
 - Accounting system
 - Outstanding debt of organizations
 - Will funding be impacted due to state or federal formulas
 - federal formulas
 - Issue on radio side...with Cincinnati, they and Xavier both got federal funding before the merger
 - Overlap in donors/funders?
 - 1+1 doesn't always equal 2 with the fundraising dollars in a merger
 - Are endowments impacted by merger?
 - Human Resources
 - Staffing
 - Personnel policies
 - Pay and benefits policies
 - Union?
 - Severance
 - Staff morale
 - Capital
 - Office space adequate?

- Any leases to get out of?
 - Programmatic
 - What programs will be offered?
 - Similar approach to programming?
- A process that takes time and planning
 - There are a spectrum of choices between collaboration and full merger – which makes the most sense for your organization?
 - Perhaps the idea of pursuing a merger is a bit out there, so a lesser level of collaboration would make more sense.
 - Is this a short-term dip in the state of your station or is the writing on the wall where it's all trending down consistently?
 - What are the steps you need to take to get better?
 - Do the benefits outweigh the challenges?

Other examples and details:

- Cleveland – was a merger. Ideas Stream was the Cleveland radio station.
- Cincinnati and Dayton was a straight merger strictly on the TV side.
- Lakeshore media was a TV station that bought a radio station.
- Alaska – had set-up a consolidated parent-company that provided administrative services.
- Cincinnati Public Radio details: Cincinnati Public Radio purchased the stations from Xavier University. The station was going to be sold out of market so they purchased it instead. Another one of the Universities in that locale wanted to get rid of their public radio station but Cincinnati wasn't able to acquire a whole station, but they're overseeing the operating. They're not the licensee, but they provide the airtime and do the membership drives.