COMPETING WITH YOURSELF
The Case of CBKB Talk Radio

When Gordon Baker read the local newspaper that morning he was devastated. Not only would the news be a problem with his boss later that day – he knew that it would be the source of many headaches over the next 12 to 18 months. And yet, in essence, the question was simple: how do you put the founder of the business you work for out of business?

Gordon Baker is the General Manager of CBKB, a talk radio station located in Kingston, Ontario. Gordon had been in his current position for only 4 months, after having taken over from the son of the founder of the radio station. Prior to taking on his current position he had held numerous management positions within Canadian radio stations. His specialty, it seemed, was managing within a stable competitive market. Today's newspaper indicated that the market would be less stable than expected.

If the Kingston Whig Standard were to be believed, the radio station founder's son, Mark MacSorley Jr., was now the majority owner of a radio station in Gananoque that would compete directly with CBKB. The complete Whig Standard article appears in **Appendix 1**.

BACKGROUND

In 1963 Mark MacSorley Senior, aged 35, bought a bankrupt radio station in Kingston for under $50,000. He had previously been a programming director for a competing radio station, but had been let go when health problems caused him to miss three months of work. Mark Sr. tried various radio formats before settling on a talk radio format in 1979 --- approximately 8-10 years before many AM stations in North America began to make the move to a talk format.

MacSorley was a colourful character. As the son of a former city alderman, he was intimately aware of local politics. His father-in-law was active in provincial and federal politics. As such, MacSorley Sr. was able to access the key people within the Kingston community. Under Mark Sr.'s leadership the radio was profitable and influential in community affairs. Local news, sports and issues were the foundation of the station's air time.

In 1989, control of the company was handed over to Mark Jr. who was 32 at the time, and had worked in various aspects of the company for almost 15 years. He had little formal education, and yet managed the radio station with vision and ambition. He was a people person, and depended heavily on the organization's technical staff.

Mark Jr. quickly understood that the natural market for the radio station lay beyond Kingston. So within 6 months of taking over management of the radio station Mark Jr. changed the radio station's call letters to CBKB – covering Brockville-to-Kingston-to-Belleville. He strengthened the product offering by bringing in syndicated programs, while maintaining a commitment to regional news, regional commentary and regional day-time talk shows. CBKB's current air time schedule appears in **Appendix 2.**

In addition to programming changes, Mark Jr. set the objective to double in revenues in four years. This ambitious goal required an unprecedented commitment to newspaper and television advertising, as well as an increased profile for Mark Jr. himself.

The ad campaign focused on building the customer base. The radio station was positioned as a medium cost/high return advertising medium.

Existing advertisers were subjected to an intensive customer loyalty programme – very different from traditional radio promotions. Mark Jr. traveled the region extensively and personally met with three to four advertisers a day. He regularly appeared on his own radio station's talk shows, as well as national CBC interview shows. He was interviewed frequently in the local newspapers (daily and weekly) and the appeared at many local fundraisers. As a season ticket holder of the Toronto Maple Leafs, the Ottawa Senators and the Montréal Canadiens, he frequently gave hockey tickets away to customers, local politicians and in on-air promotions.

THE RADIO STATION BUSINESS MODEL

The profit potential is entirely defined by its ability to sell on-air advertising. The demand for advertising time depends on a few key variables: the size, frequency and demographics of listenership. Generally, ads are more expensive during more popular shows and decline with program listenership. For most radio stations, ads are the only significant source of revenue.

THE COMPETITION

Competition in the radio industry is viewed as consisting of three groups. First, there is direct radio competition. These are other radio stations within the local market that vie for listenership and advertising dollars. Local businesses and businesses outside the region will judge between the radio stations that reach the most people within their target markets at the best price.

Second there are other media including local newspapers and television that reach the same market at comparable prices.

Finally, there are media outside the geographic location of CBKB that siphon off listenership – if not advertising dollars – from the local media market.

When Mark Jr. took over the radio station, there were no local radio stations that specialized in the talk format. Several other radio stations and newspapers competed for advertising in the Brockville-Kingston-Belleville and surrounding area market. There was also a Kingston-based television station. Additional competition for the listeners' ears came from larger radio stations in Ottawa, Montréal and Toronto.

THE PROGRESS OF CBKB

Despite significant competition, CBKB was able to carve a significant local market. Profits in 1996 were just under $600,000 on sales of $6 million. This 1996 sales figure represented a doubling of annual revenues from 1990.

It was in 1996 that Mark Jr. was first approached about selling the radio station to the Maple Leaf radio network. Maple Leaf owned radio stations across Canada, reaching approximately 70% of the Canadian population. In fact, they owned stations in Toronto and Ottawa that were considered to be indirect competitors with CBKB.

After lengthy negotiations, a deal was signed for the sale of the CBKB for $6 million. Regulatory approval from the Canadian Radio-television and Telecommunications Commission (CRTC) was relatively rapid.

Under the deal, there were no changes to the staff of CBKB. The sales manager, Bob Jones, and the programming manager, Karen Cameron, were assured of security in their positions. Mark Jr. was offered a three-year position as General Manager of the station at an annual salary of $100,000. Under the terms of the contract, he could not compete with CBKB or its affiliated stations across Canada for two years.

FOLLOWING THE SALE

With approximately half of the CBKB selling price in his pocket, Mark Jr. continued to visit his customers, and give away hockey tickets to advertisers and members of the community. Revenues continued along the pre-sale trend – profits, however, shrank dramatically.

There quickly developed a series of problems between Mark Jr. and Maple Leaf. Mark blamed the profit change on the increased overhead costs brought in by Maple Leaf. Specifically, he cited the hiring of a full-time Controller and two production engineers as major concerns.

Maple Leaf, on the other hand, believed that the actions of the Mark Jr. and several key senior staff (including Bob Jones and Karen Cameron) undermined the new policy directives of the new owners. Specifically, there were new policies that Maple felt impacted the transition.

Gordon Baker explains:

> **"The company gradually tried to get Mark to stop spending so much money on his travels. Realistically, we deal in a very tight geographic area; there is no reason to even have a travel budget.**
>
> **We also cut back on advertising. That was probably a mistake. But we are willing to increase our promotional spending beyond previous levels.**
>
> **But really we think that we were always being lead astray by the staff of the old CBKB…so we started to gradually make personnel changes. Mark Jr.'s leaving was inevitable."**

Mark Jr. has a very different perspective on the transition and his departure.

> **"They wanted me out, so they started to harp on the little things. They decided that they would not reimburse me for travel. They told me to stop spending company money on hockey tickets. I had a good laugh when they called around to cancel our season tickets. They are in my name, not the company's name. So I still gave them out. These customers were my friends! This seemed to make them even more angry (I think that they were worried that the customers were more loyal to me than the company)."**

The day that Mark Jr. left CBKB, Bob Jones also left the company. Together they started a radio advertising agency. Within 7 months, Mark Jr. and his father had re-invested almost all of the profits from the sale of CBKB into a rival radio station.

The rival station, it appeared would depend on the traditional MacSorley equation for success.

Maple Leaf sued the MacSorleys for breach of non-compete agreements. At the same time, however, Maple Leaf advised Baker to compete as if the legal action would fail. An additional $300,000 promotional budget was allocated to the transition period. Baker was warned that he would only maintain his position if he put the MacSorley station out of business. Baker had few alternative job prospects. He is not sure however, whether putting the MacSorleys out of business is as important as maintaining a larger market share than the MacSorleys.

It should be noted that it is possible that the legal action against the MacSorleys will fail. There is some ambiguity in the non-complete clause. Specifically, it is difficult to determine whether the 2-year non-compete began when Mark Jr. left CBKB or when Mark Jr. signed the non-compete.

Gordon Baker has hired you to prepare an analysis of the Kingston radio market and suggest a competitive stance that will accomplish the corporate goals.

Should CBKB continue to follow the marketing strategy initiated by the MacSorleys? If so, defend the strategy.

Alternatively, would they be in a stronger position to compete against the MacSorleys if they altered their current strategy? If so, recommend a new strategy.

Your primary focus should be on the ability of CBKB to maintain and increase ad sales in light of new competition from the MacSorleys.

This case was prepared for the *2009 BDC Vanier College Case Competition* by David Bussiēre PhD of the University of Windsor Odette School of Business. Copyright 2009

APPENDIX 1:
NEWSPAPER ARTICLE

MacSorleys Buy CGAN
Plans in works to convert station to all talk

GANANOQUE – Mark MacSorley Senior bought his first radio station almost thirty years ago. But he sold that station, CBKB in Kingston, almost three years ago. But now he and his son Mark Jr. are eager to get back into the business, and go into competition with the company they started.

"We now own CGAN, a strong community radio station that has been struggling for years," explains Mark Jr., "and we know that there is room for a second talk radio station in the Southeastern Ontario market."

The father-son team plan on applying to the Canadian Radio and Television Commission (CRTC) for approval to change the station's format to all talk within 2 months. "We just need a bit of time to get through the red tape and then we'll be back in business" says Mark Sr., a former Kingston Alderman.

While providing few specifics on the actual programming they plan to offer, the pair indicates that it will be a mix of regional and international programming – including one syndicated show that they say will abandon CBKB in favour of CGAN.

The MacSorleys expect to hire 24 new staff members and expand the station's current offices within six months. Joe Mondale, Mayor of Gananoque, applauds the move, "I encouraged the MacSorleys to invest in this station. Gananoque is a ……."

The article included a follow up interview with several Gananoque residents who were pleased with the expansion news.