

IV. CLASSICAL MUSIC

Classical music has been part of KFUO'S broadcast format since the station first went on the air in 1924. The founders of KFUO, John H. C. Fritz, Richard Kretschmar and Walter A. Maier, were proponents of ministry to the "whole man" and found classical music to be compatible and consistent with the proclamation of the Gospel.

Many of the classic classics were composed for use in the church. Many of the musical offerings of such greats as Bach, Schutz, Mendelssohn, Bruckner, Handel and others were composed as expressions of faith in the Lord Jesus Christ and dedicated to His glory. Many were based on Holy Scripture. These composers considered their music to be a strong witness. For many listeners, it still is.

Martin Luther stated: "After theology, I accord to music the highest place and the greatest honor." Nearly five hundred years later, The Lutheran Church—Missouri Synod still follows the tradition that Martin Luther himself began—a tradition of using fine classical music to glorify the name of Jesus Christ.

While the witness on KFUO-FM is not as explicit as it is on KFUO-AM, the station is clearly programmed from a Christian perspective that seeks to find opportunities for Christian witness. Dr. Paul Schrieber, Professor of Old Testament Theology at Concordia Seminary, St. Louis, recently said of KFUO-FM:

"I commend KFUO-FM for the kind of programming it featured on Good Friday including fine selections of orchestral, organ and choral music related to this important day in the church year.

It was a fine example of the unique orientation of KFUO, dedicated not only to the best in classical music but also to the Christian classics. Where else can one hear Bach, Schutz, Handel, etc. all related to the church year? KFUO-FM does not simply react negatively to a cultural and aesthetic waste land but contributes something very positive. In past centuries classical music was created for the Church; KFUO is a safe guard that our great Lutheran musical heritage not be forgotten and lost."

In addition to its witness value, classical music is a means to reach tens of thousands who may not be reached easily by the people of The Lutheran Church—Missouri Synod in any other way. Even if this contact serves only to make people aware of The Lutheran Church—Missouri Synod and its concern for the "whole man" it is a valuable contact.

Should KFUO-FM become the property of another owner, the classical format may not be retained. The resulting negative public relations for the Synod in the greater St. Louis area would be significant. Should the new owner choose to retain the classical format, the Synod would still lose the witness and public relations values the station provide and classical music in the St. Louis area would likely no longer be presented from the Christian perspective.

While it is difficult to place a monetary value on the witness and public relations benefits derived from KFUO-FM, the Board for communication Services is convinced that they are substantial enough to be considered in the stewardship equation as the future of KFUO-FM is discussed. (See Section VII.)

V. COMMERCIALISM

The commercial operation of KFUD-FM is one of the ways to generate the revenues necessary to sustain an active and growing broadcast ministry in The Lutheran Church—Missouri Synod.

Funding broadcast ministry in the Synod in recent years has become increasingly difficult. Except for legacies and bequests, voluntary contributions to KFUD in support of broadcast ministry have steadily decreased in recent years. (Similar decreases in support of its broadcast ministries have also been experienced by the International Lutheran Laymen's League.) The Board for Communication Services believes an expanded development program at KFUD can reverse this trend but not to the extent that the Synod can measurably increase its broadcast ministry activity. However, projections for advertising revenues in the years ahead show large increases. (See Section VI.) As these increases are realized, an increasing amount of surplus revenue from the commercial operation of KFUD-FM will be available to the Synod for broadcast ministry.

In addition to the benefits of surplus revenues, the successful commercial operation of KFUD-FM will escalate the value of the property, since broadcast properties are valued in part on their ability to generate positive cash flows.

Some questions still remain:

- Should the Synod be engaged in commercial enterprise? This is a philosophical question best addressed by the Synod and/or its Board

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of Directors. The Board for Communication Services believes that unless there is a sound mission and ministry rationale, the Synod normally should not be engaged in commercial enterprise. In the case of KFUD-FM, it believes there is a sound rationale and that there is precedent in current and past synodical activity.

— Does the commercial operation at KFUD-FM jeopardize the tax exempt status of the Synod? This question, too, is best left to those who best understand the current laws. On the basis of its limited research, the Board for Communication Services believes the risk represented by KFUD-FM is minimal and that there are means such as separate incorporation of KFUD-FM that could further reduce any existing risk.

— What are the tax implications to the Synod? The Board for Communication Services believes this question needs to be addressed in terms of liability versus benefit and that the potential benefits to the Synod in the "profitable" operation of KFUD-FM outweigh the potential tax liabilities.

VI. FUTURE VIABILITY

The future viability of KFUO-FM as a commercial operation that can generate revenues for broadcast ministry depends upon its ability to: 1) attract an audience, and 2) attract commercial sponsors. Recent audience ratings and advertising revenue figures indicate that progress is being made in both areas and that KFUO-FM is a viable operation.

The most successful commercial classical stations in major markets around the country show average audience ratings of from 1.2 to 3.0. Figure VI.A shows that KFUO-FM has experienced an overall audience "share" increase of from 0.6 to 1.7 within the last year. According to professional rating services, this means KFUO-FM currently has an audience numbering 100,000.

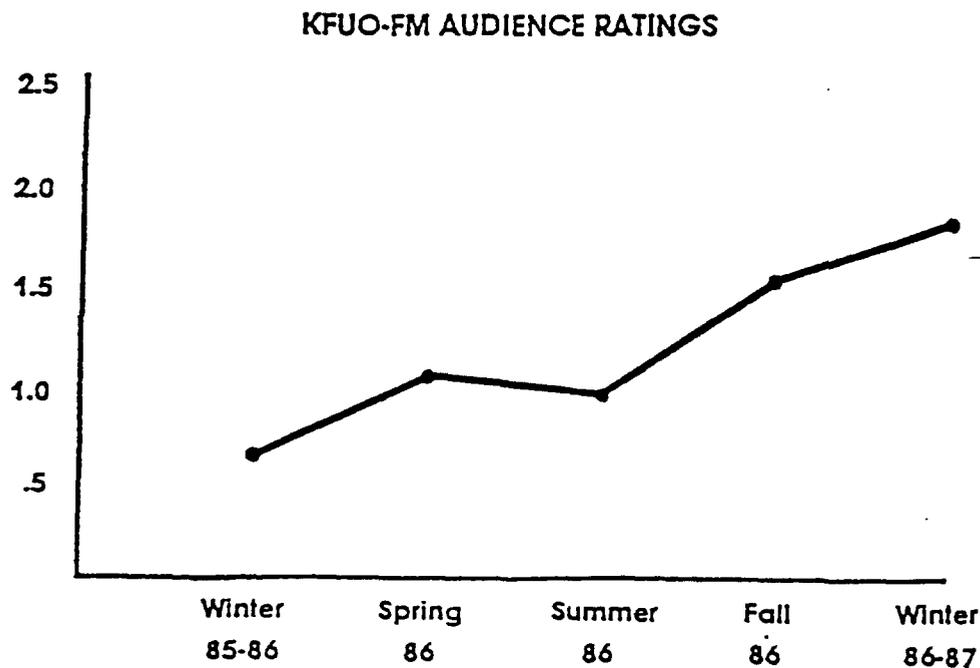


Figure VI.A

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In the "West County Corridor" (a prime St. Louis area demographic) for men and women ages 25-54, KFUFM consistently ranks among the five most popular radio stations, and at some times during the week is as high as number two. Very successful commercial classical stations in some metropolitan areas have audience shares less than KFUFM. Therefore, the Board for Communication Services concludes that KFUFM has demonstrated its ability to attract a viable audience. (It should be noted that this is the logical consequence of quality programs and affective station promotions and that the KFUFM staff is to be commended for both.)

The second key factor is the station's ability to attract advertising revenue. To a certain extent, revenue follows ratings, but not automatically. Generating revenues is as much the result of aggressive sales and marketing programs. The process of staffing in these two areas which began only four months ago is now complete and the results are beginning to show. Figure VI.B shows monthly advertising revenues for July, 1986, through June, 1987. (Figures for May and June, 1987, are projections.)

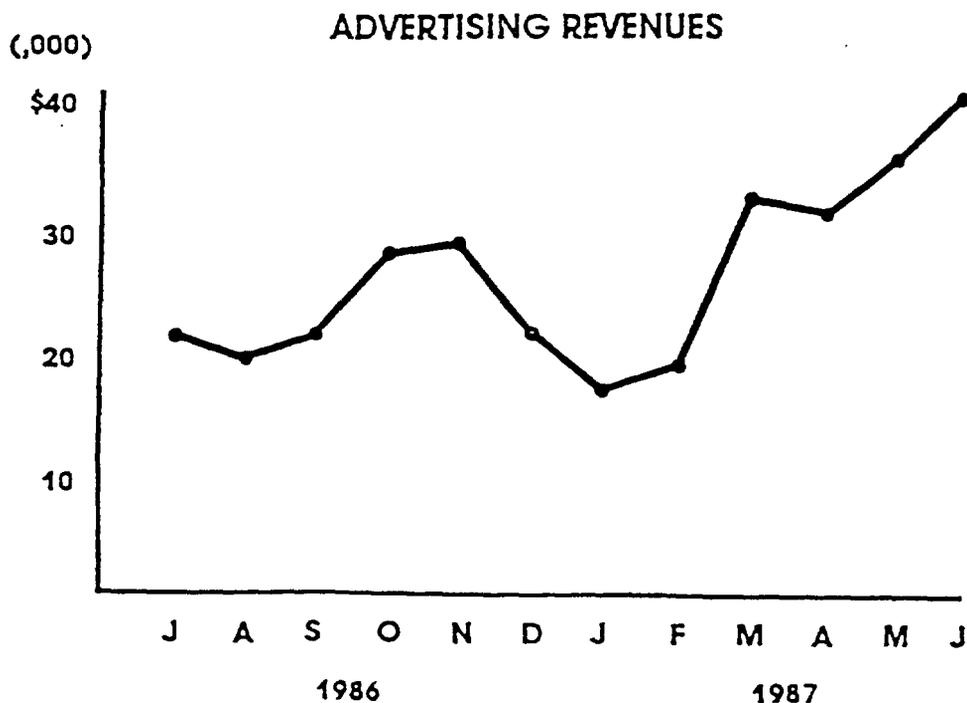


Figure VI.B

Advertising revenues for KFUO-FM are beginning to increase dramatically. Therefore, the Board for Communication Services concludes that KFUO-FM is demonstrating its ability to be a viable commercial operation.

The question of potential is also an important one. What levels of success in audience and advertising revenues can KFUO-FM expect in the future?

In terms of audience, the Board for Communication Services believes KFUO-FM can be a viable commercial operation with a sustained share of at least 1.5. This appears to have been achieved. It is hoped that through affective station promotion, the share can increase even further—perhaps to as much as 2.5. Should this occur, it will aid not only in revenue generation but also in the Synod's ability to reach more people.

The Board for Communication Services believes that within a relatively short period of time, advertising revenues can double. As Figure VI.C shows, the "break-even" point in the operation should occur soon and thereafter the Synod should realize surplus revenues that can be used for expanded broadcast ministry.

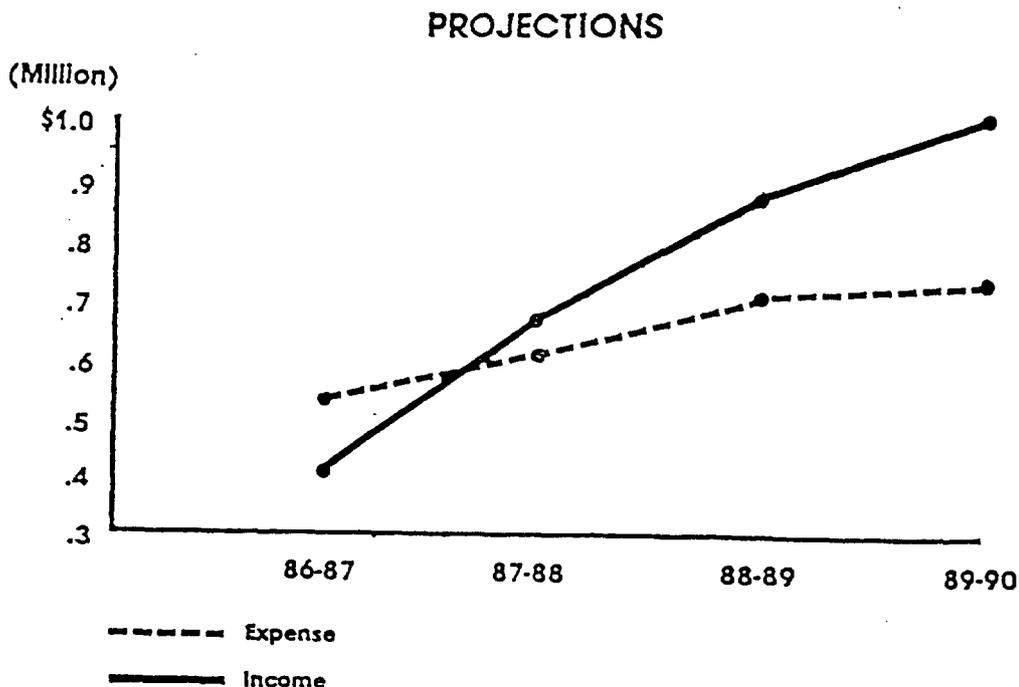


Figure VI.C

The potential of KFUC-FM has been recognized for some time. A number of consultants have commented positively. After referring to other successful stations around the country, Concert Music Broadcasts Sales, the only national classical music advertising representative firm, stated "KFUC-FM has the potential to be equally profitable." Dr. John Rider, Communications Study Consultant, said "KFUC-FM is very strong and growing. It should be continued and strengthened." Mr. Leon Steinbrueck, radio station owner, former president of Missouri Broadcasters Association and consultant to the KFUC Study Committee, said "There is no doubt KFUC-FM can become one of the most profitable stations in the Midwest."

The Board for Communication Services believes KFUC-FM does have a viable future and that it can be a positive force for the Synod.

VII. ALTERNATIVES

While Synod's continued operation of KFUD-FM appears to be a viable means of reaching people and generating revenues for broadcast ministry in the future, good stewardship demands that we evaluate the potential benefits to be derived from this approach versus those that could be derived from sale of the property.

An analysis must include both tangible and intangible benefits.

The sale of KFUD-FM would result in an immediate positive tangible benefit. While it is difficult to know the precise value of the property, most estimates range from four to six million dollars. If an endowment from the proceeds of the sale of KFUD-FM were to be established, it could provide support for broadcast ministry through interest earned. (For sake of comparison, we will use the amount of \$500,000 annually.)

A potential intangible detriment to the Synod from the sale of KFUD-FM would be the loss of opportunity to reach upwards of 100,000 people in the name of The Lutheran Church—Missouri Synod and the negative public relations in the community should quality classical programming be jeopardized.

Retention and successful commercial operation of KFUD-FM would result in the tangible benefits of surplus advertising revenues for support of broadcast ministry plus the benefits of having an appreciating asset. Retention would also provide the intangible benefits of outreach and positive public relations. The following chart shows a comparison of projected

benefits over a five year period for each of the alternatives.

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Comparative Benefits: Sale vs. Retention

	<u>1987-88</u>	<u>1988-89</u>	<u>1989-90</u>	<u>1990-91</u>	<u>1991-92</u>	<u>Total</u>
Flowment proceeds.....	500,000	500,000	500,000	500,000	500,000	2,500,000

(Sale would provide \$2,500,000 over five years MINUS loss of outreach and negative public relations)

RETENTION:

Revenue.....	50,000	150,000	250,000	350,000	500,000	1,300,000
Appreciation*...	500,000	600,000	750,000	900,000	1,100,000	3,850,000
TOTAL	550,000	750,000	1,000,000	1,250,000	1,600,000	5,150,000

(Retention would provide \$5,150,000 over five years PLUS continued outreach and positive public relations)

Alert Music Broadcast Sales has estimated that the Market value of the station, if profitable according to projections, would appreciate by over \$5,000,000 in five years. Estimates on this chart are more conservative.

The projections here presented strongly favor retention. However, they are not as yet proven. Therefore, should KFUC-FM be retained, progress toward achieving these goals should be carefully monitored.

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VIII. RECOMMENDATIONS

Based on its study, the Board for Communication Services respectfully submits the following recommendations:

1. That KFUD-FM retain its historic commitment to serving the community with classical music programming from a Lutheran-Christian perspective.
2. That KFUD-AM be further developed for the purposes of maintaining and improving religious programming in the St. Louis area while developing and testing programs and program concepts for distribution world-wide.
3. That the FM property be retained for the immediate future and developed by the Board for Communication Services to the greatest extent possible with an evaluation of progress and options for the future to be made by the Board of Directors at their first meeting in calendar 1989.
4. That KFUD and KFUD-FM become the means for a greatly expanded broadcast ministry in The Lutheran Church—Missouri Synod.