

## Terrestrial Radio's Run Through the New Media Gauntlet 1998-2010

Wednesday, October 20, 2010

### The 10,000 Foot View

Terrestrial radio was having a great run when in 1996 the U.S. Congress passed a bill that allowed consolidation among broadcast companies expanding ownership by any given company within a radio market. The buying and selling frenzy which followed this legislation had never been experienced before and the industry was excited about the prospect of how cost savings and sales strategies developed by virtue of these consolidations would improve the radio business and make it more competitive than ever. However, no sooner than consolidators began to operate their large market clusters did radio find itself faced with new technologies that individually in the beginning didn't pose much perceived threat but would become a competitive juggernaut when considered together.

In the years since 1998 when Napster first was introduced into the consumer consciousness, traditional radio has been met with severe new competitive considerations. In many ways, the volume of competition has been a compliment to an industry that had been experiencing double-digit revenue growth rates through the nineties. It has been written in media industry trades that affinity to terrestrial radio is being impacted by a perfect storm of technologies. The following charts reflect this change, subtle at first, and quickly gathering momentum as more alternatives are offered for consumption of free time. All forms of alternative technologies from MP3 players to Internet radio and mobile phones have offered audio alternatives which have greatly impacted passion for terrestrial radio. In the last two to three years, social media and other non-audio technologies (for example: iPads) are also contributing to reduced terrestrial time-spent-listening. The following analysis shows how the aggregation of these technologies has impacted listening to traditional radio.

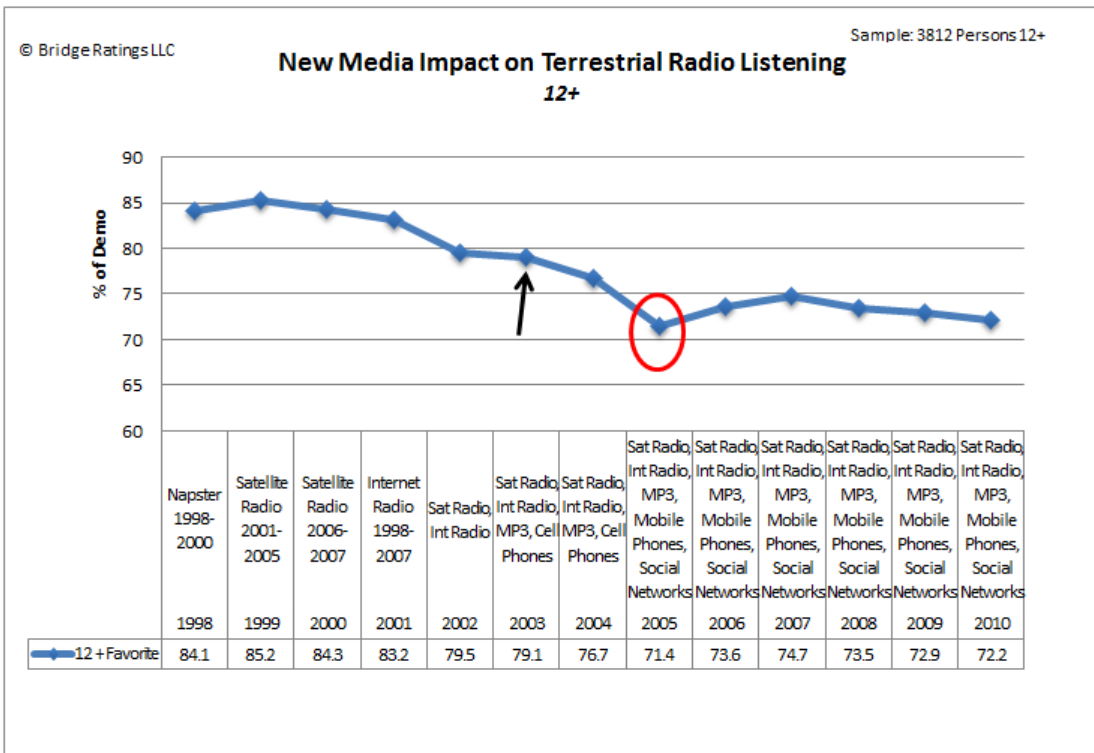
### Sample

*A panel of 3822 persons 12-21 years of age were interviewed for this update on terrestrial radio's digital gauntlet. Each person on the panel met the following criteria: currently listened to terrestrial radio at least 30 minutes a week, used an MP3 player for at least 30 minutes per week, and listened to Internet radio for at least 30 minutes per week, used a cell phone and used social networks for at least 30 minutes per week.*

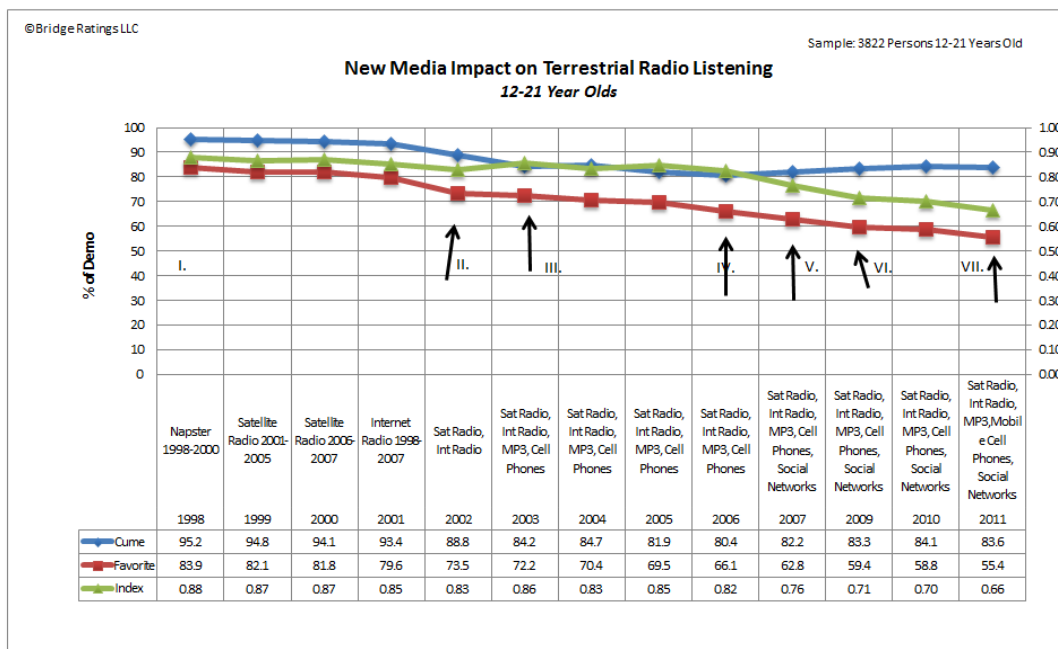
### Overview

Principle #1: Since the introduction of technology such as file sharing service Napster in 1998, terrestrial radio listening levels have been affected.

***Favoriteness** is Bridge Ratings' measure of loyalty to a radio station. In the example of the following chart, the blue line indicates the trending of the percentage of 12+ audience that had a favorite radio station. Since 1998, favoriteness/station loyalty has diminished due to increasing choices of new media, culminating in 2005 when the aggregate of all new media took its toll on terrestrial listening..*



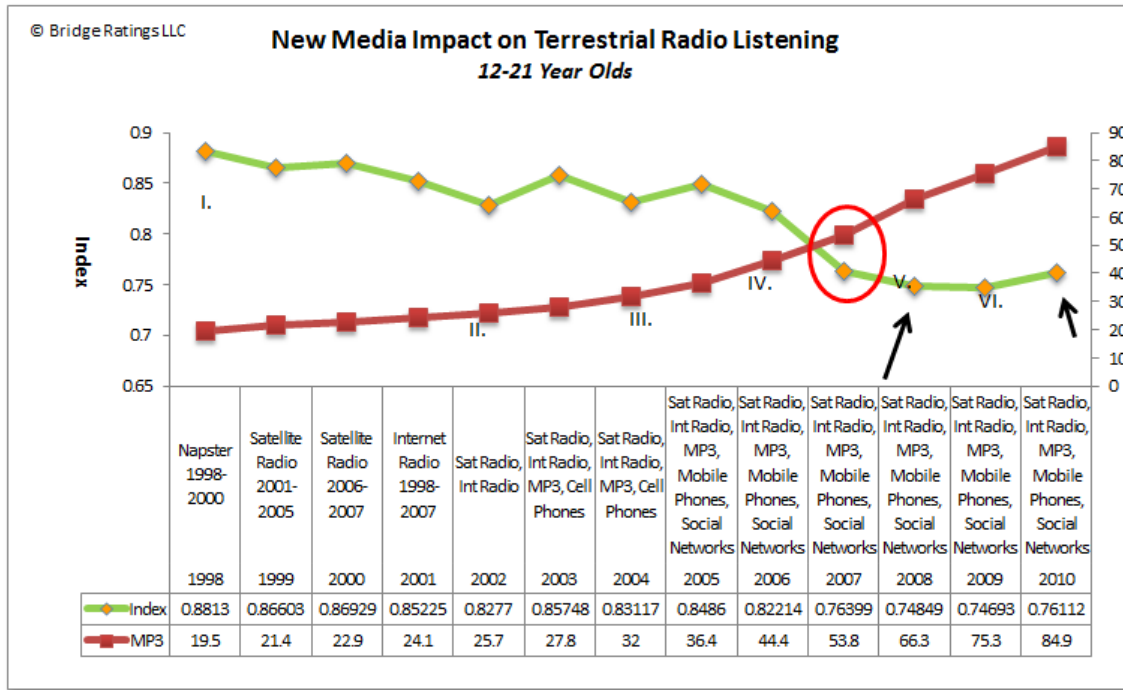
Principle #2: A tipping point in radio listening first occurred between 2002 and 2003. The number of 12-21 year olds listening less to traditional radio precipitated an overall downtrend for years to come. Bridge Ratings **Index** is defined as the relationship between weekly radio listening (**cume**) and **favoriteness**. The number of weekly radio listeners has dipped slightly in the 12 years represented by this chart. However, favoriteness has decreased at a faster rate than weekly cume causing the precipitous trendline here:



Principle #3: Collective momentum of digital alternatives reaches tipping point in 2007. This chart represents trending among 12-21 year olds for favoriteness/preference index of terrestrial radio Favoriteness Index and MP3 usage. The MP3 player category began to carve out its own time-

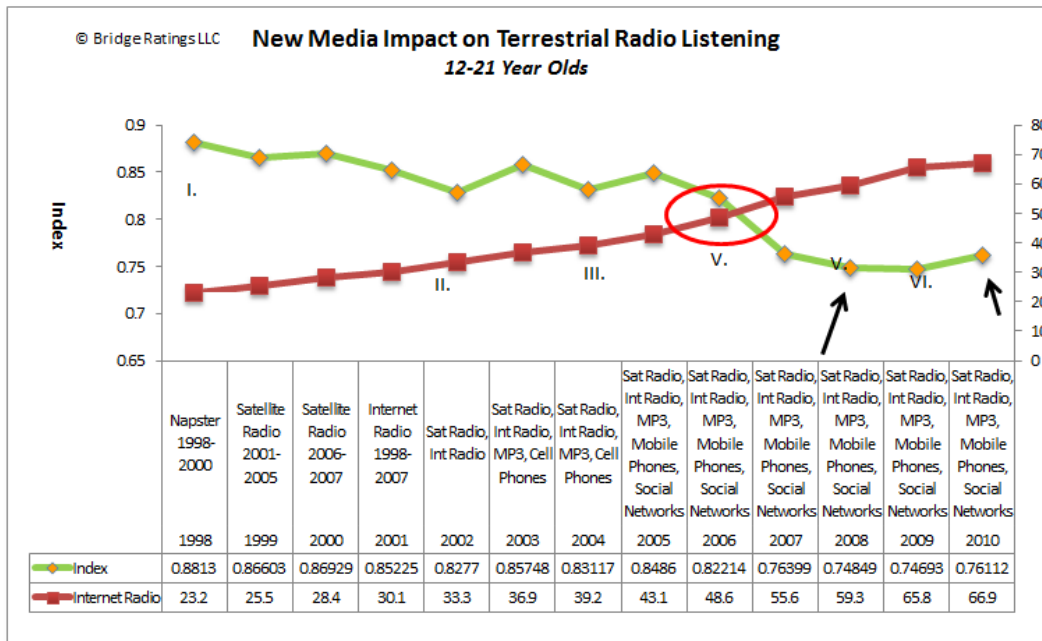
spent-listening momentum by 2003 and began to accelerate into 2006. By 2007 the collective momentum of usage/preference among this age group began to overcome terrestrial radio.

### I. MP3 Players



### II. Internet Radio

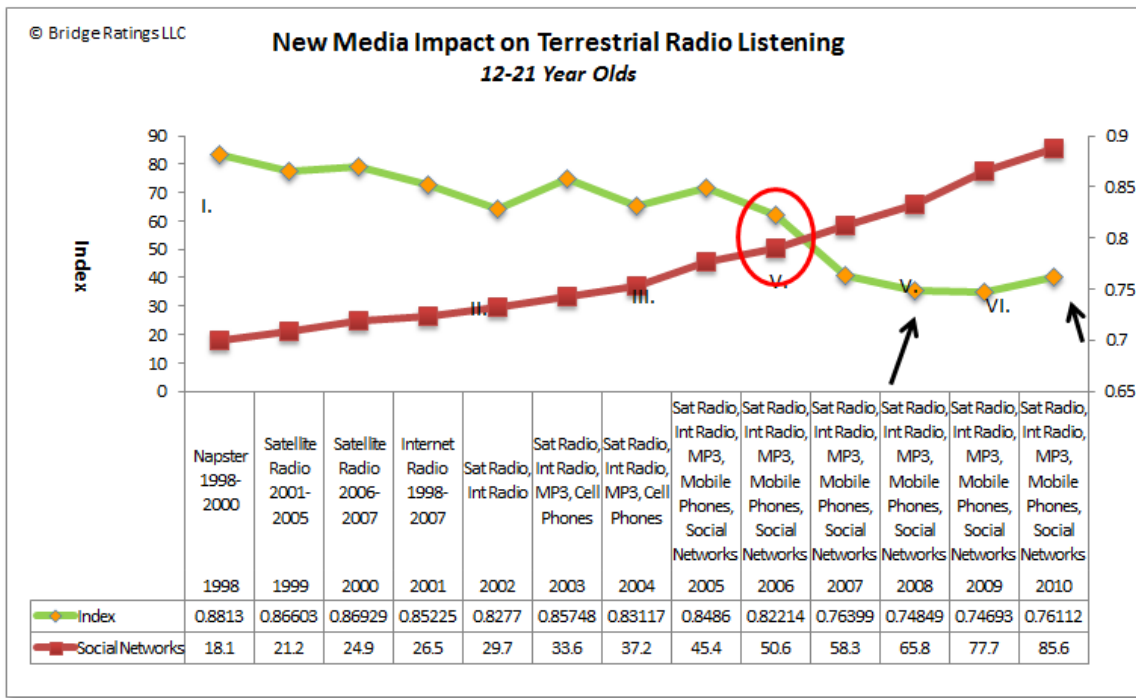
The impact of Internet radio was beginning to be collectively felt between 2003 and 2005 and usage surpassed preference for terrestrial radio in 2006. This chart shows terrestrial preference vs. that of Internet radio over the past twelve years.



### III. Social Networking

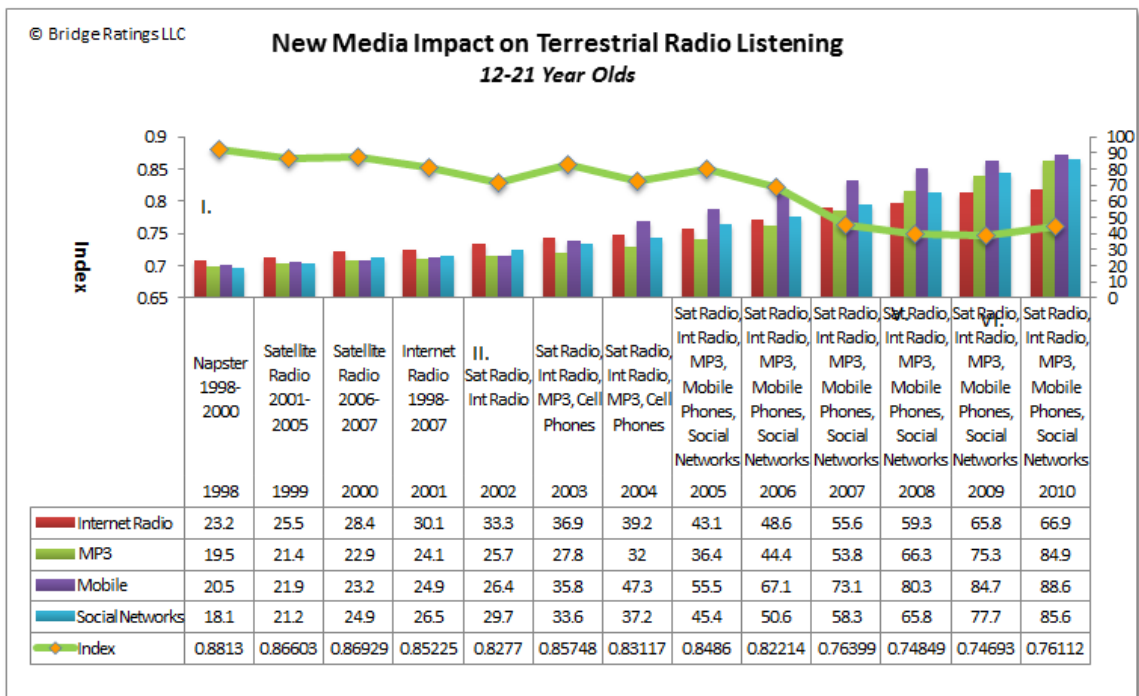
By 2006 preference among young radio listeners had been knocked hard by Internet radio, MP3 players - even cell phone use. Bubbling under was the massive tidal wave of Social Networking initiated by early social sites like Friendster and MySpace. Facebook grabbed hold quickly in 2003, 2004

and the entire category of social network began to add to terrestrial radio's woes. By 2007 the impact of social networking preference overwhelmed that of traditional radio use and has been the "killer activity" that has driven down time-spent-listening to terrestrial radio among young listeners.



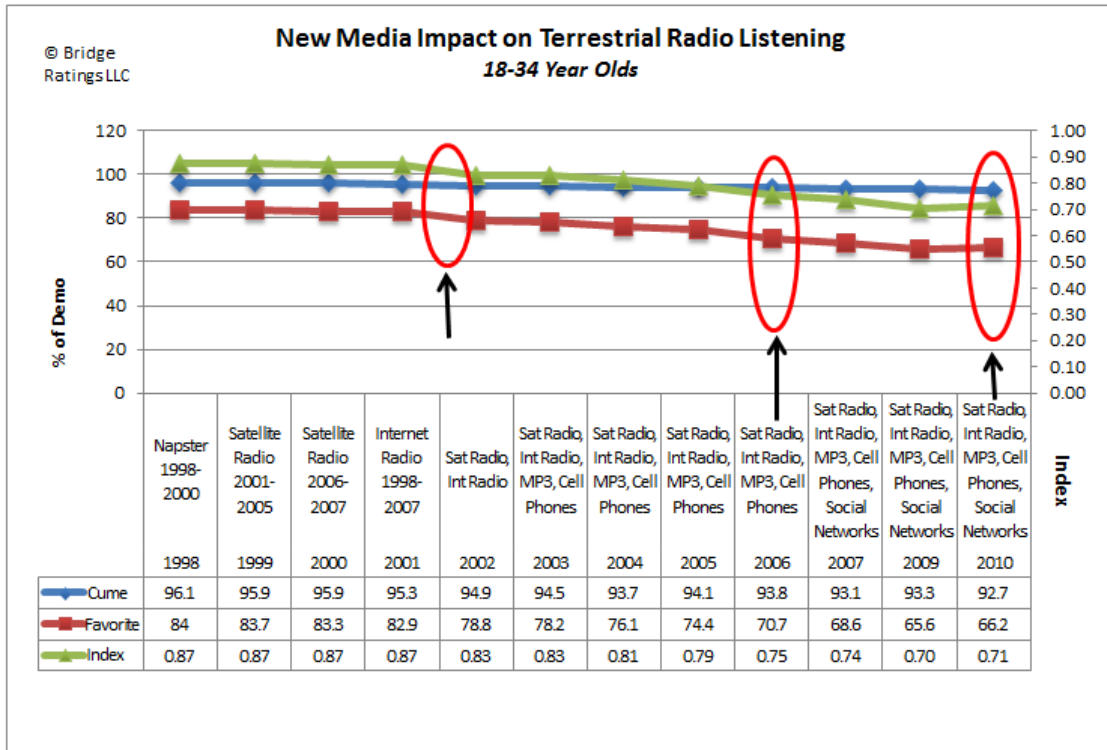
#### IV. Total Impact

This graph trends preference for terrestrial radio (green trend line) among 12-21 year olds over the past twelve years. Each digital technology contributes to carving off affinity to radio and consumers find it more and more difficult to concentrate on one medium for their entertainment. Short attention span syndrome has been shown to be a function of the increase in multi-tasking by all age groups in recent years. This short attention span syndrome is contributing to consumers inability to stay focused on one medium. Unfortunately, traditional radio has much to lose because of this consumer behavior and as passion for technology increases, affinity or "favoriteness" to radio is deflating.



## V. 18-34 year olds

While far less attrition has been experienced by 18+ listeners in general, nonetheless, there are points along the twelve year continuum that represent listening deterioration as the 'perfect storm' of satellite radio and Internet radio had the greatest impact on 18-34's by the end of 2002. With MP3's the iPod turned into more than just a youth fascination, by 2005 the technology had been sufficiently adopted by young adults. 2006 saw the added impact of mobile phones and by 2007 the combination was empowered by a surge in consumer fascination with social networks. The difference between radio's come number (the blue line) and the waning passion for radio (the red line) is the index (the green line). As passion deteriorates, index drops.



## VI. Final Thoughts

This analysis of terrestrial radio's run through the technology gauntlet over the past twelve years reveals the specific moments in time when new media had its greatest impact on radio listening. A variety of problems plagued the radio industry during this term including an economic breakdown which began in 2000, worsened in the fall of 2001, created operational upheaval in 2009 and is showing signs of some stability in 2010.

Listener apathy also has played its part as sharing of music files in the early part of the decade boosted the sexy new tech of MP3 players on the young end while satellite radio's effective marketing blitz - spearheaded by XM in 2002-03 - painted that technology as the next generation of radio; adults have been more apt to adopt this technology. Satellite radio's strong two-year consumer love affair seemed to overshadowed traditional radio in those years as the radio industry searched for revenue solutions that weren't necessarily linked to improving programming content. Once terrestrial radio *en masse* became more proactive by improving programming and marketing around 2005, this analysis shows that for certain demographics, there was an improvement to loyalty.

This study has been both an exercise in historical perspective and an opportunity to expose the trends that have shaped the competitive landscape for terrestrial radio as new media is adopted over time by the public. Listening levels will continue to be affected by the introduction of new technologies and the adoption by a growing number of consumers of more recent audio tech improvements. As this analysis attests, traditional radio is more resilient than the press would have many believe.

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