Financial and Strategic Management of Successful Local Radio Stations in Finland

Veijo Pönni, Mikko Grönlund, & Robert G. Picard

This article explores the factors that contribute to the success of local commercial radio stations in Finland. Although the average station loses money, a few stations are profitable, and this study explores the reasons for their success. The study found that successful stations were less dependent on national advertising, spent less on major costs, and were more productive than the average station. It also found that successful local stations target older audiences, dominate their local radio markets, and have clear formats and a strong local orientation. Nearly all the differences result from choices within the scope of managers or in positioning and marketing strategies that are within the scope of management.

Commercial local radio began in Finland in 1985 after the government authorized its establishment in a policy decision that mirrored the approval of commercial broadcasting across Europe. Finland’s radio history differs from that of other Nordic nations, however, because local radio was introduced as commercial broadcasting rather than first developing as noncommercial local radio and then having commercial local radio added to the markets (Prehn, 1998). Nevertheless, as in the case of other Nordic nations, the transition to commercial radio revital-

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ized the radio market leading to a rethinking of the role and operations of all radio (Hujanen & Jauert, 1998).

Investors enthusiastically supported the authorization of local private stations, and among the most interested were Finnish newspaper firms that soon dominated the ownership (Hujanen & Jauert, 1998). Despite the extent of this cross ownership, there has not been much debate over radio cross ownership in Finland such as that which consumed U.S. policy makers for a period (Risley, 1995–1996).

Despite the financial strength of its owners, Finnish local commercial radio broadcasting has had a rocky economic and financial history. By the early 1990s, local radio bankruptcies became common and more than one quarter of existing stations went off the air. This development is seen in the fact that their number grew rapidly from 18 original stations in 1985 to a maximum of 66 stations in 1990 and then declined to 58 stations by 1998.

The decline after 1990 can be interpreted as the result of the local market establishing the appropriate number of competitors, but it was also precipitated by the Finnish depression from 1991 to 1993 resulting from the effects of the rapid decline in markets in the former Soviet Union. In 1991, the Finnish gross domestic product declined 10%, in 1992 it dropped 23.3%, and in 1993 it declined another 20.7% (United Nations Statistical Yearbook, 1998).

That depression, however, became the impetus for a transformation of the Finnish economy into one in which telecommunications, computers, and biotechnology have become mainstays. Today, Finland has one of the best economies in Europe and is noted as a leader in high technology fields.

The financial difficulties experienced by stations led to regulatory efforts to strengthen and stabilize the industry. However, those efforts have been largely unsuccessful, and radio accounts for only about 1% of total revenue in the mass media sector today (Sauri, 1999).

During the first decade of their operation, local stations were the only commercial radio broadcasters in the nation. The challenges they faced were increased when two commercial stations reaching large portions of the Finnish audience began operations in 1992 (Classic FM) and 1995 (Kiss FM), and a commercial station with nationwide coverage (Radio Nova) began broadcasting in 1997 (Media Map of Western Europe 1998; Finnish Radio Association).

In 1996, local radio produced market shares representing 33% of listening time. In the following year, after the national commercial station Radio Nova began broadcasting, the local stations’ share had dropped to 26% (Nordic Baltic Media Statistics, 1999; Finnish Mass
This audience development was compounded by the fact that radio advertising expenditures in Finland declined 29.8% during the depression at the beginning of the decade and then recovered slowly but never returned to its previous level. These developments in the industry have placed increased competitive pressures on local radio and resulted in many stations forming alliances through the creation of national networks to increase advertising sales and create uniform national formats, supplemented with local content.

Although the full effects of such efforts have not yet been realized, they clearly have not produced significant improvement in the financial status of local broadcasters. The average return in 1998, as evidenced in net income before extraordinary items and taxes, was −4%, the average current ratio was a weak 1.0, and value added per employee had declined for its fifth straight year (Paikallisradioiden, 1999). Only 13 out of the 58 local stations—22.4%—achieved profitability in 1998.

This raises the question of how this small number of local stations managed to operate profitably when others were unable to do so. To answer the question, this study was designed to explore financial and managerial factors common among successful local radio stations. Ultimately, the purpose was to find characteristics that managers of other stations could consider developing or enhancing as a means of improving the performance of their stations.

Remarkably few studies have been published dealing with financial and managerial choices in radio. Even in journals directly connected to the questions, such as Journal of Broadcasting and Electronic Media, Journal of Media Economics, and Journal of Radio Studies, only a handful of studies remotely considering financial performance and issues related to internal structures, operating costs, and managerial choices have appeared in the past two decades. Competition and audience were found to explain profit levels in Canadian radio (McFayden, Hoskins, & Gillen, 1980). In the U.S., audience and revenues were found to explain less than 40% of the sales value of stations (Bates, 1995). Other research has explored broad operational, staffing, and market characteristics of "news radio" and stations adopting satellite-delivered programming as a means of explaining managerial choices (Borrell, 1997; Riffe & Shaw, 1990).

The approach of studying successful radio stations that is employed in this study is derived from the concept of benchmarking, a standard comparative methodology in business and business studies. Benchmarking is used to compare the performance of a firm against a specified level of performance, the performance of its competitors, or the industry as a whole. Its purpose is to provide managers a benchmark against which to gauge their performance in terms of any number of operational
or financial variables (Camp, 1994; Fisher, 1996; Watson, 1994). Best practice benchmarking is a related method that compares a firm or the industry to the firm or firms that exhibit the best performance so that they can be observed by managers to establish objectives that are known to be attainable. The practice includes not only assessing financial and economic criteria but also benchmarking of practices and processes of companies to establish a profile of how the best companies approach the market and carry out their operations (Camp, 1995; Mendes, 1998).

METHODS

Both quantitative and qualitative methods were employed in this study. The quantitative method involved comparisons of financial performance and operations of the profitable local commercial stations with the averages for local commercial stations. The qualitative method involved interviews with station managers, program managers, and sales managers to determine the practices that successful stations have in common.

All stations achieving profitability from 1995 to 1998 were selected to represent successful stations in this study. The method produced five successful stations to be used in comparison to the average stations' performance. That number of successful stations is small but, because the Finnish radio industry comprises only 58 stations, these successful stations represent 8.6% of the total number of stations and slightly more than one third of all profitable stations in 1998.

The rationale for employing multiyear profitability as the selection criterion was that success is manifest by more than a single year's performance and that unusual performance or management choices can skew results in any one year. The five successful stations were found in different large and small urban and rural markets. Because the data for the quantitative portion of this study is based on a census of all stations' performance, the comparison is not subject to the range of statistical error issues found when sampling techniques are employed.

In the quantitative comparisons of profitable stations and the industry as a whole, data on revenue, number of personnel, operating margin, net income, equity ratio, relative indebtedness, quick ratio, current ratio, turnover per employee, value added per employee, and cost structures were employed. These data were acquired from the Finnish radio statistics database that contains the annual financial and operating statistics of local radio stations (Economic and Financial Statistics of Local Radio Database). Confidentiality requirements of the database prohibit reporting individual station performance but permit use of data from subsets
of the data. For this study, it was possible to obtain subset data for stations with multiyear profitability and to compare those data to the data for all local commercial radio stations.

The successful and average stations would obviously differ in terms of profitability so the intent of this research was to look more closely at the internal financial characteristics of the firms. For this portion of the study, several research questions were posed:

**RQ1:** Do successful stations differ from the average (and unsuccessful) stations in terms of the structure of their revenue?

**RQ2:** Do successful stations differ from the average (and unsuccessful) stations in terms of the costs of their operations?

**RQ3:** Do personnel at successful stations differ from the average (and unsuccessful) stations in terms of their productivity?

The benchmarking in this study uses traditional financial and economic indicators employed in industry so the comparative results can be interpreted using the common methods of managerial accounting and productivity analysis (Brinkerhoff & Dressler, 1990; Horngren, Sundem, & Stratton, 1998; Kaplan & Atkinson, 1998; Prokopenko, 1987; van Horn & Wachowicz, 1997).

In the qualitative research, commonalities were sought among profitable stations in terms of target audiences, market positions, programming, marketing and sales efforts, and management and personnel issues.

In this portion of the research, interviews were conducted with general managers, sales managers, program managers, and promotion managers of the successful stations. These face-to-face interviews were conducted at the station offices during September 1999. The interviews began as structured interviews using a pre-established group of questions and then became unstructured as subsequent discussions developed. Interviews with each manager averaged one hour. In conducting the interviews, the researchers sought answers to the following research questions:

**RQ4:** Is there a common approach to targeting audiences among successful stations?

**RQ5:** Do the successful stations have similarities in general programming strategies?

**RQ6:** Are there similarities in the ways the successful stations engage in marketing/promotion and sales?

**RQ7:** What common characteristics, if any, do the successful stations share in terms of their approach to personnel?
FINDINGS

A number of differences were found among profitable and unprofitable firms and the qualitative financial and economic data elucidate the reasons why success is achieved by some stations but is elusive to the majority of local private radio stations. In terms of basic profitability and financial status, the successful stations studied had 1998 operating margins of 31.0%, compared to 3.5% for the average station, and net income margin was 18.3%, compared to −4%. The quick ratios for the groups varied as well, with successful stations having a ratio of 2.2 whereas the average station achieved 1.0. The reasons for these differing performances result from the combination of a number of differences in revenue sources, cost structures, and productivity among the profitable and average stations.

REVENUE SOURCES

The successful stations were found to be less reliant on national advertising than the average local commercial radio station. As shown in Figure 1, stations in the successful group tended to rely to a greater extent on local advertising and did not endure the same fluctuations in national advertising as the industry as a whole. The differences in local advertising contribution to revenue and national advertising contribution to revenue are both statistically significant (t = 1.732051, sig. < .05 for local advertising and t = −1.75688, sig. < .05 for national advertising).

COST STRUCTURES

The profitable stations were found to have lower costs than the average station in four important categories: staff costs, rents (leases), financing costs, and purchases.

Staff Costs and Number of Personnel
Staff costs as a portion of overall costs for profitable stations were far lower than those for the average station, as shown in Table 1. This is a statistically significant difference and, for the 5 years studied, staff costs in successful stations were an average of 26.4% lower than those for the average station.

Although it might be tempting to think that this finding is related to staff size, successful stations in 1997 and 1998 operated with an average of 10 persons, whereas the industry as a whole operated with an average of 9 persons, a 10% difference (Table 1). This difference, how-
ever, is not statistically different. Staff costs for successful stations, then, are clearly kept lower than those for stations overall.

**Rents and Leases**
Rents for facilities such as offices, studios, and transmitter locations were about one third lower for successful stations, with the gap wider at the end of the period studied. Costs for other leases were an average of 62.8% lower in successful stations than the average station during the 5-year period studied as shown in Table 1. Both of these represent statistically significant differences in which successful stations pay lower amounts of rents and leases than the average station.

**Financing Costs**
Costs for borrowed capital were an average of 74.3% lower for successful stations, as can be seen in Table 1. This statistically significant cost advantage is related to the lower levels of debt carried by successful firms (Figure 2). Nevertheless, even in the years in which the two groups were closest in terms of relative indebtedness (1994 and 1998), the cost of borrowed capital was far lower, indicating that successful stations benefited from lower interest rates or that they relied on trade credit and
### Table 1
Contributions of Various Costs to Overall Costs, in Percent

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<td>Successful Stations</td>
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<td>Successful Stations</td>
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<td>Successful Stations</td>
<td>45.5%</td>
<td>73%</td>
<td>81.6%</td>
<td>91.4%</td>
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<td>Successful Stations</td>
<td>26.1%</td>
<td>10.8%</td>
<td>3.3%</td>
<td>2.2%</td>
<td>26.7%</td>
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$t = -4.68557$, sig. <.05

$t = 0$, not significant

$t = -3.62731$, sig. <.05

$t = -10.15592$, sig. <.05

$t = -4.18356$, sig. <.05

$t = -2.18529$, sig. <.05
other credit mechanisms that keep them from paying higher costs for borrowed capital.

**Purchases**
Successful stations devoted less of their total expenditures to purchases of supplies, programming, etc., than the average station. This statistically significant expenditure pattern in successful stations meant that purchases were an average of 13.8% lower than the other station group (Table 1). The consistency of that pattern varied more greatly than that seen in other financial indicators, however.

**Productivity**
Productivity, as evidenced in value added per employee, was noticeably higher for the successful stations beginning in 1995 (Figure 3). From 1995 to 1999, productivity was an average of 38.1% higher in successful stations than in the average local station, a statistically significant difference.

Kaikki radiot![radio data.xls]Kaikki radiot Chart 53

\[ t = 2.37953, \, \text{sig.} < .05 \]

**Commonalities Among Profitable Stations**
The discussions with general managers, program managers, and sales managers and audience data for the sample stations found some commonalities among them in terms of audiences, market positions, pro-

![Figure 2](Relative Indebtedness (%))
gramming, marketing and sales, and management and personnel. In terms of audiences, the successful stations were found not to target teen audiences but to seek audiences between 30 and 50 years of age. This positions the stations between the younger audience generated by the nationwide stations such as Kiss FM and the older audience generated by the YLE, the public broadcasting stations that also serve nationwide audiences.

The successful stations dominate their local radio markets. The stations are seen as the number two media buy in their markets, after local newspapers.

In terms of programming, the successful stations have clear formats (something traditionally uncommon in European radio) rather than variety formats, view music selection as an important success factor, and see local news and a strong local orientation with emphasis on local activities and sports as success factors. They share a common orientation toward adult-oriented rock (AOR).

In terms of marketing strategies, the successful stations make few financial expenditures for marketing and advertising but tend to pro-
mote themselves through attendance at and promotion of local activities and on-air promotional activities. With regard to advertising sales, they emphasise direct selling rather than utilization of sales networks and tend to have regular—often daily—contact with their most important advertisers.

In terms of personnel, the successful stations tend to have strong, involved general managers and they view retaining on-air personalities as a success factor because of the continuity it provides. Managers in these successful stations cite high knowledge and skills levels of their employees as a factor in their success and believe that there is a good atmosphere among staff.

SUMMARY

This study found that successful local stations differ from average local stations in terms of dependence on national advertising and performance in terms of costs, cash flow, debt load, and productivity. Successful stations relied less on national advertising, devoted fewer expenditures to major cost categories, and were more productive than the average station in Finland.

It also found that successful local stations target older audiences, dominate their local radio markets, have clear formats, and have a strong local orientation. Successful stations make few expenditures on outside marketing and advertising and rely on direct selling of advertising and almost daily contacts with important customers. The research also found that the successful stations tend to have strong, involved managing directors who participate fully in the management of all aspects of the station.

The causes of these differences are not related to market size or revenue or to other proximate causes directly related to the locations in which they operate. Instead, nearly all the differences result from financial choices within the scope of managers or in positioning and marketing strategies that are also within the scope of management to implement. These factors lead the authors to conclude that the contemporary problems in the Finnish radio industry cannot be blamed primarily on the regulatory or structural environment but rather on choices made by managers in a young industry for which industry and academic management training and education has been lacking.

This study indicates that good performance and strategies in a variety of areas are currently producing successful commercial radio stations in Finland. These include tight cost controls, audience and programming strategies that emphasize an adult rather than teen audi-
ence, localism, and reliance on self-marketing rather than expensive advertising and marketing campaigns conducted by outside agencies.

Managers of Finnish radio stations who wish to improve the performance of their stations can benefit from studying and adopting strategies of these successful stations that are appropriate for their markets. And managers of stations in other nations may find the practices of the successful stations useful in reconsidering their own strategies and managerial choices.

The qualitative portion of this study was limited by the fact that it sought commonalities only among the successful stations. Although this is useful in understanding how they are similar, future research can improve the perspective gained through this technique by seeking commonalities among the average stations and then directly comparing them to successful stations.

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pean Commission, Directorate-General III/Industry, Quality Policy, Certification, and Conformity Markings Unit.


