

On Demand Killed the Radio Star

How Satellite Radio, the Internet, Podcasting and MP3 Players Are Changing the Terrestrial Radio Landscape—and New Advertising Strategies to Cope with Change

Christine Makris, Market Research Associate
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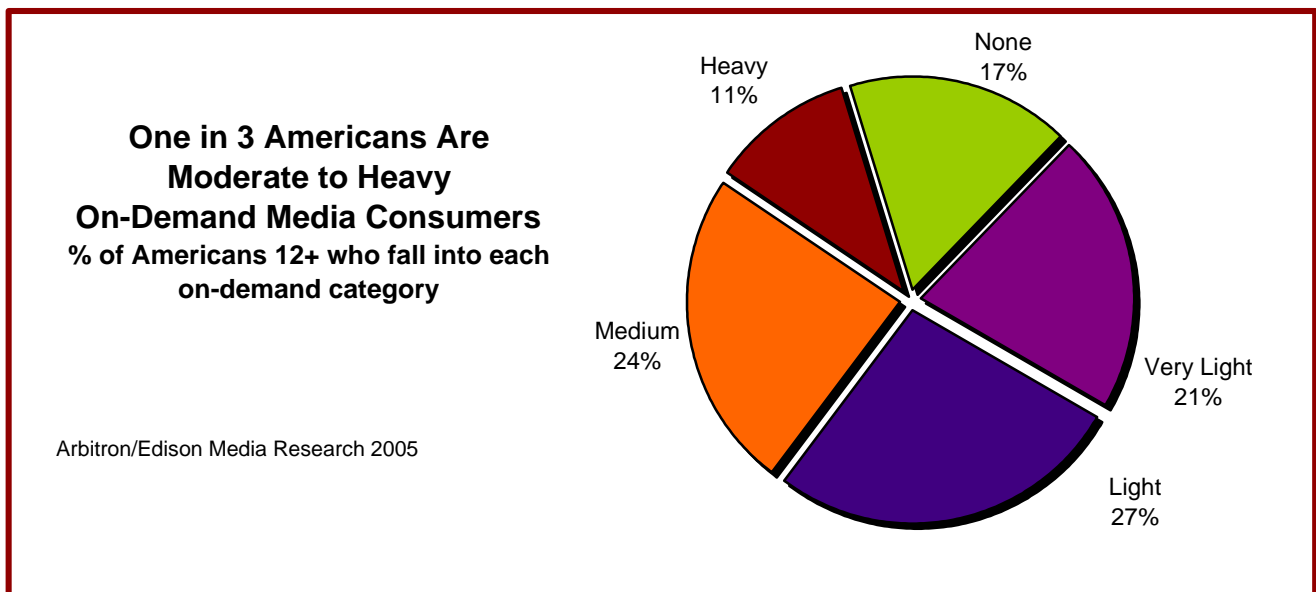
This January, when Howard Stern moves his broadcast to Sirius Satellite radio, he'll be taking an interesting bag of tricks with him—the infamous tickle chair among them. His new 4,100 square foot broadcast studio in midtown Manhattan is reportedly outfitted with water-resistant walls and floors, for gags involving whipped cream. “At the touch of a button, a rack will drop from the studio’s two-story ceiling to reveal a selection of bikinis for those guests who can be cajoled out of their street clothes.”¹

But Sirius radio is serious about Howard Stern. It's betting \$500 million that among the things Stern takes with him is his audience of 12 million adults nationwide.² They're paying Stern \$100 million a year to bring his unique brand of morning squawk to the world of satellite radio. It's a safe bet he'll earn his keep. Morning drive—6 to 10 am—is the most competitive time period in radio, “with the biggest audiences and advertising dollars and most colorful personalities.”³ Not for nothing is Stern the “King of All Media.” A recent study conducted by Arbitron/Edison Media Research reported that 22% of Howard Stern's listeners say they are “very” or “somewhat” likely to follow him to satellite radio.⁴ In the Boston market, Stern's broadcast is #1 in its time slot. Arbitron reports a 13.3 AQR share of 18-34-year-old listeners on WBCN's AM Drive.⁵

That's a big slice of the ratings pie in the highly-fragmented world of terrestrial radio.

What does that mean to your business? Satellite radio, the Internet, iPods, even wireless phones mean, in essence, you'll pay more to reach less on radio. This report will examine how “on-demand” forces are impacting radio now and what you can do to make your radio buy a secure one.

Part One: On-Demand Usage, Methods and Devices



The Rise of the On-Demand Culture

35% of Americans are heavy to moderate users of on-demand devices. “New devices allow consumers to order programming on demand through their cable or satellite provider, record an entire season of a TV show at the touch of a button, carry a complete music collection in the palm of their hand, rent movies over the Internet and visit a website from the car.”⁶

DVDs, TiVo, portable MP3 players like iPods, and hand-held wireless e-mail devices like BlackBerry® have given consumers unprecedented control over the media *and commercials* they are exposed to. And overwhelmingly, the younger the consumer, the more they expect that level of control. Gen Yers, the demographic segment now entering their 30s, exhibit a high propensity for on-demand media consumption.

They are “virtually immune to traditional print and broadcast marketing. They react to TV commercials with the same contempt they reserve for e-mail spam. And with TiVo and cable on demand, they zap your expensive commercials with ease. How about radio commercials? Sorry. Gen Yers listen to downloaded music on their Apple iPods and when they do turn on the radio it's increasingly satellite radio. Even straight news is feeling the impact. When Gen Yers want news they want it the same

¹ “Howard Stern Prepares for Life Without Limits,” The New York Times, October 20, 2005

² “Local Junkies Set to Take Over Stern's Morning Radio Turf,” The Washington Post, October 24, 2005

³ “Local Junkies Set to Take Over Stern's Morning Radio Turf,” The Washington Post, October 24, 2005

⁴ Arbitron/Edison Media Research, “The Internet and Multimedia 2005: The On-Demand Media Consumer,” 2005

⁵ Arbitron, Boston Market Radio Report, Spring 2005

⁶ Arbitron/Edison Media Research, “The Internet and Multimedia 2005: The On-Demand Media Consumer,” 2005

way they want their Burger King burgers—they want it their way. They order news off the Web the same way they order off a restaurant menu, selecting only the news topics they want to monitor.”⁷

And this trend is likely to continue. To wit: 27% of 12- to 17-year-olds in the U.S. own an iPod or other portable MP3 player.⁸ In fact, on-demand media devices are increasingly popular in the U.S:

Percent of U.S. Population Who Own/Use On-Demand Devices/Media ⁹ (Base: Total U.S. Population 12+)	
Satellite TV	25 %
Computer DVD Recorder	21
Portable DVD Player	19
Stand-alone DVD recorder	16
High-definition TV (HDTV)	10
Video on Demand (watched last month)	10
MP3 audio player (other than iPod)	8
TiVo/DVR	6
iPod	6
Hand-held e-mail device such as BlackBerry®	3

And on-demand owners/users report a high degree of enthusiasm:

Percent of Owners Who Say They “Love” Using Device ¹⁰	
TiVo/DVR	54 %
High-definition TV (HDTV)	44
Broadband Internet access	40
Satellite Radio	40
iPod	35
Satellite TV	31
Hand-held e-mail device such as BlackBerry®	27
Portable MP3 player other than iPod	24
Cable TV	20
Over-the-Air Radio	19
Pay TV channels such as HBO or Showtime	17
Video on Demand	10
Internet Radio	8
Internet Video	7

Arbitron/Edison Media Research’s survey of on-demand usage revealed these significant findings.¹¹

- 81% of U.S. consumers have access to the Internet from any location – up from 50% just six years ago.
- The concentration of broadband Internet access has quadrupled since 2001. Now half of all home Internet access connections are high speed.
- 29% of adults who record TV to watch at a different time say the ability to skip through TV ads is the primary reason they record TV programming. The majority, however, say they record TV to fit into their schedule.
- About 37 million Americans listened to radio on the Internet in the past month.
- On-demand media consumers are “early adopters.” Owners of on-demand devices like Blackberry® say they are first among their family and friends to try new products and services.

⁷ “Marketing to the Pod Generation,” American Banker-Bond Buyer, June 2005

⁸ Arbitron/Edison Media Research, “The Internet and Multimedia 2005: The On-Demand Media Consumer,” 2005

⁹ Arbitron/Edison Media Research, “The Internet and Multimedia 2005: The On-Demand Media Consumer,” 2005

¹⁰ Arbitron/Edison Media Research, “The Internet and Multimedia 2005: The On-Demand Media Consumer,” 2005





¹¹ Arbitron/Edison Media Research, “The Internet and Multimedia 2005: The On-Demand Media Consumer,” 2005

- Nearly one-third of affluent Americans are “heavy” on-demand users. “61% of consumers with a household income of \$100,000 or more per year have bought devices and engage in behaviors that give them more control of their media exposure.”¹²

Satellite Radio

For all the hoopla surrounding the competition between the two U.S. satellite radio providers, Sirius and XM, they really are very alike. Each carrier transmits its radio service via satellite to cars, homes and public locations on special radios that can receive the signal. Receivers start at about \$70. The tuners have expanded display panels, so for example, artist and song titles appear when playing. Both carriers offer more than 100 channels of programming, most of which is commercial free. The programming can be heard nationwide, and the sound quality is superior to traditional or “terrestrial” AM/FM radio. Even the monthly cost is identical: \$12.95 a month. While XM has twice the subscribers of Sirius, all bets are off in 2006. By most accounts, Sirius has done a better job securing sought-after content—most notably Howard Stern.

Currently, the two carriers share about 6 million subscribers. Here’s an overview:

	 XM Satellite Radio	
Launched	2001	2002
Subscribers	4.4 million	1.8 million
Channels	150: 67 commercial free music channels; 68 channels of news, sports, talk & local traffic	120: 65 commercial free music channels; 55 channels of news, sports, talk and local traffic
Cost per month	\$12.95	\$12.95
Exclusive Auto Deals	GM, Hyundai, Honda	Ford, Daimler-Chrysler, BMW, Mitsubishi
Superstah	Major League Baseball	Howard Stern
And...	Opie & Anthony; Bob Edwards; partnered with Traffic.com to provide navigations, directions and traffic to expanded screens	 Martha Stewart
Sports deals	College Football, Major League Baseball, Indy 500 car racing	NFL, English Premium Soccer, NBA, Nascar
Portable?	Makes portable receivers; partnered with Samsung in Mp3 player that works in conjunction with Napster 	Currently has very expensive portable device; plans to go to market with new device by Christmas 2005; partnered with Sprint to deliver satellite content and music to wireless phones
Watch out for	Just announced deal with DirecTV to offer XM content DirecTV subscribers	Plans to offer kids-related video content on receivers in back seats in 2006; 4 hour show of podcasts hosted by “The Podfather” Adam Curry
2004 Sales	\$244.4 million	\$66.9 million
2004 Net Income	-\$642.3 million	-\$712.1 million
Ticker	XMSR	SIRI
Current Stock Price	\$28.65 (as of 10/31/05)	\$6.10 (as of 10/31/05)
Company says...	“We’ll be profitable in 2006”	“We’ll have 3 million subscribers by end of 2005”
Morningstar says...	“We think that the total satellite radio universe will grow to about 40 million within 10 years, with XM capturing most of them. In our opinion, getting its radios into new cars will be a key factor to achieve a critical mass of subscribers. XM has made a greater commitment to establish its distribution through automakers at the factory-level than Sirius, but it has paid less attention to securing unique programming.”	

¹² Arbitron/Edison Media Research, “The Internet and Multimedia 2005: The On-Demand Media Consumer,” 2005

Wonder whether consumers will pay for satellite when they can get terrestrial radio for free? Network TV said the same thing in the early 1980s about the deployment of cable TV. And clearly, the market for satellite radio is expanding. "Satellite radio can be found in 4% of U.S. households and the number is more than doubling each year. The growing clout of satellite radio is illustrated by its exclusive content deals, such as Major League Baseball and Howard Stern."¹³

Locally, 3% of Boston DMA adults subscribe to satellite radio, about 129,500 households. That's an increase of more than a 200% over last year. And 260,600 adults, or 5% of the Boston DMA, say they plan to subscribe to satellite radio in the next 12 months.¹⁴

"I think [satellite radio/mp3 players] made us aware that we needed to do something or we could become irrelevant as an industry," said Dave Pugh, regional vice president for Clear Channel Radio.¹⁵

¹³ "Why Radio is Worth Watching," The Economist, June 11, 2005

¹⁴ 2003/2004-2004/2005 Gallup Poll of Media Usage & Consumer Behavior, Boston DMA

¹⁵ "Changing Stations; Local Radio Cuts Back Ads, Offers HD to Blunt Satellite, MP3 Threats," Crain's Detroit Business, September 12, 2005

I Want My MP3!

MP3 players, portable devices that play audio or video digital files, have been around since 1998.¹⁶ However, when Apple introduced their version of an MP3 player, the iPod, in October 2001, it signaled a sea change in the music and consumer-electronics industries. Why? Beyond the smart, sleek design of the iPod, Apple created its own distribution channel for downloading music, audio and now video files. They created iTunes, an online music site where users can legally buy songs and seamlessly transfer them to the iPod.

"More than any other single product from Apple, the iPod had changed the company and the world. Before its introduction, MP3 players were the realm of small companies with limited budgets that were unable to provide content. After the iPod, the entire industry has evolved and grown to the point where the largest computer companies in the world have major interests in the digital music industry."¹⁷

Interestingly, Apple was not the first company that Tony Fadell, one of the creators of the iPod, pitched the idea to. Fadell had been a former employee of General Magic and Phillips. He envisioned a new kind of MP3 player that would be linked to a content delivery system where users could legally obtain and download music. He first pitched the concept to RealNetworks in 2000, a company that had music content through its Internet radio channels. But they turned him down: "[RealNetworks] could not rationalize going through the trouble of releasing an accessory to their already profitable system."¹⁸ Phillips also turned him down.

Fast forward four years: Apple has sold more than 20 million iPods, announced its 500 millionth music download, commands 80% of the MP3 player market and accounts for a whopping 75% of online music sales.¹⁹ In 2004, Apple posted a profit of \$276 million on sales of \$8.2 billion.²⁰

14% of U.S. consumers own an iPod or MP3 player and 78% of owners say they "like" or "love" their iPod.²¹ Still, there is plenty of room for competitors to introduce new devices to play MP3s. "As long as consumers are content with limiting their digital experience to their computer and MP3 player, Apple has little to fear. But its competitors are readying for a future that sees music shared seamlessly among MP3 player, mobile phone, home entertainment system, in-car system and other peripherals."²²

In an effort perhaps to neutralize the threat to the iPod, Apple recently unveiled the ROKR phone, made in partnership with Motorola and distributed in the U.S. through Cingular. This mobile phone is capable of playing MP3 files, but reviews are lukewarm. The phone can only play songs downloaded from iTunes, and only one hundred songs at that. "The ROKR puts Apple's iTunes in charge. The only way to load music onto the phone is to sync it with your computer; to buy new music, you have to access the iTunes store through your computer, bypassing the carrier's network and billing service."²³ With so many consumer electronics, Internet portals, wireless carriers and music companies that have so much to gain by getting in on the MP3 market, could serious competition be far away?

To examine the impact of MP3 players on the radio industry, you have to go back to 1996, before players were even available. The Telecommunications Act of 1996 brought about fundamental changes to the radio industry. Before the law went into effect, media companies could not own more than four stations in a single market and only 40 nationwide. "The new measure removed almost all of the ownership limits, setting off a frenzy of consolidation in what had once been a proudly fragmented industry."²⁴ The most famous of all radio consolidators is Clear Channel, which amassed more than 1,200 stations. "With a presence in almost all of the 250 largest media markets, it is to rock radio what Wal-Mart is to retail: an overwhelmingly dominant force."

What has happened since is another episode in the "content is king" saga. Clear Channel consolidated operations under a central command to create the radio equivalent of a television network, "in which every station, no matter where it is, broadcasts basically the same material. In the great majority of its programs, Clear Channel espouses the gospel of Tight: tight playlists of big hits from a tightly restricted musical genre (Classic Rock, Smooth Jazz, Lite FM) aimed at the tightly defined demographic that listens to it. Meanwhile, it has increased revenue by adding more and more commercials. The strategy was profitable in the short term but ruinous over the long haul, because audiences grew restless. Some people drifted away; those who continued turning the dial to Big Radio did so more from lack of an alternative than any desire to listen."²⁵

Enter the iPod. "If all the stations are playing the same thing, why not make your own station with your own tastes?" says Mark Sovel, Music Director of Clear Channel backed Indie 103 in Los Angeles. "The popularity of the iPod is directly related to the crappiness of radio."²⁶



¹⁶ "Introducing the World's First MP3 Player," www.cnet.com, January 21, 2005

¹⁷ "A Brief History of the iPod," lowenmac.com, October 14, 2005

¹⁸ "A Brief History of the iPod," lowenmac.com, October 14, 2005

¹⁹ "How Long Can Apple Stay on Top," *Billboard*, August 27, 2005

²⁰ apple.com, from their 2004 annual report

²¹ Arbitron/Edison Media Research, "The Internet and Multimedia 2005: The On-Demand Media Consumer", 2005

²² "How Long Can Apple Stay on Top," *Billboard*, August 27, 2005

²³ "Battle for the Soul of the MP3 Phone," *Wired*, November 2005

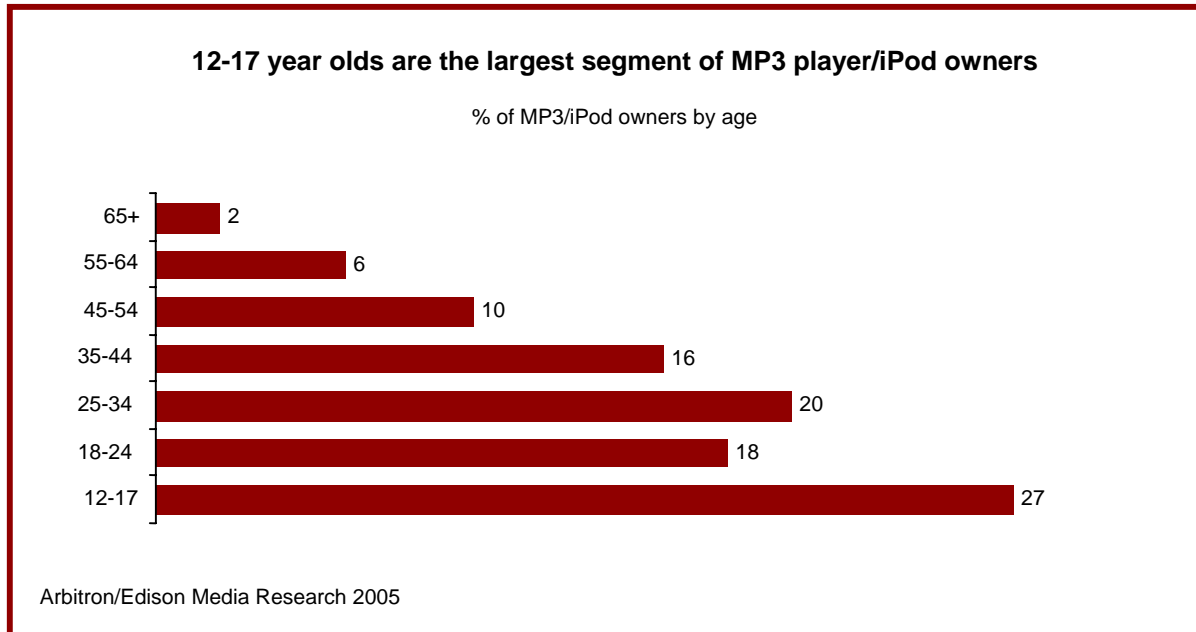
²⁴ "The Resurrection of Indie Radio," *Wired*, March 2005

²⁵ "The Resurrection of Indie Radio," *Wired*, March 2005

²⁶ "The Resurrection of Indie Radio," *Wired*, March 2005

And research shows that iPods have had an impact on terrestrial radio's ability to capture key targets, especially younger audiences. "The number of ears listening [to terrestrial radio] every day has slowly slipped to about what it was in 1994. The audience of 18- to 24-year-olds, a demographic particularly beloved by advertisers, has fallen nearly 22% since 1999."²⁷

"There's a whole generation that has grown up without loving radio," says Jerry Del Coliano, professor of music industry and recording arts at the University of California. "The next class of high school graduates doesn't know what radio is, doesn't care and doesn't want it. One student told me recently, 'we play what we want—it's called an iPod.'"²⁸



Terrestrial radio has responded to the impact of iPods in a variety of ways. One notable trend is the creation of a new multi-genre format, so called "Jack FM." With slogans like, "we play anything," the format mimics the random mix of an iPod library. "The increased use of iPods is causing broadcast outlets to take a look at their formats, and some have decided to change things with a 'play what we want' approach."²⁹

In Boston, Entercom radio launched such a station. In April 2005, they "pulled the plug at 'Star' WQSX. Renaming the station 'Mike,' they replaced the dance music and on-air DJs with a mix of pop, rock and R&B chartoppers. After years of Bee Gees and Chic, suddenly the Dropkick Murphys were serenading 'Tessie,' before the Rolling Stones reassured us that it was only rock'n'roll."³⁰ Greater Media's adult alternative station WBOS made a similar move by "dropping its morning DJs and adding older favorites (Steve Miller, Bruce Springsteen) throughout the day."³¹

"The shift to 'Jack' is significant. It says that we have a change in the attitude of radio operators. We've been in a very conservative mind-set, consumed with consolidation, consumed with becoming a public business versus a mom-and-pop-ownership business. Operators realized they haven't been taking risks. I think Jack is moving stations back into an era where bold things will happen with radio," says Gary Fries, head of the Radio Advertising Bureau.³²

It's no wonder. In the Boston market alone, more than half a million area adults purchased a iPod in the past year, up 34% from last year. And more than 280,000 Bostonians say they plan to purchase an iPod or MP3 player in the next 12 months.³³

²⁷ "The Resurrection of Indie Radio," Wired, March 2005

²⁸ "Does Radio Have a Future?" Los Angeles Times, July 30, 2005

²⁹ "Random Radio Fights back with 'Jack FM'" Chicago Tribune, June 7, 2005

³⁰ "Change is in the air for Boston Radio," The Boston Globe, April 27, 2005

³¹ "Change is in the air for Boston Radio," The Boston Globe, April 27, 2005

³² "Radio Revenue: The RAB's Gary Fries Speaks Out," Billboard Radio Monitor, July 8, 2005

³³ 2003/2004-2004/2005 Gallup Poll of Media Usage & Consumer Behavior, Boston DMA

The Invasion of the "Podcasters"

A recent study conducted by Yahoo! and OMD Worldwide revealed that 13-24 year olds far prefer to get their music from the Internet than from radio. "The researchers concluded that today's youth expect their media experiences to be highly personalized and tailored to their individual tastes."³⁴ With hundreds of hours of favorite songs stored on an iPod, the experience is customized but can be somewhat isolating. "Walk along the beach this summer—there are hardly any radios blaring—an eerie quiet, with lots of white headphone cords."³⁵

How do you get that social connection you might once have gotten by listening to the radio? One word: Podcasts.

"Podcasts—essentially homemade digital audio files that are uploaded to the Internet for others to download on demand—run the gamut from tributes by aspiring disc jockeys to their favorite music artists, to up-and-coming bands, to talk show 'hosts' chatting with their friends about everything from fine wine to fly fishing. Users can listen to podcasts whenever they want, pause them or rewind them to listen again. This allows users to carry their shows with them and no longer be bound to a radio station's schedule."³⁶



Podcasts began, perhaps surprisingly, with the mullet-headed, former MTV host Adam Curry. Known as "The Podfather," Curry produced an audio file in 2004, which was a kind of audio blog. It evolved into a hit podcast, *The Daily Source Code*. "Since then, some 10,000 original podcasts...have emerged, creating an entirely new medium. This summer podcasting became a full-blown craze, marked by the word's entry into the Oxford English Dictionary. Lance Armstrong has one. So does Donald Trump. 'It's one of the quickest trends I've seen in 12 years,' says Jeremy Welt, vice president of new media at Warner Music Group."³⁷

"For the first time in radio history, the audience can shape their own listening experience," says Jack Isquith, head of music-industry relations at AOL.³⁸

"There's a high degree of communication between the podcaster and the listener. It's much more of a conversation than a radio show, where you generally just hear back from listeners on what they like and what they don't like. These listeners tell you something about their lives and experiences and why they appreciate what you do, and they expect to hear back from you. Broadcasting is more speaking down, but podcasting is more speaking with peers at the same level," says veteran radio producer Tony Kahn.³⁹

Podcasts are about to go mainstream:

- Forrester Research projects that by 2010, about 12.3 million US households will be listening to podcasts.⁴⁰
- Apple recently added links to thousands of podcasts on iTunes. "They got about 2 million new people in the first two days," says Kahn.⁴¹
- AOL Radio recently introduced podcasting to its 16 million monthly users. "We're very bullish on podcasting," says Jack Isquith, head of music-industry relations at AOL.⁴²
- Adam Curry's company PodShow features a popular website that makes it easy to find, create, post, publicize podcasts. The company recently received \$8.9 million in venture capital from Kleiner Perkins Caufield & Byers and Sequoia Capital. Says Mark Kvamme of Sequoia Capital: "You can easily see it as a billion-dollar advertising market."⁴³
- Odeo, another company whose mission is the creation and dissemination of podcasts, recently received a vc infusion from Charles River Ventures in Waltham, MA.⁴⁴
- Sirius recently signed on Adam Curry to produce and host a weekly program of podcasts.
- All nine of Infinity's news stations offer podcasts on their website.⁴⁵
- Clear Channel has begun "amping its online presence...redesigning their websites, now reaching 10 million people a month, and 2.6 million podcasts (with ads) have been downloaded since June."⁴⁶

Lastly, some see the future of podcasts on wireless phones, not MP3 players. Using wireless phones eliminates the step of connecting an MP3 player to a computer and downloading or subscribing to a podcast. Mobile phone users can opt-in for the podcasts they subscribe to and the file can be "pushed" out to subscribers, in a more streamlined way. Says Charles River Ventures partner and podcast investor George Zachary, "The synching part is annoying to me."⁴⁷ Over 110 million adults use wireless phones in the US.⁴⁸ If/when mobile phones handle MP3 files on a wider scale, the impact on podcasting could be exponential.

³⁴ "Internet Surpasses Radio as Preferred Music Medium Among Youth," Friday Morning Quarterback, September 28, 2005

³⁵ "Adjusting the Dial," <http://bigpicture.com>, 2005

³⁶ "An MTV Host Moves to Radio, Giving Voice to Audible Blogs," The New York Times, May 2, 2005

³⁷ "The PodFather: Part One," Time Magazine, September 19, 2005

³⁸ "The PodFather: Part One," Time Magazine, September 19, 2005

³⁹ "Attack of the Pod People," Mix, November 1, 2005

⁴⁰ "Investors Get Behind Podcasting, But Will The Listeners," The Boston Globe, September 5, 2005

⁴¹ "Attack of the Pod People," Mix, November 1, 2005

⁴² "The PodFather: Part One," Time Magazine, September 19, 2005

⁴³ "The PodFather: Part One," Time Magazine, September 19, 2005

⁴⁴ "Investors Get Behind Podcasting, But Will The Listeners," The Boston Globe, September 5, 2005

⁴⁵ "Podcasting – The WINS Way," Billboard Radio Monitor, August 26, 2005

⁴⁶ "The PodFather: Part One," Time Magazine, September 19, 2005

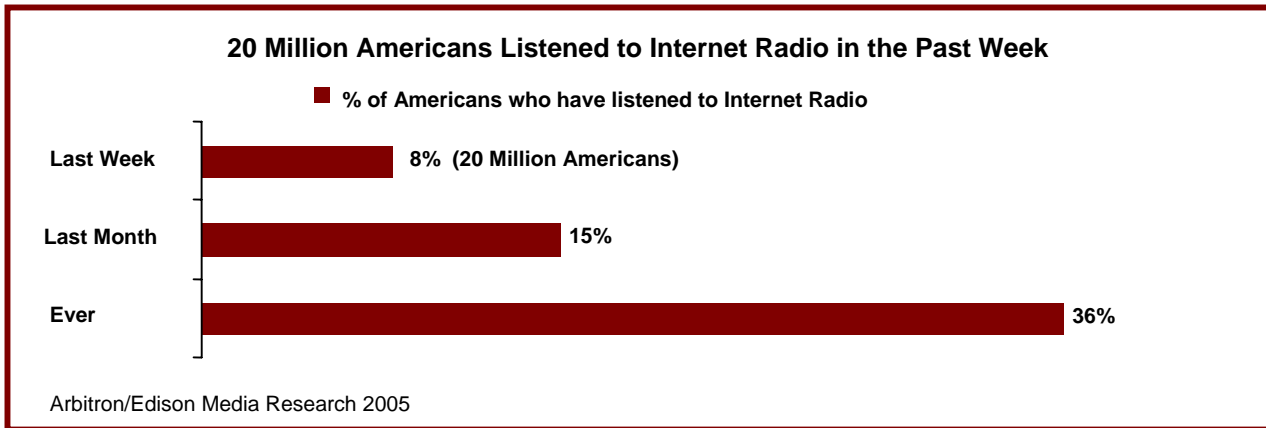
⁴⁷ "Investors Get Behind Podcasting, But Will The Listeners," The Boston Globe, September 5, 2005

⁴⁸ U.S. General Services Administration, June 2005, www.gsa.gov

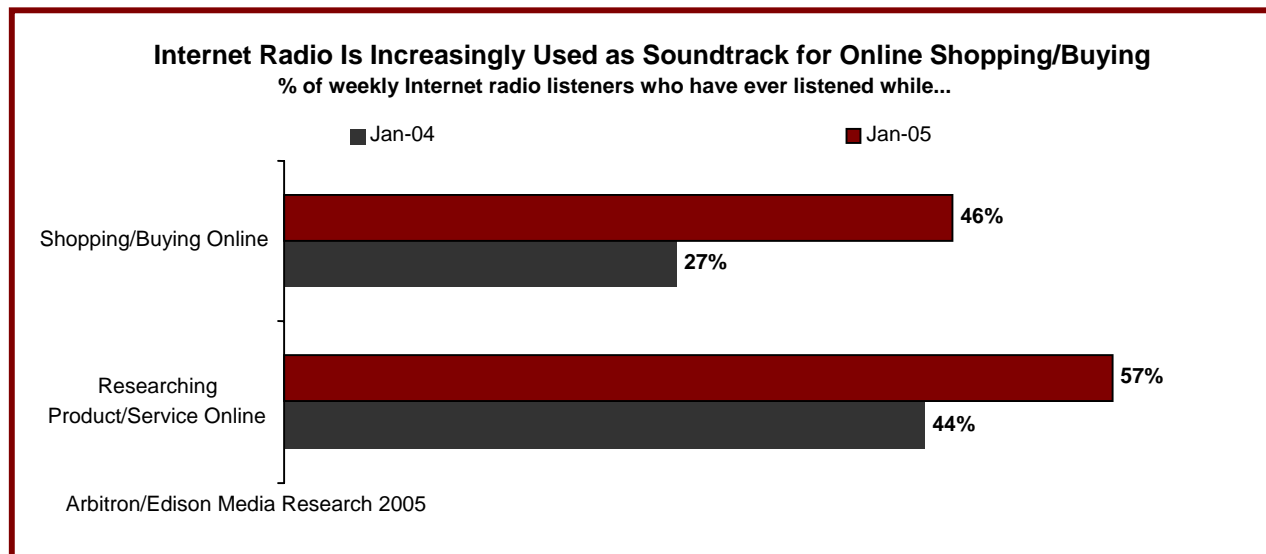
Internet Radio: Whistle While You Work

Approximately 37 million Americans tuned in to a music/audio broadcast over the Internet in the past month. Over the course of a week, the average audience size is estimated to be 20 million, or 8% of the U.S. population over the age of 12. And this audience is growing. Consider: in January 2000, 19% of the Americans said they tried listening to Internet radio. Only five years later, more than one third of Americans said they tried Internet radio.⁴⁹

"The PC is going to replace the transistor in the office space," says Greater Media's Peter Smyth. "It enables us to get into places we couldn't get into before."⁵⁰ 65% of online radio listening occurs at work.⁵¹



Online radio presents a great opportunity for advertisers to connect with key prospects. "The medium attracts an affluent, urban audience, and while the streams sound like radio, they boast the measurement and hyper-targeting capabilities of the Internet."⁵² For more than 25% of "at work" users, the Internet is the only medium used during the day.⁵³ Best yet, Internet radio presents the opportunity to connect with key prospects at the right time, just before they make a purchase. Internet radio is increasingly used as a soundtrack during the online shopping and buying experience. 57% of online radio users report that they have listened while researching a product or service online and nearly 46% have listened while shopping or purchasing online.



⁴⁹ Arbitron/Edison Media Research, "The Internet and Multimedia 2005: The On-Demand Media Consumer", 2005

⁵⁰ "Action Stations Tackling Change," Billboard Radio Monitor, August 26, 2005

⁵¹ "Media Morph: Online Radio," Advertising Age, September 26, 2005

⁵² "Media Morph: Online Radio," Advertising Age, September 26, 2005

⁵³ "At Work Internet Audience Media Consumption Study," Online Publishers Association, May 2003

Like other on-demand devices, the ability to limit exposure to commercials is a big attraction among consumers. However, the primary motivators are content-oriented. The number one reason is access to audio users can't get elsewhere:

To listen to audio can't get elsewhere	17 %
To control/choose the music played	15
Fewer commercials	14
More music variety	13
Clearer signal than over-the-air radio	8
Less DJ chatter	8
Because it is new	7

Here's a look at the top measured online radio networks.

	Cume Persons	Average Quarter Hour Persons
America Online's AOL Radio Network	1,785,400	116,200
Clear Channel Online Music and Radio	848,600	74,200
Live 365	630,800	45,000
Microsoft's MSN Radio and Windows Media.com	824,300	69,300
Yahoo Music/Launchcast	2,955,700	274,800
Net Cume of Total	6,756,100	579,500

The reported audience for the total of the five networks is an unduplicated estimate of the number of different people who listened to one or more of the networks for a minimum of five minutes during the week.

⁵⁴ Arbitron/Edison Media Research, "The Internet and Multimedia 2005: The On-Demand Media Consumer," 2005

⁵⁵ Arbitron Radio Services, www.arbitron.com, September 9, 2005

Zip Zap: Old-School Style On Demand

With all the research devoted to new technologies shaving the terrestrial radio audience, it's easy to overlook the most common problem of all for radio advertisers: listeners tuning out radio advertising. Here are some facts to consider about radio usage in the Boston market.⁵⁶

- Less than 1% of area adults consider radio their most useful source for information about:
 - Clothing (ranked last among media)
 - Continuing education (ranked last among media)
 - Medical insurance (ranked last among media)
 - Major appliances and electronics (ranked last among media)
 - Computer hardware (ranked last among media)
 - New/Used vehicles (ranked last among media)
 - Selecting movies (ranked 2nd to last among media)
- Only 2% of market adults consider radio as the most useful source for looking for entertainment ideas.
- 71% of adults say they often/sometimes switch radio stations during commercials.
- Over 110 million U.S. adults use wireless phones and a recent National Highway Traffic Safety Administration survey found that 54% of motor vehicle drivers usually have a wireless phone in their vehicle.⁵⁷

⁵⁶ 2004/2005 Gallup Poll of Media Usage & Consumer Behavior, Boston 5PMSA

⁵⁷ U.S. General Services Administration, June 2005, www.gsa.gov

Part Two: Making a Smart Radio Buy

During the explosive growth of radio advertising in 1999-2000, “stations increased their spots loads to handle demand. Listeners got annoyed: high commercial and promotional clutter was affecting a station’s ability to hold its audience, resulting in lower AQH ratings and time listening.”⁵⁸ And eventually, advertisers figured out they were spending more to reach a smaller audience. Consider:

- In the radio expansion period of 1996-2000, total radio revenue (excluding network radio) grew 12%. Yet from 2000-2004, the increase was a meager .3%.⁵⁹
- Average Americans spend more time online, on the phone, punching the remote, the radio and the game console than they do sleeping—a total of nine hours a day. And much of the time, they are using more than one medium.⁶⁰
- Satellite Radio, iPods, podcasting and traditional “zip zap” have and will continue to shave value from radio advertising buys. “Radio faces a huge problem. It can’t compete with the variety and convenience of technology.”⁶¹

But radio is not dead yet. In an average week, 230 million Americans tune in to traditional radio.⁶² And locally, 2.9 million adults tune in to a radio station during the AM drive on an average day.⁶³ Radio is still an affordable way to reach niche targets. The trick is to reach the right audience at the right time, and reach them frequently enough that your message has meaning and resonance.

Here are ten strategies to make every radio ad dollar count:

1. Make Your Spots Creative

“A great radio spot is something that the listener is grateful for and wants to hear again. That’s generally not what listeners get,” says Austin Howe, Creative Director of the agency Radioland.⁶⁴ “Very little of radio [commercials] is good, so you tune it out and you don’t listen to it.”

Try allocating more of your resources to the quality of the radio spot: “Instead of spending \$5 million on a radio buy and \$5,000 on their radio creative and production budget, allocate less to media and more to creative and production...you give creatives more money for radio, you will always get better radio.”⁶⁵ Howe, who was the chairman of Clio Radio awards in 2005, says there are three elements in a great radio spot: “One, they’re usually simple or more accurately, singular. Two, they usually have some degree of mischief to them. Three, they have a fresh way of thinking about something, an insight.”

2. Less is More

In an effort to help stem the defection of listeners to satellite radio and MP3 players, Clear Channel’s 1,200 radio stations cut advertising time by almost one third in 2005. “Fewer ads enticed listeners to spend 14.5% more time tuned in.”⁶⁶ Other radio groups have followed suit.⁶⁷ All advertising benefits from a lower-cluttered environment. Ask your radio rep to prove their station’s commercial loads are low or decreasing. The fewer radio ads that surround your company’s message, the more prominent your message will be.

⁵⁸ “Media Today and Beyond 2003 – 2004,” Hill Holiday Media Services, May 4, 2004

⁵⁹ “Radio At The Crossroads: What Will It Take?” Billboard Radio Monitor, July 1, 2005

⁶⁰ “Forget Blogs, Print Needs Its Own iPod,” The New York Times, October 20, 2005

⁶¹ “Does Radio Have a Future?” Los Angeles Times, July 30, 2005

⁶² “Web Radio Quickly Finding Niche Markets,” The Boston Globe, March 28, 2005

⁶³ 2004/2005 Gallup Poll of Media Usage & Consumer Behavior, Boston 5PMSA

⁶⁴ “Making Radio Ads Better,” Billboard Radio Monitor, May 20, 2005

⁶⁵ “Making Radio Ads Better,” Billboard Radio Monitor, May 20, 2005

⁶⁶ “Clear Channel’s Profit Falls As It Cuts Ad Time,” The Houston Chronicle, August 10, 2005

⁶⁷ “Brave New World,” Mediaweek, September 26, 2005

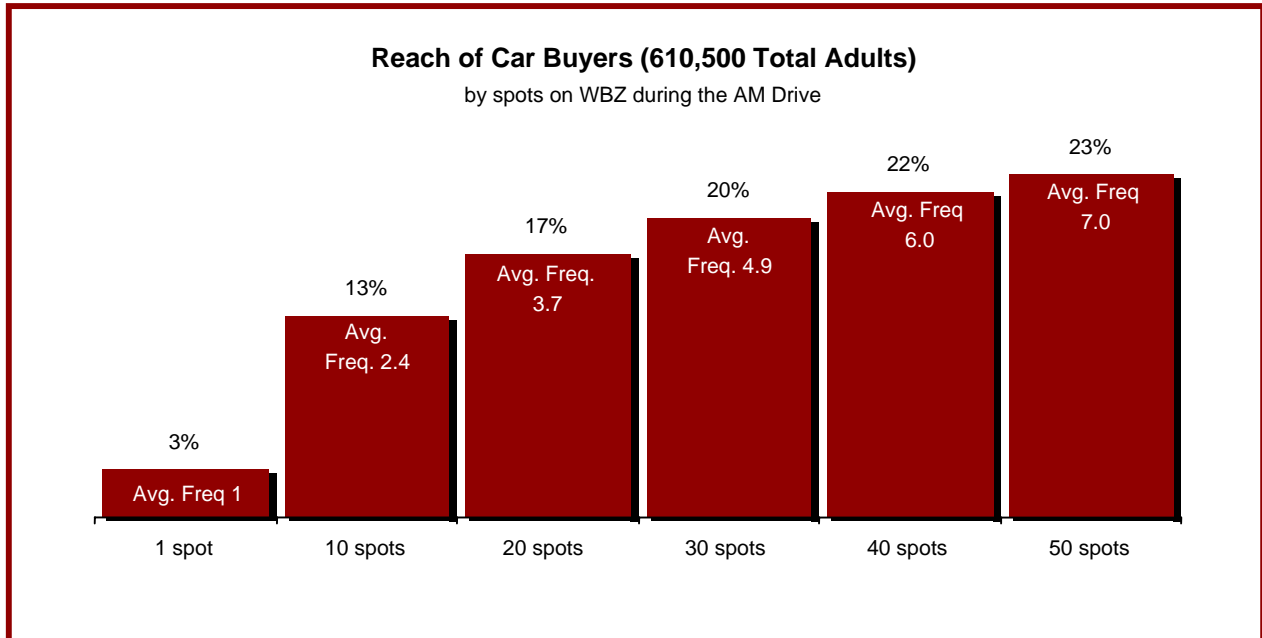
3. More Stations, Fewer Spots

Take a lesson from TV ad planning. In TV, the typical weekly reach goal is 35% to 40% of target and a monthly goal of 65-70%. They avoid concentrated schedules that build too much frequency. "TV planners rely more on dispersion of messages across programs, channels and stations (which builds reach) and somewhat less on targeting (which limits dispersion and tends to build frequency.)"⁶⁸ Similarly, your radio schedule becomes more effective when you add stations, but decrease the overall number of spots:⁶⁹

Reach of Adults 25-54 in the Boston market			
Stations	Total Spots	Reach	% Reach
3 stations: WEEI-AM, WBZ-AM, WXKS-FM (PM Drive)	15 (45 total spots)	470,900 25-54 YO	22%
6 stations: WEEI-AM, WBZ-AM, WXKS-FM, WTKK-FM, WBCN-FM, WBMX-FM (PM Drive)	7 (42 total spots)	555,400 25-54 YO	26%
Result	-3 spots	+84,500	+18% reach

4. Find The Point Of Diminishing Returns

Radio advertising is about connecting with highly-targeted prospects, and often. When implementing your radio schedule, it's important to find the "sweet spot." An effective radio schedule will reach as many key prospects as possible, and build frequency (or opportunities to hear your ad.) But be careful not to "overbuy" on frequency. In every ad schedule, there comes a point of diminishing returns. A specific radio station is never going to reach the entire universe of, say, Boston-area car purchasers. Overbuy and you risk saying the same message to non-targets too often. The chart illustrates: There are 610,500 adults in the greater Boston area who say they plan to purchase a car within 12 months. 1 spot on WBZ-AM during the morning drive reaches 3% of car buyers, with an average frequency of 1. Run 20 spots and the reach increases to 17%, or 106,000 car buyers, and they were exposed to your message an average 3.7 times. But reach and frequency flattens out considerably at 30 spots.⁷⁰



⁶⁸ "Reach Trumps Frequency," Ephron Media, June 2005

⁶⁹ 2004/2005 Gallup Poll of Media Usage & Consumer Behavior, Boston 5PMSA

⁷⁰ 2004/2005 Gallup Poll of Media Usage & Consumer Behavior, Boston 5PMSA

5. Supplement Your Buy With Local Internet Advertising

Suppose you are a business trying to reach adult men. Just 10 spots on WBCN during the PM Drive reaches 4% of 18+ men in the market. That means about 70,100 adults were exposed to WBCN and they heard that message about 2 times. That's pretty good, right? By decreasing your spots on WBCN and adding just one week (7 spots) on Boston.com, your reach is increased by 681%. 3.8 million Boston-area adults have Internet access, and 24%, or 1.1 million adults, logged on to Boston.com in the past week.⁷¹ Adding local Internet advertising can make your radio buy more secure and effective.

Reach of Men 18+ in the Boston market				
Stations	Total Spots	Reach	% Reach	Frequency
WBCN (PM Drive)	10	70,100 adult men	4%	2.2
WBCN (PM Drive)	5	547,700 adult men	32%	3.3
Boston.com (Past Week)	7			
Result		+477,600 men	+681% reach	+1.2

6. Supplement Your Buy With Internet Radio

Nationally, for more than 25% of "at work" users, the Internet is the only medium used during the day.⁷² And in Boston, over 2.1 million Boston area adults tuned into the Internet at work.⁷³ Research shows that Internet radio is often a soundtrack for Internet purchasing and shopping. Particularly in reaching affluent targets, adding Internet radio to your terrestrial radio buy makes sense. Here's an overview of radio stations in the Boston MSA and live stream availability:

Call	Frequency	Format	Sales Rep	Web Address
WAAF-FM	107.3	Rock	D&R RADIO	http://waaf.listennetwork.com/
WBCN-FM	104.1	Talk	Infinity Radio	none
WBMX-FM	98.5	Hot Ac	Christal	none
WBOQ-FM	104.9	Oldies	D&R Radio	none
WBOT-FM	97.1	Urban	Katz	none
WBZ-AM	1030	News/Talk	Infinity Radio	http://www.wbz1030.com/
WCRB-FM	102.5	Classical	McGavren-GUILD	none
WCTK-FM	98.1	Country	D&R Radio	http://www.wctk.com/
WEEI-AM	850	Sports	D&R Radio	http://weei.listennetwork.com/
WEEI-FM	103.7	Sports	D&R Radio	http://weei.listennetwork.com/
WEZE-AM	590	Religious	Salem Radio Reps	none
WFNX-FM	101.7	Modern Rock	McGavren GUILD	http://www.fnradio.com/1/home.asp
WGIR-FM	101.1	Rock	Clear Channel	http://www.wgir.com/main.html
WJMN-FM	94.5	Rhy. Chr	Clear Channel	http://www.jamn.com/main.html
WKLB-FM	99.5	Country	Katz	http://www.wklb.com/
WKOX-AM	1200	Talk	Clear Channel	http://www.wkoxam.com/main.html
WMJX-FM	106.7	Adult Cont.	Katz	http://www.magic1067.com/
WMKK-FM	93.7	Adult Hits	D&R Radio	none
WNNW-AM	800	Tropical	Roslin	http://www.power800am.com/
WODS-FM	103.3	Oldies	Infinity	none
WOKQ-FM	97.5	Country	Christal	none
WRKO-AM	680	Talk	D&R Radio	http://www.wrko.com/
WROR-FM	105.7	Classic Hits	Katz	http://www.wrora.com/
WTKK-FM	96.9	Talk	Katz	none
WXKS-FM	107.9	Chr	Clear Channel	http://kissfm.amfmi.com/main.html
WXLO-FM	104.5	Hot Ac	Katz	none
WXRV-FM	92.5	Adult Altern.	McGavren-GUILD	http://www.wxrv.com/
WZID-FM	95.7	Adult Cont.	Katz	none
WZLX-FM	100.7	Classic Rock	Infinity	none

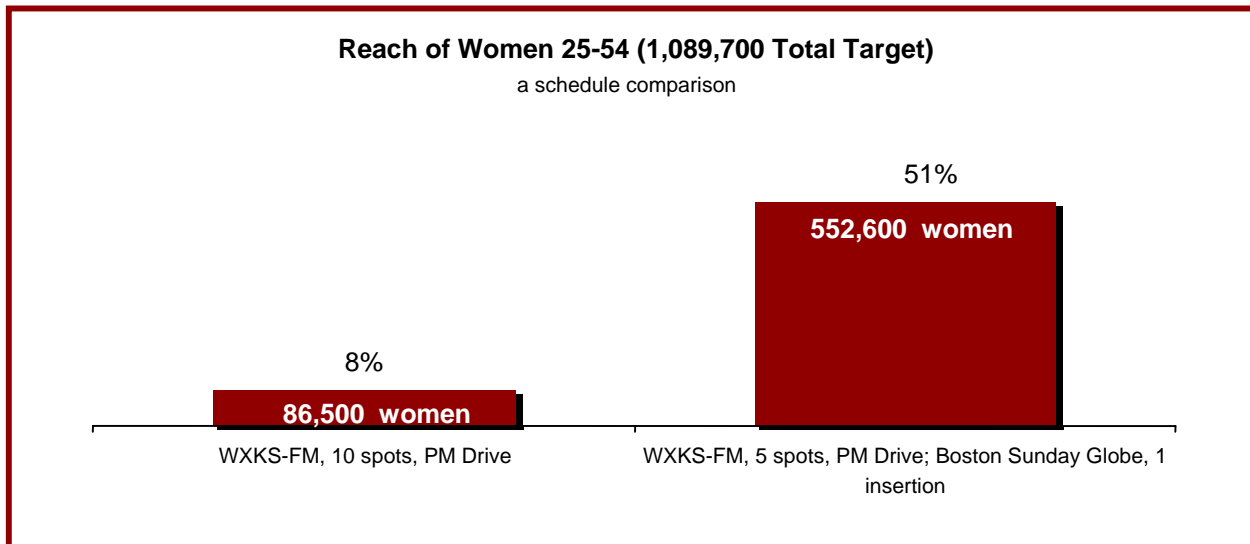
⁷¹ 2004/2005 Gallup Poll of Media Usage & Consumer Behavior, Boston 5PMSA

⁷² "At Work Internet Audience Media Consumption Study," Online Publishers Association, May 2003

⁷³ 2004/2005 Gallup Poll of Media Usage & Consumer Behavior, Boston DMA

7. Supplement Your Buy With A High-Reach Medium

During an average day, 15%, or 160,900 women 25-54 tuned in to WXKS-FM during the AM or PM Drive, making it the highest-rated station for this target. 10 spots during the PM Drive reaches 8% of this target, or 86,500 women. However, by subtracting half of your radio spots and adding just one insertion in The Boston Sunday Globe you increase your reach by a whopping 539%. And adding newspaper to your schedule makes your buy more secure in another important respect: Newspaper readers read ads. 71% of women 25-54 say they read newspaper ads, Conversely, 76% of women 25-54 say they sometimes or often change radio stations during commercials.⁷⁴



8. Brought to you by...

On-air mentions still make a lot of sense in radio advertising. Whether it is sports-feature sponsorships during Red Sox games, underwriting on NPR, or traffic sponsorships on news radio, advertisers' messages blend seamlessly into the content. Listeners are less apt to change the station, and in turn, advertisers are more apt to get what they paid for: an audience. To borrow a term from Internet marketing, on-air mentions make a radio station "stickier."

Of course, this advertising method gives little time or opportunity to build a meaningful brand or convey complex ideas. But remember, the key to radio advertising is frequency. Broadcast and print remain better suited for shaping consumer's perception of a company's brand. However, getting your company's name heard, and heard often, is the hallmark of a successful radio campaign.

9. Content is King

We live in an age where user access to content is paramount. Content is the value proposition behind Satellite Radio. The ability to control content was the driving force in the popularity of MP3 players. When Apple introduced iTunes, it provided access to content and the deployment of iPods exploded. And just when content on MP3 players started to become an isolating experience, podcasting was born. Technology is fluid and changing, but enticing content is "true north."

"We're not going to stop technology anymore than broadcast television stopped cable," Saga Executive VP Steve Goldstein said. "It is naïve for us to think we're not going to suffer. The question is, 'How do we remain relevant?'"⁷⁵

Terrestrial radio must bow to the demands of the consumer if it is to thrive in an on-demand world. "There is one important lesson for the radio industry to keep in mind: It's all about compelling content, regardless of where you go to find it. People will go to a new place for good content, and the radio industry needs to remember that it will remain a winner if it maintains effective content. The most important thing in a radio operator's mind should be, 'Do I have the most compelling content for my target, and if not, where do I find it?'"⁷⁶

Advertisers should carefully examine the radio stations on their buy. And radio stations should be prepared to defend their programming to the extent that it connects with its audience. Ask about their commercial loads and the popularity of on-air talent. Is the content on WXYZ persuasive to its demo, gripping to its key audience?

⁷⁴ 2004/2005 Gallup Poll of Media Usage & Consumer Behavior, Boston 5PMSA

⁷⁵ "Radio At The Crossroads," Billboard Radio Monitor, July 1, 2005

⁷⁶ "Radio Revenue: The RAB's Gary Fries Speaks Out," Billboard Radio Monitor, July 8, 2005

10. Sell Global, Advertise Local

Consider: Satellite radio can not carry local programming under FCC guidelines. And MP3 players can't offer that same human connection with a DJ that is possible with terrestrial radio. Now more than ever, the strength of radio is that it is **local**. Irrevocably radio stations are tied to the community in which they broadcast, and that is their key strength. "The key to survival of local radio is that it's local. It can do things that Sirius and everybody else can't do. It can tell me the weather in my hometown, things that are happening in my hometown. Local radio can tell me things that Sirius and XM, which is beaming in from space, can't do. If you are one of these stations that are kind of a jukebox, it's hard to compete."⁷⁷

Ask your radio rep how their radio station employs strategies that capitalize on "local-ity." Is it meaningful to its target audience?

Conclusion

Research shows that the rising popularity of on-demand devices and technologies will continue to threaten terrestrial radio's audience. While terrestrial radio still captures a huge audience, it is increasingly fractionalized. However, it still is an effective media in targeting niche prospects and build frequency of message.

It's been said about advertising: **"Half the money I spend on advertising is wasted; the trouble is I don't know which half."**

But increasingly, agencies and media outlets are able to calculate their ability to reach an audience and verify effectiveness. In an on-demand world, advertisers should demand accountability in the media they choose. Whether your business is best able to reach key prospects with terrestrial radio, some other media, or a combination, ad dollars are a crucial but costly investment. Ask your advertising reps to demonstrate effectiveness. If you are considering more than one media, ask each media's rep to run your total ad schedule, not just the schedule and the media they are pitching. As an advertiser, you are entitled to see how each media work together and align with your overall marketing objectives.

⁷⁷ "Will Technology Kill the Radio Star?" Arkansas Business, September 5, 2005